

FARMER MAC II LLC

FINANCIAL REPORT

FOR THE QUARTERS ENDED MARCH 31, 2011 AND 2010

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

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FARMER MAC II LLC
CONDENSED BALANCE SHEETS

	March 31, 2011	December 31, 2010
<i>(in thousands)</i>		
Assets:		
Cash and cash equivalents	\$ 14,152	\$ 15,388
Farmer Mac Guaranteed Securities:		
Available-for-sale, at fair value	36,664	36,117
USDA Guaranteed Securities:		
Available-for-sale, at fair value	1,063,540	1,005,679
Trading, at fair value	274,561	311,765
Total USDA Guaranteed Securities	1,338,101	1,317,444
Interest receivable	17,021	22,689
Prepaid expenses and other assets	816	397
Total Assets	\$ 1,406,754	\$ 1,392,035
Liabilities and Members' Equity:		
Liabilities:		
Intercompany borrowings	\$ 132,000	\$ 124,000
Accounts payable and accrued expenses	115	637
Total Liabilities	132,115	124,637
Members' Equity:		
Preferred stock:		
Preferred stock, par value \$1,000 per share, 250,000 shares authorized and outstanding	241,853	241,853
Common stock, no par value	1,020,168	1,020,168
Accumulated other comprehensive loss	(4,318)	(8,119)
Retained earnings	16,936	13,496
Total Members' Equity	1,274,639	1,267,398
Total Liabilities and Members' Equity	\$ 1,406,754	\$ 1,392,035

See accompanying notes to condensed financial statements.

FARMER MAC II LLC
CONDENSED STATEMENTS OF OPERATIONS

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
	<i>(in thousands)</i>	
Interest income:		
Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	\$ 11,625	\$ 7,916
Interest expense	1,202	-
Net interest income	10,423	7,916
Non-interest (loss)/income:		
Losses on trading assets	(1,231)	(1,518)
Other income	45	1
Non-interest (loss)/income	(1,186)	(1,517)
Non-interest expense:		
General and administrative	250	362
Non-interest expense	250	362
Net income	8,987	6,037
Preferred stock dividends	(5,547)	(4,068)
Net income available to common stockholders	\$ 3,440	\$ 1,969

See accompanying notes to condensed financial statements.

FARMER MAC II LLC
CONDENSED STATEMENTS OF MEMBERS' EQUITY

	For the Three Months Ended			
	March 31, 2011		March 31, 2010	
	Shares	Amount	Shares	Amount
	<i>(in thousands)</i>			
Preferred stock:				
Balance, beginning of period	250	\$ 241,853	-	\$ -
Issuance of preferred stock	-	-	250	241,853
Balance, end of period	<u>250</u>	<u>\$ 241,853</u>	<u>250</u>	<u>\$ 241,853</u>
Common stock:				
Balance, beginning of period		\$ 1,020,168		\$ 10
Issuance of common stock		-		1,020,158
Balance, end of period		<u>\$ 1,020,168</u>		<u>\$ 1,020,168</u>
Retained earnings:				
Balance, beginning of period		\$ 13,496		\$ -
Net income		8,987		6,037
Preferred stock dividends		(5,547)		(4,068)
Balance, end of period		<u>\$ 16,936</u>		<u>\$ 1,969</u>
Accumulated other comprehensive loss:				
Balance, beginning of period		\$ (8,119)		\$ -
Change in unrealized loss on available-for-sale securities		3,801		(6,168)
Balance, end of period		<u>\$ (4,318)</u>		<u>\$ (6,168)</u>
Total Members' Equity		<u>\$ 1,274,639</u>		<u>\$ 1,257,822</u>
Comprehensive income/(loss):				
Net income		\$ 8,987		\$ 6,037
Change in accumulated other comprehensive loss, net of tax		3,801		(6,168)
Total comprehensive income/(loss)		<u>\$ 12,788</u>		<u>\$ (131)</u>

See accompanying notes to condensed financial statements.

FARMER MAC II LLC
CONDENSED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 8,987	\$ 6,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	2,048	401
Net change in fair value of trading securities	1,231	1,518
Net change in:		
Interest receivable	5,668	1,093
Other assets	(420)	384
Other liabilities	(523)	111
Net cash provided by operating activities	16,991	9,544
Cash flows from investing activities:		
Purchases of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(116,347)	(55,696)
Proceeds from repayment of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	95,667	62,278
Net cash (used in)/provided by investing activities	(20,680)	6,582
Cash flows from financing activities:		
Issuance costs of preferred stock	-	(7,238)
Proceeds from common stock issuance	-	10,000
Dividends paid on preferred stock	(5,547)	(4,005)
Proceeds from intercompany borrowings	8,000	-
Net cash provided by/(used in) financing activities	2,453	(1,243)
Net (decrease)/increase in cash and cash equivalents	(1,236)	14,883
Cash and cash equivalents at beginning of period	15,388	10
Cash and cash equivalents at end of period	\$ 14,152	\$ 14,893

See accompanying notes to condensed financial statements.

NOTES TO CONDENSED 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.

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 Farmer Mac 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 has an uncommitted intercompany borrowing facility with Farmer Mac in the aggregate principal amount of up to \$500.0 million, which increased from \$300.0 million in first quarter 2011, and pays an administrative fee to Farmer Mac in connection with each borrowing under the facility. As of March 31, 2011 and December 31, 2010, there were \$132.0 million and \$124.0 million, respectively, of borrowings outstanding under the facility. During first quarter 2011, the Company incurred interest expense of \$1.2 million for borrowings under this facility. During first quarter 2010 there were no intercompany borrowings, therefore there was no interest

expense in first quarter 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. Farmer Mac earned \$23,000 and \$24,000 in guarantee fees during the three months ended March 31, 2011 and 2010, respectively, 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 the three months ended March 31, 2011 and March 31, 2010, the cost of these services was \$0.2 million and \$0.1 million, respectively.

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 \$70,000 and \$61,000, netted out of interest income, in connection with the Administrator Agreement during the three months ended March 31, 2011 and 2010, respectively.

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 first quarter 2010 included the transfer, at fair value, of \$1.3 billion of USDA Guaranteed Securities and Farmer Mac Guaranteed Securities and related accrued interest from Farmer Mac in exchange for Company common and preferred stock. There was no non-cash activity in first quarter 2011.

Interest paid during the three months ended March 31, 2011 totaled \$2.0 million, compared to no interest paid for the three months ended March 31, 2010.

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 March 31, 2011 and December 31, 2010 and paid no income taxes in the three months ended March 31, 2011 and March 31, 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 March 31, 2011 and 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

Troubled Debt Restructurings: Accounting Standards Updates 2011-01 and 2011-02

In January 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* (discussed below). The effective date of the new disclosures about troubled debt restructurings was delayed to coordinate the disclosures with the FASB project on determining what constitutes a troubled debt restructuring. In April 2011, the FASB completed that project and issued ASU 2011-02, *A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 states that a troubled debt restructuring exists when a creditor concludes that both the restructuring constitutes a concession and the debtor is experiencing financial difficulties and clarifies the guidance on evaluating these criteria. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption (i.e., for Farmer Mac II LLC, it will be effective for third quarter 2011 reporting). The troubled debt restructuring disclosures in ASU 2010-20 also will be effective in third quarter 2011. The Company does not expect the adoption of these standards will have a significant impact on its 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 March 31, 2011 and December 31, 2010.

	March 31, 2011		
	Available- for-Sale	Trading	Total
		<i>(in thousands)</i>	
USDA Guaranteed Securities	\$ 1,063,540	\$ 274,561	\$ 1,338,101
Farmer Mac Guaranteed Securities	36,664	-	36,664
Total	<u>\$ 1,100,204</u>	<u>\$ 274,561</u>	<u>\$ 1,374,765</u>
Amortized cost	\$ 1,104,521	\$ 279,682	\$ 1,384,203
Unrealized gains	4,240	-	4,240
Unrealized losses	(8,557)	(5,121)	(13,678)
Fair value	<u>\$ 1,100,204</u>	<u>\$ 274,561</u>	<u>\$ 1,374,765</u>
	December 31, 2010		
	Available- for-Sale	Trading	Total
		<i>(in thousands)</i>	
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>

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. 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 March 31, 2011 and 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 three months ended March 31, 2011 and 2010.

The table below presents a sensitivity analysis for the Company's USDA and Farmer Mac Guaranteed Securities as of March 31, 2011 and December 31, 2010.

	March 31, 2011	December 31, 2010
	<i>(dollars in thousands)</i>	
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	\$ 1,374,765	\$ 1,353,561
Weighted-average remaining life (in years)	4.1	3.9
Weighted-average prepayment speed (annual rate)	9.9%	10.9%
Effect on fair value of a 10% adverse change	\$ (122)	\$ (19)
Effect on fair value of a 20% adverse change	\$ (219)	\$ (19)
Weighted-average discount rate	4.1%	4.2%
Effect on fair value of a 10% adverse change	\$ (12,694)	\$ (9,704)
Effect on fair value of a 20% adverse change	\$ (25,419)	\$ (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 Three Months Ended March 31, 2011

	Beginning Balance	Purchases	Settlements	Unrealized Losses included in Income	Unrealized Gains included in Other Comprehensive Income	Ending Balance
<i>(in thousands)</i>						
Recurring:						
Assets:						
Farmer Mac Guaranteed Securities:						
Available-for-sale	36,117	-	(906)	-	1,453	36,664
Total Farmer Mac Guaranteed Securities	36,117	-	(906)	-	1,453	36,664
USDA Guaranteed Securities:						
Available-for-sale	1,005,679	116,347	(60,835)	-	2,349	1,063,540
Trading(1)	311,765	-	(35,973)	(1,231)	-	274,561
Total USDA Guaranteed Securities	1,317,444	116,347	(96,808)	(1,231)	2,349	1,338,101
Total Assets at fair value	\$ 1,353,561	\$ 116,347	\$ (97,714)	\$ (1,231)	\$ 3,802	\$ 1,374,765

(1) Includes unrealized losses of \$2.5 million attributable to assets still held as of March 31, 2011 recorded in Losses on trading assets.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended March 31, 2010

	Beginning Balance	Net Transfers In	Purchases, Sales, Issuances and Settlements, net	Unrealized Losses included in Income	Unrealized Losses included in Other Comprehensive Loss	Ending Balance
<i>(in thousands)</i>						
Recurring:						
Assets:						
Farmer Mac Guaranteed Securities:						
Available-for-sale	\$ -	\$ 37,630	\$ (275)	\$ -	\$ (613)	\$ 36,742
Total Farmer Mac Guaranteed Securities	-	37,630	(275)	-	(613)	36,742
USDA Guaranteed Securities:						
Available-for-sale	-	756,113	31,265	-	(5,555)	781,823
Trading (1)	-	421,279	(11,917)	(1,518)	-	407,844
Total USDA Guaranteed Securities	-	1,177,392	19,348	(1,518)	(5,555)	1,189,667
Total Assets at fair value	\$ -	\$ 1,215,022	\$ 19,073	\$ (1,518)	\$ (6,168)	\$ 1,226,409

(1) Unrealized losses are attributable to assets still held as of March 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 March 31, 2011 and December 31, 2010.

	March 31, 2011		December 31, 2010	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
<i>(in thousands)</i>				
Financial assets:				
Cash and cash equivalents	\$ 14,152	\$ 14,152	\$ 15,388	\$ 15,388
Farmer Mac Guaranteed Securities	36,664	36,664	36,117	36,117
USDA Guaranteed Securities	1,338,101	1,338,101	1,317,444	1,317,444
Interest receivable	17,021	17,021	22,689	22,689
Financial liabilities:				
Intercompany Borrowings	132,000	132,000	124,000	124,000
Accrued 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 March 31, 2011 and 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 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 of no-par value common stock outstanding as of March 31, 2011 and December 31, 2010. No common stock dividends have been declared as of March 31, 2011.

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 first quarter 2011, the Company purchased \$116.3 million of USDA Guaranteed Securities, compared to \$55.7 million during the same period in 2010. As of March 31, 2011, the Farmer Mac II LLC portfolio consisted of \$36.7 million in Farmer Mac Guaranteed Securities and \$1.3 billion of USDA Guaranteed Securities, compared to \$36.1 million and \$1.3 billion, respectively, as of December 31, 2010.

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 to the condensed financial statements.

RESULTS OF OPERATIONS

Net interest income was \$10.4 million for the three months ended March 31, 2011, compared to \$7.9 million for the three months ended March 31, 2010. As of March 31, 2011, Farmer Mac II LLC had outstanding borrowings of \$132.0 million under the uncommitted Farmer Mac borrowing facility, compared to \$124.0 million as of December 31, 2010. Interest expense for the three months ended March 31, 2011 was \$1.2 million.

Non-interest loss was \$1.2 million for the three months ended March 31, 2011, compared to \$1.5 million for the same period in 2010. This is primarily due to changes in the fair value of USDA Guaranteed Securities classified as trading.

Non-interest expense was \$0.3 million for the three months ended March 31, 2011, compared to \$0.4 million for the same period in 2010. This expense is 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. During first quarter 2011, these assets increased \$21.2 million due to the purchase of \$116.3 million of USDA Guaranteed Securities, partially offset by principal pay downs of \$95.7 million, and adjusted for premium amortization and changes in market values.

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 \$500.0 million uncommitted borrowing facility from Farmer Mac, against which the company had \$132.0 million in outstanding borrowings as of March 31, 2011, compared to \$124.0 million 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 from \$300.0 million to \$500.0 million, effective as of March 25, 2011.

Farmer Mac II LLC had \$14.2 million in cash and cash equivalents as of March 31, 2011, compared to \$15.4 million as of December 31, 2010.

As of March 31, 2011 and 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.