

# FEDERAL AGRICULTURAL MORTGAGE

Rating Analysis - 10/05/17

Debt: \$15.2B, Cash : \$320.0M

Est. Share Value: \$78.31 Price: \$73.19

EJR Sen Rating(Curr/Prj) A/ A

EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.5%

EJR 3 yr. Recov. Rate: 95.0%

Federal Agricultural Mortgage Corporation Class C (AGM) is in the govt support firms sector and its operating income was \$31.76M for the quarter ending June 2017 vs \$23.69M for the prior year. Net income for the June 2017 quarter was \$20.8M vs the prior year's \$15.3M income.

For the June '17 quarter, AGM's interest income climbed 26.9% to \$98M driven by higher income from investments & cash equivalents, Farmer Mac Guaranteed Securities and USDA securities & loans as interest expense grew 35.9% to \$58.3M, which resulted in a 15.4% rise in net interest income to \$39.7M. Noninterest income totaled \$3.7M mainly driven by gains on sale of real estate owned and lower losses on financial derivatives and hedging activities as noninterest expenses rose 12.9% to \$11.4M due to increases in compensation & employee benefits, G&A expenses, regulatory fees, provision for reserve for losses and the existence of real estate owned operating costs. Despite this, EBIT managed to accelerate 34.2% to \$31.8M, which resulted in a 34.6% improvement in the Company's bottom-line figure, offsetting the 32.1% increase in income taxes to \$11.1M. Dividend of \$0.36 per share of 3 classes of common stock is payable on 09/29/17 and \$0.3672 per share of 5.875% Non-Cumulative Preferred Stock, Series A, \$0.4297 per share of 6.875% Non-Cumulative Preferred Stock, Series B, and \$0.375 per share of 6.000% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C are payable on 10/17/17. Market Capitalization of \$782.05M and Net Debt of \$14.86B. Affirming.

| CREDIT POSITION                | Annual Ratios |        | Ratios For 4 Rolling Quarters |        |        |        |        |
|--------------------------------|---------------|--------|-------------------------------|--------|--------|--------|--------|
|                                | Dec-16        | PDec18 | Jun-16                        | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
| Fixed Chg Cov(x)               | 1.7           | 2.1    | 1.6                           | 1.6    | 1.7    | 1.7    | 1.7    |
| Return on Equity (%)           | 12.0          | 15.5   | 10.1                          | 11.1   | 12.0   | 12.9   | 13.4   |
| PT Ret. on Avg Assets(%)       | 0.8           | 1.1    | 0.6                           | 0.6    | 0.8    | 0.8    | 0.8    |
| Ret on Perm Cap (%)            | 0.8           | 1.2    | 0.6                           | 0.7    | 0.8    | 0.9    | 0.9    |
| T Debt/Cap (w Debt) (%)        | 95.5          | 94.6   | 96.2                          | 95.9   | 95.5   | 95.4   | 95.7   |
| Short Term Debt/Total Debt (x) | 61.8          | 62.3   | 68.2                          | 65.9   | 61.8   | 54.6   | 51.8   |
| Implied Senior Rating          | A-            | A      | A-                            | A-     | A-     | A-     | A      |

| INDUSTRY RATIOS                | AA   | A    | BBB  | BB   | B    | CCC   |
|--------------------------------|------|------|------|------|------|-------|
| Fixed Chg Cov(x)               | 2.3  | 1.8  | 1.3  | 0.9  | 0.7  | 0.5   |
| Return on Equity (%)           | 4.5  | 4.0  | 3.5  | 3.0  | 2.5  | 2.0   |
| PT Ret. on Avg Assets(%)       | 6.0  | 4.0  | 2.0  | 0.0  | -2.0 | -4.0  |
| Ret on Perm Cap (%)            | 20.0 | 10.0 | 7.0  | 4.0  | 2.0  | -2.0  |
| T Debt/Cap (w Debt) (%)        | 85.0 | 90.0 | 95.0 | 97.0 | 98.2 | 100.0 |
| Short Term Debt/Total Debt (x) | 47.5 | 62.2 | 75.3 | 84.9 | 90.7 | 94.2  |

| PEER RATIOS                            | Other NRSRO Sen. | Fixed Charge Cov(x) | ROE(%) | Return on Avg Assets | Return on Perm Cap(%) | T Debt/Cap(%) | Ratio-Implied Rating |
|--|------------------|---------------------|--------|----------------------|-----------------------|---------------|----------------------|
| Federal Home Loan Mortgage Corporation | AAA              | 1.2                 | 154.0  | 0.6                  | 0.6                   | 99.7          | BBB+                 |
| Federal National Mortgage Association  | AAA              | 1.2                 | 202.8  | 0.6                  | 0.6                   | 99.8          | A-                   |
| Starwood Property Trust, Inc.          | BB               | 2.7                 | 8.0    | 0.5                  | 3.1                   | 57.6          | AA                   |
| Ocwen Financial Corporation            | B-               | 0.4                 | (30.5) | (2.7)                | (3.0)                 | 90.6          | CCC                  |
| Walter Investment Management Corp.     | CCC-             | 0.3                 | N/A    | (4.5)                | (2.6)                 | 100.2         | CCC+                 |

Note, annual and quarterly implied sen. ratings are smoothed using EJRs prior rating if any. Peers' implied ratings are also smoothed.

Rating Change Anticipator (1 is best, 100 worst): 51.1 Last EJR Sen: A



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EJR 3 yr. Recov. Rate: 95.0%

## REVENUE & PROFITABILITY

The Company's interest income rose at an average rate of 3.57% over the last five years while Operating Margin rose to 1.11% for the fiscal year ending December 2016, above the 1.07% average over the prior four years. Return on Assets rose to 0.5%, above the 0.41% average for the prior years.

|   | Dec-12 | Dec-13  | Dec-14 | Dec-15 | Dec-16 | PDec17 | PDec18 |
|---|--------|---------|--------|--------|--------|--------|--------|
| Interest Income (Millions USD)                | 265    | 235     | 231    | 265    | 312    | 353    | 401    |
| Growth Rate (%)                               | (3.65) | (11.06) | (2.05) | 14.85  | 17.78  | 13.33  | 13.33  |
| Net Interest Income/Total Interest Income (%) | 46.09  | 41.68   | 25.96  | 47.51  | 44.97  | 51.45  | 56.76  |
| Loan Loss Coverage (%)                        |        |         |        |        |        |        |        |
| Pretax Return on Avg Assets (%)               | 0.74   | 1.01    | 0.53   | 0.72   | 0.77   | 0.95   | 1.11   |
| Oper Return / Earning Assets (%)              | 1.02   | 1.41    | 0.80   | 1.05   | 1.11   | 1.36   | 1.58   |
| Non-Interest Inc / Revs (%)                   | 0.80   | 7.52    | 12.14  | 3.86   | 7.25   | 6.30   | 5.48   |
| Efficiency Ratio (%)                          | 25.79  | (11.09) | 23.89  | 20.63  | 26.89  | 26.56  | 26.87  |
| Return on Assets (%)                          | 0.37   | 0.56    | 0.34   | 0.44   | 0.50   | 0.63   | 0.75   |

## LEVERAGE & ASSET LIQUIDITY

The Quick Asset Ratio has become weaker recently, slipping to 2.5:1 for the FYE December 2016.

|                                  | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | PDec17 | PDec18 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Quick Asset Ratio (%)            | 7.1    | 6.5    | 10.4   | 8.6    | 2.5    | 2.6    | 2.7    |
| Quick Assets / ST Dep & Debt (%) | 13.7   | 11.9   | 20.1   | 14.6   | 4.7    | 4.9    | 5.1    |
| LT Debt/Capital (%)              | 89.5   | 89.7   | 87.5   | 90.0   | 89.0   | 88.0   | 86.8   |
| T Debt/Cap (w Debt) (%)          | 95.1   | 95.6   | 94.3   | 96.2   | 95.5   | 95.1   | 94.6   |

**ASSUMPTIONS FOR FINANCIALS**
**Valuation Driver: Interest Income Growth**

Federal Agricultural Mortgage Corporation Class C (AGM) has grown its interest income of 17.8% per annum in the last fiscal year which is more than the average for its peers. We expect the company's revenues will grow approximately 13.3% per annum over the next couple of years and 12.0% per annum for the next couple of years thereafter.

**Valuation Driver: Net Interest Margin**

The company's net interest margin has been more than its peers and we assumed no growth in net interest margin over the next two years.

| Income Statement                                 | Peer    | Co      | Assumptions   |               |
|--|---------|---------|---------------|---------------|
|  | Median  | Avg.    | Yr1&2         | Yr3,4,5       |
| Interest Income Growth (%)                       | 0.0     | 17.8    | <b>13.3</b>   | <b>12.0</b>   |
| Interest Expense (Rate %)                        | 3.7     | 1.3     | <b>1.3</b>    | <b>1.3</b>    |
| Net Interest Margin (% of earning assets)        | 0.0     | 1.3     | <b>1.3</b>    | <b>0.0</b>    |
| Provisions for Loan Losses (% of earning assets) | (0.0)   | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Trading Account Profit Growth (%)                | (103.8) | 19.7    | <b>0.0</b>    | <b>0.0</b>    |
| Commissions and Fees Earned Growth (%)           | (9.0)   | 1.3     | <b>1.3</b>    | <b>0.0</b>    |
| Other Operating Income Growth (%)                | (15.7)  | (252.5) | <b>(10.0)</b> | <b>(10.0)</b> |
| Non Interest Expense Growth (%)                  | 0.0     | 57.3    | <b>23.3</b>   | <b>0.0</b>    |
| Net Non Operating Loss Growth (%)                | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Income Tax Rate (%)                              | 32.8    | 35.2    | <b>32.0</b>   | <b>33.6</b>   |
| Special Items (Millions \$)                      | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Cash & Near Cash Growth (%)                      | 35.0    | (78.1)  | <b>6.0</b>    | <b>6.0</b>    |
| Accounts & Notes Receivable Growth (%)           | (2.1)   | 5.7     | <b>5.7</b>    | <b>5.7</b>    |
| Marktable Secs. & ST Investments Growth (%)      | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Loans & Mortgages Growth (%)                     | (2.8)   | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Real Estate Investments Growth (%)               | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Other Long Term Investments Growth (%)           | 0.0     | 4.4     | <b>4.4</b>    | <b>6.0</b>    |
| Long Term Investments Before Reserves Growth (%) | 0.0     | 4.4     | <b>4.4</b>    | <b>4.4</b>    |
| Loan Loss Reserves (% of earning assets)         | 0.4     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Loan Net of Reserves Growth (%)                  | 0.0     |         | <b>0.0</b>    | <b>0.0</b>    |
| Net Fixed Assets Growth (%)                      | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Other Assets Growth (%)                          | (8.4)   | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Demand Deposits Growth (%)                       | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Short-Term Borrowings Growth (%)                 | (58.5)  | (7.4)   | <b>(7.4)</b>  | <b>0.0</b>    |
| Customer Deposits Growth (%)                     | 0.0     | 0.0     | <b>5.7</b>    | <b>5.7</b>    |
| Other Short-Term Liabilities Growth (%)          | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |
| Long-Term Borrowings Growth (%)                  | 7.4     | 5.2     | <b>5.2</b>    | <b>0.0</b>    |
| Deferred Tax Liability Growth (%)                | 0.0     | (100.0) | <b>3.0</b>    | <b>3.0</b>    |
| Other Long-Term Liabilities Growth (%)           | 0.0     | 43.1    | <b>23.1</b>   | <b>20.8</b>   |
| Shares Sold (% of shares out.)                   | 0.0     | (5.0)   | <b>(3.5)</b>  | <b>(3.5)</b>  |
| Additional ST Debt (Millions \$)                 | 0.0     | 0.0     | <b>0.0</b>    | <b>0.0</b>    |

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EJR Sen Rating(Curr/Prj) A/ A

EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.5%

EJR 3 yr. Recov. Rate: 95.0%

## ANNUAL INCOME STATEMENTS

Below are Federal Agricultural Mortgage Corporation Class C's annual income statements with the projected years based on the assumptions listed on page 3.

|   | ANNUAL INCOME STATEMENTS                |           |           |           |            |            |
|---|---|-----------|-----------|-----------|------------|------------|
|   | (MILLIONS \$, EXCEPT PER SHARE AMOUNTS) |           |           |           |            |            |
|   | Dec-13                                  | Dec-14    | Dec-15    | Dec-16    | PDec17     | PDec18     |
| Interest Income                               | 235                                     | 231       | 265       | 312       | 353        | 401        |
| Interest Expense                              | 137                                     | 171       | 139       | 172       | 172        | 173        |
| Net Interest Income                           | 98                                      | 60        | 126       | 140       | 182        | 227        |
| Provisions for Loan Losses                    | 0                                       | (3)       | 0         | 1         | 1          | 1          |
| Trading Account Profit                        | (1)                                     | 39        | 1         | 1         | 1          | 1          |
| Commissions and Fees Earned                   | 27                                      | 25        | 15        | 15        | 15         | 15         |
| Other Operating Income                        | (7)                                     | (32)      | (5)       | 8         | 7          | 7          |
| Non-Interest Expense                          | (13)                                    | 22        | 28        | 44        | 55         | 67         |
| Operating Income                              | 130                                     | 73        | 108       | 119       | 150        | 182        |
| Net Non Operating Loss                        | (1)                                     | 0         | 0         | 0         | 0          | 0          |
| Income Tax Expenses                           | 34                                      | 3         | 34        | 42        | 48         | 58         |
| Income Before XO Items                        | 98                                      | 70        | 74        | 77        | 102        | 124        |
| Extraordinary Item Net of Tax                 | 0                                       | 0         | 0         | 0         | 0          | 0          |
| Minority Interests                            | 22                                      | 22        | 5         | 0         | 0          | 0          |
| Consolidated Net Income                       | <u>75</u>                               | <u>48</u> | <u>69</u> | <u>77</u> | <u>102</u> | <u>124</u> |
| Total Cash Preferred Dividends                | 3                                       | 10        | 21        | 13        | 13         | 13         |
| Net Income                                    | 72                                      | 38        | 47        | 64        | 89         | 111        |
| Common Dividends                              | 8                                       | 6         | 20        | 11        | 10         | 9          |
| Net Revenues                                  | 255                                     | 262       | 275       | 336       | 377        | 424        |
| Comprehensive Income per Share                | 6                                       | 3         | 2         | 5         | 0          | 0          |
| Basic EPS Before Abnormal Items               | 6.4                                     | 3.4       | 4.2       | 6.0       | 9.7        | 11.9       |
| Basic EPS Before XO Items                     | 6.3                                     | 3.4       | 4.2       | 6.0       | 9.7        | 11.9       |
| Basic EPS                                     | 6.6                                     | 3.5       | 4.3       | 6.1       | 9.7        | 11.9       |
| EBITDA  | 268                                     | 0         | 247       | 292       | 367        | 446        |
| Interest Income (Millions USD)                | 235.4                                   | 230.6     | 264.8     | 311.9     | 353.5      | 400.6      |
| Growth Rate (%)                               | (11.1)                                  | (2.0)     | 14.9      | 17.8      | 13.3       | 13.3       |
| Net Interest Income/Total Interest Income (%) | 41.7                                    | 26.0      | 47.5      | 45.0      | 51.4       | 56.8       |
| Loan Loss Coverage (%)                        |   |           |           |           |            |            |
| Pretax Return on Avg Assets (%)               | 1.0                                     | 0.5       | 0.7       | 0.8       | 0.9        | 1.1        |
| Oper Return / Earning Assets (%)              | 1.4                                     | 0.8       | 1.1       | 1.1       | 1.4        | 1.6        |
| Non-Interest Inc / Revs (%)                   | 7.5                                     | 12.1      | 3.9       | 7.2       | 6.3        | 5.5        |
| Efficiency Ratio (%)                          | (11.1)                                  | 23.9      | 20.6      | 26.9      | 26.6       | 26.9       |
| Return on Assets (%)                          | 0.6                                     | 0.3       | 0.4       | 0.5       | 0.6        | 0.7        |

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EJR Sen Rating(Curr/Prj) A/ A  
EJR CP Rating: A1  
EJR's 3 yr. Default Probability: 1.5%  
EJR 3 yr. Recov. Rate: 95.0%

## ANNUAL BALANCE SHEETS

Below are Federal Agricultural Mortgage Corporation Class C's balance sheets with the projected years based on our assumptions. As of Dec 2018, the Company's total cash is assumed to increase from \$265.0M to \$298.0M while its total debt is assumed to rise from \$13.7B to \$13.8B.

|  | ANNUAL BALANCE SHEETS<br>(MILLIONS \$, EXCEPT PER SHARE AMOUNTS) |               |               |               |               |               |
|--|--|---------------|---------------|---------------|---------------|---------------|
| Base Case                              | Dec-13   | Dec-14        | Dec-15        | Dec-16        | PDec17        | PDec18        |
| <b>ASSETS</b>                          |  |               |               |               |               |               |
| Cash & Near Cash                       | 749  | 1,363         | 1,210         | 265           | 281           | 298           |
| Accounts & Notes Receivable            | 151  | 146           | 153           | 162           | 171           | 181           |
| Marketable Secs. & ST Investments      | 0  | 0             | 0             | 0             | 0             | 0             |
| Mortgage Loans                         | 0  | 0             | 0             | 0             | 0             | 0             |
| Real Estate Investments                | 0  | 0             | 0             | 0             | 0             | 0             |
| Other Long-Term Investments            | 9,207  | 9,169         | 10,123        | 10,572        | 11,040        | 11,529        |
| Long-Term Investments before Reserves  | 9,207  | 9,169         | 10,123        | 10,572        | 11,040        | 11,529        |
| Loan Loss Reserves                     | 0  | 0             | 0             | 0             | 0             | 0             |
| Loans Net of Reserves                  | 9,210  | 9,169         | 10,125        | 10,572        | 11,040        | 11,529        |
| Net Fixed Assets                       | 0  | 0             | 0             | 0             | 0             | 0             |
| Other Assets                           | 0  | 0             | 0             | 0             | 4,608         | 4,608         |
| Additional Assets                      | 3,252  | 3,618         | 4,053         | 4,608         | 0             | 0             |
| <b>Total Assets</b>                    | <b>13,362</b>  | <b>14,297</b> | <b>15,541</b> | <b>15,606</b> | <b>16,099</b> | <b>16,615</b> |
| Earning Assets                         | 9,207  | 9,169         | 10,278        | 10,733        | 11,040        | 11,529        |
| <b>LIABILITIES</b>                     |  |               |               |               |               |               |
| Demand Deposits                        | 0  | 0             | 0             | 0             | 0             | 0             |
| Short-Term Borrowings                  | 7,339  | 7,354         | 9,111         | 8,440         | 8,568         | 8,625         |
| Customer Deposits                      | 0  | 0             | 0             | 0             | 0             | 0             |
| Other Short Term Liabilities           | 0  | 0             | 0             | 0             | 0             | 0             |
| Long-Term Borrowings                   | 5,001  | 5,471         | 4,967         | 5,223         | 5,223         | 5,223         |
| Deferred Tax Liability                 | 1  | 9             | 1             | 0             | 0             | 0             |
| Other Long-Term Liabilities            | 447  | 681           | 908           | 1,299         | 1,600         | 1,969         |
| Other Liabilities                      | 0  | 0             | 0             | 0             | 0             | 0             |
| <b>Total Liabilities</b>               | <b>12,788</b>  | <b>13,515</b> | <b>14,987</b> | <b>14,962</b> | <b>15,390</b> | <b>15,818</b> |
| Total Preferred Equity                 | 58   | 205           | 205           | 205           | 205           | 205           |
| Minority Interest                      | 242  | 236           | 0             | 0             | 0             | 0             |
| Share Capital & APIC                   | 122  | 124           | 129           | 129           | 115           | 102           |
| Retained Earnings & Other Equity       | 153  | 217           | 220           | 309           | 389           | 490           |
| <b>Total Shareholders &amp; Equity</b> | <b>574</b>   | <b>782</b>    | <b>554</b>    | <b>644</b>    | <b>709</b>    | <b>797</b>    |
| <b>Total Liabilities &amp; Equity</b>  | <b>13,362</b>  | <b>14,297</b> | <b>15,541</b> | <b>15,606</b> | <b>16,099</b> | <b>16,615</b> |
| Shares Outstanding                     | 11   | 11            | 11            | 11            | 11            | 10            |

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#### **Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of A whereas the ratio-implied rating for the most recent period is A.

#### **Changes in Industry Ratios**

We have not made any adjustments in the industry ratios at this time.

#### **CUSIPs and EJR rating**

637432MK8 rated A; 637432MJ1 rated A; 637432MH5 rated A; 637432MG7 rated A; 637432MF9 rated A; 637432ME2 rated A; 637432MD4 rated A; 637432MC6 rated A; 637432MB8 rated A;

## SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issue Federal Agricultural Mortgage Corporation Class C with the ticker of AGM we have assigned the senior unsecured rating of A. There are three notches in our rating categories (e.g., A- A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology available in our Form NRSRO Exhibit #2 dated Feb. 24, 2017 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies"

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:**

The information is generally considered high quality and readily available

**10. Information relating to conflicts of interested as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

EJR is not paid to determine this credit rating.

# FEDERAL AGRICULTURAL MORTGAGE

Rating Analysis - 10/05/17  
Debt: \$15.2B, Cash : \$320.0M  
Page 8

EJR Sen Rating(Curr/Prj) A/ A  
EJR CP Rating: A1  
EJR's 3 yr. Default Probability: 1.5%  
EJR 3 yr. Recov. Rate: 95.0%

## 11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

## 12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

## 13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

|  | Assumptions |            |             | Resulting Ratio-Implied Rating |            |             |
|--|-------------|------------|-------------|--------------------------------|------------|-------------|
|  | Base        | Optimistic | Pessimistic | Base                           | Optimistic | Pessimistic |
| Interest Income Growth %                         | 13.3        | 17.3       | 9.3         | A                              | A          | A           |
| Interest Expense (% of outstanding debt)         | 1.3         | (1.7)      | 4.3         | A                              | BBB        | BB          |
| Provisions for Loan Losses (% of earning assets) | 0.0         | (3.0)      | 3.0         | A                              | AA-        | BB          |
| Commissions & Fees Earned Growth %               | 1.3         | 0.1        | 3.3         | A                              | A          | A           |
| Loan Loss Reserves (% of Earn. Assets)           | 0.0         | (2.0)      | 2.0         | A                              | A          | A           |

## 14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

### Attestation Form

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1. No Part of the credit rating was influenced by any other business activities,
2. The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3. The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

### Analyst Signature:



Karen Sanchez  
Credit Rating Analyst

### Today's Date

Oct. 5, 2017

### Reviewer Signature:



Jim Yu  
Credit Rating Analyst

### Today's Date

Oct. 5, 2017

