

# FEDERAL AGRICULTURAL MORTGAGE

Rating Analysis - 09/10/18

Debt: \$16.19B, Cash : \$430.81M

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 \$37.0M for the quarter ending June 2018 vs. \$31.8M for the prior year. Net income for the June 2018 quarter was \$29.6M vs. the prior year's \$20.8M income.

For June 2018 quarter, AGM's net increased 42.9% to \$30M as the \$8.8M increase was driven by an increase of \$3.3M after tax in net interest income, which includes a \$1.6M after-tax negative impact of the Interest-Only Amortization and a \$2.5M after-tax increase in gains in fair value of financial derivatives and hedged assets. Also contributing to the year-over-year increase was the impact of the lower federal corporate income tax rate, which resulted in a \$5.2M decrease in income tax expense. Meanwhile, these increases were offset in part by a \$1.2M after-tax increase in non-interest expense in second quarter 2018, primarily attributable to higher compensation and employee benefits expenses and higher G&A expenses; and a decrease in net realized gains of \$0.6 million after tax on the sale of real estate owned properties. Regarding leverage, total debt rose from \$15.2B to \$16.2B for the FQE '18 while total shareholder's equity rose from \$680.9M to \$766.2M. As a result, leverage (i.e., total debt/capital (including debt)) was 95.5%. Netting cash from debt, net debt was \$15.8B for the most recent FQE and the resulting net leverage ratio was 95.4%. Mkt Cap is \$961.2M vs Net Debt of \$15.8B. Affirming.

CREDIT POSITION	Annual Ratios			Ratios For 4 Rolling Quarters				
	Dec-16	Dec-17	PDec19	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Fixed Chg Cov(x)	1.7	1.5	2.1	1.7	1.7	1.5	1.5	1.5
Return on Equity (%)	12.0	11.9	20.3	13.4	13.4	11.9	11.9	12.7
PT Ret. on Avg Assets(%)	0.8	0.8	1.5	0.8	0.8	0.7	0.7	0.7
Ret on Perm Cap (%)	0.8	0.8	1.6	0.9	0.9	0.8	0.8	0.8
T Debt/Cap (w Debt) (%)	95.5	95.6	94.8	95.7	95.7	95.6	95.6	95.5
Short Term Debt/Total Debt (x)	61.8	52.1	59.0	51.8	52.3	52.1	49.3	48.0
Implied Senior Rating	A-	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	Fixed Charge	Ret on	Ret on	ST Debt/	Ratio-		
	Sen.	Cov(x)	Avg	Perm Cap	Total Debt	Implied		
		ROE(%)	Assets	(%)	(%)	Rating		
Freddie Mac	AAA	1.2	154.0	0.6	0.6	99.7	3.6	BBB+
Federal National Mortg...	AAA	1.2	N/A	0.6	0.6	N/A	1.0	BBB+
Starwood Property Trus...	BB	1.4	8.7	0.6	0.8	63.5	13.5	BBB-
Ocwen Financial Corpor...	CCC+	0.5	(23.4)	(1.8)	(2.2)	92.8	3.6	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): 84.0 Last EJRs Sen: A

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## REVENUE & PROFITABILITY

The Company's interest income rose at an average rate of 14.03% over the last five years while Operating Margin fell to 1.07% for the fiscal year ending December 2017, below the 1.09% average over the prior four years. Return on Assets rose to 0.47%, above the 0.47% average for the prior years.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	PDec18	PDec19
Interest Income (Millions USD)	235	231	265	312	401	486	589
Growth Rate (%)	(11.06)	(2.05)	14.85	17.78	28.42	21.31	21.31
Net Interest Income/Total Interest Income (%)	41.68	25.96	47.51	44.97	39.36	50.01	55.50
Loan Loss Coverage (%)							
Pretax Return on Avg Assets (%)	1.01	0.53	0.72	0.77	0.78	1.16	1.47
Oper Return / Earning Assets (%)	1.41	0.80	1.05	1.11	1.07	1.59	1.94
Non-Interest Inc / Revs (%)	7.52	12.14	3.86	7.25	2.04	1.66	1.34
Efficiency Ratio (%)	(11.09)	23.89	20.63	26.89	20.20	13.35	10.01
Return on Assets (%)	0.56	0.34	0.44	0.50	0.47	0.75	0.95

## LEVERAGE & ASSETLIQUIDITY

The Quick Asset Ratio has become stronger recently, rising to 2.6:1 for the FYE December 2017.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	PDec18	PDec19
Quick Asset Ratio (%)	6.5	10.4	8.6	2.5	2.6	2.6	2.7
Quick Assets / ST Dep & Debt (%)	11.9	20.1	14.6	4.7	5.7	5.5	5.3
LT Debt/Capital (%)	89.7	87.5	90.0	89.0	91.3	90.0	88.1
T Debt/Cap (w Debt) (%)	95.6	94.3	96.2	95.5	95.6	95.3	94.8

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## ASSUMPTIONS FOR FINANCIALS

### Valuation Driver: Interest Income Growth

Federal Agricultural Mortgage Corporation Class C (AGM) has grown its interest income at 28.4% per annum in the last fiscal year. We expect the company's revenues will grow approximately 21.3% per annum over the next couple of years and 19.2% 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 Median	Co Avg.	Assumptions	
			Yr1&2	Yr3,4,5
Interest Income Growth (%)	0.0	28.4	21.3	19.2
Interest Expense (Rate %)	3.7	1.6	1.6	1.6
Net Interest Margin (% of earning assets)	0.0	1.3	1.3	0.0
Provisions for Loan Losses (% of earning assets)	(0.0)	0.0	0.0	0.0
Trading Account Profit Growth (%)	239.3	(101.6)	0.0	0.0
Commissions and Fees Earned Growth (%)	0.0	(5.1)	(5.1)	0.0
Other Operating Income Growth (%)	0.0	(171.6)	(10.0)	(10.0)
Non Interest Expense Growth (%)	0.0	(24.3)	0.0	0.0
Net Non Operating Loss Growth (%)	0.0	0.0	0.0	0.0
Income Tax Rate (%)	9.1	35.5	32.0	33.6
Special Items (Millions \$)	0.0	0.0	0.0	0.0
Cash & Near Cash Growth (%)	1.2	13.9	6.0	6.0
Accounts & Notes Receivable Growth (%)	2.9	20.7	20.7	18.7
Marktable Secs. & ST Investments Growth (%)	0.0	0.0	0.0	0.0
Loans & Mortgages Growth (%)	(2.8)	0.0	0.0	0.0
Real Estate Investments Growth (%)	0.0	0.0	0.0	0.0
Other Long Term Investments Growth (%)	0.0	13.5	13.5	9.6
Long Term Investments Before Reserves Growth (%)	0.0	13.5	13.5	13.5
Loan Loss Reserves (% of earning assets)	0.3	0.0	0.0	0.0
Loan Net of Reserves Growth (%)	0.0		0.0	0.0
Net Fixed Assets Growth (%)	(22.4)	0.0	0.0	0.0
Other Assets Growth (%)	(3.3)	0.0	0.0	0.0
Demand Deposits Growth (%)	0.0	0.0	0.0	0.0
Short-Term Borrowings Growth (%)	(1.7)	(4.2)	(4.2)	0.0
Customer Deposits Growth (%)	0.0	0.0	20.7	18.7
Other Short-Term Liabilities Growth (%)	0.0	0.0	0.0	0.0
Long-Term Borrowings Growth (%)	2.2	42.3	42.3	0.0
Deferred Tax Liability Growth (%)	0.0	0.0	0.0	0.0
Other Long-Term Liabilities Growth (%)	0.0	20.2	20.2	18.2
Shares Sold (% of shares out.)	0.0	0.5	0.4	0.4
Additional ST Debt (Millions \$)	0.0	0.0	0.0	0.0

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## 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	Dec-17	PDec18	PDec19
Interest Income	235	231	265	312	401	486	589
Interest Expense	137	171	139	172	243	243	262
Net Interest Income	98	60	126	140	158	243	327
Provisions for Loan Losses	0	(3)	0	1	2	2	2
Trading Account Profit	(1)	39	1	1	0	0	0
Commissions and Fees Earned	27	25	15	15	14	13	13
Other Operating Income	(7)	(32)	(5)	8	(6)	(5)	(5)
Non-Interest Expense	(13)	22	28	44	34	34	34
Operating Income	130	73	108	119	131	216	300
Net Non Operating Loss	(1)	0	0	0	0	0	0
Income Tax Expenses	34	3	34	42	46	69	96
Income Before XO Items	98	70	74	77	84	147	204
Extraordinary Item Net of Tax	0	0	0	0	0	0	0
Minority Interests	22	22	5	0	0	0	0
Consolidated Net Income	75	48	69	77	84	147	204
Total Cash Preferred Dividends	3	10	21	13	13	13	13
Net Income	72	38	47	64	71	134	191
Common Dividends	8	6	20	11	15	16	17
Net Revenues	255	262	275	336	409	494	597
Comprehensive Income per Share	5.7	2.8	2.4	5.0	5.2	0.0	0.0
Basic EPS Before Abnormal Items	6.4	3.4	4.2	6.0	6.6	13.6	18.8
Basic EPS Before XO Items	6.3	3.4	4.2	6.0	6.6	13.6	18.8
Basic EPS	6.6	3.5	4.3	6.1	6.7	13.6	18.8
EBITDA	268	0	247	292	375	620	861
Interest Income (Millions USD)	235.4	230.6	264.8	311.9	400.5	485.9	589.5
Growth Rate (%)	(11.1)	(2.0)	14.9	17.8	28.4	21.3	21.3
Net Interest Income/Total Interest Income (%)	41.7	26.0	47.5	45.0	39.4	50.0	55.5
Loan Loss Coverage (%)							
Pretax Return on Avg Assets (%)	1.0	0.5	0.7	0.8	0.8	1.2	1.5
Oper Return / Earning Assets (%)	1.4	0.8	1.1	1.1	1.1	1.6	1.9
Non-Interest Inc / Revs (%)	7.5	12.1	3.9	7.2	2.0	1.7	1.3
Efficiency Ratio (%)	(11.1)	23.9	20.6	26.9	20.2	13.4	10.0
Return on Assets (%)	0.6	0.3	0.4	0.5	0.5	0.8	1.0

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## 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 2019, the Company's total cash is assumed to increase from \$302.0M to \$339.0M while its total debt is assumed to rise from \$15.5B to \$18.1B.

Base Case ASSETS	ANNUAL BALANCE SHEETS (MILLIONS \$, EXCEPT PER SHARE AMOUNTS)						
	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	PDec18	PDec19
Cash & Near Cash	749	1,363	1,210	265	302	320	339
Accounts & Notes Receivable	151	146	153	162	195	236	285
Marketable Secs. & ST Investments	0	0	0	0	0	0	0
Mortgage Loans	0	0	0	0	0	0	0
Real Estate Investments	0	0	0	0	0	0	0
Other Long-Term Investments	9,207	9,169	10,123	10,572	11,997	13,615	15,451
Long-Term Investments before Reserves	<u>9,207</u>	<u>9,169</u>	<u>10,123</u>	<u>10,572</u>	<u>11,997</u>	<u>13,615</u>	<u>15,451</u>
Loan Loss Reserves	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Loans Net of Reserves	9,210	9,169	10,125	10,572	11,997	13,615	15,451
Net Fixed Assets	0	0	0	0	0	0	0
Other Assets	0	0	0	0	0	5,312	5,312
Additional Assets	3,252	3,618	4,053	4,608	5,312	0	0
Total Assets	<u>13,362</u>	<u>14,297</u>	<u>15,541</u>	<u>15,606</u>	<u>17,806</u>	<u>19,482</u>	<u>21,386</u>
Earning Assets	9,207	9,169	10,278	10,733	12,192	13,615	15,451
<b>LIABILITIES</b>							
Demand Deposits	0	0	0	0	0	0	0
Short-Term Borrowings	7,339	7,354	9,111	8,440	8,090	9,332	10,681
Customer Deposits	0	0	0	0	0	0	0
Other Short Term Liabilities	0	0	0	0	0	0	0
Long-Term Borrowings	5,001	5,471	4,967	5,223	7,433	7,433	7,433
Deferred Tax Liability	1	9	1	0	14	14	14
Other Long-Term Liabilities	447	681	908	1,299	1,562	1,877	2,255
Other Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>12,788</u>	<u>13,515</u>	<u>14,987</u>	<u>14,962</u>	<u>17,098</u>	<u>18,655</u>	<u>20,383</u>
Total Preferred Equity	58	205	205	205	205	205	205
Minority Interest	242	236	0	0	0	0	0
Share Capital & APIC	122	124	129	129	130	131	133
Retained Earnings & Other Equity	<u>153</u>	<u>217</u>	<u>220</u>	<u>309</u>	<u>374</u>	<u>492</u>	<u>666</u>
Total Shareholders & Equity	<u>574</u>	<u>782</u>	<u>554</u>	<u>644</u>	<u>708</u>	<u>828</u>	<u>1,003</u>
Total Liabilities & Equity	<u>13,362</u>	<u>14,297</u>	<u>15,541</u>	<u>15,606</u>	<u>17,806</u>	<u>19,482</u>	<u>21,386</u>
Shares Outstanding	11	11	11	11	11	11	11

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

We have assigned a rating of A whereas the ratio-implied rating for the most recent historic period is A-. We consider a one notch difference to be immaterial.

## Comments on Industry Ratios

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

## CUSIPs and EJRs 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;



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## 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 July 20th, 2018 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. EJRs ratings

- Are not intended to address the value, price, price stability, liquidity, suitability, or merit of an investment;
- Do not address investment merit, whether a particular rated security is suitable for a particular investor or suitable for an investor's risk tolerance;
- Do not address whether the expected return of a particular investment is adequate for the inherent risk;
- Do not address whether the market value of the security will remain stable over time; and
- Are not exact measures of the probability of default but are instead expressions of the relative credit risk of issuers and debt instruments.

### **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/ information (collectively "Information") 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, lack of reported data, delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent.

### **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 coporation 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.

### **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 high quality and readily available.

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

EJR is not paid to determine this credit rating.

## 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:

**Non-performing Loans and Credit Losses**- A material increase in non-performing loans and/or credit losses could prompt us to lower or the rating up to several notches.

**Net Interest Margins** - A material decline in the issuer's realized net interest margins could prompt us to reduce our rating up to several notches; the level of the rating cut would depend on the magnitude of the decline and a review of other possibly offsetting factors.

**Regulatory/ Licensing Issues** - A material deterioration in the issuer's regulatory posture is likely to impact credit quality and resulting rating with a decline of up to several notches.

**Funding Costs and Availability** - A material change in cost and availability of funds (i.e., liquidity) for the issuer, its customers and suppliers is likely to impact credit quality and resulting rating change of up to several notches.

**Business Levels/ GDP** - A material change in overall business activity or GDP could prompt us to raise or lower the rating. Most changes in GDP do not result in a rating change of more than one notch because these changes occur in small increments over time.

**Leverage Increase** - A material increase in leverage for the issuer and major customers could prompt us to adjust our the ratings up to several notches.

**Cyber/System Disruptions** - Material and prolonged disruptions in the issuer's and/or customers' and/or suppliers' systems is likely to cause us to reduce our rating up to several notches or in extreme cases, withdraw our rating.

**Corporate Events** - A material corporate event (such as a major acquisition, sale, or share buyback) is likely to cause us to change our rating up to several notches depending on various factors such as the counter party, the method of financing, the timing, and a variety of other related factors.

**Asset Values** - A material decline in asset values could prompt us to reduce our ratings up to several notches although normally such changes take place over several years and provide time for adjustment. An exception would be a catastrophic event such as a war or economic collapse in which case we might be compelled to take more rapid action.

## 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 import 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 %	21.3	25.3	17.3	A	A	A-
Interest Expense (% of outstanding debt)	1.6	(1.4)	4.6	A	BBB	BB+
Provisions for Loan Losses (% of earning assets)	0.0	(3.0)	3.0	A	A+	BB
Commissions & Fees Earned Growth %	(5.1)	0.1	(7.1)	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.



# FEDERAL AGRICULTURAL MORTGAGE

Rating Analysis - 09/10/18

Debt: \$16.19B, Cash : \$430.81M

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%

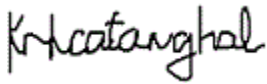
## Attestation Form

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:**

**Today's Date**



09/10/18

.....  
Kristine Catanghal  
Credit Rating Analyst

**Reviewer Signature:**

**Today's Date**



09/10/18

.....  
Chris Liao  
Credit Rating Analyst