CAPITAL FARM CREDIT

Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended March 31, 2010

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (FCB) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditors have direct access to the Audit Committee.

The undersigned certify that this quarterly report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.

Ben R. Novosad

Ben R. Novosad,
Chief Executive Officer

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

April 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (DOLLARS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended March 31, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2009 Annual Report of the Association.

The Association continued to feel the impact of the global recession on the Texas economy during the first quarter of 2010; however signs of improvement were evident as commodity prices for many producers improved, and land values showed signs of stabilization during this quarter. In addition, drought conditions that were experienced by much of the Association's territory during most of 2009 have subsided with most parts of the state continuing to receive considerable rain. Although growth in the Association's loan portfolio remained flat during the quarter, the Association experienced a significant decrease in its provision for loan losses relative to the prior year. As a result the Association saw considerable improvement in its earnings for the current quarter. The Association's management continues to maintain more restrictive credit underwriting standards and enhanced portfolio and collateral monitoring practices as the Association works through the remaining adverse economic conditions and works toward improvement in its overall credit quality.

Significant Events:

The board of directors approved a $57,626 patronage distribution for 2009. The Association paid $17,741 of this patronage in cash in March 2010. During March 2009, the Association paid $22,784 in cash patronage related to 2008 earnings.

The board of directors also took action in 2009 to allocate $39,885 of earnings, representing the 2009 earnings not distributed in cash, to the stockholders who were patrons during 2009. These allocations are in the form of nonqualified allocated equity distributions so the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the capital of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity retirements in the form of cash. There is not a planned retirement of these allocated equities. The board of directors will make annual evaluations of the Association's capital position and determine if cash retirements of these equities can be made. During 2008, $67,799 of earnings were allocated to stockholders.

Loan Portfolio:

Total loan volume of the Association was $5,161,331 at March 31, 2010. This compares with loan volume owned by the Association at December 31, 2009 of $5,218,700. This represents a decrease of $57,369, or approximately 1.1 percent. This reduction is primarily attributable to loan pay downs that occur annually during the first few months of the year, along with a decrease in the production and agribusiness portfolios. The volume reduction was expected in conjunction with the recessionary pressures and the implementation of more restrictive lending standards and does not materially impact the Association's business plans for the year.

The credit quality of the loan portfolio decreased during the first quarter as evidenced by the increased volume in high-risk assets. High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table summarizes the Association's components and trends of high-risk assets:

	March 31, 2010	%	December 31, 2009	%
Nonaccrual loans	**$ 159,745**	**80.9**	$ 147,883	84.0
Loans 90 days past due and still accruing interest	**16,243**	**8.2**	7,057	4.0
Formally restructured loans	**1,208**	**0.6**	1,229	0.7
Other property owned, net	**20,156**	**10.3**	19,893	11.3
Total	**$ 197,352**	**100.0**	$ 176,062	100.0

The Association experienced an $11,862 net increase in nonaccrual loans during the first quarter of 2010. Improved repayment performance and/or liquidation resulted in $16,723 of loans to be moved out of nonaccrual status while management's risk recognition processes identified an additional $28,585 of loans that were transferred into nonaccrual in the first quarter. Most of the net increase in nonaccrual loans is attributable to two part-time ranching operations that largely depend on real estate transactions to generate revenue to make loan payments. The economic recession has negatively impacted real estate values and activity across Texas during 2009 as the reported number of rural real estate transactions in the state decreased by 29 percent [1] from 2008. The decreased sales activity caused the revenues of part-time farming and ranching customers that are also real estate brokers, agents, developers or investors to decline. The decline in revenue has caused some of these customers to be late in making or unable to make payments when due.

In addition to the increase in nonaccrual loans during the first quarter, there was also a $9,186 increase in loans that are 90 or more days past due and still accruing interest. Loans in this category are to customers that have a documented plan that details how and when the amount owed will be paid and management believes the plan will result in the payment of all principal and interest owed in the near future. More than half of the volume in this category is owed by a part-time rancher that also relies on real estate transactions to generate revenue.

Beginning in the first quarter of 2009, management recognized a growing number of problems in loans to part-time operators that earn a large portion of their income from real estate buying and selling activities. Since that time, management has monitored and tracked the volume and performance of loans to customers in this category and has dedicated additional personnel to work with customers that are unable to perform as agreed. In addition, management has used stress testing models to measure any negative impact a continued decline in real estate values could have on credit quality and loan losses. The results of these tests are used in the Association's planning and control processes.

Along with devoting more resources and monitoring focused on the stressed real estate segment of the portfolio, management monitors other high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on borrower obligations. However, because of the depth and variety of economic instability across the area served, a noticeable and sustained improvement in credit quality and nonaccrual volume trends is not expected soon.

[1] Real Estate Center at Texas A&M University

Results of Operations:

The Association's net income for the three months ended March 31, 2010 was $27,120 as compared to $11,196 for the three months ended March 31, 2009, an increase of $15,924, or 142.2 percent.

The increase in net income was most affected by the decrease in the provision for loan loss expense in the first quarter 2010. The provision for loan losses was $1,633 for the first three months of 2010 as compared to $17,921 for the same period in 2009. During the first quarter 2009, the Association recognized significant losses in its energy portfolio. These losses were related to the recognition of decreased collateral values on bio fuel loans. For the first quarter 2010, most of the provision for loan loss expense was related to the increase in high-risk assets.

Net interest income increased by $1,284 during the first three months of 2010 as compared to the same time period for 2009. The effects of changes in average volume and interest rates on net interest income in the three months ended March 31, 2010, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the three months ended March 31, 2010		For the three months ended March 31, 2009	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 5,047,914**	**$ 74,321**	$ 5,146,278	$ 79,022
Interest-bearing liabilities	**4,497,606**	**34,817**	4,591,466	40,802
Impact of capital	**$ 550,308**		$ 554,812	
Net interest income		**$ 39,504**		$ 38,220

	Averages	Averages
Yield on loans	**5.97%**	6.23%
Cost of interest-bearing liabilities	**3.14%**	3.60%
Interest rate spread	**2.83%**	2.63%

	2010 vs. 2009		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (1,510)**	**$ (3,191)**	**$ (4,701)**
Interest expense	**(834)**	**(5,151)**	**(5,985)**
Net interest income	**$ (676)**	**$ 1,960**	**$ 1,284**

The Association's noninterest income increased from $6,163 in the first three months of 2009 to $6,344 in the first three months of 2010. This increase is a result of the Association's increased patronage accrual from FCB which was offset by a decrease in loan fees generated during the first quarter. The Association increased its accrual of patronage income as signs of market stability supported receipt of a 0.30 percent patronage from the FCB for the year 2010 versus the 0.20 percent accrued in 2009. Loan fees were reduced from the first quarter of 2009 as fees associated with refinancing of borrower debt and agribusiness transactions declined significantly.

Noninterest expenses increased $1,829 in the first three months of 2010 as compared to the same time period in 2009. This increase is primarily attributable to increases in losses on other property owned, net of $3,132. Losses on other property owned increased as property values at time of disposition were less than acquisition values. Falling values in transitional properties acquired accounted for the majority of this loss. Other expenses increased $380 from 2009. The majority of this increase is due to a timing difference in the payment of business insurance premiums. These increases were partially offset by a reduction in pension plan funding expense of $765 and a reduction in Farm Credit System Insurance Premiums (FCSIC) of $1,105. Pension Plan expenses for 2010 were reduced from 2009 as improvements in the stock market required less funding of the pension plan. In addition the FCSIC reduced premium assessments on accrual volume from .20 percent in 2009 to .10 percent for 2010.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the FCB. The Association had an outstanding balance of $4,459,187 at March 31, 2010, as compared to $4,531,494 at December 31, 2009. This decrease in note payable to the Bank and related accrued interest payable since December 2009 is the result of a slight reduction in the Association's loan portfolio. The loan carried a weighted average interest rate of 3.14 percent for the quarter ended March 31, 2010, compared to 3.36 percent for the year ended December 31, 2009. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2010. As borrower payments are received they are applied to the Association's note payable with the FCB.

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year. See Note 4 to the consolidated financial statements, "Note payable to the Farm Credit Bank of Texas" for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

The Association's capital position remains strong, with total capital of $805,616 at March 31, 2010. This represents an increase of $26,801 from the December 31, 2009 total capital level of $778,815. This increase in capital is primarily the result of the Association's net income of $27,120. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2010 was 13.37 percent. The Association's core surplus ratio and total surplus ratio at March 31, 2010 were 12.29 percent and 12.93 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 4 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 4 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P. O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Loans	$ 5,161,331	$ 5,218,700
Less: Allowance for losses	(46,883)	(46,732)
Net loans	5,114,448	5,171,968
Cash	6,676	15,098
Accrued interest receivable	54,932	58,837
Investment in and receivable from the FCB:		
Capital stock	91,342	91,342
Receivable	4,334	2,238
Other property owned, net	20,156	19,893
Premises and equipment, net	11,996	12,325
Other assets	8,089	10,238
Total assets	$ 5,311,973	$ 5,381,939
LIABILITIES		
Notes payable to the FCB	$ 4,459,187	$ 4,531,494
Advanced conditional payments	4,922	3,996
Accrued interest payable	11,509	12,034
Drafts outstanding	4,268	8,925
Patronage distributions payable	7	17,760
Unfunded post retirement medical obligation	13,705	13,506
Other liabilities	12,759	15,409
Total liabilities	4,506,357	4,603,124
MEMBERS' EQUITY		
Capital stock and participation certificates	22,723	22,910
Allocated retained earnings	184,887	184,905
Unallocated retained earnings	593,761	566,647
Accumulated other comprehensive income	4,245	4,353
Total members' equity	805,616	778,815
Total liabilities and members' equity	$ 5,311,973	$ 5,381,939

The accompanying notes are an integral part of these consolidated financial statements.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)
(UNAUDITED)

	For the three months ended March 31, 2010	For the three months ended March 31, 2009
INTEREST INCOME		
Loans	**$ 74,321**	$ 79,022
INTEREST EXPENSE		
Note Payable to the FCB	**34,817**	40,802
Net interest income	**39,504**	38,220
PROVISION FOR LOAN LOSSES		
Provision for loan losses	**1,633**	17,921
Net interest income after provision for losses	**37,871**	20,299
NONINTEREST INCOME		
Patronage income from the FCB	**3,581**	2,626
Loan fees	**2,071**	3,012
Other income	**692**	525
Total noninterest income	**6,344**	6,163
NONINTEREST EXPENSES		
Salaries and employee benefits	**7,255**	7,388
Loss (gain) on other property owned, net	**3,131**	(1)
Pension plan funding expense	**1,536**	2,301
Farm Credit System insurance premium	**1,109**	2,214
Occupancy and equipment	**870**	495
Purchased services and allocations	**752**	843
Public and member relations	**438**	440
Travel	**338**	392
FCA supervisory and exam expense	**330**	207
Advertising	**267**	365
Directors' expense	**259**	198
Communications	**173**	167
Other expenses	**637**	257
Total noninterest expenses	**17,095**	15,266
Income before federal income tax	**27,120**	11,196
Federal income tax	**-**	-
Net income	**$ 27,120**	$ 11,196

The accompanying notes are an integral part of these consolidated financial statements.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2008	$ 23,231	$ 144,794	$ 566,967	$ 4,211	$ 739,203
Comprehensive Income:					
Net income	-	-	11,196	-	11,196
Change in postretirement benefit plans	-	-	-	(181)	(181)
Comprehensive income	-	-	11,196	(181)	11,015
Capital stock/participation certificates:					
Issued	610	-	-	-	610
Retired	(824)	-	-	-	(824)
Patronage distributions declared:					
Nonqualified allocations	-	-	-	-	-
Cash	-	-	-	-	-
Other	-	(4)	-	-	(4)
Balance at March 31, 2009	23,017	144,790	578,163	4,030	750,000
Comprehensive income:					
Net income	-	-	46,430	-	46,430
Change in postretirement benefit plans	-	-	-	323	323
Comprehensive income	-	-	46,430	323	46,753
Capital stock/participation certificates:					
Issued	2,055	-	-	-	2,055
Retired	(2,162)	-	-	-	(2,162)
Patronage distributions declared:					
Nonqualified allocations	-	39,885	(39,885)	-	-
Cash	-	-	(17,741)	-	(17,741)
Other	-	230	(320)	-	(90)
Balance at December 31, 2009	22,910	184,905	566,647	4,353	778,815
Comprehensive income:					
Net income	-	-	27,120	-	27,120
Change in postretirement benefit plans	-	-	-	(108)	(108)
Comprehensive income	-	-	27,120	(108)	27,012
Capital stock/participation certificates:					
Issued	612	-	-	-	612
Retired	(799)	-	-	-	(799)
Patronage distributions declared:					
Nonqualified allocations	-	-	-	-	-
Cash	-	-	-	-	-
Other	-	(18)	(6)	-	(24)
Balance at March 31, 2010	**$ 22,723**	**$ 184,887**	**$ 593,761**	**$ 4,245**	**$ 805,616**

The accompanying notes are an integral part of these consolidated financial statements.

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which, provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2009 are contained in the 2009 Annual Report to Stockholders. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 Annual Report to Stockholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements that reports both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The FCB and its related associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

Effective January 1, 2010, the Bank and related Associations adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The impact of the adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this guidance had no impact on the Association's financial condition and results of operations since it is not involved with any variable interest entities.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified as "doubtful" or "loss."

A summary of loans follows:

Industry	**March 31, 2010**	**%**	December 31, 2009	%
Production agriculture:				
Real estate mortgage	**$ 4,099,174**	**79.4**	$ 4,045,814	77.5
Production and term	**557,591**	**10.8**	580,017	11.1
Agribusiness	**362,503**	**7.0**	449,047	8.6
Rural residential real estate	**76,618**	**1.5**	73,789	1.4
Communication	**33,204**	**0.7**	34,283	0.7
Energy	**29,484**	**0.5**	33,009	0.6
Lease receivables	**2,757**	**0.1**	2,741	0.1
Total	**$ 5,161,331**	**100.0**	$ 5,218,700	100.0

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans:

	March 31, 2010	**%**	March 31, 2009	%	December 31, 2009	%
Nonaccrual	**$ 159,745**	**90.1**	$ 157,072	92.2	$ 147,883	94.7
90 days past due and still accruing interest	**16,243**	**9.2**	12,056	7.1	7,057	4.5
Formally restructured	**1,208**	**0.7**	1,310	0.7	1,229	0.8
Total	**$ 177,196**	**100.0**	$ 170,438	100.0	$ 156,169	100.0

The Association has remaining commitments to borrowers whose loans were classified as impaired at March 31, 2010 of $9,623. The average recorded investment in impaired loans for the quarter ended March 31, 2010 was $148,230, compared to $129,918 at March 31, 2009. The Association recognized interest income of $667 on impaired loans in the first quarter of 2010 and $1,757 for the first quarter of 2009.

A summary of the changes in the allowance for loan losses follows:

	For the three months ended March 31, 2010	For the three months ended March 31, 2009	For the nine months ended December 31, 2009
Beginning Balance	**$ 46,732**	$ 23,646	$ 41,099
Provision for loan losses	**1,633**	17,921	40,277
Charge offs	**(1,518)**	(565)	(34,892)
Recoveries	**36**	97	248
Ending Balance	**$ 46,883**	$ 41,099	$ 46,732

Impaired loans of $83,484 at March 31, 2010 had related specific allowance for loan losses of $23,681 as compared to impaired loans of $84,552 at March 31, 2009 which had a related specific allowance for loan losses of $26,223. The remaining impaired loans carried no specific allowance for loan losses. Impaired loans for which no specific allowance was considered necessary are not included in the determination of the general allowance. However, impaired loans which were not analyzed for a specific allowance are considered in the determination of the general allowance for loan losses.

NOTE 3 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Association has several assets that are carried on its books at fair value including: assets held in non-qualified benefits trusts, loans that have been evaluated for impairment and other property owned.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," of the 2009 Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. The assets held in non-qualified benefits trusts are measured at fair value on a recurring basis at March 31, 2010 and are summarized below:

	For the three months ended March 31, 2010
Beginning Balance	**$ 1,475**
Transfers In	**-**
Transfers Out	**-**
Other Market Changes	**(39)**
Ending Balance	**$ 1,436**

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge and judgment about current market conditions, specific issues related to collateral and other matters. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Cost to sell represent transaction cost and are not included as a component of the asset's fair value.

These assets are measured at fair value on a non-recurring basis and are summarized below:

	Total Fair Value March 31, 2010	Total Fair Value December 31, 2009
Loans	**$ 151,357**	$ 156,169
Other property owned	**28,169**	25,223
Total	**$ 179,526**	$ 181,392

NOTE 4 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,459,187 at 3.14 percent, and $4,531,494 at 3.36 percent for the quarter ended March 31, 2010 and year ended December 31, 2009, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2009, 2008 and 2007, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of March 31, 2010, was $5,018,887, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

NOTE 5 — MEMBERS' EQUITY:

The Association paid $17,741 in cash patronage in March 2010. During March 2009, the Association paid $22,784 in cash patronage related to 2008 earnings.

The board of directors also took action in December 2009 to allocate $39,885 of earnings, representing the 2009 earnings not distributed in cash to the stockholders who were patrons during 2009. These allocations are in the form of nonqualified allocated equity distributions so the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the capital of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity retirements in the form of cash. There is not a planned retirement of these allocated equities. The board of directors will make annual evaluations of the Association's capital position and determine if some cash retirements of these equities can be made.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2009 Annual Report, that it expected to contribute $6,143 to its pension plan in 2010, which will be $3,062 less than the 2009 contribution. Pension plan funding expense was $1,536 and $2,301 for the first quarter of 2010 and 2009 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through April 29, 2010 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.