CAPITAL FARM CREDIT

Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended September 30, 2010

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the 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 examined 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

November 3, 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 September 30, 2010. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2009 Annual Report of the Association.

Signs of improvement in the economy continue to be evident as commodity prices for many producers improve. Crop and pasture conditions through most of the state continue to be favorable. Although growth in the Association's loan portfolio remained flat during this period, the Association experienced a significant increase during the third quarter in its loan losses with additional recognized losses primarily associated with the feedlot and lands in transition sectors. Despite these losses, the Association's earnings continue to improve versus the prior year. The Association will continue to maintain more restrictive credit underwriting standards and enhanced portfolio and collateral monitoring practices as the Association works through adverse loans and works toward improvement in its overall credit quality.

Significant Events:

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated equities which will be distributed to stockholders in December 2010. The retirement will be partial distributions of the equities allocated in 2006, 2007, and 2008. Due to the rising trend in nonaccrual loans and other impaired assets, the Association has managed its capital at higher levels than normal. However, with the permanent capital ratio in excess of 14.5 percent in September, the board determined a partial retirement was merited. The Association is expecting to continue to grow earnings at a level to offset potential loan losses and prepare for growth in its loan portfolio.

Loan Portfolio:

Total loan volume was $5,149,322 at September 30, 2010. This compares with loan volume owned by the Association at December 31, 2009 of $5,218,700. This represents a decrease of $69,378, or approximately 1.3 percent. This reduction is primarily attributable to a decrease in the production and agribusiness portfolios.

The following table summarizes the Association's components and trends of high-risk assets:

	September 30, 2010	**%**	December 31, 2009	%
Nonaccrual loans	**$ 190,608**	**92.6**	$ 147,883	84.0
Loans 90 days past due and still accruing interest	**711**	**0.3**	7,057	4.0
Formally restructured loans	**1,056**	**0.5**	1,229	0.7
Other property owned, net	**13,497**	**6.6**	19,893	11.3
Total	**$ 205,872**	**100.0**	$ 176,062	100.0

The quality of the Association's loan portfolio has declined slightly with a $29,810 increase in high-risk assets since the previous year's end. 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 Association experienced a $42,725 increase in nonaccrual loans during the first nine months of 2010. The financial problems associated with customers in the cattle feedyard, the transitional real estate and the timber industries are mostly responsible for the increase in nonaccrual loans.

The decrease of $6,346 in loans that are 90 or more days past due and still accruing interest is evidence that loans are moving through the servicing and collection process by either transferring to nonaccrual status or experiencing correction of the past due status through repayment of the amounts owed. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Other property owned has declined $6,396. The Association has sold some properties but some of the decline is a result of reducing the value of the real estate held in inventory. The Association's real estate market data (obtained through the Real Estate Center of Texas A & M University) reflects stable to slightly declining real estate values in most of Texas. However, some of the real estate owned by the Association is in Florida and Georgia and data from various sources in these areas shows there was very little demand for real estate at past asking prices. The Association is actively working with local realtors to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable. In addition, management has in place processes to evaluate, identify and monitor counter party risk that could have an adverse impact on the loan portfolio.

Results of Operations:

The Association's net income for the nine months ended September 30, 2010 was $74,343 as compared to $37,893 for the nine months ended September 30, 2009, an increase of $36,450, or 96.2 percent.

The improvement in net income was affected by the decrease in the provision for loan loss expense, the increase in net interest income, and the increase in noninterest income in the first nine months of 2010. The provision for loan losses was $26,314 for the first nine months of 2010 as compared to $45,520 for the same period in 2009. The provision for loan losses during the first nine months of 2009 was a result of problems in the bio fuel industry, and the overall decline in the state's agricultural industry. The Association also experienced significant losses on some cattle feedlot loans and a loan to a grain broker. During the first nine months of 2010, the provision for loan losses rose a result of increased losses in the feedlot industry, and in the lands in transition sector.

Net interest income increased by $5,610 during the first nine 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 nine months ended September 30, 2010, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2010		For the nine months ended September 30, 2009	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 5,002,487**	**$ 220,045**	$ 5,111,777	$ 230,779
Interest-bearing liabilities	**4,462,073**	**101,764**	4,606,775	118,108
Impact of capital	**$ 540,414**		$ 505,002	
Net interest income		**$ 118,281**		$ 112,671

	Averages	Averages
Yield on loans	**5.88%**	6.04%
Cost of interest-bearing liabilities	**3.05**	3.43
Interest rate spread	**2.83%**	2.61%

	2010 vs. 2009		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (4,934)**	**$ (5,800)**	**$ (10,734)**
Interest expense	**(3,710)**	**(12,634)**	**(16,344)**
Net interest income	**$ (1,224)**	**$ 6,834**	**$ 5,610**

The Association's noninterest income increased from $17,762 in the first nine months of 2009 to $25,941 in the first nine months of 2010. The majority of this increase is due to a refund in the amount of $ 4,637 in Farm Credit System Insurance Corporation (FCSIC) premiums for excess reserves attributed to the Insurance Fund. This increase in noninterest income is also a result of the Association's increased patronage accrual from FCB. 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.

Noninterest expenses decreased $3,455 in the first nine months of 2010 as compared to the same time period in 2009. This decrease is attributable to a decrease in the pension plan funding expense of $2,297 and in FCSIC premiums of $4,967. 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 .05 percent for 2010. These decreases were offset by losses on other property owned, net of $4,269. Losses on other property owned increased as property values at time of disposition were less than at acquisition, resulting in recognized losses at disposition.

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 $4,438,613 at September 30, 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 direct loan carried a weighted average interest rate of 3.05 percent for the nine months ended September 30, 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 next twelve months. See Note 5 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 $837,434 at September 30, 2010. This represents an increase of $58,619 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 $74,343, offset in part by the pending retirement of $15,000 in allocated equities. 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 September 30, 2010 was 14.52 percent. The Association's core surplus ratio and total surplus ratio at September 30, 2010 were 13.38 percent and 14.03 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

On July 8, 2010, FCA published in the Federal Register an Advanced Notice of Proposed Rulemaking (ANPRM) on capital adequacy and the potential promulgation of Tier 1 and Tier 2 capital standards for system institutions similar to the capital tiers that other Federal financial regulatory agencies have adopted. The 120 day comment period will expire in November 2010. The ANPRM solicits comments on numerous issues that significantly impact all aspects of capital management by system institutions. The Association anticipates that any adoption of the Tier 1/Tier 2 approach will require adjustments by FCA to accommodate the cooperative structure of the system. The Association is unable to determine the significance of this change until this proposal becomes final.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 5 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 5 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)

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Loans	**$ 5,149,322**	$ 5,218,700
Less: Allowance for losses	**(47,491)**	(46,732)
Net loans	**5,101,831**	5,171,968
Cash	**3,044**	15,098
Accrued interest receivable - loans and investments	**65,335**	58,837
Investments – held-to-maturity	**25,359**	-
Investment in and receivable from the FCB:		
Capital stock	**91,342**	91,342
Receivable	**15,933**	2,238
Other property owned, net	**13,497**	19,893
Premises and equipment, net	**11,417**	12,325
Other assets	**5,230**	10,238
Total assets	**$ 5,332,988**	$ 5,381,939
LIABILITIES		
Notes payable to the FCB	**$ 4,438,613**	$ 4,531,494
Advanced conditional payments	**3,560**	3,996
Accrued interest payable	**10,524**	12,034
Drafts outstanding	**5,662**	8,925
Patronage distributions payable	**15,006**	17,760
Unfunded post retirement medical obligation	**14,097**	13,506
Other liabilities	**8,092**	15,409
Total liabilities	**4,495,554**	4,603,124
MEMBERS' EQUITY		
Capital stock and participation certificates	**22,535**	22,910
Allocated retained earnings	**169,887**	184,905
Unallocated retained earnings	**640,983**	566,647
Accumulated other comprehensive income	**4,029**	4,353
Total members' equity	**837,434**	778,815
Total liabilities and members' equity	**$ 5,332,988**	$ 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 September 30, 2010	For the three months ended September 30, 2009	**For the nine months ended September 30, 2010**	For the nine months ended September 30, 2009
INTEREST INCOME				
Loans and Investments	**$ 72,539**	$ 75,892	**$ 220,045**	$ 230,779
INTEREST EXPENSE				
Note payable to the FCB and others	**33,170**	38,098	**101,764**	118,108
Net interest income	**39,369**	37,794	**118,281**	112,671
PROVISION FOR LOSSES				
Provision for loan losses	**18,083**	14,728	**26,314**	45,520
Net interest income after provision for losses	**21,286**	23,066	**91,967**	67,151
NONINTEREST INCOME				
Patronage income from the FCB	**3,969**	2,600	**11,078**	7,830
Loan fees	**3,655**	2,207	**8,195**	8,256
Other income	**218**	471	**6,668**	1,676
Total noninterest income	**7,842**	5,278	**25,941**	17,762
NONINTEREST EXPENSES				
Salaries and employee benefits	**7,070**	7,010	**21,438**	21,490
Pension plan funding expense	**1,536**	2,301	**4,607**	6,904
Purchased services and allocations	**812**	843	**2,374**	2,445
Farm Credit System insurance premium	**566**	2,236	**1,706**	6,673
Occupancy and equipment	**564**	545	**1,965**	1,601
Travel	**447**	482	**1,216**	1,351
FCA supervisory and exam expense	**330**	329	**991**	986
Advertising	**301**	324	**836**	966
Public and member relations	**278**	214	**1,003**	974
Communications	**203**	227	**588**	620
Directors' expense	**156**	157	**640**	522
Loss (gain) on other property owned, net	**(328)**	817	**4,269**	830
Other expense	**728**	506	**1,932**	1,658
Total noninterest expenses	**12,663**	15,991	**43,565**	47,020
Income before federal income tax	**16,465**	12,353	**74,343**	37,893
Federal income tax	**-**	-	**-**	-
Net income	**$ 16,465**	$ 12,353	**$ 74,343**	$ 37,893

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	-	-	37,893	-	37,893
Change in postretirement benefit plans	-	-	-	(397)	(397)
Comprehensive income	-	-	37,893	(397)	37,496
Capital stock/participation certificates:					
Issued	2,009	-	-	-	2,009
Retired	(2,286)	-	-	-	(2,286)
Patronage Adjustment	-	(83)	62	-	(21)
Balance at September 30, 2009	22,954	144,711	604,922	3,814	776,401
Comprehensive income:					
Net income	-	-	19,733	-	19,733
Change in postretirement benefit plans	-	-	-	539	539
Comprehensive income	-	-	19,733	539	20,272
Capital stock/participation certificates:					
Issued	656	-	-	-	656
Retired	(700)	-	-	-	(700)
Patronage distributions declared:					
Nonqualified allocations	-	39,885	(39,885)	-	-
Cash	-	-	(17,741)	-	(17,741)
Patronage Adjustment	-	309	(382)	-	(73)
Balance at December 31, 2009	22,910	184,905	566,647	4,353	778,815
Comprehensive income:					
Net income	-	-	74,343	-	74,343
Change in postretirement benefit plans	-	-	-	(324)	(324)
Comprehensive income	-	-	74,343	(324)	74,019
Capital stock/participation certificates/allocated equities:					
Issued	1,993	-	-	-	1,993
Retired	(2,368)	(15,000)	-	-	(17,368)
Patronage Adjustment	-	(18)	(7)	-	(25)
Balance at September 30, 2010	**$ 22,535**	**$ 169,887**	**$ 640,983**	**$ 4,029**	**$ 837,434**

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 third 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.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this Standard should have no impact on the Association's financial condition or results of operations, but will result in additional disclosures.

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 Association reviewed its loan participation agreements to ensure participations would meet the requirements for sale treatment and not be required to be consolidated. 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 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 25,359	$ 45	$ -	$ 25,404	5.05%	4.16

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farm Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction. The Association did not have any mortgage-backed securities at December 31, 2009.

NOTE 3 — 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		**September 30, 2010**	**%**		December 31, 2009	%
Production agriculture:						
Real estate mortgage	**$**	**4,098,604**	**79.6**	$	4,045,814	77.5
Production and term		**566,531**	**11.0**		580,017	11.1
Agribusiness		**340,384**	**6.6**		449,047	8.6
Rural residential real estate		**75,573**	**1.5**		73,789	1.4
Communication		**32,287**	**0.6**		34,283	0.7
Energy		**29,561**	**0.6**		33,009	0.6
Lease receivables		**6,286**	**0.1**		2,741	0.1
Other		**96**	**0.0**		-	-
Total	**$**	**5,149,322**	**100.0**	**$**	**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:

		September 30, 2010	**%**		September 30, 2009	%		December 31, 2009	%
Nonaccrual	**$**	**190,608**	**99.1**	$	170,169	97.5	$	147,883	94.7
90 days past due and still accruing interest		**711**	**0.4**		3,195	1.8		7,057	4.5
Formally restructured		**1,056**	**0.5**		1,258	0.7		1,229	0.8
Total	**$**	**192,375**	**100.0**	$	174,622	100.0	$	156,169	100.0

The Association has remaining commitments to borrowers whose loans were classified as impaired at September 30, 2010 of $3,626. The average recorded investment in impaired loans for the nine months ended September 30, 2010 was $182,002, compared to $138,869 at September 30, 2009. The Association recognized interest income of $3,138 on impaired loans for the nine months ended September 30, 2010 and $2,351 for the September 30, 2009 period.

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

		For the nine months ended September 30, 2010		For the nine months ended September 30, 2009		For the three months ended December 31, 2009
Beginning Balance	**$**	**46,732**	$	23,646	$	39,610
Provision for loan losses		**26,314**		45,520		12,678
Charge offs		**(26,149)**		(29,671)		(5,786)
Recoveries		**594**		115		230
Ending Balance	**$**	**47,491**	$	39,610	$	46,732

Impaired loans of $79,985 at September 30, 2010 had related specific allowance for loan losses of $23,057 as compared to impaired loans of $95,442 at September 30, 2009 which had related specific allowances for loan losses of $22,268. 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 that were not analyzed for a specific allowance are considered in the determination of the general allowance for loan losses. Chargeoffs in the first nine months of 2010 were predominantly made against loans to borrowers in the feedlot and lands in transition sectors.

NOTE 4 — 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 some 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 asset 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 September 30, 2010 and are summarized below:

	Total Fair Value September 30, 2010	Total Fair Value December 31, 2009
Beginning Balance	$ 1,475	$ 639
Transfers In	-	806
Transfers Out	-	-
Other Market Changes	(50)	30
Assets held in non-qualified benefits trusts	$ 1,425	$ 1,475

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 represents transaction costs 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 September 30, 2010	Total Fair Value December 31, 2009
Loans	**$ 214,729**	$ 156,169
Other property owned	**18,514**	25,223
Total	**$ 233,243**	$ 181,392

NOTE 5 — 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 $4,438,613 at 3.05 percent, and $4,531,494 at 3.36 percent for the nine months ended September 30, 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 September 30, 2010, was $5,043,523, 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 6 — 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.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated equities which will be distributed to the stockholders in December 2010. The retirement will be partial distributions of the equities allocated in 2006, 2007, and 2008 as follows:

Allocated Equity Retirement for December 2010		
2006	**$**	**3,079**
2007		**5,640**
2008		**6,281**
	$	**15,000**

NOTE 7 — 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 $4,607 and $6,904 for the nine months ended September 30, 2010 and 2009 respectively. Contributions in 2009 included increases resulting from a drop in market values of the plan's investments in the last half of 2008.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 3, 2010 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.