CAPITAL FARM CREDIT

Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended September 30, 2009

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles 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' 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 examination of the consolidated financial statements in accordance with generally accepted auditing standards. 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, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Capital Farm Credit, ACA and the results of its operations for the periods shown.

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, 2009

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 and year to date period ended September 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2008 Annual Report of the Association.

The Association has been impacted by a tough agricultural economy across the state of Texas during 2009. The summer drought throughout much of the state has led to a total loss of crops in some areas. In addition, many cattle producers have liquidated their herds because of the dry conditions. Low commodity prices for cattle, grain, dairy and timber have also hurt agricultural producers throughout the state. The Association's high risk assets have increased substantially during 2009 and year to date net earnings are roughly half of that reported for the nine months ended September 30, 2008 because of increased loan losses. Nevertheless, the Association continues to remain profitable and has a strong capital position. The Association continues to monitor its underwriting standards so as to be actively involved in extending new credit while effectively managing the risk in its loan portfolio.

Significant Events:

On October 1, 2008, Capital Farm Credit, ACA (Capital) and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. The merger was accounted for similar to the pooling of interests method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all periods presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented.

Due to the Association's strong financial performance for 2008 and solid capital position, the Association paid $22,784 in cash patronage in March 2009, in addition to the $6,655 paid in December 2008 to former First Ag stockholders. During March 2008, the Association paid $31,455 in cash patronage related to 2007 earnings.

The board of directors also took action in 2008 to allocate $67,799, representing the 2008 earnings not distributed in cash to the stockholders who were patrons during 2008. 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.

Loan Portfolio:

Total loan volume was $5,249,482 at September 30, 2009. This compares with loan volume at December 31, 2008 of $5,271,307. This represents a decrease of $21,825, or approximately 0.4 percent. This reduction is primarily attributable to less loan demand from all sectors coupled with scheduled term loan amortization and operating lines decrease as crops are harvested this time of year. The volume reduction is consistent with business plan projections that anticipated a stagnant real estate market through 2009.

The volume of high-risk assets increased during the nine month period as additional problem loans were identified. 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:

	September 30, 2009	%	December 31, 2008	%
Nonaccrual loans	**$ 170,169**	**85.1**	$ 92,126	82.9
Loans 90 days past due and still accruing interest	**3,195**	**1.6**	13,516	12.2
Formally restructured loans	**1,258**	**.6**	4,784	4.3
Other property owned, net	**25,453**	**12.7**	689	0.6
Total	**$ 200,075**	**100.0**	$ 111,115	100.0

The volume of nonaccrual loans increased for the third consecutive quarter. Additional loan volume was moved to nonaccrual status during the quarter with the majority of the volume associated with loans secured with high value real estate in the Houston metroplex and with loans to customers that provide communication services. The increased severity of repayment problems in these loans coupled with a decline in the value of real estate that secures these loans resulted in the loans being recognized as nonaccrual. Two loans to communication companies were moved to nonaccrual during the quarter because operational problems in the mobile communication industry raised questions about their ability to continue to operate in the existing markets and under the present contractual terms. The problems in the bio fuel and livestock industries that drove increases in previous quarters continued as well. The volume of other property owned increased by $24,764 as the collateral for nonaccrual loans was acquired as loans are moved through the collection process.

Management continues to review the loan portfolio in order to identify and report problem loans and address risk exposure by providing allowance reserves as appropriate. These reviews have indicated problems within the bio fuel, communication, dairy, and cattle feeding industries as well as loans secured with real estate in the metroplex area are systemic and not limited to specific customers. However, loan servicing continues to be conducted on an individual customer basis as management works with each customer to develop plans designed to return the operation to viability or result in an orderly debt reduction through liquidation of the collateral. Some of these plans include taking possession of the collateral and marketing the acquired property through channels that will be most beneficial to the Association.

Results of Operations:

The Association's net income for the nine months ended September 30, 2009 was $37,893 as compared to $74,565 for the nine months ended September 30, 2008, a decrease of $36,672, or 49.2 percent.

Net income for the quarter and nine months ended September 30, 2009 was severely impacted by provisions for loan losses and acquired property losses totalling $15,565 and $46,357, respectively. These amounts compare to $4,161 and $9,836 for the quarter and nine months ended September 30, 2008. These losses are a result of the aforementioned problems in the agricultural economy, declines in the value of real estate in the Houston metroplex area, and difficulties in the bio fuel and communications industries. Total loans written off during 2009 have amounted to $29,671 or over 455 percent of the total loans written off in all of 2008.

Net interest income increased by $4,969 during the first nine months of 2009 as compared to the same time period for 2008. The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2009, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2009		For the nine months ended September 30, 2008	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 5,111,777**	**$ 230,779**	$ 5,001,937	$ 254,946
Interest-bearing liabilities	**4,606,775**	**118,108**	4,424,137	147,244
Impact of capital	**$ 505,002**		$ 577,800	
Net interest income		**$ 112,671**		$ 107,702

	Averages	Averages
Yield on loans	**6.04%**	6.81%
Cost of interest-bearing liabilities	**3.43**	4.45
Interest rate spread	**2.61%**	2.36%

	2009 vs. 2008		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 5,593**	**$ (29,760)**	**$ (24,167)**
Interest expense	**6,073**	**(35,209)**	**(29,136)**
Net interest income	**$ (480)**	**$ 5,449**	**$ 4,969**

The Association's noninterest income decreased from $21,721 in the first nine months of 2008 to $17,768 in the first nine months of 2009. This decrease is a result of the Association generating less loan fee income from new loan originations, and reduced accrual of patronage income from the Farm Credit Bank of Texas (FCB). The reduced loan fee income in 2009 resulted as recessionary pressures caused demand for financing to slow. The Association also reduced its accrual of patronage income from the FCB in anticipation of a possible reduced distribution for 2009.

Noninterest expenses increased $1,918 in the first nine months of 2009 as compared to the same time period in 2008. This increase is attributable to increases in the Association's pension plan funding expense of $4,163 and in Farm Credit System insurance premiums of $1,295. Beginning in 2009, the Farm Credit System Insurance Corporation raised premiums on accrual volume from 15 basis points to 20 basis points. Contributions to the Association's defined benefit plan increased as deterioration in the stock market required additional funding to the plan. These increases were offset by a net reduction in all other expenses of $3,540 resulting from operating efficiencies gained due to the merger.

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 $4,604,945 at September 30, 2009, as compared to $4,604,485 at December 31, 2008. As demand for lending slowed, the need for funding from the FCB remained flat, as the Association strengthened lending standards to curtail the economic impact of the recession during the year. The note carried a weighted average interest rate of 3.43 percent for the nine months ended September 30, 2009, compared to 4.38 percent for the year ended December 31, 2008. 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. Under covenants contained in the revised financing agreement signed in the third quarter 2009, the Association is required to maintain a regulatory permanent capital ratio of at least 8 percent, a ratio of adversely classified assets to risk funds of less than 50 percent, and a return on assets of at least 1 percent. At September 30, 2009, the Association was in compliance with these financial covenants. Failure to achieve these financial covenants can result in increased rates on the indebtedness.

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 2009. 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:

Despite the decline in the Association's credit quality, the Association's capital position remains strong, with total capital of $776,401 at September 30, 2009. This represents an increase of $37,198 from the December 31, 2008 total capital level of $739,203. This increase in capital is primarily the result of the Association's net income for the period. 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 Farm Credit Administration (FCA). The Association's permanent capital ratio at September 30, 2009 was 12.9 percent. The Association's core surplus ratio and total surplus ratio at September 30, 2009 were 11.8 percent and 12.5 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, Mergers, 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, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Loans	**$ 5,249,482**	$ 5,271,307
Less: Allowance for losses	**(39,610)**	(23,646)
Net loans	**5,209,872**	5,247,661
Cash	**6,471**	20,163
Accrued interest receivable	**70,620**	64,333
Investment in and receivable from the FCB:		
Capital stock	**88,168**	88,168
Receivable	**8,513**	2,473
Other property owned, net	**25,453**	689
Premises and equipment, net	**12,619**	13,416
Other assets	**5,015**	2,577
Total assets	**$ 5,426,731**	$ 5,439,480
LIABILITIES		
Note payable to the FCB	**$ 4,604,945**	$ 4,604,485
Advanced conditional payments	**5,262**	8,173
Accrued interest payable	**12,554**	15,820
Drafts outstanding	**1,668**	15,260
Patronage distributions payable	**-**	22,807
Unfunded post retirement medical obligation	**13,901**	13,177
Other liabilities	**12,000**	20,555
Total liabilities	**4,650,330**	4,700,277
MEMBERS' EQUITY		
Capital stock and participation certificates	**22,954**	23,231
Allocated retained earnings	**144,711**	144,794
Unallocated retained earnings	**604,922**	566,967
Accumulated other comprehensive income	**3,814**	4,211
Total members' equity	**776,401**	739,203
Total liabilities and members' equity	**$ 5,426,731**	$ 5,439,480

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, 2009	For the three months ended September 30, 2008	**For the nine months ended September 30, 2009**	For the nine months ended September 30, 2008
INTEREST INCOME				
Loans	**$ 75,892**	$ 84,847	**$ 230,779**	$ 254,946
INTEREST EXPENSE				
Note payable to the FCB and others	**38,098**	47,612	**118,108**	147,244
Net interest income	**37,794**	37,235	**112,671**	107,702
PROVISION FOR LOSSES				
Provision for loan losses	**14,728**	4,161	**45,520**	9,742
Net interest income after provision for losses	**23,066**	33,074	**67,151**	97,960
NONINTEREST INCOME				
Patronage income from the FCB	**2,600**	1,396	**7,830**	8,824
Loan fees	**2,207**	3,147	**8,256**	11,172
Other income	**491**	342	**1,682**	1,725
Total noninterest income	**5,298**	4,885	**17,768**	21,721
NONINTEREST EXPENSES				
Salaries and employee benefits	**7,010**	8,356	**21,490**	23,620
Pension plan funding expense	**2,301**	914	**6,904**	2,741
Farm Credit System insurance premium	**2,236**	1,682	**6,673**	5,378
Purchased services and allocations	**843**	1,103	**2,445**	2,977
Occupancy and equipment	**545**	540	**1,601**	1,560
Travel	**482**	548	**1,351**	1,552
FCA supervisory and exam expense	**329**	308	**986**	912
Advertising	**324**	454	**966**	1,511
Communications	**227**	163	**620**	561
Public and member relations	**214**	506	**974**	1,402
Directors' expense	**157**	311	**522**	1,120
Other expense	**1,343**	564	**2,494**	1,774
Total noninterest expenses	**16,011**	15,449	**47,026**	45,108
Income before federal income tax	**12,353**	22,510	**37,893**	74,573
Federal income tax	**-**	8	**-**	8
Net income	**$ 12,353**	$ 22,502	**$ 37,893**	$ 74,565

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, 2007	$ 22,681	$ 76,995	$ 565,524	$ 4,377	$ 669,577
Net income	-	-	74,565	-	74,565
Adjustment to initially apply FAS No 158	-	-	(205)	-	(205)
Amortization of costs included in net periodic pension cost	-	-	-	(265)	(265)
Capital stock/participation certificates:					
Issued	3,911	-	-	-	3,911
Retired	(3,164)	-	-	-	(3,164)
Patronage distributions declared:					
Cash	-	-	(10,300)	-	(10,300)
Nonqualified allocations	-	17,650	(17,650)	-	-
Other adjustments	-	(8)	372	-	364
Balance at September 30, 2008	23,428	94,637	612,306	4,112	734,483
Net income	-	-	23,955	-	23,955
Amortization of costs included in net periodic pension cost	-	-	-	99	99
Capital stock/participation certificates:					
Issued	59	-	-	-	59
Retired	(256)	-	-	-	(256)
Patronage distributions declared:					
Cash	-	-	(19,139)	-	(19,139)
Nonqualified allocations	-	50,149	(50,149)	-	-
Other adjustments	-	8	(6)	-	2
Balance at December 31, 2008	23,231	144,794	566,967	4,211	739,203
Net income	-	-	37,893	-	37,893
Amortization of costs included in net periodic pension costs	-	-	-	(397)	(397)
Capital stock/participation certificates:					
Issued	2,009	-	-	-	2,009
Retired	(2,286)	-	-	-	(2,286)
Patronage adjustments	-	(83)	62	-	(21)
Balance at September 30, 2009	**$ 22,954**	**$ 144,711**	**$ 604,922**	**$ 3,814**	**$ 776,401**

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, MERGERS 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.)

On October 1, 2008, Capital Farm Credit, ACA (Capital) and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. All of the capital stock and participation certificates of First Ag were exchanged for the capital stock and participation certificates of Capital on a one-for-one basis. The merger was accounted for similar to the pooling of interest method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all years presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented. The Association succeeded to all the rights and obligations of the merging associations pursuant to the merger plans adopted by the boards of directors of Capital and First Ag. Prior to the merger, the accounting practices used by the Associations were comparable.

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, 2008 are contained in the 2008 Annual Report to Stockholders. These unaudited third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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 Farm Credit Bank of Texas (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 Fund.

Effective January 1, 2009, the Association adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. The adoption of this Standard did not have any impact on the Association's financial statement disclosures because the Association is not a party to any derivative or hedging instruments.

Effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-2, "Effective Date of FASB staff position Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15,

2008. The impact of adoption resulted in additional fair value disclosures but does not have an impact on the Association's financial condition or results of operations. See Note 3 "Fair Value Measurements" included in this quarterly report, for further information.

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009. See Note 7 "Subsequent Events" included in this quarterly report, for further information.

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	**September 30, 2009**	**%**	December 31, 2008	%
Production agriculture:				
Real estate mortgage	**$ 4,021,781**	**76.6**	$ 3,971,263	75.3
Production and term	**599,804**	**11.4**	640,483	12.2
Agribusiness	**477,096**	**9.1**	491,359	9.3
Rural residential real estate	**71,545**	**1.4**	63,049	1.2
Communication	**43,364**	**0.9**	45,443	0.9
Energy	**33,461**	**0.6**	58,005	1.1
Other	**2,431**	**0.0**	1,705	0.0
Total	**$ 5,249,482**	**100.0**	$ 5,271,307	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, 2009	**%**	September 30, 2008	%	December 31, 2008	%
Nonaccrual	**$ 170,169**	**97.5**	$ 47,441	85.8	$ 92,126	83.4
90 days past due and still accruing interest	**3,195**	**1.8**	2,636	4.8	13,516	12.2
Formally restructured	**1,258**	**0.7**	5,199	9.4	4,784	4.4
Total	**$ 174,622**	**100.0**	$ 55,276	100.0	$ 110,426	100.0

The Association has remaining commitments to borrowers whose loans were classified as impaired at September 30, 2009 of $28,931. The average recorded investment in impaired loans for the nine months ended September 30, 2009 was $138,869, compared to $54,964 at September 30, 2008. The Association recognized interest income of $2,351 on impaired loans for the nine months ended September 30, 2009 and $1,232 for the September 30, 2008 period.

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

	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008	For the three months ended December 31, 2008
Beginning Balance	**$ 23,646**	$ 15,805	$ 25,354
Provision for loan losses	**45,520**	9,742	4,448
Charge offs	**(29,671)**	(220)	(6,290)
Recoveries	**115**	27	134
Ending Balance	**$ 39,610**	$ 25,354	$ 23,646

Impaired loans of $95,442 at September 30, 2009 had related specific allowance for loan losses of $22,268 as compared to impaired loans of $37,147 at September 30, 2008 which had related specific allowances for loan losses of $9,039. 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.

NOTE 3 — FAIR VALUE MEASUREMENTS:

Authoritative 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 under SFAS 114, and other property owned.

As more fully disclosed in Note 2 to the 2008 Annual Report to Stockholders, SFAS 157 identifies 3 techniques for establishing the value of Association assets and liabilities carried at fair value.

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified within 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. These assets are measured at fair value on a recurring basis at September 30, 2009 and are summarized below:

	Total Fair Value
Assets held in non-qualified benefits trusts	**$ 638**

For certain loans evaluated for impairment under SFAS 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. 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 collateral less estimated costs to sell.

These assets are measured at fair value on a non-recurring basis at September 30, 2009 and are summarized below:

	Total Fair Value
Loans	**$ 176,993**
Other property owned	**26,290**
Total	**$ 203,283**

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 $4,604,945 at 3.43 percent, and $4,604,485 at 4.38 percent for the period ended September 30, 2009 and year ended December 31, 2008, 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 FCB unless the FCB approves borrowing from other funding sources. The FCB 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 September 30, 2009, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the FCB as of September 30, 2009, was $5,105,986, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the FCB 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 $22,784 in cash patronage in March 2009 in addition to the $6,655 paid in December 2008 to former First Ag stockholders. During March 2008, the Association paid $31,455 in cash patronage for 2007 earnings.

The board of directors also took action in December 2008 to allocate $67,799 of earnings, representing the 2008 earnings not distributed in cash to the stockholders who were patrons during 2008. 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 2008 Annual Report that it expected to contribute $9,205 to its pension plan in 2009, which will be $5,550 greater than the 2008 contribution. Pension plan funding expense was $6,904 and $2,741 for the nine months ended September 30, 2009 and 2008 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 3, 2009 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.