AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2012
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2012

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been 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 or her knowledge and belief.

John Burns, Chief Executive Officer

August 9, 2012

Ronnie Harral, Chairman, Board of

August 9, 2012

Bill Jones, Chief Financial Officer

August 9y, 2012

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended June 30, 2012. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2011 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

Farmers and ranchers in New Mexico, which is the area primarily served by the association, are experiencing extreme drought conditions. Risk management techniques such as the purchase of crop insurance in conjunction with the higher price of commodities have helped to offset the impact of reduced yields. The higher price of corn and other grains have increased input cost of livestock producers. The association strives to timely identify risk in the loan portfolio and to take prompt action to address those risk. The association had two separate examinations conducted in the current year which concluded that the association is adequately assigning the correct risk rating to loans in the association's portfolio. Those reviews included an examination by the association's regulator and an internal credit review.

The association acquired property as a result of a loan settlement agreement. The association contracted for a recent appraisal of the property which established an appraised value of $820,000. The net realizable value of the property was determined to be $675,600 after netting estimated selling expense against the appraised value. The carrying value of the property was $3,106,950 based upon previous appraisals. The most recent appraisal resulted in setting up a provision for loss and allowance for loss of $2,431,350. This single transaction created a net loss for the quarter ended June 30, 2012 and for the first half of the year.

Loan Portfolio:

Total loans outstanding at June 30, 2012, including nonaccrual loans and sales contracts, were $169,666,191 compared to $149,938,838 at December 31, 2011, reflecting an increase of 13.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 4.7 percent at June 30, 2012, compared to 6.3 percent at December 31, 2011.

The association recorded $426 in recoveries and $71,391 in charge-offs for the quarter ended June 30, 2012, and $684 in recoveries and $0 in charge-offs for the same period in 2011. The association's allowance for loan losses was 1.1 percent and 1.6 percent of total loans outstanding as of June 30, 2012, and December 31, 2011, respectively.

The increase in loan volume was due to loans originated by the association with a significant portion of those loans participated to other Farm Credit entities as well as participations purchased from Farm Credit Bank of Texas.

Risk Exposure:

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 illustrates the association's components and trends of high-risk assets. Other property owned is presented in the table net of the allowance for losses.

	June 30, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Nonaccrual	**$ 8,043,202**	**85.9%**	$ 9,455,013	73.6%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**-**	**0.0%**	-	0.0%
Other property owned, net	**1,320,072**	**14.1%**	3,393,950	26.4%
Total	**$ 9,363,274**	**100.0%**	$ 12,848,963	100.0%

Investments:

During the first quarter of 2010, the association exchanged $26.4 million of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

Results of Operations:

The association had net loss of $-1,457,557 and $-1,512,472 for the three and six months ended June 30, 2012, as compared to net income of $689,543 and $1,020,861 for the same period in 2011, reflecting a decrease of 311.4 and 248.2 percent, respectively. Net interest income was $1,229,241 and $2,379,336 for the three and six months ended June 30, 2012, compared to $1,094,849 and $2,289,901 for the same period in 2011. Interest income for the three and six months ended June 30, 2012, increased by $63,334 and $128,285, or 3.6 and 3.4 percent, respectively, from the same period of 2011, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2012, decreased by $71,058 and $217,720, or 10.4 and 15.2 percent, respectively, from the same period of 2011 due to/a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the second quarter of 2012 was $154,108,910, compared to $147,386,670 in the second quarter of 2011. The average spread on the loan portfolio for the second quarter of 2012 was 2.70 percent, compared to 2.34 percent in the second quarter of 2011.

The association's return on average assets for the six months ended June 30, 2012, was -0.41 percent compared to 1.15 percent for the same period in 2011. The association's return on average equity for the six months ended June 30, 2012, was -2.76 percent, compared to 7.60 percent for the same period in 2011.

The one significant event that adversely impacted net income for the second quarter and the current year was the write down of the value of other property owned by establishing an allowance for loss on other property owned of the amount $2,431,350. The allowance was necessary due to a recent appraisal received by the association.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	June 30, 2012	December 31, 2011
Note payable to the bank	**$ 171,433,135**	$ 152,404,587
Accrued interest on note payable	**198,766**	219,395
Total	**$ 171,631,901**	$ 152,623,982

The association's liquidity margin as of June 30, 2012 was 9.15 percent which is in compliance with the minimum requirement of 5 percent as specified by the General Financing Agreement with the funding bank.

Capital Resources:

The association's capital position decreased by $1,525,798 at June 30, 2012, compared to December 31, 2011. The association's debt as a percentage of members' equity was 6.34:1 as of June 30, 2012, compared to 5.35:1 as of December 31, 2011.

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 June 30, 2012, was 12.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2012, were 12.5 and 12.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

Relationship with the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2011 Annual Report of Ag New Mexico, Farm Credit Services, ACA more fully describe the association's relationship with the bank.

The Texas 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, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The district makes its annual and quarterly stockholder reports available on its website at *www.farmcreditbank.com.*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, P. O. Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 or calling (575) 762-3828. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *bill.jones@farmcreditbank.com*. The association makes its annual and quarterly stockholder reports available on its website at *www.agnewmexico.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash	**$ 101,454**	$ 108,611
Investments	**18,689,542**	19,820,568
Loans	**169,666,191**	149,938,838
Less: allowance for loan losses	**1,904,476**	2,366,461
Net loans	**167,761,715**	147,572,377
Accrued interest receivable	**1,880,367**	1,855,469
Investment in and receivable from the bank:		
Capital stock	**4,530,635**	4,390,455
Other	**803,705**	651,600
Deferred taxes, net	**1,929,335**	2,077,135
Other property owned	**3,751,422**	3,393,950
Less: allowance for losses for other property owned	**2,431,350**	-
Net other property owned	**1,320,072**	3,393,950
Premises and equipment	**3,242,647**	3,310,052
Other assets	**239,159**	135,089
Total assets	**$ 200,498,631**	$ 183,315,306
LIABILITIES		
Note payable to the bank	**$ 171,433,135**	$ 152,404,587
Advance conditional payments	**358,276**	318,689
Accrued interest payable	**198,745**	219,395
Drafts outstanding	**4,200**	14,343
Patronage distributions payable	**283**	300,191
Other liabilities	**1,178,419**	1,206,730
Total liabilities	**173,173,058**	154,463,935
MEMBERS' EQUITY		
Capital stock and participation certificates	**321,780**	327,750
Unallocated retained earnings	**27,230,895**	28,743,367
Accumulated other comprehensive income (loss)	**(227,102)**	(219,746)
Total members' equity	**27,325,573**	28,851,371
Total liabilities and members' equity	**$ 200,498,631**	$ 183,315,306

The accompanying notes are an integral part of these combined financial statements

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
INTEREST INCOME				
Loans	**$ 1,632,925**	$ 1,535,258	**$ 3,176,577**	$ 3,234,800
Investments	**206,606**	240,939	**422,551**	492,613
Total interest income	**1,839,531**	1,776,197	**3,599,128**	3,727,413
INTEREST EXPENSE				
Note payable to the bank	**610,290**	681,348	**1,219,792**	1,437,512
Total interest expense	**610,290**	681,348	**1,219,792**	1,437,512
Net interest income	**1,229,241**	1,094,849	**2,379,336**	2,289,901
PROVISION FOR LOSSES				
Provision for loan losses	**47,986**	(135,880)	616,454	(135,880)
Provision for losses on acquired property	**2,431,350**	-	2,431,350	-
Net interest income after provision for losses	**(1,250,095)**	**1,230,729**	**(668,468)**	**2,425,781**
NONINTEREST INCOME				
Income from the bank:				
Patronage income	**263,073**	233,027	**527,404**	242,397
Loan fees	**18,303**	27,108	**38,460**	42,909
Refunds from Farm Credit System Insurance Corporation	**177,909**	-	177,909	-
Financially related services income	**12,085**	29,675	**25,366**	67,613
Gain (loss) on other property owned, net	**(4,951)**	-	**(4,951)**	876
Gain (loss) on sale of premises and equipment, net	**-**	-	**10,400**	2,000
Other noninterest income	**332,669**	10,072	**341,669**	23,572
Total noninterest income	**799,088**	**299,882**	**1,116,257**	**379,367**
NONINTEREST EXPENSES				
Salaries and employee benefits	**499,747**	499,302	**1,066,251**	1,046,425
Directors' expense	**75,636**	55,923	**153,295**	96,640
Purchased services	**17,154**	19,872	**45,032**	49,264
Travel	**53,489**	70,103	**90,744**	106,012
Occupancy and equipment	**54,826**	55,586	**108,780**	168,957
Communications	**5,928**	6,270	**12,407**	11,783
Advertising	**6,966**	10,223	**16,397**	15,777
Public and member relations	**12,913**	6,344	**27,370**	17,400
Supervisory and exam expense	**34,290**	32,646	**61,049**	106,184
Insurance Fund premiums	**19,443**	23,357	**39,019**	48,072
Other noninterest expense	**77,218**	66,319	**189,837**	168,420
Total noninterest expenses	**857,610**	845,945	**1,810,181**	1,834,934
Income before income taxes	**(1,308,617)**	684,666	**(1,362,392)**	970,214
Provision for (benefit from) income taxes	**148,940**	(4,877)	**150,080**	(50,647)
NET INCOME	**(1,457,557)**	689,543	**(1,512,472)**	**1,020,861**
Other comprehensive income:				
Change in postretirement benefit plans	**(3,678)**	-	**(7,356)**	-
Other comprehensive income, net of tax	**(3,678)**	-	**(7,356)**	-
COMPREHENSIVE INCOME	**$ (1,461,235)**	$ 689,543	**$ (1,519,828)**	**$ 1,020,861**

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 334,785	$ -	$ -	$ 26,700,182	$ (142,086)	$ 26,892,881
Net income	-	-	-	1,020,860	-	1,020,860
Other comprehensive income	-	-	-	-	(12,802)	(12,802)
Capital stock/participation certificates and allocated retained earnings issued	12,525	-	-	-	-	12,525
Capital stock/participation certificates and allocated retained earnings retired	(19,775)	-	-	-	-	(19,775)
Balance at June 30, 2011	$ 327,535	$ -	$ -	$ 27,721,042	$ (154,888)	$ 27,893,689
Balance at December 31, 2011	$ 327,750	$ -	$ -	$ 28,743,367	$ (219,746)	$ 28,851,371
Net income	-	-	-	(1,512,472)	-	(1,512,472)
Other comprehensive income	-	-	-	-	(7,356)	(7,356)
Capital stock/participation certificates and allocated retained earnings issued	18,315	-	-	-	-	18,315
Capital stock/participation certificates and allocated retained earnings retired	(24,285)	-	-	-	-	(24,285)
Balance at June 30, 2012	**$ 321,780**	**$ -**	**$ -**	**$ 27,230,895**	**$ (227,102)**	**$ 27,325,573**

The accompanying notes are an integral part of these combined financial statements

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves all counties of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The FLCA and PCA subsidiaries are authorized to operate in Cochran County, Texas. In addition, the association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Stockholders. These unaudited second quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to 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 reporting 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 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 consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended June 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective March, 2010, $26.4 million of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	June 30, 2012				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 18,689,542**	**$ -**	**$ (318,863)**	**$ 18,370,679**	**4.38 %**

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 19,820,568	$ -	$ (382,327)	$ 19,438,241	4.40 %

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of Farmer Mac investments held-to-maturity at June 30, 2012:

	Due in 1 Year or Less Amount	Due After 1 Year Through 5 Years Amount	Due After 5 Years Through 10 Years Amount	Due After 10 Years Amount	Total Amount
Agricultural mortgage-backed securities	$ -	$ 18,370,679	$ -	$ -	$ 18,370,679
Total fair value	-	18,370,679	-	-	18,370,679
Total amortized cost	$ -	$ 18,689,542	$ -	$ -	$ 18,689,542
Weighted Average Yield	- %	4.38 %	- %	- %	4.38

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2012 Amount**	December 31, 2011 Amount
Production agriculture:		
Real estate mortgage	**$ 67,577,810**	$ 65,102,493
Production and intermediate term	**56,319,421**	54,488,261
Agribusiness:		
Loans to cooperatives	**-**	-
Processing and marketing	**25,720,555**	13,896,599
Farm-related business	**5,418,373**	5,893,800
Communication	**2,596,851**	1,738,990
Energy	**8,838,746**	5,608,864
Water and waste disposal	**1,893,671**	1,848,101
Rural residential real estate	**1,300,764**	1,361,730
Total	**$ 169,666,191**	$ 149,938,838

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 4,300,983	$ 24,825,057	$ 3,913,969	$ 2,339,965	$ 8,214,952	$ 27,165,022
Production and intermediate term	5,348,376	25,055,756	-	407,000	5,348,376	25,462,756
Agribusiness	22,402,938	3,703,629	-	-	22,402,938	3,703,629
Communication	2,596,851	-	-	-	2,596,851	-
Energy	8,838,746	-	-	-	8,838,746	-
Water and waste disposal	1,893,671	-	-	-	1,893,671	-
Total	$ 45,381,565	$ 53,584,442	$ 3,913,969	$ 2,746,965	$ 49,295,534	$ 56,331,407

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	**$ 3,175,860**	$ 3,362,779
Production and intermediate term	**4,867,341**	6,092,233
Agribusiness	**1**	1
Total nonaccrual loans	**8,043,202**	9,455,013
Accruing restructured loans:		
Total accruing restructured loans	**-**	-
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more	**-**	-
Total nonperforming loans	**8,043,202**	9,455,013
Other property owned	**1,320,072**	3,393,950
Total nonperforming assets	**$ 9,363,274**	$12,848,963

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2012		December 31, 2011	
Real estate mortgage				
Acceptable	**85.9**	%	87.6	%
OAEM	**5.0**		2.4	
Substandard/doubtful	**9.1**		10.0	
	100.0		100.0	
Production and intermediate term				
Acceptable	**79.1**		80.2	
OAEM	**11.0**		8.0	
Substandard/doubtful	**9.9**		11.8	
	100.0		100.0	
Agribusiness				
Acceptable	**97.5**		94.5	
OAEM	**2.5**		5.5	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Energy and water/waste disposal				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Total loans				
Acceptable	**87.0**		86.7	
OAEM	**6.1**		4.7	
Substandard/doubtful	**6.9**		8.6	
	100.0	%	100.0	%

The following tables provide an age analysis of past due loans (including accrued interest) as of:

June 30, 2012	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ -**	**$ 3,173,380**	**$ 3,173,380**	**$ 65,139,691**	**$ 68,313,071**	**$ -**
Production and intermediate term	**51**	**4,867,528**	**4,867,579**	**51,988,862**	**56,856,441**	**-**
Processing and marketing	**-**	**1**	**1**	**25,794,698**	**25,794,699**	**-**
Farm-related business	**-**	**1**	**1**	**5,488,421**	**5,488,422**	**-**
Communication	**-**	**-**	**-**	**2,597,477**	**2,597,477**	**-**
Energy	**-**	**-**	**-**	**8,899,078**	**8,899,078**	**-**
Water and waste disposal	**-**	**-**	**-**	**1,894,409**	**1,894,409**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,305,816**	**1,305,816**	**-**
Total	**$ 51**	**$ 8,040,910**	**$ 8,040,961**	**$ 163,108,452**	**$ 171,149,413**	**$ -**

December 31, 2011	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 832,092	$ 2,488,607	$ 3,320,699	$ 62,554,346	$ 65,875,045	$ -
Production and intermediate term	818	5,104,553	5,105,371	49,908,325	55,013,696	-
Processing and marketing	-	-	-	13,961,967	13,961,967	-
Farm-related business	-	1	1	5,986,717	5,986,718	-
Communication	-	-	-	1,739,431	1,739,431	-
Energy	-	-	-	5,667,447	5,667,447	-
Water and waste disposal	-	-	-	1,853,544	1,853,544	-
Rural residential real estate	-	-	-	1,367,329	1,367,329	-
Total	$ 832,910	$ 7,593,161	$ 8,426,071	$ 143,039,106	$ 151,465,177	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

The association did not have any troubled debt restructured loans for the second quarter of 2012 or for fiscal year 2011 through June 30, 2012.

Additional impaired loan information is as follows:

	At June 30, 2012			At December 31, 2011		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 2,301,661**	**$ 2,562,797**	**$ 105,725**	$ -	$ -	$ -
Production and intermediate term	**3,953,279**	**5,119,379**	**1,308,941**	5,058,838	7,403,360	1,904,989
Loans to cooperatives	-	-	-	-	-	-
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 874,199**	**$ 1,877,460**	**$ -**	$ 3,362,779	$ 4,430,500	$ -
Production and intermediate term	**914,062**	**1,048,816**	**-**	1,033,394	1,169,258	-
Loans to cooperatives	-	-	-	-	-	-
Communication	-	-	-	-	-	-
Total impaired loans:						
Real estate mortgage	**$ 3,175,860**	**$ 4,440,257**	**$ 105,725**	$ 3,362,779	$ 4,430,500	$ -
Production and intermediate term	**4,867,341**	**6,168,195**	**1,308,941**	6,092,232	8,572,618	1,904,989
Loans to cooperatives	-	-	-	-	-	-
Communication	-	-	-	-	-	-

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 2,246,975**	**$ -**	$ -	$ -
Production and intermediate term	**3,982,978**	**-**	5,260,815	-
Total	**$ 6,229,953**	**$ -**	$ 5,260,815	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 874,188**	**$ -**	$ 5,519,200	$ -
Production and intermediate term	**999,299**	**258**	2,023,923	-
Farm-related business	**1**	**-**	1	-
Total	**$ 1,873,488**	**$ 258**	$ 7,543,124	$ -
Total impaired loans:				
Real estate mortgage	**$ 3,121,163**	**$ -**	$ 5,519,200	$ -
Production and intermediate term	**4,982,277**	**-**	7,284,738	-
Farm-related business	**1**	**258**	1	-
	$ 8,103,441	**$ 258**	$ 12,803,939	$ -

	For the Six Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 2,301,661**	**$ -**	$ -	$ -
Production and intermediate term	**3,953,279**	**-**	4,989,558	-
Total	**$ 6,254,940**	**$ -**	$ 4,989,558	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 874,199**	**$ -**	$ 5,472,175	$ 91,220
Production and intermediate term	**914,062**	**258**	2,024,732	27,038
Farm-related business	**1**	**-**	1	-
Total	**$ 1,788,262**	**$ 258**	$ 7,496,908	$ 118,258
Total impaired loans:				
Real estate mortgage	**$ 3,175,860**	**$ -**	$ 5,472,175	$ 91,220
Production and intermediate term	**4,867,341**	**258**	7,014,290	27,038
Farm-related business	**1**	**-**	1	-
	$ 8,043,202	**$ 258**	$ 12,486,466	$ 118,258

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at March 31, 2012	$ 221,242	$ 1,614,341	$ 61,134	$ 6,964	$ 23,185	$ 589	$ 1,927,455
Charge-offs	-	(71,391)	-	-	-	-	(71,391)
Recoveries	-	425	-	-	-	-	425
Provision for loan losses	29,817	9,421	7,215	(60)	1,512	82	47,987
Other	-	-	-	-	-	-	-
Balance at June 30, 2012	$ 251,059	$ 1,552,796	$ 68,349	$ 6,904	$ 24,697	$ 671	$ 1,904,476
Balance at December 31, 2011	$ 165,335	$ 2,106,362	$ 60,386	$ 2,504	$ 31,262	$ 612	$ 2,366,461
Charge-offs	(196,676)	(882,873)	-	-	-	-	(1,079,549)
Recoveries	-	1,109	-	-	-	-	1,109
Provision for loan losses	282,400	328,198	7,963	4,400	(6,565)	59	616,455
Other	-	-	-	-	-	-	-
Balance at June 30, 2012	$ 251,059	$ 1,552,796	$ 68,349	$ 6,904	$ 24,697	$ 671	$ 1,904,476
Ending Balance:							
Individually evaluated for impairment	$ 105,725	$ 1,304,941	$ -	$ -	$ -	$ -	$ 1,410,666
Collectively evaluated for impairment	145,334	247,855	68,349	6,904	24,697	671	493,810
Balance at June 30, 2012	$ 251,059	$ 1,552,796	$ 68,349	$ 6,904	$ 24,697	$ 671	$ 1,904,476
Balance at March 31, 2011	$ 220,222	$ 2,089,337	$ 202,079	$ 2,695	$ 19,680	$ 435	$ 2,534,448
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	684	-	-	-	-	684
Provision for loan losses	(140,835)	4,955	-	-	-	-	(135,880)
Other	-	-	-	-	-	-	-
June 30, 2011	$ 79,387	$ 2,094,976	$ 202,079	$ 2,695	$ 19,680	$ 435	$ 2,399,252
Balance at December 31, 2010	$ 220,222	$ 2,088,653	$ 202,079	$ 2,695	$ 8,013	$ 435	$ 2,522,097
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	1,367	-	-	11,667	-	13,034
Provision for loan losses	(140,835)	4,955	-	-	-	-	(135,880)
Other	-	-	-	-	-	-	-
June 30, 2011	$ 79,387	$ 2,094,975	$ 202,079	$ 2,695	$ 19,680	$ 435	$ 2,399,251
Ending Balance:							
Individually evaluated for impairment	$ -	$ 1,792,855	$ -	$ -	$ -	$ -	$ 1,792,855
Collectively evaluated for impairment	79,387	302,120	202,079	2,695	19,680	435	606,396
June 30, 2011	$ 79,387	$ 2,094,975	$ 202,079	$ 2,695	$ 19,680	$ 435	$ 2,399,251

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at June 30, 2012	$ 68,424,814	$ 56,856,441	$31,283,121	$ 2,597,477	$ 10,793,487	$ 1,305,816	$ 171,261,156
Individually evaluated for impairment	$ 3,175,860	$ 4,867,341	$ -	$ -	$ -	$ -	$ 8,043,201
Collectively evaluated for impairment	$ 65,248,954	$ 51,989,100	$31,283,121	$ 2,597,477	$ 10,793,487	$ 1,305,816	$ 163,217,955
Ending Balance at December 31, 2011	$ 65,875,046	$ 55,013,696	$19,948,685	$ 1,739,431	$ 7,520,991	$ 1,367,329	$ 151,465,178
Individually evaluated for impairment	$ 3,362,779	$ 6,092,234	$ -	$ -	$ -	$ -	$ 9,455,013
Collectively evaluated for impairment	$ 62,512,267	$ 48,921,462	$19,948,685	$ 1,739,431	$ 7,520,991	$ 1,367,329	$ 142,010,165

NOTE 4 — CAPITAL:

The association’s board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the six months ended June 30, 2012, the association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the six months ended June 30, 2012, and 2011, taxable income / (loss) for the taxable subsidiary amounted to $284,721 and ($101,365) respectively. The deferred tax asset was reduced $150,000 for the current year since that amount in income tax provision was generated due to the amount of taxable income.

Accounting standards require the disclosure of uncertain tax positions. In tax year 2006, the association's taxable subsidiary deducted a patronage distribution declared of $1,400,000 to its members based on $4,138,034 of book earnings for the ACA holding company. The patronage distribution resulted in a patronage expense deduction for income tax purposes as the taxable subsidiary was following subchapter T rules of the tax code. The tax adjustments for tax year 2006 included this $1.4 million of patronage expense which contributed to a net operating loss of $895,977. A portion of the 2006 net operating loss was carried forward to offset taxable income in 2007, resulting in a remaining balance of $294,484 for the 2006 net operating loss. The tax benefit which increased the tax deferred asset for the remaining balance of $294, 484 was $100,047. The tax benefit for the total net operating loss of 2006 was $359,287. In tax year 2008, the taxable subsidiary's tax adjustments included $1,071,196 of net patronage expense which contributed to a net operating loss of $627,812. The tax benefit for tax year 2008 was $251,753. The patronage expense deductions for tax years 2006 and 2008 contributed to the net operating losses for tax purposes for both years.

The subsidiary, Ag New Mexico FCS, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB 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. See Note 2 to the 2011 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2012	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 6,267,510**	**$ 6,267,510**	**$ (1,414,666)**
Other property owned	**-**	**-**	**1,320,072**	**1,320,072**	**(2,431,350)**

December 31, 2011	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 3,846,872	$ 3,846,872	$ (1,904,989)
Other property owned	-	-	3,393,950	3,393,950	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2011 Annual Report to Stockholders, authoritative 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 for the association's assets and liabilities. For a more complete description, see Notes to the 2011 Annual Report to Stockholders.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the 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 of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended June 30:

	Other Benefits	
	2012	2011
Service cost	**$ 5,705**	$ 7,332
Interest cost	**12,230**	12,225
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**10,360**	(16,492)
Amortizations of net actuarial (gain) loss	**(15,178)**	7,828
Net periodic benefit cost	**$ 13,117**	$ 10,893

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2012	2011
Service cost	**$ 11,409**	$ 14,664
Interest cost	**24,461**	24,449
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(30,355)**	(32,983)
Amortizations of net actuarial (gain) loss	**20,720**	15,656
Net periodic benefit cost	**$ 26,235**	$ 21,786

The association's liability for the plan's unfunded accumulated obligation at June 30, 2012, was $1,006,274 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to contribute $361,231 to the district's defined benefit pension plan in 2012. As of June 30, 2012, $180,615 of contributions has been made. The association presently anticipates contributing an additional $180,616 to fund the defined benefit pension plan in 2012 for a total of $361,231.

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	2012	2011
Accumulated other comprehensive income (loss) at January 1	**$ 219,746**	$ 142,086
Amortization of prior service credit (costs) included in net periodic postretirement benefit cost	**30,355**	32,974
Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost	**(20,719)**	(15,656)
Income tax expense related to items of other comprehensive income	**(2,280)**	(4,516)
Other comprehensive income (loss), net of tax	**7,356**	12,802
Accumulated other comprehensive income at June 30	**$ 227,102**	$ 154,888

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. There was one pending case of litigation involving the association as of the end of the second quarter of 2012. The lawsuit filed against the association involves a counterclaim in response to collection proceedings initiated by the association. The association's legal counsel estimates the damages would amount to less than $250,000 should the parties filing the lawsuit against the association prevail. Attorneys for the association and the association's management estimate the probability of the lawsuit being resolved against the association range from remote to less than likely. In the opinion of legal counsel, any award made to the plaintiff would be more than offset by a deficiency amount held by the association which results in little or no exposure to the association. Accordingly, no liabilities relating to the pending litigation have been accrued by the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. At June 30, 2012, $48,462,038 of unfunded commitments for loans with the association's borrowers and $1,414,040 of stand-by letters of credit for participations purchased were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because these amounts are not reflected in the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 9 --- REGULATORY ENFORCEMENT MATTERS:

The Association and its regulator (Farm Credit Administration) entered into a Supervisory Agreement effective March 20, 2012 that placed additional reporting requirements on the association along with certain other board actions. The Board, in response to the Agreement, adopted a multi-step detailed Plan of Action designed to address the requirements mandated in the Plan. In addition to additional reporting requirements, the Board has:

- Revised its committee structure by adding Governance, and Risk Management Committees, and

- Revised its Nominating Committee by adding a third meeting at least 180 days prior to the election, and
- Engaged an outside Consultant to advise the Board, and
- Prepared a board and individual board member training plan designed to strengthen the board's expertise, and
- Prepared a CEO recruitment plan to replace the current retiring CEO.

It is the intention of the Board to keep stockholders fully informed as the association progresses toward full compliance with the Supervisory Agreement. At quarter-end the Board has met all requirements of the Agreement. Progress toward achieving full compliance will be communicated in subsequent quarterly reports.

NOTE 10 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through August 9, 2012, which is the date the financial statements were issued. The association received an appraisal for property included in acquired property which was recorded on July 30, 2012. The property was collateral for a nonaccrual loan which was classified as property available for lease. The association's borrower granted the association a deed in lieu of foreclosure in December 2011. The carrying value of the property was $3,106,950 with a recent appraised value of $820,000 and a net realizable value of $675,600 after estimated selling cost are deducted. An allowance on acquired property had to be established for $2,431,350 as well as a provision for loss on acquired property for the same amount. The financial statements for the quarter ended June 30, 2012 were adjusted to reflect this transaction.