Puerto Rico Farm Credit, ACA

THIRD QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2009 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Juan A. Santiago
Chairman of the Board

William A. Garrahan
Chief Executive Officer

Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Bruce M. Hoffman
Chief Financial Officer

October 22, 2009

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2008 annual report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related business for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory agricultural commodities were dairy, livestock, field crops and fruits which totaled approximately $111.0 million or 47.1 percent of all outstanding loan volume at September 30, 2009.

The loan volume of the Association at September 30, 2009 was $234,590, a decrease of $26,315 or 10.1 percent as compared to $260,905 at December 31, 2008. Loans originated within the Association's chartered territory were lower by approximately $15,955, while participation loans purchased decreased by approximately $10,360.

Net loans outstanding at September 30, 2009 totaled $232,127 as compared to $259,651 at December 31, 2008. Net loans at September 30, 2009 made up 92.3 percent of total assets as compared to 92.8 percent at December 31, 2008.

As a percentage of loans, nonaccrual loans equaled 9.65 percent at September 30, 2009, compared with 4.84 percent at December 31, 2008. The increase in nonaccrual loan volume during the first nine months of 2009 resulted primarily from the transfer into nonaccrual of one large chartered territory credit and one ethanol loan from the participation portfolio. Borrowers have found it increasingly difficult to maintain a current repayment status, given the island's four years of recessionary economic status. However, the overall delinquency rate for the chartered territory accruing loan portfolio has remained stable, supported by the lower interest rate environment. Conversely, the participation purchased portfolio has shown an increasing delinquency rate during the first nine months of 2009. The significant increase in loans transferred to nonaccrual and the increase in the participation portfolio delinquency rate has resulted in a decline in the loan portfolio's overall credit quality. Management expects to see a leveling off of the deterioration in credit quality during the fourth quarter of 2009.

The allowance for loan losses increased to $2,463 at September 30, 2009, from $1,254 at December 31, 2008. The increase related primarily to the net change (provision less charge-offs) in the specific reserves established for impaired loans in nonaccrual status. Additionally, the general reserve was increased in recognition of the continuing slumping economy and the increase in island unemployment. The ratio of allowance to outstanding loan volume increased to 1.05 percent at September 30, 2009 from .48 percent at December 31, 2008 as a result of the higher level of nonaccrual loan volume. During the first nine months of 2009, charge-offs totaled $1,845 and there were no recoveries. The majority of the chargeoffs, $1,763, were from the participation purchased portfolio and only $82 was from the chartered territory portfolio. Management still anticipates additional provision expense and possible charge-off activity during the fourth quarter of 2009, due to the uncertainty over the length of the economic downturn.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2009, the Association incurred a net loss which totaled $1,566. This was a decrease of $3,631 as compared to net income of $2,065 for the first nine months of 2008. The decrease primarily resulted from provision expense to increase the allowance for loan losses which totaled $2,530 and a decrease in net interest income of $936 from lending activities, mostly as a result of the lower interest rate environment. Management projects that the Association will incur a net operating loss for the year.

During the first nine months of 2009, interest income, primarily from accruing loans, decreased by $3,382, or 31.9 percent. Interest expense related to the notes payable to AgFirst FCB (the Bank) decreased by $2,446 or 37.8 percent. Thus, net interest income decreased by $936 or 22.7 percent. The decrease in net interest income was due primarily to the significant decline in market interest rates, which negatively impacted by $841 the interest credit earned on loanable funds invested with the Bank. Additionally, the Association's investment in notes receivable/sub-debt from two AgFirst

District associations resulted in an increase in net interest income for the first nine months of $193.

For the first nine months of 2009 the Association recorded provisions for loan losses expense which totaled $3,054. This compared to $524 of provision expense for the first nine months of 2008.

Noninterest income for the first nine months of 2009 was $1,811 or 16.9 percent higher than the $1,549 recognized during the first nine months of 2008. The increase was primarily attributable to gains from the acquisition of collateral property through foreclosure. Additionally, the Association realized increased accrued patronage earnings from the AgFirst FCB, and higher patronage rebate fees were earned from various Puerto Rico investment funds.

Noninterest expense for the nine months ended September 30, 2009 increased by $427 or 13.8 percent compared to the same nine month period of 2008. The increase was primarily related to salaries and employee benefits, for which a revised actuarial analyses materially increased the 2009 pension benefit expense under ASC 715, formally SFAS 87, by $658, which was partially offset by a decrease in salaries expense which totaled $280.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability as a tax credit for paying patronage dividends to the Association eligible borrowers is available. As it is the Association's intent to pay out 100 percent of taxable income as patronage dividends, no provision for income taxes was made. The Association does not anticipate having federal taxable income for 2009, due to the projected net loss from operations.

For the three months ended September 30, 2009

For the third quarter of 2009, the Association incurred a net loss from operations of $482 a decrease of $794 when compared to net income of $312 for the third quarter of 2008. The primary driver of this decrease was the third quarter provision for loan losses which totaled $969. This compared to the third quarter of 2008 when the Association recorded provision expense which totaled $524. There were no charge-offs or recoveries for the third quarter of 2009, the same as the third quarter of 2008.

Net interest income for the three months ended September 30, 2009 was $1,009 compared to $1,273 for the three months ended September 30, 2008. Again, the lower interest rate environment had a negative impact on the interest credit earned on the Association's loanable funds invested with AgFirst FCB.

Noninterest income for the third quarter of 2009 was $580 compared to $527 for the third quarter of 2008. The year-over-year change was related to accounting for other property owned and higher patronage rebate fee income from island investment funds.

For the third quarter of 2009, noninterest expense increased by $138 to total $1,102 as compared to the third quarter of 2008 for which noninterest expense totaled $964. The increase for the quarter was primarily related to employee benefits pension expense under ASC715, formally SFAS 87.

Key Results of Operations Ratios

	Annualized for the nine months ended 9/30/09	For the year ended 12/31/08
Return on Average Assets	(0.79)%	1.00%
Return on Average Members' Equity	(3.74)%	4.67%
Net Interest Income as a Percentage of Average Earning Assets	1.84 %	2.18%

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating funds requirements. The total notes payable to the Bank at September 30, 2009 were $194,431 as compared with $219,092 at December 31, 2008. The decrease of $24,661or 11.3 percent corresponded closely to the decrease in outstanding loan volume of $26,315 and the decrease in the patronage refund paid to the Association's borrowers during the second quarter of 2009.

The Association had no lines of credit outstanding with third parties as of September 30, 2009.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans may be indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2009 decreased 2.7 percent to $54,742 from December 31, 2008 when total members' equity was $56,269. The decrease of $1,527 was primarily attributable to the year-to-date net loss from operations which totaled $1,566 at September 30, 2009. The operating loss was partially offset by the annual adjustment made to unallocated retained earnings to reconcile the year end 2008 estimated patronage dividend payable to the Association's 2008 federal taxable income.

Total capital stock and participation certificates were $733 on September 30, 2009 compared to $779 on December 31, 2008. The decrease of $46 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings decreased $1,461 or 2.7 percent from December 31, 2008 when unallocated retained earnings totaled $54,577. The decrease was from the net loss from operations of $1,566 incurred during the first nine months of 2009 and a patronage dividend adjustment of $105 to reconcile the year-end estimated dividend payable to the Association's 2008 federal taxable income.

The Board of directors intends to continue its policy of declaring cash patronage dividends. 2008 was the nineteenth consecutive year of paying dividends. However, the net operating loss expected for 2009 will result in the Association not having federal taxable income from which to declare patronage dividends at year end 2009. The table below sets forth the recent amount of patronage dividends declared:

Year	Amount Declared
2008	$2,000
2007	$3,250
2006	$3,200

The amount of dividends depends upon continued strong earnings, the amount of taxable income, the overall financial condition of the Association and credit-related factors. Given the present economic and credit environments, it is anticipated that the amount of 2009's dividends, if any, will be either significantly reduced or there will be no federal taxable income from which to make a declaration.

The Association's regulatory permanent capital ratio at September 30, 2009 was 17.36 percent compared to 16.96 percent at December 31, 2008. The Association's total surplus and core surplus ratios were both 17.04 percent at September 30, 2009. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Key financial condition ratios were as follows:

	9/30/09	12/31/08
Total Members' Equity to Asset	21.77%	20.11%
Debt to Total Members' Equity	3.59:1	3.97:1

Recently Issued Accounting Pronouncements

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2008 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at its website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Bruce M. Hoffman, CFO, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, *www.puertoricofarmcredit.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		September 30, 2009		September 30, 2008		December 31, 2008
		(unaudited)		*(unaudited)*		*(audited)*
Assets						
Cash	$	201	$	310	$	290
Loans		234,590		257,104		260,905
Less: allowance for loan losses		2,463		854		1,254
Net loans		232,127		256,250		259,651
Notes receivable from other Farm Credit institutions (Note 5)		10,000		10,000		10,000
Accrued interest receivable		1,096		1,552		1,244
Investment in other Farm Credit institutions		3,517		3,399		3,517
Premises and equipment, net		1,156		1,212		1,241
Other property owned		530		—		—
Due from AgFirst Farm Credit Bank		1,217		1,185		1,605
Other assets		1,562		1,971		2,286
Total assets	$	251,406	$	275,879	$	279,834
Liabilities						
Notes payable to AgFirst Farm Credit Bank	$	194,431	$	215,419	$	219,092
Accrued interest payable		385		651		551
Patronage refund payable		—		—		2,000
Other liabilities		1,848		2,198		1,922
Total liabilities		196,664		218,268		223,565
Commitments and contingencies						
Members' Equity						
Capital stock and participation certificates		733		792		779
Retained earnings unallocated		53,116		55,975		54,577
Accumulated other comprehensive income (loss)		893		844		913
Total members' equity		54,742		57,611		56,269
Total liabilities and members' equity	$	251,406	$	275,879	$	279,834

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	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	$ 1,991	$ 3,212	$ 6,536	$ 10,577
Notes receivable from other Farm Credit institutions (Note 5)	225	15	675	16
Total interest income	2,216	3,227	7,211	10,593
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,207	1,954	4,023	6,469
Net interest income	1,009	1,273	3,188	4,124
Provision for (reversal of allowance for) loan losses	969	524	3,054	524
Net interest income after provision for (reversal of allowance for) loan losses	40	749	134	3,600
Noninterest Income				
Loan fees	90	86	282	291
Patronage rebate fees	59	34	170	98
Equity in earnings of other Farm Credit institutions	391	405	1,217	1,185
Gains (losses) on other property owned, net	16	—	98	(50)
Other noninterest income	24	2	44	25
Total noninterest income	580	527	1,811	1,549
Noninterest Expense				
Salaries and employee benefits	774	599	2,407	1,925
Occupancy and equipment	67	75	202	218
Insurance Fund premium	97	71	298	246
Other operating expenses	164	219	604	695
Total noninterest expense	1,102	964	3,511	3,084
Income (loss) before income taxes	(482)	312	(1,566)	2,065
Provision (benefit) for income taxes	—	—	—	—
Net income (loss)	$ (482)	$ 312	$ (1,566)	$ 2,065

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2007	$ 819	$ 53,880	$ 862	$ 55,561
Comprehensive income				
Net income		2,065		2,065
Employee benefit plans adjustments		(17)	(18)	(35)
Total comprehensive income				2,030
Capital stock/participation certificates issued/(retired), net	(27)			(27)
Patronage distribution adjustment		47		47
Balance at September 30, 2008	$ 792	$ 55,975	$ 844	$ 57,611
Balance at December 31, 2008	$ 779	$ 54,577	$ 913	$ 56,269
Comprehensive income				
Net income (loss)		(1,566)		(1,566)
Employee benefit plans adjustments			(20)	(20)
Total comprehensive income				(1,586)
Capital stock/participation certificates issued/(retired), net	(46)			(46)
Patronage distribution adjustment		105		105
Balance at September 30, 2009	$ 733	$ 53,116	$ 893	$ 54,742

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of Puerto Rico Farm Credit, ACA (the Association). 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 and for the year ended December 31, 2008, are contained in the 2008 Annual Report of the Association. These unaudited third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report of the Association.

The accompanying consolidated financial statements contain all necessary adjustments for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2009, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 6), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 7).

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 included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included 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 adopted by the Association effective June 30, 2009 (see Note 8).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2009	**2008**
Balance at beginning of period	$ 1,254	$ 330
Provision for (reversal of) loan losses	3,054	524
Charge-offs	(1,845)	–
Recoveries	–	–
Balance at end of period	$ 2,463	$ 854

The following table presents information concerning impaired loans as of September 30,

	2009	2008
Impaired loans with related allowance	$ 5,016	$ 1,947
Impaired loans with no related allowance	17,679	5,254
Total impaired loans	22,695	7,201
Allowance on impaired loans	$ 1,686	$ 524

The following table summarizes impaired loan information for the nine months ended September 30,

	2009	2008
Average impaired loans	$ 17,872	$ 5,071
Interest income recognized on impaired loans	118	81

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting there from, would not be material in relation to the overall financial position of the Association.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the nine months ended September 30,	
	2009	2008
Pension	$ 777	$ 119
401(k)/1165(e)	51	54
Other postretirement benefits	46	51
Total	$ 874	$ 224

The following is a table of other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Other postretirement benefits	$ 58	$ 19	$ 77

As of September 30, 2009, no contributions have been made for 2009 by the Association to the qualified District pension plan in which the Association participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of $52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Association, based upon each institution's pro rata share of ABO service cost. Market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 5 — NOTES RECEIVABLE FROM OTHER FARM CREDT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of fixed rate unsecured subordinated notes issued by two other associations in the Farm Credit System (System) due in 2018. The notes are subordinate to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation. Since the notes receivable are only guaranteed by the issuing associations, repayment could be negatively impacted by funding, credit, interest rate, and/or counterparty risks encountered by the two issuing associations in their business operations.

The notes receivable bear interest at an annual fixed rate of 9 percent, payable on the fifteenth day of each month. Interest will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied by the issuing association(s). A deferral period may not last for more than five consecutive years or beyond the maturity date of the note(s). During such a period, the issuing association(s) may not declare or pay any dividends or patronage refunds, among other certain restrictions, until interest payments are resumed and all deferred interest has been paid. The note(s) may be redeemed, at the issuing association's(s') option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the issuing association(s) have made payment in full of all amount then due in respect of their senior indebtedness.

NOTE 6 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of standby letters of credit, impaired loans and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association had no Level 1 assets or liabilities at September 30, 2009.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association had no Level 2 assets or liabilities measured at fair value on a recurring basis at September 30, 2009.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could be instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at September 30, 2009 included impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value considered the underlying collateral since these were collateral-dependent loans. 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 collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned was classified as a level 3 asset at September 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at September 30, 2009 included standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 for each of the fair value hierarchy levels:

	September 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
Standby letters of credit	$ -	$ -	$ 48	$ 48
Total Liabilities	$ -	$ -	$ 48	$ 48

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	$ 45
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	3
Transfers in and/or out of level 3	–
Balance at September 30, 2009	$ 48

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	September 30, 2009									
		Level 1		Level 2		Level 3		Total Fair Value		YTD Total Gains (Losses)
Assets:										
Impaired loans	$	-	$	-	$	3,330	$	3,330	$	(2,590)
Other property owned	$	-	$	-	$	609	$	609	$	98

NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at September 30, 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	September 30, 2009			
		Carrying Amount		Estimated Fair Value
Financial assets:				
Cash	$	201	$	201
Loans, net of allowance	$	232,127	$	242,807
Notes receivable from other Farm Credit Institutions	$	10,000	$	10,763
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$	194,431	$	195,068

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. **Cash:** The carrying value is a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

The carrying value of accrued interest approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owns 0.92 percent of the issued stock of the Bank as of September 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.08 billion and shareholders' equity totaled $1.60 billion. The Bank's earnings were $194.0 million during the first nine month of 2009.

D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

F. **Notes Receivable from Other Farm Credit Institutions:** Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 3, 2009, which is the date the financial statements were available to be issued.