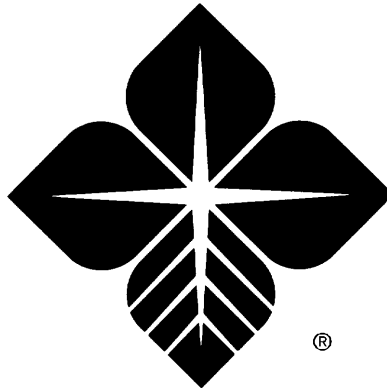


TEXAS AGFINANCE, FARM CREDIT SERVICES

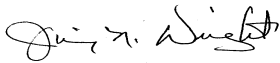
2008 Quarterly Report First Quarter



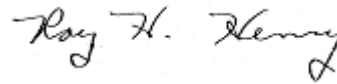
For the Quarter Ended March 31, 2008

REPORT OF MANAGEMENT

The undersigned certify that this report 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.



Jimmy N. Wright
CEO/President
May 5, 2008



Ray Henry
Chairman, Board of Directors
May 5, 2008



Keith A. Ibrom
Chief Financial Officer
May 5, 2008

**TEXAS AGFINANCE, FARM CREDIT SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Texas AgFinance, Farm Credit Services (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

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.

Loan Portfolio:

Total loans outstanding at March 31, 2008, including nonaccrual loans and sales contracts, were \$395,187,547 compared to \$397,793,943 at December 31, 2007, reflecting a decrease of 0.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.0 percent at March 31, 2008, compared to 0.0 percent at December 31, 2007.

The Association continues to experience strong demand for its loan products. Credit quality remains near all-time highs and nonperforming assets at historic lows.

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.

	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 35,859	1.7%	\$ -	0.0%
90 days past due and still accruing interest	2,032,528	98.3%	490,011	100.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 2,068,387</u>	<u>100.0%</u>	<u>\$ 490,011</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$1,586,370 for the three months ended March 31, 2008, as compared to net income of \$1,436,291 for the same period in 2007 reflecting an increase of 10.5 percent. Net interest income was \$2,603,163 for the three months ended March 31, 2008, compared to \$2,339,774 for the same period in 2007. Interest income increased by \$382,485 or 5.6 percent, from the first three months of 2008, , primarily due to an increase in average loan volume. Interest expense for the first three months of 2008 increased by \$119,096, or 2.7 percent, from the same period of 2007 due to an increase in average debt volume offset by a decrease in average portfolio cost of funds. Average loan volume for the first quarter of 2008 was \$394,490,515, compared to \$340,358,634 in the first quarter of 2007. The average spread on the loan portfolio for the first quarter 2008 was 2.32 percent, compared to 2.36 percent in the first quarter of 2007.

The Association had no recoveries and no charge-offs for the quarter ending March 31, 2008, and \$490 in recoveries and \$0 in charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.0 percent and 0.0 percent of total loans outstanding as of March 31, 2008, and 2007, respectively.

The Association's return on average assets for the three months ended March 31, 2008, was 1.56 and 1.66 percent for the same period in 2007. The Association's return on average equity for the three months ended March 31, 2008, was 17.48 and 18.28 percent for the same period in 2007.

The Association's noninterest income increased \$105,032, or 16.2% for the three months ended March 31, 2008 compared to the same period in 2007 primarily due to an increase in Bank patronage and financially related service income. The Association's noninterest expense increased \$257,120, or 18.1%, for the three months ended March 31, 2008 compared to the same period in 2007 primarily due to an increase in personnel, an increase in the Association's captive insurance coverage, which is based on loan volume, and an increase in Farmer Mac and Bank guarantees, which is classified as other noninterest expense. The Association has approximately \$184,000,000 in net loans guaranteed from credit risk. The fees associated with the guarantees range from 35 to 80 basis points of the loan's outstanding balance.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	March 31, 2008	December 31, 2007
Note payable to the Bank	\$ 367,224,872	\$ 368,581,278
Accrued interest on note payable	1,465,143	1,638,045
Total	<u>\$ 368,690,015</u>	<u>\$ 370,219,323</u>

The Association applies all excess capital to pay-down the Association's note payable to the Bank. It draws funds from the note payable to fund new loans and operating expenditures. Therefore, the Association's note payable to the Bank has a direct correlation to the Association's loan volume and operating cash flows.

Capital Resources:

The Association's capital position increased by \$1,506,346 at March 31, 2008, compared to December 31, 2007. The Association's debt as a percentage of members' equity was 9.95:1 as of March 31, 2008, compared to 10.43:1 as of December 31, 2007.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2008, was 11.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2008, were 9.6 and 10.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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, 2007 Annual Report of Texas AgFinance, Farm Credit Services more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site 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 Texas AgFinance, Farm Credit Services, P.O. Box 711, Robstown, Texas, 78380 or calling (361) 387-8563. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing kibrom@texasagfinance.com. The Association makes its annual and quarterly stockholder reports available on its Web site at www.texasagfinance.com.

TEXAS AG FINANCE, FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	March 31, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 691,421	\$ 56,821
Loans	395,187,547	397,793,943
Less: allowance for loan losses	163,106	194,665
Net loans	395,024,441	397,599,278
Accrued interest receivable	5,634,973	5,100,610
Investment in and receivable from the Bank:		
Capital stock	6,734,125	6,734,125
Other	-	227,398
Deferred taxes, net	59,611	62,974
Premises and equipment	861,750	867,069
Other assets	858,163	34,149
Total assets	<u>\$ 409,864,484</u>	<u>\$ 410,682,424</u>
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 367,224,872	\$ 368,581,278
Advance conditional payments	657,659	996,678
Accrued interest payable	1,520,338	1,691,606
Patronage distributions payable	1,512,432	1,522,192
Other liabilities	1,502,283	1,950,116
Total liabilities	<u>372,417,584</u>	<u>374,741,870</u>
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,575,595	1,632,965
Allocated retained earnings	7,148,304	7,148,304
Unallocated retained earnings	28,127,890	26,547,479
Accumulated other comprehensive income (loss)	595,111	611,806
Total members' equity	<u>37,446,900</u>	<u>35,940,554</u>
Total liabilities and members' equity	<u>\$ 409,864,484</u>	<u>\$ 410,682,424</u>

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	For the Three Months Ended March 31,	
	2008	2007
<u>INTEREST INCOME</u>		
Loans	\$ 7,205,828	\$ 6,823,343
Other	-	-
Total interest income	7,205,828	6,823,343
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	4,601,045	4,481,125
Advance conditional payments	1,620	2,444
Total interest expense	4,602,665	4,483,569
Net interest income	2,603,163	2,339,774
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	(31,559)	5,765
Net interest income after provision for loan losses	2,634,722	2,334,009
<u>NONINTEREST INCOME</u>		
Patronage income from the Bank	388,130	335,807
Loan fees	239,083	250,941
Financially related services income	76,498	36,432
Gain (loss) on sale of premises and equipment, net	637	(2,436)
Other noninterest income	49,492	28,064
Total noninterest income	753,840	648,808
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	876,657	749,967
Directors' expense	45,371	40,455
Purchased services	26,732	68,229
Travel	30,600	30,242
Occupancy and equipment	114,534	122,069
Communications	40,205	28,901
Advertising	11,298	15,635
Public and member relations	62,545	42,846
Supervisory and exam expense	25,735	22,898
FCSIC insurance expense	146,662	135,647
Other noninterest expense	295,330	161,660
Total noninterest expenses	1,675,669	1,418,549
Income before income taxes	1,712,893	1,564,268
Provision for (benefit from) income taxes	126,523	127,977
Net income	\$ 1,586,370	\$ 1,436,291

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 1,635,865	\$ 6,828,092	\$ 22,752,200	\$ -	\$ 31,216,157
Net income	-	-	1,436,291	-	1,436,291
Capital stock/participation certificates issued	100,625	-	-	-	100,625
Capital stock/participation certificates and allocated retained earnings retired	(106,240)	-	-	-	(106,240)
Balance at March 31, 2007	\$ 1,630,250	\$ 6,828,092	\$ 24,188,491	\$ -	\$ 32,646,833
Balance at December 31, 2007	\$ 1,632,965	\$ 7,148,304	\$ 26,547,479	\$ 611,806	\$ 35,940,554
Comprehensive income					
Net income	-	-	1,586,370	-	1,586,370
Amortization of costs included in net periodic pension costs	-	-	-	(16,695)	(16,695)
Comprehensive income	1,632,965	7,148,304	28,133,849	595,111	37,510,229
Capital stock/participation certificates issued	65,420	-	-	-	65,420
Capital stock/participation certificates and allocated retained earnings retired	(122,790)	-	-	-	(122,790)
Patronage refunds:					
Cash	-	-	(5,959)	-	(5,959)
Balance at March 31, 2008	\$ 1,575,595	\$ 7,148,304	\$ 28,127,890	\$ 595,111	\$ 37,446,900

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

TEXAS AGFINANCE, FARM CREDIT SERVICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Texas AgFinance, Farm Credit Services (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 the counties of Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Brooks, DeWitt, Dimmitt, Edwards, Fayette, Frio, Goliad, Gonzales, Guadalupe, Jim Wells, Karnes, Kenedy, Kerr, Kinney, Kleberg, LaSalle, Lavaca, Live Oak, Maverick, McMullen, Medina, Nueces, Real, San Patricio, Uvalde, Val Verde, Waller, Wilson, Washington, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. 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 accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements 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 and the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31, 2008	March 31, 2007
Balance at beginning of quarter	\$ 194,665	\$ 153,887
Provision for loan losses	(31,559)	5,765
Charge-offs	-	-
Recoveries	-	490
Balance at end of quarter	<u>\$ 163,106</u>	<u>\$ 160,142</u>

The following table presents information concerning impaired loans:

	March 31, 2008	March 31, 2007
Impaired loans with related allowance	\$ -	\$ -
Impaired loans with no related allowance	2,068,387	4
Total impaired loans	<u>\$ 2,068,387</u>	<u>\$ 4</u>
Allowance on impaired loans	\$ -	\$ -
Average impaired loans	\$ 2,940,208	\$ 90
Interest income on impaired loans for the quarter	\$ 49,500	\$ -

NOTE 3 — 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 4 — INCOME TAXES:

Texas AgFinance, Farm Credit Services 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 2008, the Association did not 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 (over 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2008, and 2007, the Association recorded federal income taxes of \$126,523 and \$127,977, respectively.

The subsidiary, Texas AgFinance, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

The Association is unaware of any material changes in uncertain tax positions or changes in classification of interest and/or penalties.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31,:

	Other Benefits	
	2008	2007
Service cost	\$ 6,482	\$ 7,837
Interest cost	16,171	16,501
Expected return on plan assets	-	-
Amortization of prior service costs	(17,054)	(18,414)
Amortizations of net (gain) loss	359	394
Net periodic benefit cost	<u>\$ 5,958</u>	<u>\$ 6,319</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$36,557 to its pension plan in 2008. As of March 31, 2008, \$9,178 of contributions have been made. The Association presently does not anticipate contributing any additional funds, above its previous estimate, to its pension plan in 20078.