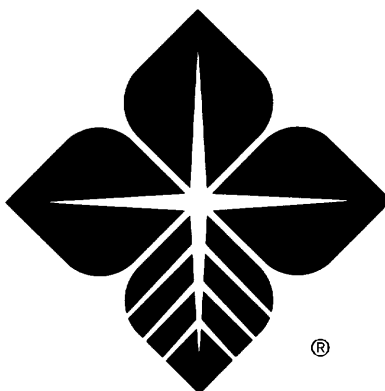


TEXAS AGFINANCE, FARM CREDIT SERVICES

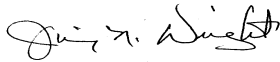
2009 Quarterly Report First Quarter



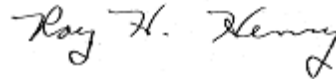
For the Quarter Ended March 31, 2009

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.



Jimmy N. Wright
CEO/President
May 15, 2009



Ray Henry
Chairman, Board of Directors
May 15, 2009



Keith A. Ibrom
Chief Financial Officer
May 15, 2009

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, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 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.

Significant Events:

On January 1, 2009, a joint management agreement was executed between Texas AgFinance, Farm Credit Services and AgCredit of South Texas, Agricultural Credit Association, whereas the executive management team of Texas AgFinance would serve as the executive management for AgCredit of South Texas.

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$426,467,166 compared to \$418,135,309 at December 31, 2008, reflecting an increase of 2.0 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.1 percent at March 31, 2009, compared to 1.1 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.3 percent and 0.2 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

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.

	March 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 4,522,075	80.3%	\$ 4,554,894	98.5%
90 days past due and still accruing interest	1,106,768	19.7%	70,841	1.5%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	\$ 5,628,843	100.0%	\$ 4,625,735	100.0%

The increase in high-risk assets 90 days past due and still accruing interest are attributed to two loans that are well secured and guaranteed by Farmer Mac stand-by commitments. The Association has requested repayment plans from both loans.

Results of Operations:

The Association had net income of \$1,216,564 for the three months ended March 31, 2009, as compared to net income of \$1,586,370 for the same period in 2008 reflecting a decrease of 23.3 percent. Net interest income was \$2,595,688 for the three months ended March 31, 2009, compared to \$2,603,163 for the same period in 2008. Interest income for the first three months of 2009 decreased by \$1,095,261 or 15.2 percent from the same periods of 2008, primarily due to declines in yields on earning assets. Interest expense for the first three months of 2009 decreased by \$1,087,786, or 23.6 percent, from the same period of 2008 due to a decrease in interest rates. Average loan volume for the first quarter of 2009 was \$421,580,676, compared to \$394,490,515 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 2.22 percent, compared to 2.32 percent in the first quarter of 2008.

The Association's return on average assets for the three months ended March 31, 2009, was 1.14 and 1.56 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 12.23 and 17.48 percent for the same period in 2008.

The decrease in net income and the accompanying ratios is primarily due to an increase in bad debt provision of \$250,000 in March 2009. The provision was recorded as an increase in general reserves in the allowance for loan loss. Furthermore, the Association's pension expense for DB Plan participants increased significantly in 2009. The Association had to contribute an additional \$580,000 to its pension liability for 2009 compared to plan contribution it made in 2008. This amount is expense equally over the twelve month period.

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, 2009	December 31, 2008
Note payable to the Bank	\$ 394,489,048	\$ 384,991,152
Accrued interest on note payable	1,162,668	1,333,387
Total	\$ 395,651,716	\$ 386,324,539

Capital Resources:

The Association's capital position increased by \$1,146,887 at March 31, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 9.76:1 as of March 31, 2009, compared to 9.82:1 as of December 31, 2008.

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, 2009, was 10.6 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, 2009, were 9.5 and 10.1 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, 2008 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 AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 781,089	\$ 113,268
Investments	-	-
Loans	426,467,166	418,135,309
Less: allowance for loan losses	1,250,000	1,000,000
Net loans	425,217,166	417,135,309
Accrued interest receivable	4,115,380	3,928,790
Investment in and receivable from the Bank:		
Capital stock	7,594,110	7,594,110
Other	-	209,356
Deferred taxes, net	56,290	57,015
Other property owned, net	-	-
Premises and equipment	1,130,862	1,157,563
Other assets	1,209,782	95,195
Total assets	<u>\$ 440,104,679</u>	<u>\$ 430,290,606</u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 394,489,048	\$ 384,991,152
Advance conditional payments	402,781	751,317
Accrued interest payable	1,227,096	1,399,652
Drafts outstanding	-	-
Dividends Payable	-	-
Patronage distributions payable	1,509,211	1,509,211
Deferred taxes, net	-	-
Other liabilities	1,569,772	1,879,390
Total liabilities	<u>399,197,908</u>	<u>390,530,722</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,448,455	1,511,400
Allocated retained earnings	7,707,562	7,707,562
Unallocated retained earnings	31,194,809	29,978,245
Accumulated other comprehensive income (loss)	555,945	562,677
Total members' equity	<u>40,906,771</u>	<u>39,759,884</u>
Total liabilities and members' equity	<u>\$ 440,104,679</u>	<u>\$ 430,290,606</u>

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended March 31,	
	2009	2008
<u>INTEREST INCOME</u>		
Loans	\$ 6,110,567	\$ 7,205,828
Investments	-	-
Other	-	-
Total interest income	<u>6,110,567</u>	<u>7,205,828</u>
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	3,514,813	4,601,045
Advance conditional payments	66	1,620
Total interest expense	<u>3,514,879</u>	<u>4,602,665</u>
Net interest income	<u>2,595,688</u>	<u>2,603,163</u>
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	250,000	(31,559)
Provision for acquired property losses	-	-
Net interest income after provision for loan losses	<u>2,345,688</u>	<u>2,634,722</u>
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	384,724	388,130
Loan fees	198,425	239,083
Financially related services income	51,971	76,498
Gain (loss) on other property owned, net	-	-
Gain (loss) on sale of premises and equipment, net	(2,250)	637
Other noninterest income	59,326	49,492
Total noninterest income	<u>692,196</u>	<u>753,840</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	988,741	876,657
Directors' expense	24,396	45,371
Purchased services	(15,159)	26,732
Travel	38,868	30,600
Occupancy and equipment	116,203	114,534
Communications	30,323	40,205
Advertising	10,088	11,298
Public and member relations	55,860	62,545
Supervisory and exam expense	24,131	25,735
Insurance Fund premiums	185,167	146,662
FAC expense	-	-
Merger-implementation and restructuring costs	-	-
Other noninterest expense	246,467	295,330
Total noninterest expenses	<u>1,705,085</u>	<u>1,675,669</u>
Income before income taxes	<u>1,332,799</u>	<u>1,712,893</u>
Provision for (benefit from) income taxes	<u>116,235</u>	<u>126,523</u>
Net income	<u>\$ 1,216,564</u>	<u>\$ 1,586,370</u>

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, 2007	\$ 1,632,965	\$ 7,148,304	\$ 26,547,479	\$ 611,806	\$ 35,940,554
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	-
Balance at January 1, 2008	1,632,965	7,148,304	26,547,479	611,806	35,940,554
Comprehensive income					
Net income	-	-	1,586,370	-	1,586,370
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(16,695)	(16,695)
Total comprehensive income	-	-	1,586,370	(16,695)	1,569,675
Capital stock/participation certificates issued	65,420	-	-	-	65,420
Capital stock/participation certificates and allocated retained earnings retired	(122,790)	-	-	-	(122,790)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	(5,959)	-	(5,959)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2008	\$ 1,575,595	\$ 7,148,304	\$ 28,127,890	\$ 595,111	\$ 37,446,900
Balance at December 31, 2008	\$ 1,511,400	\$ 7,707,562	\$ 29,978,245	\$ 562,677	\$ 39,759,884
Comprehensive income					
Net income	-	-	1,216,564	-	1,216,564
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(6,732)	(6,732)
Total comprehensive income	-	-	1,216,564	(6,732)	1,209,832
Capital stock/participation certificates issued	42,050	-	-	-	42,050
Capital stock/participation certificates and allocated retained earnings retired	(104,995)	-	-	-	(104,995)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2009	\$ 1,448,455	\$ 7,707,562	\$ 31,194,809	\$ 555,945	\$ 40,906,771

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.

Effective January 1, 2009, the Association adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our 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 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, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. 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:

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Balance at beginning of quarter	\$ 1,000,000	\$ 194,665
Provision for loan losses	250,000	(31,559)
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 1,250,000</u>	<u>\$ 163,106</u>

The following table presents information concerning impaired loans:

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Impaired loans with related allowance	\$ -	\$ -
Impaired loans with no related allowance	5,628,843	2,068,387
Total impaired loans	<u>\$ 5,628,843</u>	<u>\$ 2,068,387</u>
Allowance on impaired loans	\$ -	\$ -
Average impaired loans	\$ 5,613,256	\$ 2,940,208
Interest income on impaired loans for the quarter	\$ 24,120	\$ 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 2009, 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, 2009, and 2008, the Association recorded federal income taxes of \$116,235 and \$126,523, respectively.

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 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 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 11 to the 2008 Annual Report to Stockholders for a more complete description.

The Association has no fair value disclosures to report in accordance with SFAS No. 157.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2009	2008
Service cost	\$ 7,433	\$ 6,482
Interest cost	16,215	16,171
Expected return on plan assets	-	-
Amortization of prior service costs	(16,829)	(17,054)
Amortizations of net (gain) loss	-	359
Net periodic benefit cost	<u>\$ 6,819</u>	<u>\$ 5,958</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association increased retained earnings \$611,806 and decreased the pension and postretirement benefit liability by \$611,806.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$42,069 to its defined pension plan in 2009. As of March 31, 2009, \$10,517 of contributions have been made. The Association presently does not anticipate contributing any additional funds to its defined pension plan in 2009.