

TEXAS AGFINANCE, FARM CREDIT SERVICES

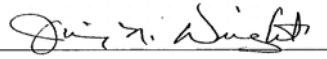
2010 Quarterly Report First Quarter



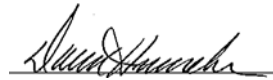
For the Quarter Ended March 31, 2010

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, Chief Executive Officer
April 28, 2010



David Henneke, Chairman, Board of Directors
April 28, 2010



Keith A. Ibrom, Chief Financial Officer
April 28, 2010

**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, 2010. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2009 Annual Report of the Association.

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:

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 executive management for AgCredit of South Texas. On January 1, 2010, the Association signed a letter of intent to merge with AgCredit of South Texas, Agricultural Credit Association, wherein the executive management team of Texas AgFinance would serve as executive management through the anticipated merger date of July 1, 2010.

Loan Portfolio:

Total loans outstanding at March 31, 2010, including nonaccrual loans and sales contracts, were \$331,813,758 compared to \$419,905,959 at December 31, 2009, reflecting a decrease of 21.0 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at March 31, 2010, compared to 0.9 percent at December 31, 2009.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending March 31, 2010, and \$0 in recoveries and \$0 in charge-offs for the same period in 2009. The Association's allowance for loan losses was 0.6 percent and 0.5 percent of total loans outstanding as of March 31, 2010, and December 31, 2009, respectively.

The decrease in total loans for the first quarter of 2010 is attributed to the reclassification of \$95,167,566 in principal and interest from the category of Loans to the category of Investments in this report's Consolidated Balance Sheet. This reclassification is related to a pool of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed loans that were converted to mortgage-backed securities classed held-to-maturity.

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, 2010		December 31, 2009	
	Amount	%	Amount	%
Nonaccrual	\$ 3,683,159	100.0%	\$ 3,715,402	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	\$ 3,683,159	100.0%	\$ 3,715,402	100.0%

Investments:

During the first quarter of 2010, the Association held \$95,167,566 of Farmer Mac guaranteed mortgage-backed securities that were previously classified as Loans in this report's Consolidated Balance Sheet. The Association continues to service the loans included in this transaction.

Results of Operations:

The Association had net income of \$1,662,558 for the three months ended March 31, 2010, as compared to net income of \$1,216,564 for the same period in 2009 reflecting an increase of 36.7 percent. Net interest income was \$2,914,650 for the three months ended March 31, 2010, compared to \$2,595,688 for the same period in 2009. Interest income for the first three months of 2010 decreased by \$241,868 or 4.0 percent from the same period of 2009, primarily due to declines in yields on earning assets. Interest expense for the first three months of 2010 decreased by \$560,830, or 16.0 percent, from the same period of 2009 due to a decrease in interest rates. Average loan volume for the first quarter of 2010 was \$362,039,090, compared to \$421,580,676 in the first quarter of 2009. Average investments for the first quarter of 2010 was \$60,492,571 compared to \$0 in the first quarter of 2009. The average spread on the loan and investment portfolio for the first quarter 2010 was 2.52 percent, compared to 2.22 percent in the first quarter of 2009.

The Association's return on average assets for the three months ended March 31, 2010, was 1.55 compared to 1.14 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was 14.77, compared to 12.23 percent for the same period in 2009.

The Association's net interest income increased \$318,962 the first quarter of 2010 compared to the first quarter of 2009 due to an increase in the average spread on the Association's loan and investment portfolio. Noninterest income decreased \$133,846 the first quarter of 2010 compared to the first quarter of 2009 due to a decrease in loan origination fees and other financially related income. The Association's total noninterest expenses and provision for income taxes decreased \$10,878 the first quarter of 2010 compared to the first quarter of 2009. The Association did not record any provision for loan loss the first quarter of 2010. It recorded a \$250,000 provision for loan loss the first quarter of 2009.

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 Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Note payable to the Bank	\$ 389,115,624	\$ 381,164,561
Accrued interest on note payable	968,966	1,024,547
Total	<u>\$ 390,084,590</u>	<u>\$ 382,189,108</u>

Capital Resources:

The Association's capital position increased by \$1,643,155 at March 31, 2010, compared to December 31, 2009. The Association's debt as a percentage of members' equity was 8.42:1 as of March 31, 2010, compared to 8.60:1 as of December 31, 2009.

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, 2010, was 11.5 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, 2010, were 10.5 and 11.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and

after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment and there are no special-purpose entities that would require consolidation. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and 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, 2009 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 fcb@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, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 288,059	\$ 852,341
Investments	95,167,566	-
Loans	331,813,758	419,905,959
Less: allowance for loan losses	2,006,477	2,006,477
Net loans	329,807,281	417,899,482
Accrued interest receivable	3,567,646	3,297,018
Investment in and receivable from the Bank:		
Capital stock	7,706,040	7,706,040
Other	2,000	191,866
Deferred taxes, net	57,713	55,326
Premises and equipment	1,388,896	1,290,966
Other assets	842,717	34,126
Total assets	<u>\$ 438,827,918</u>	<u>\$ 431,327,165</u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 389,115,624	\$ 381,164,561
Advance conditional payments	359,306	1,906,817
Accrued interest payable	968,966	1,030,090
Patronage distributions payable	204,211	204,211
Other liabilities	1,413,793	2,102,834
Total liabilities	<u>392,266,111</u>	<u>386,408,513</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,407,160	1,409,735
Allocated retained earnings	8,162,321	8,162,321
Unallocated retained earnings	36,537,075	34,874,517
Accumulated other comprehensive income	455,251	472,079
Total members' equity	<u>46,561,807</u>	<u>44,918,652</u>
Total liabilities and members' equity	<u>\$ 438,827,918</u>	<u>\$ 431,327,165</u>

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended	
	March 31,	
	2010	2009
<u>INTEREST INCOME</u>		
Loans	\$ 5,015,688	\$ 6,110,567
Investments	853,218	-
Total interest income	5,868,906	6,110,567
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	2,954,009	3,514,813
Advance conditional payments	247	66
Total interest expense	2,954,256	3,514,879
Net interest income	2,914,650	2,595,688
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	-	250,000
Net interest income after provision for loan losses	2,914,650	2,345,688
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	382,181	384,724
Loan fees	162,200	198,425
Financially related services income	(18,525)	51,971
Gain (loss) on sale of premises and equipment, net	3,893	(2,250)
Other noninterest income	28,601	59,326
Total noninterest income	558,350	692,196
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	961,739	988,741
Directors' expense	54,518	24,396
Purchased services	84,543	(15,159)
Travel	46,258	38,868
Occupancy and equipment	123,758	116,203
Communications	34,500	30,323
Advertising	9,890	10,088
Public and member relations	53,459	55,860
Supervisory and exam expense	27,723	24,131
Insurance Fund premiums	92,233	185,167
Other noninterest expense	215,201	246,467
Total noninterest expenses	1,703,822	1,705,085
Income before income taxes	1,769,178	1,332,799
Provision for (benefit from) income taxes	106,620	116,235
Net income	\$ 1,662,558	\$ 1,216,564

The accompanying notes are an integral part of these combined 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, 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
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)
Balance at March 31, 2009	\$ 1,448,455	\$ 7,707,562	\$ 31,194,809	\$ 555,945	\$ 40,906,771
Balance at December 31, 2009	\$ 1,409,735	\$ 8,162,321	\$ 34,874,517	\$ 472,080	\$ 44,918,653
Comprehensive income					
Net income	-	-	1,662,558	-	1,662,558
Change in postretirement benefit plans	-	-	-	(16,829)	(16,829)
Total comprehensive income	-	-	1,662,558	(16,829)	1,645,729
Capital stock/participation certificates issued	53,550	-	-	-	53,550
Capital stock/participation certificates and allocated retained earnings retired	(56,125)	-	-	-	(56,125)
Balance at March 31, 2010	\$ 1,407,160	\$ 8,162,321	\$ 36,537,075	\$ 455,251	\$ 46,561,807

The accompanying notes are an integral part of these combined 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, 2010, the Bank and related Associations adopted Financial Accounting Standards Board (FASB) guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association’s financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on “Accounting for Transfers of Financial Assets,” which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed its loan participation agreements to ensure that participations would meet the requirements for sales treatment and there are no special-purpose entities that would require consolidation. The impact of adoption on January 1, 2010 was immaterial to the Association’s financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity’s economic performance.

This guidance is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Association reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010 was immaterial to the Association’s financial condition and results of operations. [Note: Replace the last sentence with the following if applicable: The Association does not have any variable interest or controlling interest in a variable entity, thus there is no impact of adoption of the guidance.]

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, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Held-to-Maturity

The \$95,167,566 in Farmer Mac guaranteed loans categorized as investments are held at face value.

NOTE 3 — 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,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Balance at beginning of quarter	\$ 2,006,477	\$ 1,000,000
Provision for loan losses	-	250,000
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,006,477</u>	<u>\$ 1,250,000</u>

The following table presents information concerning impaired loans:

	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Impaired loans with related allowance	\$ 2,744,314	\$ -
Impaired loans with no related allowance	938,845	5,628,843
Total impaired loans	<u>\$ 3,683,159</u>	<u>\$ 5,628,843</u>
Allowance on impaired loans	\$ 127,260	\$ -
Average impaired loans	\$ 2,155,712	\$ 5,613,256
Interest income on impaired loans for the quarter	\$ 24,553	\$ 24,120

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:

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. The Association plans on distributing a patronage for fiscal year 2010. 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, 2010 and 2009, the Association recorded federal income taxes of \$106,620 and \$116,235, 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 6 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies" to the 2009 Annual Report to Stockholders for a more complete description.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies" to the 2009 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 Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2009 Annual Report.

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 results, 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. All loans fair valued by the Association were classified as Level 3 loans. The total amount of these loans at March 31, 2010 was \$2,744,314.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2010	2009
Service cost	\$ 7,962	\$ 7,433
Interest cost	16,614	16,215
Expected return on plan assets	-	-
Amortization of prior service costs	(16,829)	(16,829)
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ 7,747</u>	<u>\$ 6,819</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute \$45,992 to its defined pension plan in 2010. As of March 31, 2010, \$11,498 of contributions have been made. The Association presently does not anticipate contributing any additional funds to its defined pension plan in 2010.

NOTE 8 — COMMITMENTS AND CONTIGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through April 28, 2010 (date), which is the date the financial statements were issued. As of this date, the Association has submitted to its regulators, the Farm Credit Administration (FCA), a merger package detailing its plan for acquisition of AgCredit of South Texas, ACA, and its subsidiaries. The merger package will require approval by FCA and the majority of voting stockholders from both associations. The projected date of acquisition is July 1, 2010, assuming the necessary approvals materialize.