

AGCREDIT OF SOUTH TEXAS, ACA

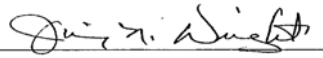
2010 Quarterly Report First Quarter



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 29, 2010



Bob Ed Stewart, Chairman, Board of Directors
April 29, 2010



Keith A. Ibrom, Chief Financial Officer
April 29, 2010

**AGCREDIT OF SOUTH TEXAS, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the AgCredit of South Texas, ACA (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:

In September 2009, AgCredit of South Texas entered into an enforcement agreement with the Farm Credit Administration (FCA), the Association's regulators, in which the Association reports specific financial information and management summaries of monthly activity within ten days after month-end. The Association adequately complied with the agreement's requirements during 2009.

Effective January 1, 2009, the Association signed a joint management agreement with Texas AgFinance, Farm Credit Services (FCS) whereas the executive management team of Texas AgFinance, FCS would manage the operations of the Association through the twelve months ending December 31, 2009. On January 1, 2010, the Association signed a letter of intent to merge with Texas AgFinance, FCS, whereas the executive management team of Texas AgFinance, FCS would manage the operations of the Association 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 \$102,410,498 compared to \$120,574,049 at December 31, 2009, reflecting a decrease of 15.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 15.6 percent at March 31, 2010, compared to 12.5 percent at December 31, 2009.

The Association recorded \$133,766 in recoveries and \$283,581 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 1.2 percent and 1.1 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 \$17,384,756 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.

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 15,993,244	82.1%	\$ 15,102,048	80.4%
90 days past due and still accruing interest	-	0.0%	7,835	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	3,482,541	17.9%	3,677,038	19.6%
Total	<u>\$ 19,475,785</u>	<u>100.0%</u>	<u>\$ 18,786,921</u>	<u>100.0%</u>

Investments:

During the first quarter of 2010, the Association held \$17,384,756 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 \$-76,805 for the three months ended March 31, 2010, as compared to net income of \$411,053 for the same period in 2009 reflecting a decrease of 118.7 percent. Net interest income was \$784,045 for the three months ended March 31, 2010, compared to \$1,067,262 for the same period in 2009. Interest income for the first three months of 2010 decreased by \$503,577 or 24.3 percent from the same period of 2009, primarily due to declines in yields on earning assets and a decrease in average loan volume. Interest expense for the first three months of 2010 decreased by \$220,360, or 21.9 percent, from the same period of 2009 due to a decrease in interest rates and a decrease in average debt volume. Average loan volume for the first quarter of 2010 was \$119,320,760, compared to \$148,145,245 in the first quarter of 2009. The average spread on the loan portfolio for the first quarter 2010 was 2.55 percent, compared to 2.76 percent in the first quarter of 2009.

The Association's return on average assets for the three months ended March 31, 2010, was -0.24 compared to 1.09 percent for the same period in 2009. The Association's return on average equity for the three months ended March 31, 2010, was -2.42, compared to 13.12 percent for the same period in 2009.

The decrease in quarterly net income and income related ratios is attributed to a \$137,810 provision for loan losses and a \$196,755 provision for acquired property losses, both recorded the first quarter of 2010 compared to no provisions recorded 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.

	March 31, 2010	December 31, 2009
Note payable to the Bank	\$ 114,119,635	\$ 114,210,578
Accrued interest on note payable	259,709	268,907
Total	<u>\$ 114,379,344</u>	<u>\$ 114,479,485</u>

The Association's liquidity margin required by the General Financing Agreement (GFA) between the Association and the Bank is below the minimum requirement. The Bank has granted the Association a waiver of compliance with the GFA's liquidity requirement, pending the successful merger between the Association and Texas AgFinance, FCS.

Capital Resources:

The Association's capital position decreased by \$86,345 at March 31, 2010, compared to December 31, 2009. The Association's debt as a percentage of members' equity was 9.05:1 as of March 31, 2010, compared to 9.12:1 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 9.5 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 9.0 and 9.0 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 AgCredit of South Texas, ACA 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 AgCredit of South Texas, ACA, 555 S. International Blvd., Weslaco, Texas 78596, or calling (956) 447-5500. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing fcf@farmcreditbank.com. The Association makes its annual and quarterly stockholder reports available on its web site at www.agcreditofsouthtexas.com.

AGCREDIT OF SOUTH TEXAS, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
Cash	\$ 108,436	\$ 967,006
Investments	17,384,756	-
Loans	102,410,498	120,574,049
Less: allowance for loan losses	<u>1,278,350</u>	<u>1,290,355</u>
Net loans	101,132,148	119,283,694
Accrued interest receivable	1,468,558	1,431,843
Investment in and receivable from the Bank:		
Capital stock	2,648,345	2,648,345
Other	2,000	89,299
Deferred taxes, net	12,562	12,562
Other property owned, net	3,482,541	3,677,038
Premises and equipment	862,920	864,403
Other assets	<u>226,687</u>	<u>65,321</u>
Total assets	<u><u>\$ 127,328,953</u></u>	<u><u>\$ 129,039,511</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 114,119,635	\$ 114,210,578
Advance conditional payments	57,199	86,743
Accrued interest payable	259,709	268,907
Drafts outstanding	295,456	1,581,545
Patronage distributions payable	464	464
Other liabilities	<u>(69,604)</u>	<u>138,835</u>
Total liabilities	<u><u>114,662,859</u></u>	<u><u>116,287,072</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	488,405	497,945
Allocated retained earnings	2,332,081	2,332,081
Unallocated retained earnings	<u>9,845,608</u>	<u>9,922,413</u>
Total members' equity	<u>12,666,094</u>	<u>12,752,439</u>
Total liabilities and members' equity	<u><u>\$ 127,328,953</u></u>	<u><u>\$ 129,039,511</u></u>

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

AGCREDIT OF SOUTH TEXAS, ACA
CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended March 31,	
	2010	2009
<u>INTEREST INCOME</u>		
Loans	\$ 1,570,062	\$ 2,073,639
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	786,006	1,006,370
Advance conditional payments	11	7
Total interest expense	786,017	1,006,377
Net interest income	784,045	1,067,262
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	137,810	-
Provision for acquired property losses	196,755	-
Net interest income after provision for loan losses	449,480	1,067,262
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	109,041	10,516
Loan fees	30,180	50,502
Financially related services income	15,139	26,043
Gain (loss) on other property owned, net	(5,934)	(9,430)
Gain (loss) on sale of premises and equipment, net	2,050	-
Other noninterest income	27,989	6,265
Total noninterest income	178,465	83,896
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	331,067	339,847
Directors' expense	26,635	28,304
Purchased services	213,182	182,867
Travel	3,761	6,762
Occupancy and equipment	24,819	30,269
Communications	10,218	6,241
Advertising	553	2,754
Public and member relations	14,623	25,755
Supervisory and exam expense	18,011	12,693
Insurance Fund premiums	29,883	65,247
Other noninterest expense	31,998	39,366
Total noninterest expenses	704,750	740,105
Net income	\$ (76,805)	\$ 411,053

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

AGCREDIT OF SOUTH TEXAS, ACA

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	\$ 513,170	\$ 2,332,081	\$ 8,566,329	\$ -	\$ 11,411,580
Comprehensive income					
Net income	-	-	411,053	-	411,053
Total comprehensive income	-	-	411,053	-	411,053
Capital stock/participation certificates issued	230,440	-	-	-	230,440
Capital stock/participation certificates and allocated retained earnings retired	(232,380)	-	-	-	(232,380)
Balance at March 31, 2009	\$ 511,230	\$ 2,332,081	\$ 8,977,382	\$ -	\$ 11,820,693
Balance at December 31, 2009	\$ 497,945	\$ 2,332,081	\$ 9,922,413	\$ -	\$ 12,752,439
Comprehensive loss					
Net loss	-	-	(76,805)	-	(76,805)
Total comprehensive loss	-	-	(76,805)	-	(76,805)
Capital stock/participation certificates issued	13,940	-	-	-	13,940
Capital stock/participation certificates and allocated retained earnings retired	(23,480)	-	-	-	(23,480)
Balance at March 31, 2010	\$ 488,405	\$ 2,332,081	\$ 9,845,608	\$ -	\$ 12,666,094

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

AGCREDIT OF SOUTH TEXAS, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The AgCredit of South Texas, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Cameron, Willacy, Starr, Jim Hogg, Zapata, Duval and Webb 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 \$17,384,756 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	\$ 1,290,355	\$ 5,005,961
Provision for loan losses	137,810	-
Charge-offs	(283,581)	-
Recoveries	133,766	-
Balance at end of quarter	<u>\$ 1,278,350</u>	<u>\$ 5,005,961</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	\$ 6,632,158	\$ 1,156,151
Impaired loans with no related allowance	9,361,086	12,931,259
Total impaired loans	<u>\$ 15,993,244</u>	<u>\$ 14,087,410</u>
Allowance on impaired loans	\$ 1,364,068	\$ 67,131
Average impaired loans	\$ 15,264,322	\$ 9,944,164
Interest income (loss) on impaired loans for the quarter	\$ (16,685)	\$ 46,218

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:

AgCredit of South Texas, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of

cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The Association does not anticipate any patronage payment in 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. The Association did not record any provision for estimated federal income taxes during the three months ended March 31, 2010 and 2009.

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

The Association had no material change in its uncertain tax position and therefore has nothing to disclose in accordance with FIN 48.

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.

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

<u>March 31, 2010</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans	\$ -	\$ -	\$ 13,123,513
Other property owned	-	-	3,482,541
<u>December 31, 2009</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans	\$ -	\$ -	\$ 12,392,288
Other property owned	-	-	3,677,038

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 result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

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	\$ -	\$ -
Interest cost	-	-
Expected return on plan assets	-	-
Amortization of prior service costs	-	-
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ -</u>	<u>\$ -</u>

The Association's benefit obligation related to retirement benefits were amortized to zero in 2008. There were no retirement expenses for disclosure in 2009, and there are no projected expenses for subsequent periods.

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 29, 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 merger with Texas AgFinance, FCS 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.