CAPITAL
FARM CREDIT

Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended June 30, 2009

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the examination of the consolidated financial statements in accordance with generally accepted auditing standards. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditors have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Capital Farm Credit, ACA and the results of its operations for the periods shown.

Ben R. Novosad

Ben R. Novosad,
Chief Executive Officer

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

July 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (DOLLARS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended June 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2008 Annual Report of the Association.

At the end of the second quarter of 2009, the national economy, as well as the global economy, continues to be in the midst of a significant recession. The economic conditions in Texas remained more positive than those in other portions of the United States, but drought, low cattle, dairy and grain prices and oversupply of timber products are having a deteriorating affect on the agricultural industry in the state. There has already been a total loss of crops in some areas and many cattle producers are liquidating herds because of extremely dry pasture conditions. The Texas Department of Agriculture estimates state producers have suffered losses in excess of $3.0 billion.

The Association is not immune from the impact of this recession. High risk assets have increased substantially during 2009 and year to date net earnings are less than half of earnings reported for the six months ended June 30, 2008 because of increased loan losses. Nevertheless, the Association continues to remain profitable and has a strong capital position. The Association continues to monitor its underwriting standards so as to be actively involved in extending new credit while effectively managing the risk in its loan portfolio.

Significant Events:

On October 1, 2008, Capital Farm Credit, ACA (Capital) and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. The merger was accounted for similar to the pooling of interests method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all periods presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented.

Due to the Association's strong financial performance for 2008 and solid capital position, the Association paid $22,784 in cash patronage in March 2009, in addition to the $6,655 paid in December 2008 to former First Ag stockholders. During March 2008, the Association paid $31,455 in cash patronage related to 2007 earnings.

The board of directors also took action in 2008 to allocate $67,799 of earnings, representing the 2008 earnings not distributed in cash to the stockholders who were patrons during 2008. These allocations are in the form of nonqualified allocated equity distributions so the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the capital of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity retirements in the form of cash. There is not a planned retirement of these allocated equities. The board of directors will make annual evaluations of the Association's capital position and determine if cash retirements of these equities can be made.

Loan Portfolio:

Total loan volume owned by the Association was $5,239,928 at June 30, 2009. This compares with loan volume owned by the Association at December 31, 2008 of $5,271,307. This represents a decrease of $31,379, or approximately 0.6 percent. This reduction is primarily attributable to a decrease in the production and agribusiness portfolios. The volume reduction was expected because of recessionary pressures and the implementation of more restrictive lending standards and does not materially impact the Association's business plans for the year.

The credit quality of the loan portfolio decreased somewhat during the period as evidenced by the increased volume in high-risk assets. 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 summarizes the Association's components and trends of high-risk assets:

		June 30, 2009	%		December 31, 2008	%
Nonaccrual loans	$	**165,053**	**87.7**	$	92,126	82.9
Loans 90 days past due and still accruing interest		**3,948**	**2.1**		13,516	12.2
Formally restructured loans		**1,356**	**0.7**		4,784	4.3
Other property owned, net		**17,945**	**9.5**		689	0.6
Total	$	**188,302**	**100.0**	$	111,115	100.0

After the Association wrote off $20,809 of loans and transferred over $17,000 of problem assets to other property owned, the Association experienced a $72,927 increase in nonaccrual loans during the six months ended June 30, 2009. The increase in nonaccrual loans primarily came from customers involved in the operation of bio fuel plants, meat and dairy production, and customers that produce income from marketing timber and real estate. The adverse economic factors listed previously worked against these types of customers and decreased their repayment capacity while reducing the value of assets pledged as collateral. Because of their inability to service debt, selected loans owed by customers in these industries were downgraded to nonaccrual and in some cases, the loans were decreased by chargeoffs.

The bio fuel industry has suffered an industry wide "shake-out" over the past six months resulting in some producers restructuring their debts with lenders. The Association has restructured the debt to some of its bio fuels producers through bankruptcy courts as well as individual debt restructurings with the intent to minimize loan losses. Management has also been active in working with meat and dairy producers with problem loans to minimize loan losses and when possible, keep the operations functioning. Because customers that produce income from marketing timber and real estate have collateral that is not as perishable, management has been taking steps to allow for an orderly liquidation of their inventories in an effort to reap the best loan recovery and to avoid forced sales.

Management is committed to continuing to work with all of the Association's high-risk borrowers to receive full payment on borrower obligations and when possible, return their operations to viability. Management also continues to monitor and evaluate risk exposure from counter parties that could impact how timely and effectively loans purchased from the counter parties are serviced.

Results of Operations:

The Association's net income for the six months ended June 30, 2009 was $25,540 as compared to $52,062 for the six months ended June 30, 2008, a decrease of $26,522, or 50.9 percent.

Net income for the quarter and six months ended June 30, 2009 was severely impacted by provision for loan loss expense of $12,872 and $30,793, respectively. These amounts compare to $2,112 and $5,580 for the quarter and six months ended June 30, 2008. The increase in the provision for loan losses is a result of the aforementioned problems in the biofuel industry and the decline in the state's agricultural industry and the adverse affect to the Association's loan portfolio. During 2009, the Association has expensed over $29,000 in specific allowances on loans and has written off over $20,900 of bad loans. Most of these losses have been related to loans in the bio fuel industry, but the Association has also experienced significant losses on some cattle feedlot loans and a loan to a grain broker. Because of the overall decline in the loan portfolio, the Association has also increased its general reserves by over $1,500 during the six month period ended June 30, 2009.

Net interest income increased by $4,407 during the first six months of 2009 as compared to the same time period for 2008. The effects of changes in average volume and interest rates on net interest income in the six months ended June 30, 2009, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the six months ended June 30, 2009		For the six months ended June 30, 2008	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 5,117,669**	**$ 154,886**	$ 4,940,747	$ 170,100
Interest-bearing liabilities	**4,598,547**	**80,011**	4,368,217	99,632
Impact of capital	**$ 519,122**		$ 572,530	
Net interest income		**$ 74,875**		$ 70,468

	Averages	Averages
Yield on loans	**6.10%**	6.92%
Cost of interest-bearing liabilities	**3.51%**	4.59%
Interest rate spread	**2.59%**	2.33%

	2009 vs. 2008		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 6,075**	**$ (21,289)**	**$ (15,214)**
Interest expense	**5,240**	**(24,861)**	**(19,621)**
Net interest income	**$ 835**	**$ 3,572**	**$ 4,407**

The Association's noninterest income decreased from $16,855 in the first six months of 2008 to $12,485 in the first six months of 2009. This decrease is a result of the Association generating less loan fee income from new loan originations, and reduced patronage income accrual related to the FCB. The reduced loan fee income in 2009 resulted as recessionary pressures caused demand for financing to slow. The Association also reduced its accrual of patronage income from the FCB in anticipation of a possible reduced distribution for 2009.

Noninterest expenses increased $1,346 in the first six months of 2009 as compared to the same time period in 2008. This increase is attributable to increases in the Association's pension plan funding expense of $2,775 and in Farm Credit System insurance premiums of $742. Beginning in 2009, the Farm Credit System Insurance Corporation raised premiums on accrual volume from 15 basis points to 20 basis points. Contributions to the Association's defined benefit plan increased as deterioration in the stock market required additional funding to the plan. These increases were offset by a net reduction in all other expenses of $2,171 resulting from operating efficiencies gained due to the merger.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the FCB. The Association had an outstanding balance of $4,595,998 at June 30, 2009, as compared to $4,604,485 at December 31, 2008. This decrease was attributable to the reduced demand for lending as the Association strengthened lending standards and the economic impact of the current recession. The note carried a weighted average interest rate of 3.51 percent for the six months ended June 30, 2009, compared to 4.38 percent for the year ended December 31, 2008. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2009. As borrower payments are received they are applied to the Association's note payable with the FCB.

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year. See note 5 to the consolidated financial statements for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

Despite the decline in the Association's credit quality, the Association's capital position remains strong, with total capital of $764,172 at June 30, 2009. This represents an increase of $24,969 from the December 31, 2008 total capital level of $739,203. This increase in capital is primarily the result of the Association's net income for the period. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2009 was 12.7 percent. The Association's core surplus ratio and total surplus ratio at June 30, 2009 were 11.6 percent and 12.2 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 3 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 3 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization, Mergers, and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Loans	$ 5,239,928	$ 5,271,307
Less: Allowance for losses	(33,630)	(23,646)
Net loans	5,206,298	5,247,661
Cash	7,983	20,163
Accrued interest receivable	59,483	64,333
Investment in and receivable from the FCB:		
Capital stock	88,168	88,168
Receivable	5,268	2,473
Other property owned, net	17,945	689
Premises and equipment, net	12,957	13,416
Other assets	7,343	2,577
Total assets	$ 5,405,445	$ 5,439,480
LIABILITIES		
Notes payable to the FCB	$ 4,595,998	$ 4,604,485
Advanced conditional payments	5,336	8,173
Accrued interest payable	13,015	15,820
Drafts outstanding	3,414	15,260
Patronage distributions payable	-	22,807
Unfunded post retirement medical obligation	13,689	13,177
Other liabilities	9,821	20,555
Total liabilities	4,641,273	4,700,277
MEMBERS' EQUITY		
Capital stock and participation certificates	22,969	23,231
Allocated retained earnings	144,711	144,794
Unallocated retained earnings	592,569	566,967
Accumulated other comprehensive income	3,923	4,211
Total members' equity	764,172	739,203
Total liabilities and members' equity	$ 5,405,445	$ 5,439,480

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)
(UNAUDITED)

	For the three months ended June 30, 2009	For the three months ended June 30, 2008	**For the six months ended June 30, 2009**	For the six months ended June 30, 2008
INTEREST INCOME				
Loans	**$ 75,865**	$ 83,035	**$ 154,886**	$ 170,100
INTEREST EXPENSE				
Note payable to the FCB and others	**39,209**	47,557	**80,011**	99,632
Net interest income	**36,656**	35,478	**74,875**	70,468
PROVISION FOR LOAN LOSSES				
Provision for loan losses	**12,872**	2,112	**30,793**	5,580
Net interest income after provision for losses	**23,784**	33,366	**44,082**	64,888
NONINTEREST INCOME				
Patronage income from the FCB	**2,604**	3,719	**5,230**	7,428
Loan fees	**3,036**	3,988	**6,048**	8,025
Other income	**683**	843	**1,207**	1,402
Total noninterest income	**6,323**	8,550	**12,485**	16,855
NONINTEREST EXPENSES				
Salaries and employee benefits	**7,092**	7,355	**14,480**	15,265
Pension plan funding expense	**2,301**	914	**4,602**	1,827
Farm Credit System insurance premium	**2,223**	1,879	**4,437**	3,695
Purchased services and allocations	**760**	1,019	**1,603**	1,874
Occupancy and equipment	**560**	497	**1,056**	1,019
Travel	**478**	541	**869**	1,004
FCA supervisory and exam expense	**451**	302	**658**	604
Public and member relations	**320**	406	**760**	896
Advertising	**277**	488	**642**	1,057
Communications	**226**	213	**392**	399
Directors' expense	**166**	369	**364**	808
Other expense	**908**	697	**1,164**	1,233
Total noninterest expenses	**15,762**	14,680	**31,027**	29,681
Income before federal income tax	**14,345**	27,236	**25,540**	52,062
Federal income tax	**-**	-	**-**	-
Net income	**$ 14,345**	$ 27,236	**$ 25,540**	$ 52,062

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2007	$ 22,681	$ 76,995	$ 565,524	$ 4,377	$ 669,577
Net income	-	-	52,062	-	52,062
Adjustment to initially apply FAS No 158	-	-	(205)	-	(205)
Amortization of costs included in net periodic pension cost	-	-	-	(176)	(176)
Capital stock/participation certificates:					
Issued	2,929	-	-	-	2,929
Retired	(2,413)	-	-	-	(2,413)
Patronage adjustments	-	(8)	363	-	355
Balance at June 30, 2008	23,197	76,987	617,744	4,201	722,129
Net income	-	-	46,458	-	46,458
Amortization of costs included in net periodic pension cost	-	-	-	10	10
Capital stock/participation certificates:					
Issued	1,041	-	-	-	1,041
Retired	(1,007)	-	-	-	(1,007)
Patronage distributions declared:					
Cash	-	-	(29,439)	-	(29,439)
Nonqualified allocations	-	67,799	(67,799)	-	-
Other adjustments	-	8	3	-	11
Balance at December 31, 2008	23,231	144,794	566,967	4,211	739,203
Comprehensive income:					
Net income	-	-	25,540	-	25,540
Amortization of costs included in net periodic pension costs	-	-	-	(288)	(288)
Comprehensive income	-	-	25,540	(288)	25,252
Capital stock/participation certificates:					
Issued	1,360	-	-	-	1,360
Retired	(1,622)	-	-	-	(1.622)
Patronage adjustments	-	(83)	62	-	(21)
Balance at June 30, 2009	**$ 22,969**	**$ 144,711**	**$ 592,569**	**$ 3,923**	**$ 764,172**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

NOTE 1 — ORGANIZATION, MERGERS AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

On October 1, 2008, Capital Farm Credit, ACA (Capital) and First Ag Credit, FCS (First Ag) merged to form Capital Farm Credit, ACA as permitted by the 1987 Act. All of the capital stock and participation certificates of First Ag were exchanged for the capital stock and participation certificates of Capital on a one-for-one basis. The merger was accounted for similar to the pooling of interest method of accounting. Accordingly, the accompanying consolidated financial statements and financial information for all years presented have been restated to include the accounts and results of operations of Capital and First Ag as if the merger had been in effect for all periods presented. The Association succeeded to all the rights and obligations of the merging associations pursuant to the merger plans adopted by the boards of directors of Capital and First Ag. Prior to the merger, the accounting practices used by the Associations were comparable.

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2008 are contained in the 2008 Annual Report to Stockholders. These unaudited second quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Stockholders.

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 that reports 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 the 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 Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Fund.

Effective January 1, 2009, the Association adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. The adoption of this Standard did not have any impact on the Association's financial statement disclosures because the Association is not a party to any derivative or hedging instruments.

Effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-2, "Effective Date of FASB staff position Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15,

2008. The impact of adoption resulted in additional fair value disclosures but does not have an impact on the Association's financial condition or results of operations.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified as "doubtful" or "loss."

A summary of loans follows:

Industry	**June 30, 2009**	**%**	December 31, 2008	%
Production agriculture:				
Real estate mortgage	**$ 4,008,074**	**76.5**	$ 3,971,263	75.3
Production and term	**619,318**	**11.8**	640,483	12.2
Agribusiness	**435,077**	**8.3**	491,359	9.3
Rural residential real estate	**69,487**	**1.3**	63,049	1.2
Energy	**61,708**	**1.2**	58,005	1.1
Communication	**44,830**	**0.9**	45,443	0.9
Other	**1,434**	**0.0**	1,705	0.0
Total	**$ 5,239,928**	**100.0**	$ 5,271,307	100.0

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans:

	June 30, 2009	**%**	June 30, 2008	%	December 31, 2008	%
Nonaccrual	**$ 165,053**	**96.9**	$ 49,645	88.5	$ 92,126	83.4
90 days past due and still accruing interest	**3,948**	**2.3**	1,169	2.1	13,516	12.2
Formally restructured	**1,356**	**0.8**	5,248	9.4	4,784	4.4
Total	**$ 170,357**	**100.0**	$ 56,062	100.0	$ 110,426	100.0

The Association has remaining commitments to lend additional funds to borrowers whose loans were classified as impaired at June 30, 2009 of $29,999. The average recorded investment in impaired loans for the six months ended June 30, 2009 was $138,437, compared to $54,964 at June 30, 2008. The Association recognized interest income of $1,707 on impaired loans for the six months ended June 30, 2009 and $852 for the June 30, 2008 period.

A summary of the changes in the allowance for loan losses follows:

	For the six months ended June 30, 2009	For the six months ended June 30, 2008	For the six months ended December 31, 2008
Beginning Balance	**$ 23,646**	$ 15,805	$ 21,296
Provision for loan losses	**30,793**	5,580	8,610
Charge offs	**(20,917)**	(109)	(6,401)
Recoveries	**108**	20	141
Ending Balance	**$ 33,630**	$ 21,296	$ 23,646

Impaired loans of $78,990 at June 30, 2009 had related specific allowance for loan losses of $17,790 as compared to impaired loans of $26,908 at June 30, 2008 which had related specific allowances for loan losses of $10,098. The remaining impaired loans carried no specific allowance for loan losses. Impaired loans for which no specific allowance was considered necessary are not included in the determination of the general allowance. However, impaired loans that were not analyzed for a specific allowance are considered in the determination of the general allowance for loan losses.

The provision for loan losses was $30,793 for the first six months of 2009 as compared to $5,580 for the same period in 2008. The increase in the provision for loan losses is a result of problems in the biofuel industry and the decline in the state's agricultural industry and the adverse affect to the Association's loan portfolio. During 2009, the Association has expensed over $29,000 in specific allowances on loans and has written off over $20,900 of bad loans. Most of these losses have been related to loans in the bio fuel industry, but the Association has also experienced significant losses on some cattle feedlot loans and a loan to a grain broker. Because of the overall decline in the loan portfolio, the Association has also increased its general reserves by over $1,500 during the six month period ended June 30, 2009. Management will continue to monitor problem loans and assess the need for additional changes in loan loss reserves each quarter.

NOTE 3 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,595,998 at 3.51 percent, and $4,604,485 at 4.38 percent for the period ended June 30, 2009 and year ended December 31, 2008, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the FCB unless the FCB approves borrowing from other funding sources. The FCB and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2008, 2007 and 2006, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the FCB as of June 30, 2009, was $5,104,841, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the FCB funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

NOTE 4 — MEMBERS' EQUITY:

The Association paid $22,784 in cash patronage in March 2009 in addition to the $6,655 paid in December 2008 to former First Ag stockholders. During March 2008, the Association paid $31,455 in cash patronage for 2007 earnings.

The board of directors also took action in December 2008 to allocate $67,799 of earnings, representing the 2008 earnings not distributed in cash to the stockholders who were patrons during 2008. These allocations are in the form of nonqualified allocated equity distributions so the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the capital of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity retirements in the form of cash. There is not a planned retirement of these allocated equities. The board of directors will make annual evaluations of the Association's capital position and determine if some cash retirements of these equities can be made.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2008 Annual Report, that it expected to contribute $9,205 to its pension plan in 2009, which will be $5,550 greater than the 2008 contribution. Pension plan funding expense was $4,602 and $1,827 for the six months ended June 30, 2009 and 2008 respectively.