CAPITAL FARM CREDIT

2020 ANNUAL REPORT

Better together, even when we're apart

At our customer-owned cooperative, we like to say together we're better.

When 2020 required us all to keep our distance, we made it easier to do business with us. We helped members overcome challenges, provide for their employees and achieve their goals of living and working in the country.

We stand behind our mission to support agriculture and rural communities, whatever the circumstances. And together, we were successful in 2020.

CAPITAL FARM CREDIT

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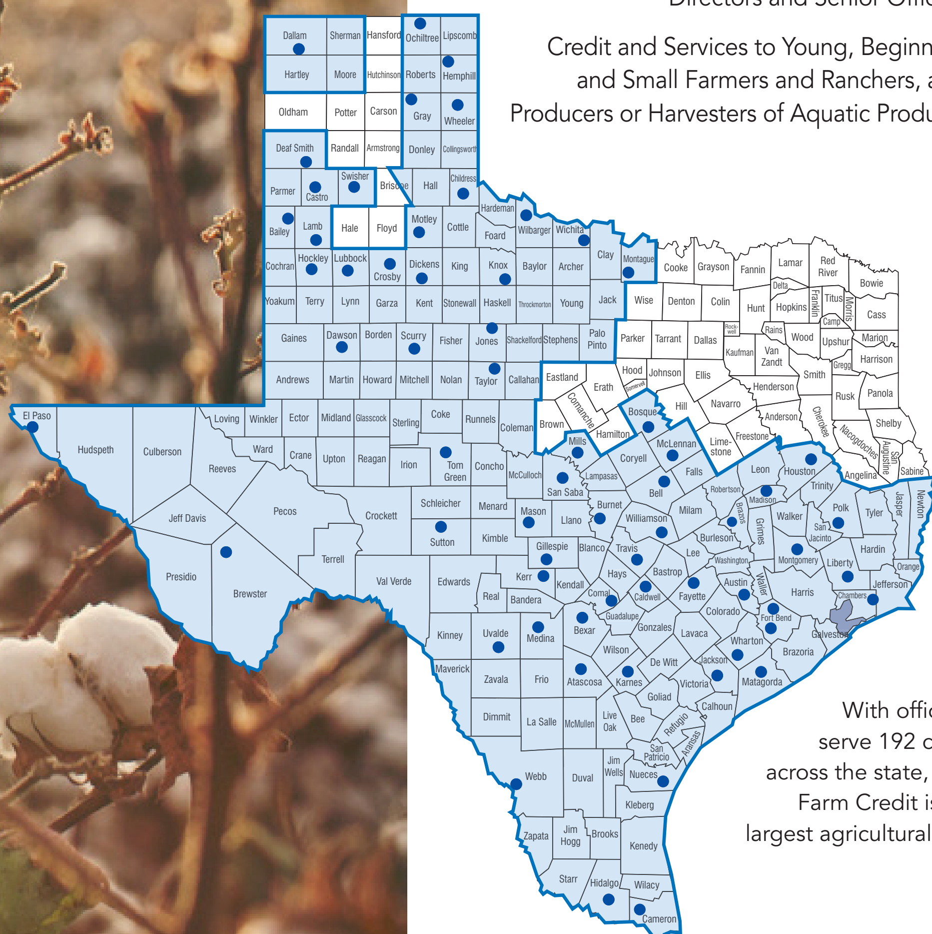


With offices that serve 192 counties across the state, Capital Farm Credit is Texas' largest agricultural lender.

Bringing opportunity within reach from any distance

At Capital Farm Credit, we have a mission to help agriculture and rural communities thrive.

We entered 2020 with plans to leverage technology to streamline the loan process and provide the best customer experience. We didn't realize we'd make such a rapid transformation. In March, the coronavirus pandemic required us to close our lobbies for the safety of our customers and employees. As a result of our consistent IT planning process, soon all our staff had the technology and equipment to work remotely if necessary.

As interest rates dropped and loan demand soared, we were ready to meet our borrowers' needs. Our partnership led to record financial results.

In 2020, we achieved $220.3 million in net income — a 21.7 percent increase year over year. Our loan volume increased 11.0 percent year over year to $8.7 billion. We finished the year with a record $8.9 billion in assets. And our sound credit quality not only withstood the challenges of 2020, it improved slightly.

Giving back to our members

Capital Farm Credit borrowers are more than customers. As members and part owners of our cooperative, they share in our success through our patronage dividend program.

We return some of the interest they paid on their loans in a cash patronage refund. We also retain some earnings as capital to keep the cooperative strong. We allocate retained earnings to our current borrowers, and distribute it to them later as we grow and generate new capital.

In 2020 we returned $143.6 million to our members: $88.6 million of our 2019 earnings in March, and $55.0 million in November that we had allocated in 2012.

Based on our solid financial results, our board of directors voted to return 98.0 percent of our 2020 earnings to members. We will distribute a record $98.3 million in cash patronage this spring. Another $117.6 million in allocated equities will be eligible for disbursement in the future.

Cooperative returns effectively lower our members' borrowing costs — a unique benefit of doing business with a cooperative.

Helping members overcome challenges

Every year has its challenges in agriculture. While the challenges were different in 2020, our response was the same: providing reliable credit and financial services.

After closing our lobbies, we safely met customers by appointment and gave them ways to do business with us from a distance. Our new customer portal enables them to complete loan applications, exchange documents with us and track the status of their loans electronically.

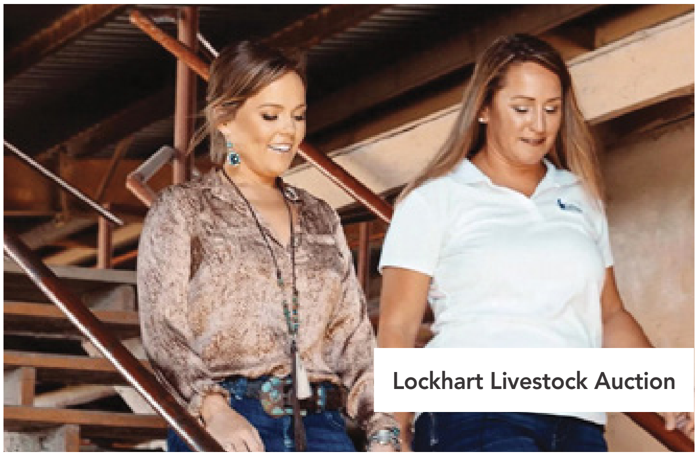
When the coronavirus disrupted supply chains and the economy, we offered two relief programs.

Our payment deferral program helped 600 borrowers through the initial stages of the pandemic. And we made over $6 million in potentially forgivable loans through the Small Business Administration's Paycheck Protection Program (PPP). These helped 99 small businesses pay employees and cover self-employment income during disruptions.

And when hurricanes caused damage in South and East Texas, we helped members address safety concerns and protect their livelihoods.

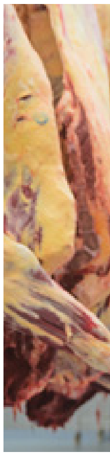
Going virtual

Our goal is to be a trusted adviser. We enjoy sharing our expertise, answering questions and providing resources that help ag producers make good business decisions.



Lockhart Livestock Auction

T&K Dairy



When we could no longer accept walk-ins or host in-person events, we took the conversation online.

Employees presented 20 Lunch and Learns on Facebook Live, posting additional information on our website. We hosted Facebook Live discussions with Tiffany Lashmet, a Texas A&M AgriLife Extension agricultural law specialist, and started sponsoring her podcast. And we partnered with the experts at CattleFax in a new quarterly webinar series for cattle producers.

We held our first virtual annual stockholders meeting online.

And we provided financial support to help Extension programs, ag leadership courses and other programs adapt and carry on.

Despite its challenges, 2020 was the strongest year ever for our association. We're proud that we could help others surmount obstacles and seize opportunities. ★


I O Ranch Processing

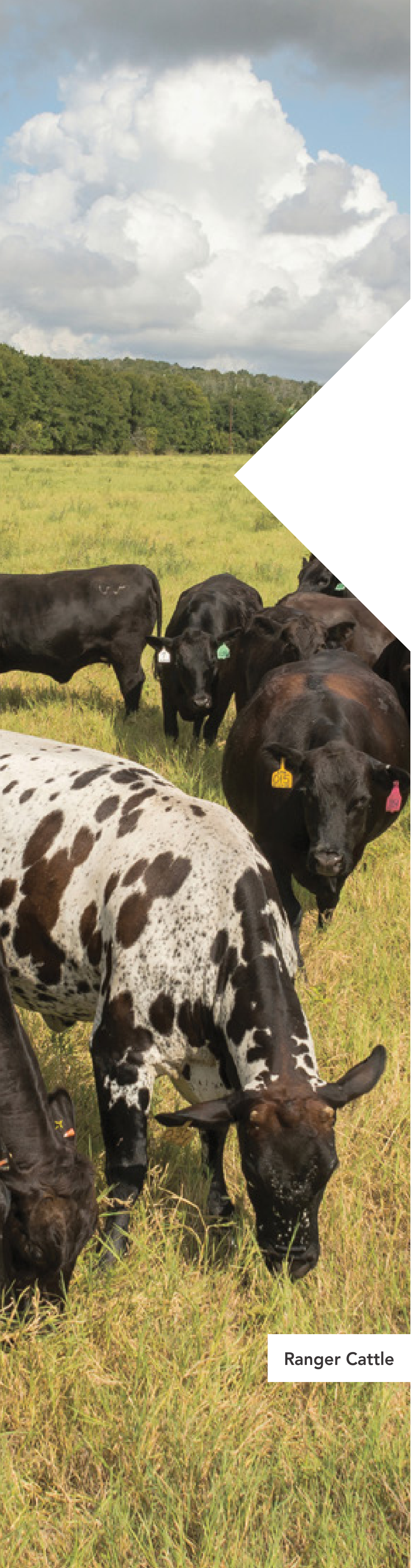
Giving back to communities

We invested in the future of rural communities and agriculture by awarding more than $130,000 in scholarships. Heather Willmann, right, senior customer relationship specialist in Clifton, presented a $1,000 scholarship to high school senior Dacey Dietiker.

We awarded a total of $6,300 in Community Outreach Grants to 4-H and FFA projects that make communities better places to live. Pictured with the Caldwell FFA chapter is Kenny Kautzer, vice president of lending in our Bryan credit office.

We launched free webinars so anyone in the agriculture community could benefit from industry insights. "Texas Cattle Review & Outlook," a series featuring CattleFax CEO Randy Blach, presents timely information on cattle, grain, protein, energy and trade.

We also shared information with the public on Facebook Live. Don VandeVanter, chief financial officer, explained patronage in our first Lunch and Learn. Other employees discussed PPP loans, crop insurance, what to consider when buying land and much more.



Ranger Cattle

CEO Message

Dear Stockholder:

2020 was a year we won't soon forget.

Despite the coronavirus pandemic, Capital Farm Credit never ceased operations. We modified how we interacted with customers and were always there when they needed us. That's evident in our strong growth. We ended the year with a record $8.9 billion in assets and $220.3 million in net income.

Loan demand was much greater than we anticipated. With such low interest rates, it was a good time to borrow. And for many people, rural real estate represented a sound investment and better way of life outside the big city.

It wasn't an easy year, though. When the pandemic caused disruptions, we deferred loan payments for qualified borrowers for a time so they could get back to normal. We also participated in the Small Business Administration's Paycheck Protection Program to preserve jobs. Both programs brought much-needed relief.

As a borrower-owned cooperative, we return as much of our earnings to members as we can through our patronage dividend program. Our board recently declared $215.9 million in patronage on our 2020 earnings. We will distribute the first 45.5 percent to members in cash this spring, effectively lowering their borrowing costs.

We're very pleased with our growth in 2020. But growth isn't sustainable without capital. We need a way to support growth without retaining more earnings, because that would reduce our members' patronage refunds.

So last year, we prepared to issue our first preferred stock. We received investment-grade ratings from two top rating agencies in December. And in January 2021 we issued $200 million in preferred stock at a very low coupon of 5 percent. This high-quality capital will help us deliver competitive credit and financial services to even more customers in the future.

Preparing for the future is how we spent most of 2020. We launched a user-friendly customer portal and expanded electronic signatures. We tested new lending software that will soon streamline the loan process for our customers and staff. We invested in our people by starting a multiyear sales training program. We got ready to expand our branch offices to better serve local borrowers.

And finally, we announced new leadership. Later this year, Jeff Norte will succeed me as CEO, and Sally Lawson will succeed Don VandeVanter as chief financial officer upon his retirement. Both have extensive experience, understand our business and embrace our cooperative philosophy to operate in the best interests of our members.

After 45 years in Farm Credit, it feels good to have my last full year end on such a high note. Thank you for your continued partnership with Capital Farm Credit. I have no doubt I am leaving the association in the most capable hands with Jeff, and I can't wait to see the success that is sure to come.

Ben R. Novosad
Chief Executive Officer

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual 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 consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual report has been reviewed and 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 our knowledge and belief.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 12, 2021

John Malazzo

John Malazzo, Chairman, Board of Directors
March 12, 2021

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 12, 2021

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association's chief executive officer and chief financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process (1) designed by, or under the supervision of, the association's principal executives and principal financial officers, or persons performing similar functions (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board's Audit Committee through the association's internal audit staff and internal credit reviewers to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association's assets that could have a material effect on its consolidated financial statements.

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2020. A review of the assessment performed was reported to the association's Audit Committee.

Ben R. Novosad	Don VandeVanter
Ben R. Novosad, Chief Executive Officer	Don VandeVanter, Chief Financial Officer
March 12, 2021	*March 12, 2021*

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six directors of Capital Farm Credit, ACA (the association). In 2020, the committee met six times. The committee oversees the scope of the association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2020.

Management is responsible for the association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of the association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the association's audited consolidated financial statements for the year ended December 31, 2020 (audited consolidated financial statements), with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC other matters and received assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in the association's Annual Report to Stockholders for the year ended December 31, 2020.

Kenton Kimball, Chairman

Additional Members:	Terry McAlister
	Carl Sample
	Steve Stevens
	Sharleen Walkoviak
	Joe David Yates

March 12, 2021

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2020	2019	2018	2017	2016
Balance Sheet Data					
Assets					
Loans	**$ 8,684,131**	$ 7,822,838	$ 7,393,006	$ 7,245,367	$ 6,927,965
Less: Allowance for losses	**(31,592)**	(30,798)	(25,495)	(29,450)	(30,287)
Net Loans	**8,652,539**	7,792,040	7,367,511	7,215,917	6,897,678
Investment -- held-to-maturity	**2,582**	3,418	4,388	5,566	6,670
Investment in and receivable from the Bank:	**161,379**	154,485	147,288	133,710	127,298
Other property owned, net	**601**	859	972	3,989	2,634
Other assets	**126,539**	135,177	119,297	111,475	101,884
Total assets	**$ 8,943,640**	$ 8,085,978	$ 7,639,456	$ 7,470,657	$ 7,136,164
Liabilities					
Obligations with maturities of one year or less	**$ 196,972**	$ 172,634	$ 168,172	$ 154,392	$ 129,800
Obligations with maturities greater than one year	**7,395,111**	6,629,186	6,239,046	6,140,228	5,882,830
Total liabilities	**7,592,083**	6,801,820	6,407,218	6,294,620	6,012,630
Members' Equity					
Capital stock and participation certificates	**$ 27,043**	$ 25,980	$ 25,804	$ 25,519	$ 25,049
Non-qualified allocated retained earnings	**737,454**	674,877	624,839	578,054	528,533
Unallocated retained earnings	**590,617**	586,224	581,674	576,158	571,198
Accumulated other comprehensive (loss)	**(3,557)**	(2,923)	(79)	(3,694)	(1,246)
Total members' equity	**1,351,557**	1,284,158	1,232,238	1,176,037	1,123,534
Total liabilities and members' equity	**$ 8,943,640**	$ 8,085,978	$ 7,639,456	$ 7,470,657	$ 7,136,164
	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 247,641**	$ 235,013	$ 234,723	$ 227,346	$ 215,137
(Provision for) reversal of credit losses	**(582)**	(8,101)	3,469	(2,315)	(7,361)
Income from the Bank	**48,940**	40,403	35,041	29,029	27,392
Other noninterest income	**22,431**	14,794	15,293	10,943	9,221
Noninterest expense	**(98,172)**	(101,099)	(98,676)	(96,260)	(93,235)
(Provision for) benefit from income taxes	**-**	(5)	1	(7)	(8)
Net income	**$ 220,258**	$ 181,005	$ 189,851	$ 168,736	$ 151,146
Key Financial Ratios for the Year					
Return on average assets	2.6%	2.3%	2.5%	2.3%	2.2%
Return on average members' equity	16.7%	14.4%	15.8%	14.7%	13.1%
Net interest margin as a percentage of average earning assets	3.0%	3.1%	3.2%	3.2%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	0.0%

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	15.1%	15.9%	16.1%	15.7%	15.7%
Debt as a percentage of members' equity	561.7%	529.7%	520.0%	535.2%	535.2%
Allowance for loan losses as a percentage of loans	0.4%	0.4%	0.3%	0.4%	0.4%
Common Equity tier 1 ratio	14.0%	14.6%	14.3%	13.4%	n/a
Tier 1 capital ratio	14.0%	14.6%	14.3%	13.4%	n/a
Total capital ratio	14.4%	15.0%	15.1%	15.0%	n/a
Permanent capital ratio	14.1%	14.7%	14.8%	14.7%	14.6%
Tier 1 leverage ratio	14.7%	15.2%	14.8%	13.9%	n/a
UREE leverage ratio	8.4%	8.9%	9.5%	9.5%	n/a
Total surplus ratio	n/a	n/a	n/a	n/a	14.4%
Core surplus ratio	n/a	n/a	n/a	n/a	14.4%
Net Income Distribution/Allocation					
Cash patronage paid	$ 88,550	$ 87,543	$ 77,506	$ 57,170	$ 56,746
Cash retirement of nonqualified written notice of allocation	55,000	38,206	50,000	36,785	36,783
Nonqualified notices of allocation	117,585	87,989	97,044	86,341	77,830

*Effective January 1, 2017, the Farm Credit Administration implemented new capital ratios. The total surplus ratio and core surplus ratios were no longer included in the regulatory capital measurements, while the permanent capital ratio was maintained as a regulatory capital ratio. In addition, the common equity tier 1 ratio, the tier 1 capital ratio, the total capital ratio, the tier 1 leverage ratio, and the unallocated retained earnings leverage ratios were implemented as new regulatory ratios. The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2020. For more information, see Note 11 in the accompanying consolidated financial statements, "Members Equity," included in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS 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 years ended December 31, 2020, 2019 and 2018, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's Audit Committee.

Significant Events:

Preferred Stock Issuance

In response to its loan growth during 2020, the anticipated continued growth opportunities, and the relatively low interest rate environment, the association sought and received stockholder approval in 2020 to revise its capitalization bylaws to allow for the issuance of noncumulative perpetual preferred stock. Specific changes in the bylaws that were approved by each class of stockholders (Class B and participation certificates) included the following:

- Preferred stock is included as an authorized type of stock,
- Outlined the rights and preferences of preferred stock including authorization to issue preferred stock with an aggregate amount not to exceed $400,000, rights of series, dividends, and redemption,
- Set forth the retirement parameters for all classes of stock and participation certificates,
- Clarified that minimum regulatory capital standards must continue to be met after stock retirement for loans meeting specific parameters,
- Any losses resulting in impairment of capital is borne first by the holders of common stock and participation certificates and second by holders of preferred stock,
- Outlined the distribution priorities and parameters for each type of stock in the event of liquidation,
- Set forth the parameters required to distribute allocated surplus as approved by the association's board,
- Set forth the priority for dividend payments, and
- Set forth that dividends declared by the board on preferred stock or other capital stock and distributed does not reduce patronage-sourced net earnings for the year of the distribution.

After approval of the capitalization bylaw amendments by its stockholders, the association sought and received approval in December 2020 from the Farm Credit Administration (FCA) to issue $200,000 in noncumulative perpetual preferred stock. On January 19, 2021, the association issued $200,000 of Class A noncumulative subordinated perpetual preferred stock, Series 1 (Class A-1 preferred stock), representing 200,000 shares at $1,000 per share par value, for net proceeds of $195,455 with issuance costs of $4,545. Dividends on the Class A-1, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing March 15, 2021, at an annual fixed rate of 5.00 percent of par value of $1,000 per share up to, but excluding, March 15, 2026, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 4.52 percent. The Class A-1 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the Association, with prior approval from the FCA, on any dividend payment date on or after March 15, 2026. For regulatory purposes, the Class A-1 preferred stock will be included in permanent capital, total capital and tier 1 capital within certain limitations.

Rating Agency Actions

Fitch Ratings Actions
On January 11, 2021, Fitch Ratings assigned the Association an initial long-term issuer default ratings (IDRs) at "BBB," with a stable outlook. Fitch also assigned a rating of "BB-" for the Association's noncumulative perpetual preferred stock.

S&P Global Rating Actions
On January 11, 2021, S&P assigned the Association an initial long-term issuer default rating at "BBB," with a stable outlook. S&P Global Ratings also assigned a rating of "BB" for the Association's noncumulative perpetual preferred stock.

Senior Officer Retirements

In September 2020, Ben Novosad informed the board of directors of his decision to retire in September 2021. The board began a nationwide search at that time. On January 26, 2021, the board announced their decision to name Jeff Norte as the chief executive officer – elect, with the intention for him to replace Mr. Novosad as the chief executive officer when he retires in September 2021.

Also during 2020, Don VandeVanter announced his intention to retire in 2021. Effective January 2021, Sally Lawson was named chief financial officer-elect, with the intention for her to assume full responsibility as chief financial officer on March 15, 2021. Mrs. Lawson has more than 30 years of financial and accounting experience, with more than 16 years of experience at the association, most recently as vice president of finance.

Patronage Refunds by Association

The board of directors approved a $215,865 patronage distribution for 2020. Of that amount, $98,280 of this distribution will be paid in cash in March 2021 and $117,585 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2019, the board of directors approved a $176,537 patronage distribution with cash patronage payable of $88,550 and $87,987 in nonqualified allocations. In 2018, the board of directors approved a $184,330 patronage distribution, with cash patronage payable of $87,543 and $96,787 in nonqualified allocations. In March 2019, the association finalized the computation of these distributions, which resulted in a reduction in cash patronage payable of $62 for an actual cash distribution of $87,481 and increased nonqualified allocated equities by $257 for total distributions of $97,044.

In September 2020, the board of directors approved a resolution to retire $55,000 in nonqualified allocated equities, which were paid to the recipients in November 2020. The retirement was a distribution of 57 percent of the earnings allocated in 2012. In September 2019, the board of directors approved a resolution to retire $38,206 in nonqualified allocated equities, which were paid to the recipients in November 2019. The retirement was a distribution of all remaining equities allocated in 2011. In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities. The retirement was a distribution of 56 percent of the earnings allocated in 2011.

Patronage Refund Received from Farm Credit Bank of Texas

The association received income in the form of a direct loan patronage of $38,226, $30,031 and $26,508 from the Farm Credit Bank of Texas (bank), representing 0.55 percent, 0.47 percent and 0.43 percent of the average daily balance of the association's direct loan with the bank at December 31, 2020, 2019 and 2018, respectively. The association also received $3,192, $3,797 and $3,172 in patronage payments from the bank, based on the association's stock investment in the bank at December 31, 2020, 2019 and 2018, respectively. In addition, as a result of the CPP transaction discussed under the "Loan Portfolio" section below, the association received patronage of $2,390, $2,767 and $855 in 2020, 2019 and 2018, respectively. Also, the association received a capital markets patronage of $5,132, $3,808 and $4,506 from the bank in 2020, 2019 and 2018 representing 1.00 percent, 0.75 percent and 0.75 percent, respectively, on the year's average daily balance for loan participations sold to the bank.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists primarily of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, LIBOR-based and prime-based interest rates. For all loan products, the association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the association is subject to a new cost of funds from the bank. However, the association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on LIBOR and prime-based products, and from 60 days to 30 years on fixed rate products. Loan maturities range from one to five years, with annual operating loans comprising the majority of the production loans and five- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

At December 31, 2020, the association's loan volume was $8,684,131, an increase of $861,293 or 11.0 percent from December 31, 2019. Volume increased in 2020 across the portfolio, with the most significant growth in the real estate mortgage loans of $768,907 and farm-related business loans of $46,589. At December 31, 2019, loan volume was $7,822,838, which was 5.8 percent higher than the December 31, 2018, loan volume of $7,393,006. The credit quality of the association's portfolio has remained strong and relatively consistent from the prior year. Loans classified as acceptable were 96.8 percent of the total portfolio at December 31, 2020, in comparison to 96.5 percent of the total portfolio at December 31, 2019, and 96.6 percent at December 31, 2018. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the association's loan portfolio is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses."

In September 2018, the association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of their capitalized participation pool (CPP). In accordance with this program, the association capitalizes this loan pool with a 6 percent investment in the bank in exchange for the net earnings this pool generates. The CPP program allows the association to manage its capital by controlling the amount of loan volume on the balance sheet. The association recognized earnings from this program of $2,068, $2,402 and $742 in 2020, 2019 and 2018, respectively. The earnings from the program are under the control and discretion of FCBT.

At December 31, 2020, 2019 and 2018, the association held four, four and four transactions respectively, which are reported as loans on the consolidated balance sheet totaling $5,758, $5,937 and $6,100 with remaining commitments of $0, $0 and $0 extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

The association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the bank in the form of standby commitments to purchase qualifying loans. At December 31, 2020, 2019 and 2018, loans totaling $9,906, $12,620 and $15,241, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $45, $55 and $110 in 2020, 2019 and 2018, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The association participates in loans with other lenders. As of December 31, 2020, 2019 and 2018, loan participations purchased by the association totaled $1,166,976, $1,016,053 and $882,179, or 13.4 percent, 13.0 percent and 11.9 percent of loans, respectively. Included in these amounts are participations purchased from entities other than the bank and its related associations (collectively referred to as the "District") totaling $632,265, $412,282 and $354,930, or 7.3 percent, 5.3 percent and 4.8 percent of loans, respectively. The association has also sold participations to other lenders of $1,643,496, $1,646,610 and $1,387,089 as of December 31, 2020, 2019 and 2018, respectively.

Investments:

<u>Agricultural Mortgage-Backed Securities</u>

During 2010, the association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the association's credit exposure to Farmer Mac by putting the association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $2,582, $3,418 and $4,388 at December 31, 2020, 2019 and 2018, respectively. The association continues to service the loans included in that transaction.

<u>Point of Purchase Equipment Financing</u>

The association partners with other Farm Credit associations to facilitate a point of purchase equipment financing program under the name of AgDirect LLP (AgDirect). The AgDirect program operates through independent equipment dealers to originate and refinance agricultural equipment loans. The association's investment in AgDirect was $11,067, $9,684 and $9,237 at December 31, 2020, 2019 and 2018, respectively. Income from this program was $1,490, $1,350 and $1,164 for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in other income in the accompanying Consolidated Statements of Comprehensive Income.

<u>Relationships with Unincorporated Business Entities</u>

The association and the bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $11,384, $12,631 and $11,624 at December 31, 2020, 2019 and 2018, respectively. The association recorded losses from this investment in 2020, 2019 and 2018 of ($2,367), ($1,435) and ($2,551), respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table reflects the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2020			2019			2018	
		Amount	**%**		Amount	%		Amount	%
Loans:									
Nonaccrual loans	**$**	**48,138**	**83.4%**	$	61,535	79.8%	$	48,007	79.3%
90 days past due and still accruing interest		**212**	**0.4%**		3,840	5.0%		37	0.1%
Formally restructured loans		**8,792**	**15.2%**		10,861	14.1%		11,487	19.0%
Other property owned, net		**601**	**1.0%**		859	1.1%		972	1.6%
Total	**$**	**57,743**	**100.0%**	$	77,095	100.0%	$	60,503	100.0%

At December 31, 2020, 2019 and 2018, loans that were considered impaired were $57,142, $76,236 and $59,531, representing 0.7 percent, 1.0 percent and 0.8 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Nonaccrual loans decreased $13,397 during 2020. This decrease was recognized primarily in the production and intermediate-term, real estate mortgage and farm-related business sectors. Formally restructured loans decreased $2,069 during 2020. The decrease was primarily in the energy sector. In addition, the association saw a decrease in loans 90 days past due and still accruing interest of $3,628 during 2020 primarily in the real estate mortgage sector.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity. To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender.

Allowance for Credit Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

	2020		2019		2018	
Allowance for loan losses	**$**	**31,592**	$	30,798	$	25,495
Allowance for loan losses to total loans		**0.4%**		0.4%		0.3%
Allowance for loan losses to nonaccrual loans		**65.6%**		50.0%		53.1%
Allowance for loan losses to impaired loans		**55.3%**		40.4%		42.8%
Net charge-offs (recoveries) to average loans		**0.0%**		0.0%		0.0%

The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as impaired for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for credit losses of $3,165, $1,506 and $2,627 were specifically related to impaired loans totaling $57,141, $76,236 and $59,531 at December 31, 2020, 2019 and 2018, respectively. These specific allowances represent 5.5 percent, 2.0 percent and 4.4 percent of the impaired loans at December 31, 2020, 2019 and 2018, respectively. The association experienced loan charge-offs of $2,137, $4,709 and $2,295 in 2020, 2019 and 2018, respectively, representing 2.8 percent, 7.9 percent and 2.9 percent of the previous year-end balance of impaired loans. Charge-offs in 2020 were primarily in the production and intermediate-term portfolio as a result of weak commodity prices. Most of the loan charge-offs in 2019 were primarily in the production and intermediate portfolio in the crop and livestock commodities. In addition, the association recovered loans previously charged off in the amounts of $2,262, $2,145 and $1,434 in 2020, 2019 and 2018, respectively.

The association monitors its general allowance to recognize the trend in the quality of the portfolio. The association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. Total allowances on loans not considered impaired were $28,427, $29,292 and $22,868 at December 31, 2020, 2019 and 2018, respectively. The allowance for credit losses at December 31, 2020, is considered adequate by management to recognize any inherent losses in the loan portfolio at such dates.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet.

Results of Operations:

The association's net income for the year ended December 31, 2020, was $220,258 as compared with $181,005 for the year ended December 31, 2019, reflecting an increase of $39,253 or 21.7 percent. The association's net income for the year ended December 31, 2018, was $189,851. Net income decreased $8,846, or 4.7 percent, in 2019 as compared with 2018.

Net interest income for 2020, 2019 and 2018 was $247,641, $235,013 and $234,723, respectively. This reflects increases of $12,628 or 5.4 percent, for 2020 versus 2019 and $290, or 0.1 percent, for 2019 versus 2018. Net interest income is the principal source of earnings for the association and is impacted by loan volume, yields on loans and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2020		2019		2018	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Interest-earning assets	**$ 8,105,137**	**$ 416,431**	$ 7,526,800	$ 427,788	$ 7,294,496	$ 402,332
Interest-bearing liabilities	**6,920,767**	**168,790**	6,416,822	192,775	6,223,384	167,609
Impact of capital	**$ 1,184,370**		$ 1,109,978		$ 1,071,112	
Net interest income		**$ 247,641**		$ 235,013		$ 234,723

	2020	2019	2018
	Average Yield	Average Yield	Average Yield
Yield on interest-earning assets	**5.14%**	5.68%	5.52%
Cost of interest-bearing liabilities	**2.44%**	3.00%	2.69%
Net interest spread	**2.70%**	2.68%	2.83%

	2020 vs. 2019			2019 vs. 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ 32,868**	**$ (44,225)**	**$ (11,357)**	$ 12,811	$ 12,645	$ 25,456
Interest expense	**15,140**	**(39,125)**	**(23,985)**	5,210	19,956	25,166
Net interest income	**$ 17,728**	**$ (5,100)**	**$ 12,628**	$ 7,601	$ (7,311)	$ 290

While most of the improvement in net interest income for the last three years is due to the increase in loan volume, the association has also benefited from higher levels of capital. This reduced the amount of debt borrowed in relation to loan volume.

Interest income for 2020 decreased by $11,357, or 2.7 percent, compared with 2019, due to a decrease in interest rates. Interest expense for 2020 decreased by $23,985, or 12.4 percent, compared with 2019 primarily due to lower rates. The interest rate spread increased slightly by 2 basis points to 2.70 percent in 2020 from 2.68 percent in 2019, primarily because of customers seeking interest rate conversions as a result of a lower interest rate environment, which lead to a decrease in the association's cost of funds. For several years prior to 2018, the bank charged an interest spread of 0.52 above their cost of funds on all loans. Effective January 1, 2018, the bank increased their spread above cost of funds to 0.75 percent on any new loan, or any existing loan that was repriced. Due to this increase in cost of funds, the association's interest rate spread decreased 15 basis points from 2.83 in 2018 to 2.68 in 2019.

Noninterest income for 2020 increased by $16,174, or 29.3 percent, compared with 2019, due to an increase in patronage refund received from the bank and an increase in loan fees, slightly offset by decreases in gains on sale of premises and equipment and gains on other property owned. The bank paid a 55-basis-point cash patronage on the association's average direct note borrowings in 2020 compared with a 47-basis- point patronage in 2019. With the aforementioned increase in cost of funds from the bank on all new loans and existing loans that repriced in 2018 through 2020, the FCBT paid an additional patronage refund to the association to effectively make up for the increased cost of funds. Loan fees increased by $7,306, or 150.4 percent in 2020, driven by conversion fees in 2020 as interest rates declined. Noninterest income for 2019 increased by $4,864 or 9.7 percent, compared with 2018, due primarily to an increase in patronage refund received from the bank. The bank paid a 47-basis-point cash patronage on the association's average direct note borrowings in 2019 compared with 43-basis-point patronage in 2018. Loan fees increased in 2019 by $1,448 or 42.5 percent, driven by conversion fees in the second half of 2019 as interest rates declined.

Provision for credit losses decreased by $7,519 to $582 in 2020, compared with an increase of $11,570 in 2019. The decrease was a result of improved collateral values and improved credit quality during 2020. The association was able to collect on loans classified as nonaccrual from the prior year. In addition, the credit quality improved during the year as a result of increasing net farm income facilitated by government support. The increase in 2019 was a result of weak commodity prices in 2019. In 2018, there was a reversal of provision of $3,469 that was a result of the improvement in credit quality and continued improvement in the general economy.

Non-interest expenses decreased $2,927 for 2020, or 2.9 percent, compared with 2019. Non-interest expenses primarily decreased as a result of COVID-19, with the largest decrease in travel of $1,565 or 36.1 percent in 2020 compared with 2019. Other decreases in public and member relations of $804 or 24.3 percent, training of $406 or 42.9 percent and other expenses of $543 or 30.5 percent, was slightly offset by increases in salaries and employee benefits of $355 or 0.5 percent and FCSIC premiums of $789 or 14.5 percent in 2020. The increase in non-interest expenses in 2019 was a result of increases in occupancy and equipment, advertising, public and member relations, travel, purchased services and other expenses. Operating expenses increased by $2,415 for 2018, or 2.5 percent, compared with 2017. Salaries and employee benefits increased $5,731 in 2018 due to new hires, salary adjustments made to existing employees and higher benefit costs. This increase was offset by a decrease in insurance fund premiums of $3,217 that was a result of a decrease in premium rates in 2018.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $15,141, $9,318 and $8,314 for 2020, 2019 and 2018, respectively, in origination fees. The capitalized costs consisted of salaries and benefits totaling $14,774, $7,428 and $8,301 for 2020, 2019 and 2018, respectively, related to the origination of loans. The capitalized fees, net of the capitalized costs, are amortized over the life of the loans as an adjustment to yield in net interest income. The adjustment to net interest income as a result of this amortization was $1,219, $1,223 and $859 for 2020, 2019 and 2018, respectively.

For the year ended December 31, 2020, the association's return on average assets was 2.6 percent, as compared with 2.3 percent and 2.5 percent for the years ended December 31, 2019 and 2018 respectively. For the year ended December 31, 2020, the association's return on average members' equity was 16.7 percent, as compared with 14.4 percent and 15.8 percent for the years ended December 31, 2019 and 2018, respectively.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank could have a similar effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. All of the association's loans are match-funded with debt with similar terms by the bank.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $7,374,054, $6,604,398 and $6,223,546 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.98 percent, 2.73 percent and 2.81 percent at December 31, 2020, 2019 and 2018, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. This increase in note payable to the bank and related accrued interest payable since December 31, 2019, is due to an increase in the association's loan portfolio. The association's average own funds, which represent the amount of the association's loan portfolio funded by the association's equity were $1,303,861, $1,223,893 and $1,172,272 for the years 2020, 2019 and 2018, respectively. The maximum amount the association may borrow from the bank as of December 31, 2020, was $8,533,676 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice. The association anticipates the general financing agreement to be renewed by the bank, without any significant adjustments, prior to its expiration.

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 2021. As borrower payments are received, they are applied to the association's note payable to the bank.

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and member stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

Capital Resources:

The association's capital position remains strong with total members' equity of $1,351,557, $1,284,158 and $1,232,238 at December 31, 2020, 2019 and 2018, respectively. 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 permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2020, 2019 and 2018 was 14.1 percent, 14.7 percent and 14.8 percent, respectively.

Under the regulations, the association is required to maintain minimum Common Equity Tier 1 (CET1), Tier 1 Capital, and Total Capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The CET1 Capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The Tier 1 Capital ratio is a measure of the institution's quality of capital and financial strength. The Total Capital ratio is supplementary to the Tier 1 Capital ratio, the components of which include qualifying CCEs subject to certain holding periods, and allowance for credit losses subject to certain limitations. The Tier 1 Leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be unallocated retained earnings (URE) and URE equivalents. This is the UREE Leverage ratio. The association's Common Equity Tier 1 ratio in 2020, 2019 and 2018 was 14.0 percent, 14.6 percent and 14.3 percent respectively, and Tier 1 Capital ratio was 14.0 percent, 14.6 percent and 14.3 percent, respectively. The Total Capital ratio was 14.4 percent, 15.0 percent and 15.1 percent at December 31, 2020, 2019 and 2018, respectively. Under the regulations, the association is required to maintain a minimum Tier 1 Leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum unallocated retained earnings equivalent (UREE) leverage ratio of 1.5 percent. The association's Tier 1 Leverage ratio at December 31, 2020, 2019 and 2018 was 14.7 percent, 15.2 percent and 14.8 percent, respectively, and UREE Leverage ratio was 8.4 percent, 8.9 percent and 9.5 percent, respectively.

The association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $98,280, $88,550 and $87,543 in 2020, 2019 and 2018, respectively. The board of directors also issued $117,585, $87,987 and $96,787 in nonqualified written notices of allocation in 2020, 2019 and 2018, respectively. In addition, the association retired $55,000, $38,206 and $50,000 of previously allocated nonqualified written notices of allocation in November 2020, 2019 and 2018, respectively. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

The association utilizes income pools to determine and allocate the patronage refunds for its customers. Each patronage-eligible customer's loan(s) is assigned to a respective pool based upon common characteristics to service and account for such loans. For 2020, 2019 and 2018, the association utilized a participations purchased pool, a participations sold pool and a general loan pool. The participations purchased pool includes all patronage-eligible loans that are purchased from other farm credit entities. The sold loan pool includes any portion of a loan that the association originates but sells to another entity. The general pool includes all other patronage eligible loans not included in the other pools. Net income is calculated for each pool by including all the net interest income and other income from the loans in the pool and a reasonable allocation of association expenses for each pool. The allocation of expenses is based upon the costs to service and account for the loans in the pool. Net income for each pool is determined by subtracting the allocation of expenses from the income of the loans in the pool. Any net income from the pool is eligible for distribution only to the customers with loans in that pool. If a pool does not generate net income, there are no earnings available for distribution to those customers with loans in that pool. All pools generated earnings available for distribution in 2020, 2019 and 2018, respectively.

Forward-Looking Information:

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond the association's control. The association is impacted by factors that would impact any agricultural real estate lender. These risks and uncertainties include but are not limited to:

- Political, legal, regulatory and economic conditions and developments in the United States and abroad;
- Economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- Weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- Actions taken by the Federal Reserve System in implementing monetary policy.

Commodity Review and Economic Outlook:

Capital Farm Credit's territory covers most of Texas except for the northeast quadrant and seven counties in the Panhandle. The association's territory includes a variety of agriculture commodities, diversified land types, many production seasons, and different farming and ranching practices. This diversity benefits the association's loan portfolio with a wide range of commodities that present different risks and opportunities for its members. Most of the production and farm revenue is generated by farmers and ranchers who manage full-time operations, as well as large agribusinesses. There are also many part-time farming and ranching operations. Most part-time operators' revenue is from nonagricultural sources and many of these operators invest heavily in their agriculture operations with their time and money. This further diversifies the association's credit risks across the portfolio.

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the coronavirus disease 2019 (also referred to as COVID-19). The association continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased significantly during 2020 as a result of the association's members taking advantage of the low interest rate environment. The association was able to access the preferred equities capital markets to issue preferred stock in January 2021 to capitalize this growth and additional expected future growth, which is discussed in Note 18. There are no significant changes to funding strategies as the association will continue to fund its loan advances through its General Financing Agreement with the bank. The association is closely monitoring its loan portfolio and has adjusted its portfolio monitoring and servicing practices. The credit quality of the association's loan portfolio improved during the year and remains strong. As of December 31, 2020, the association has recorded a qualitative general reserve of approximately $5,234 for loans who sought payment deferrals from uncertainty relating to the COVID-19 pandemic. Capital levels remain strong to support any adversity or continuing loan demand. Operationally, the association continues to function without interruptions during these challenging times, although many employees are working from home. The association's internal controls over financial reporting and disclosure controls and procedures continue to operate effectively, with no material changes to the controls or financial systems occurring or contemplated.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP) that provides a $16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices, the disruption in food supply chains related to COVID-19, and a $3 billion food purchase and distribution program. The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. The USDA also announced on September 18, 2020 that it will provide additional direct assistance of up to $14.0 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, had the opportunity to apply for that assistance through mid-December 2020.

On December 27, 2020, the president of the United States signed the Consolidated Appropriations Act, 2021 (CAA) into law. According to Congressional Budget Office estimates, the CAA allocates approximately $868 billion to stimulus and relief programs related to COVID-19, including direct payments to households, continuation of the PPP lending program and an extension of increased federal unemployment benefits. The Congressional Budget Office estimates that the bill provides approximately $12.7 billion in support payments to producers of commodity crops, specialty crops, dairy, livestock, poultry, renewable fuels and timber. Additionally, the CAA authorizes funds to purchase agricultural products for distribution and provides supplemental funding for existing farm support programs. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

The association continues to operate with several employees working remotely in the COVID-19 pandemic environment. The association has a limited number of employees at certain locations and administrative offices. The association's Pandemic Response Team (PRT), which is responsible for ensuring the safety of our employees and our members, continues to meet weekly to discuss guidelines for employees based on local/state/federal recommendations. The PRT sends frequent communications to all employees regarding expectations for employees who may be working at an office location. The association continues to serve its members without much interruption.

The association successfully implemented a payment deferral program for its customers affected by COVID-19, beginning April 1, 2020. This program was not focused on any specific commodity but offered to all members who had not been delinquent more than 30 days at any time in the previous 12 months. During the year,762 loans totaling $526,359 in volume applied for and received payment deferral under the program. In the fourth quarter of 2020, a significant number of borrowers resumed normal payments. The association also became a certified Small Business Administration (SBA) lender, implementing the Payroll Protection Program of the CARES Act, offering loans to existing customers with 100 percent guarantees by the SBA under certain parameters. During 2020, the association made 99 loans for $6,194 under the PPP, of which $3,844 of the PPP loans have been forgiven as of December 31, 2020.

The potential impact of COVID-19 on the global, U.S. and state economies presents a high degree of uncertainty as conditions continue to unfold. To date, the COVID-19 pandemic has not resulted in a material adverse financial impact to the association. After steady growth in 2019 and early 2020, the Texas economy declined significantly in the second quarter of 2020 in the wake of COVID-19. Agricultural, as well as oil and gas commodity prices, plummeted in the second quarter, but most have returned to better than pre-pandemic levels by the end of December 2020. State unemployment jumped to 13.5 percent in April 2020 but has subsequently declined to 7.2 percent in December 2020. Texas job growth is forecast to increase back to pre-pandemic levels by the end of 2021. This growth will be largely impacted by the rollout of the COVID-19 vaccines as well as the recent resurgence in the number of COVID cases. Perhaps influenced by significant population growth and low interest rates, Texas rural land values have risen steadily over the last several years. For 2020, ranch land values across the state increased 10 percent over values at the end of 2019. Likewise, farmland, both dryland, and irrigated cropland values increased approximately 4 percent over the preceding year’s values. The association expects land value increases to continue. The association benefits in multiple ways including strong and stable collateral values as well as opportunities for new loan business and loan growth.

The association is in the process of evaluating the potential impact of the historically low temperatures observed across the central U.S. in February 2021. While the assessment of the full effect on the association’s borrowers is ongoing, this most recent weather event is not expected to have a significant adverse impact on the association’s overall financial condition and results of operations.

Borrowers of the association utilize risk management tools such as federally sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins. The association’s loan portfolio continues to exhibit strong credit quality, supported by high levels of capital, and diversification. The following is a review and outlook of some of the key commodities served by the association, and a summary of industries and economic factors that impact our part-time producers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2020.

<u>Livestock (49.6 percent of the loan portfolio)</u> –The beef industry was hurt by severe disruptions in the food service industry, but overall beef demand remained strong in 2020. Beef exports to Mexico were significantly reduced because of the recession brought on by COVID-19, but beef exports to China and other parts of Asia did increase during 2020. Uncertainty continues to persist into 2021, but the availability of a COVID-19 vaccine brings cautious optimism that cattle prices may edge higher in 2021. Dry weather continues to pose a risk, as some producers may face herd liquidation if drought conditions persist in some parts of the state.

<u>Crops (18.3 percent of the loan portfolio)</u> – Crop producers were helped significantly in 2020 by direct government farm payments in an otherwise challenging year. As we approach 2021, hopeful signs indicate that farmers’ financial performance may improve. Most commodity prices for crops have bounced back from COVID-19 lows to levels higher than the pre-pandemic era. Input prices, significantly influenced by interest costs, are forecast to be lower in 2021, resulting in positive cash flow projections for most producers even before government assistance. However, all of this will be influenced by weather conditions as farmers will continue to be reliant upon timely rains.

<u>Hunting and recreation (11.2 percent of the loan portfolio)</u> – While the adverse conditions in the oil and gas economy would tend to affect this part of the portfolio in an adverse manner, the overall increase in land values during 2020 limited any negative impact. The overall state economy, with particular influence from the oil and gas, manufacturing, and the service sectors, will have the most impact on this portfolio. With job growth anticipated to return to better than pre-pandemic levels by the end of 2021, and the continued positive trend in land values, expectations are positive for this portfolio to continue to grow and quality to be stable.

<u>Dairy (5.0 percent of the loan portfolio)</u> – Dairy producers experienced much volatility during 2020 as milk prices ranged from lows below $12 per hundred weight to highs of over $24. With a sharp drop from around $23 in early December 2020, prices stabilized for the last month around $16 per hundred weight. Milk production is forecast to increase in 2021 but input costs are also forecast to be high with the sharp increase in feed costs. A continued increase in demand will be required to create long-term stability and potentially improved prices for the producers.

Timber (3.6 percent of the loan portfolio) – The timber industry was significantly influenced by a strong demand for lumber during 2020. Low interest rates significantly increased home sales and new home starts, which increased lumber prices and created shortages in the industry. Demand in 2021 is expected to increase as the global economy emerges from the coronavirus environment.

Other (12.3 percent of the loan portfolio) – The outlook for the overall economy for 2021 will continue to be dependent on how the pandemic plays out and the ability to roll out vaccines across the population. The accommodative policy of the Federal Reserve, along with direct government stimulus, has stabilized the economy over the last half of 2020, but continued improvement will be more dependent on a permanent decline in the number of COVID-19 cases. Low interest rates and population growth in the state should continue to drive demand for Texas rural real estate. If agricultural producers can experience better weather conditions, the agricultural economy should show improvement with the improvement in commodity prices. The association expects this to continue to have a positive influence on loan demand and the repayment capacity for part-time farmers and ranchers.

Regulatory Matters:

At December 31, 2020, the association was not under any written agreements with the Farm Credit Administration.

On February 13, 2020, the Farm Credit Administration board approved a final rule to modify eligibility criteria that outside directors must meet to serve on the boards of System institutions. The final rule strengthens the independence of System institution boards by expanding the list of persons who are excluded from serving as outside directors. It finalizes a proposed rule that was published in the Federal Register on August 24, 2018. The final rule differs from the proposed rule in the following respects:

- Limits the application of the immediate family member criteria to only the outside director's institution, that institution's Funding Bank, or any affiliated organization in which that institution has an ownership interest;
- Changes the term “borrower” by inserting the word “current” in the definition to clarify that the eligibility criteria do not include former borrowers; and
- Changes the definition of “controlling interest” to increase the equity percentage from 5 percent to 10 percent.

On March 17, 2020, the Farm Credit Administration published a news release encouraging Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

On March 27, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions about their role in ensuring critical infrastructure services and functions during the COVID-19 pandemic.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provided relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities, including the association, have adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020, and terminated on December 31, 2020.

On April 3, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic. This memorandum was superseded and replaced by an information memorandum on the same subject which the FCA posted on April 7, 2020, together with the FCA’s brief supplement explaining that the statutory borrower stock requirement does not apply to loans made under the Paycheck Protection Program. The April 7, 2020, informational memorandum was subsequently superseded and replaced by an updated informational memorandum which the FCA posted on June 18, 2020, and again superseded and replaced by an updated informational memorandum which the FCA posted on July 15, 2020. The supplement to the informational memorandum was also updated.

On June 25, 2020, the FCA, together with four other federal agencies, published a final rule finalizing changes to their swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities. On July 1, 2020, a final rule and interim final rule on margin and capital requirements for covered swap entities were published in the Federal Register. The final rule became effective on August 31, 2020. The interim final rule became effective September 1, 2020.

On August 25, 2020, the FCA published a Final Rule in the Federal Register on Criteria to Reinstate Nonaccrual Loans. The final rule objectives are to:

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of ''reasonable doubt'' used for reinstating loans to accrual status with a measurable standard;
- Improve the timely recognition of a change in a loan's status; and
- Update existing terminology and make other grammatical changes.

This regulation became effective on October 21, 2020.

On September 10, 2020, the FCA published a proposed rule in the Federal Register outlining amendments and clarifications to the tier 1/tier 2 regulatory capital framework. The comment period ended on November 9, 2020.

On September 28, 2020, the FCA published a final rule in the Federal Register on Amortization Limits repealing the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring System associations to address amortization through their credit underwriting standards and internal controls. This regulation became effective on November 19, 2020.

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR, in which they emphasized that the Intercontinental Benchmark Administration's (IBA) proposal is not intended to slow down the transition and that Farm Credit System institutions should continue reducing LIBOR exposures as soon as practicable. System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

- Reduce LIBOR exposure;
- Stop the inflow of new LIBOR volume;
- Develop and implement loan products with alternative reference rates;
- Assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts;
- Adjust operations processes, including accounting and management information systems to handle alternative reference rates; and
- Communicate pending or imminent changes to customers, as appropriate.

Significant Recent Accounting Pronouncements and Critical Accounting Policies:

Refer to Note 2, "Summary of Significant Accounting Policies," in this annual report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship with the Bank:

The association's statutory obligation to borrow only from the bank is discussed in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report. The bank's ability to access additional capital from the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank." The bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of this Management's Discussion and Analysis and in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, the association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize. Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the bank passed through to the associations.

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Report of Independent Auditors

To the Board of Directors of Capital Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Capital Farm Credit, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020, December 31, 2019, and December 31, 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Farm Credit, ACA and its subsidiaries as of December 31, 2020, December 31, 2019, and December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2021

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 78703
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CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31, 2020	December 31, 2019	December 31, 2018
ASSETS			
Cash	**$ 2**	$ 2	$ 10
Loans	**8,684,131**	7,822,838	7,393,006
Less: Allowance for losses	**(31,592)**	(30,798)	(25,495)
Net Loans	**8,652,539**	7,792,040	7,367,511
Accrued interest receivable - loans	**61,956**	71,378	68,824
Accrued interest receivable - investments	**34**	51	63
Investment -- held-to-maturity	**2,582**	3,418	4,388
Investment in and receivable from the Bank:			
Capital stock	**142,764**	135,011	125,803
Receivable	**18,615**	19,474	21,485
Investment in Rural Business Investment Company	**11,384**	12,631	11,624
Investments in other Farm Credit Institutions	**11,270**	9,858	9,398
Other property owned, net	**601**	859	972
Premises and equipment, net	**14,995**	15,403	15,365
Right of use asset - leases	**10,137**	10,671	-
Other assets	**16,761**	15,182	14,013
Total assets	**$ 8,943,640**	$ 8,085,978	$ 7,639,456
LIABILITIES			
Note payable to the Bank	**$ 7,374,054**	$ 6,604,398	$ 6,223,546
Advanced conditional payments	**14,564**	6,502	10,067
Accrued interest payable	**13,141**	16,157	15,500
Lease liabilities	**10,320**	10,814	-
Drafts outstanding	**335**	2,110	1,256
Patronage distributions payable	**98,285**	88,555	87,548
Unfunded post retirement medical obligation	**27,472**	26,300	22,991
Reserve for unfunded commitments	**578**	665	431
Other liabilities	**53,334**	46,319	45,879
Total liabilities	**7,592,083**	6,801,820	6,407,218
MEMBERS' EQUITY			
Capital stock and participation certificates	**27,043**	25,980	25,804
Non-qualified allocated retained earnings	**737,454**	674,877	624,839
Unallocated retained earnings	**590,617**	586,224	581,674
Accumulated other comprehensive loss	**(3,557)**	(2,923)	(79)
Total members' equity	**1,351,557**	1,284,158	1,232,238
Total liabilities and members' equity	**$ 8,943,640**	$ 8,085,978	$ 7,639,456

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,		
	2020	2019	2018
Interest Income			
Loans	**$ 416,279**	$ 427,560	$ 402,046
Investments	**152**	228	286
Total interest income	**416,431**	427,788	402,332
Interest Expense			
Note Payable to the Bank	**168,774**	192,689	167,528
Advance conditional payments	**16**	86	81
Total interest expense	**168,790**	192,775	167,609
Net interest income	**247,641**	235,013	234,723
Provision for Loan Losses			
Provision (reversal) for credit losses	**582**	8,101	(3,469)
Net interest income after provision for losses	**247,059**	226,912	238,192
Noninterest Income			
Patronage income from the Bank	**48,940**	40,403	35,041
Loan fees	**12,165**	4,859	3,411
Financially related services income	**3,755**	3,258	5,045
Gain on sale of premises and equipment, net	**413**	1,408	537
Gain on other property owned, net	**118**	504	834
Other noninterest income	**5,980**	4,765	5,465
Total noninterest income	**71,371**	55,197	50,333
Noninterest Expense			
Salaries and employee benefits	**66,538**	66,183	67,198
Insurance Fund premium	**6,214**	5,425	5,253
Occupancy and equipment	**5,355**	5,121	4,803
Advertising	**3,950**	4,236	3,940
Travel	**2,765**	4,330	3,775
Purchased services	**2,591**	3,126	2,546
Public and member relations	**2,505**	3,309	3,187
Supervisory and exam expense	**1,975**	1,997	1,873
Data processing	**1,592**	1,588	1,305
Communications	**1,029**	1,023	1,004
Business insurance expense	**1,016**	1,044	912
Director's expense	**862**	988	901
Training	**541**	947	1,058
Other noninterest expenses	**1,239**	1,782	920
Total noninterest expenses	**98,172**	101,099	98,675
Income before income tax	**220,258**	181,010	189,850
Provision for (benefit from) income tax	**-**	5	(1)
Net income	**$ 220,258**	$ 181,005	$ 189,851
Other comprehensive (loss) gain:			
Change in postretirement benefit plans	**(634)**	(2,844)	3,615
Income tax expense related items of other comprehensive income	**-**	-	-
Other comprehensive (loss) gain, net of tax	**(634)**	(2,844)	3,615
COMPREHENSIVE INCOME	**$ 219,624**	$ 178,161	$ 193,466

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Non qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$ 25,519	$ 578,054	$ 576,158	$ (3,694)	$ 1,176,037
Comprehensive income:					
Net income	-	-	189,851	-	189,851
Other comprehensive gain	-	-	-	3,615	3,615
Capital stock/participation certificates issued	3,685	-	-	-	3,685
Capital stock/participation certificates/ allocated equities retired	(3,400)	(50,000)	-	-	(53,400)
Patronage distributions declared:					
Cash	-	-	(87,543)	-	(87,543)
Other adjustments	-	(2)	(5)	-	(7)
Nonqualified allocations	-	96,787	(96,787)	-	-
Balance at December 31, 2018	25,804	624,839	581,674	(79)	1,232,238
Net income	-	-	181,005	-	181,005
Other comprehensive (loss)	-	-	-	(2,844)	(2,844)
Capital stock/participation certificates issued	3,756	-	-	-	3,756
Capital stock/participation certificates/ allocated equities retired	(3,580)	(38,206)	-	-	(41,786)
Patronage distributions declared:					
Cash	-	-	(88,550)	-	(88,550)
Other adjustments	-	257	82	-	339
Nonqualified allocations	-	87,987	(87,987)	-	-
Balance at December 31, 2019	25,980	674,877	586,224	(2,923)	1,284,158
Net income	-	-	220,258	-	220,258
Other comprehensive (loss)	-	-	-	(634)	(634)
Capital stock/participation certificates issued	5,728	-	-	-	5,728
Capital stock/participation certificates/ allocated equities retired	(4,665)	(55,000)	-	-	(59,665)
Patronage distributions declared:					
Cash	-	-	(98,280)	-	(98,280)
Other adjustments	-	(8)	-	-	(8)
Nonqualifed allocations	-	117,585	(117,585)	-	-
Balance at December 31, 2020	**$ 27,043**	**$ 737,454**	**$ 590,617**	**$ (3,557)**	**$ 1,351,557**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 220,258**	$ 181,005	$ 189,851
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (reversal of) loan losses	**582**	8,101	(3,469)
Provision on other property owned	**221**	16	2
(Gain) on other property owned	**(251)**	(95)	(1,029)
Revenue recognized on prior year other property owned sales	**-**	-	77
Depreciation and amortization	**2,146**	4,201	3,054
Amortization of Right of Use Asset	**534**	1,312	-
(Gain) on sale of premises and equipment, net	**(391)**	(1,408)	(537)
Loss on investment in RBIC	**2,367**	1,435	2,551
Decrease/(increase) in accrued interest receivable	**9,439**	(2,542)	(4,437)
(Increase)/decrease in other assets	**(720)**	842	(8,021)
Accretion of the discounted lease liabilty	**(494)**	(1,169)	-
(Decrease)/increase in accrued interest payable	**(3,016)**	657	3,187
Increase in other liabilities	**7,553**	905	3,576
Net cash provided by operating activities	**$ 238,228**	$ 193,260	$ 184,805
Cash flows from investing activities:			
(Increase) in loans, net	**$ (863,950)**	$ (435,845)	$ (150,255)
Cash recoveries of loans previously charged off	**2,262**	2,145	1,434
Purchases of investment in AgDirect, LLP	**(1,412)**	(460)	(685)
Purchases of investment in RBIC	**(1,120)**	(2,442)	(2,602)
Purchase of investment in the Bank	**(7,753)**	(9,208)	(7,051)
Decrease in investments held to maturity	**836**	970	1,178
Purchases of premises and equipment	**(4,000)**	(4,631)	(5,467)
Proceeds from sales of premises and equipment	**1,801**	2,468	994
Proceeds from sales of other property owned	**1,660**	828	5,084
Net cash used in investing activities	**$ (871,676)**	$ (446,175)	$ (157,370)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net increase in note payable to the Bank	**$ 769,656**	$ 380,852	$ 95,631
(Decrease)/increase in drafts outstanding	**(1,775)**	854	728
Increase/(decrease) increase in advance conditional payments	**8,062**	(3,565)	3,429
Issuance of capital stock and participation certificates	**5,728**	3,756	3,685
Retirement of capital stock, participation certificates and allocated equities	**(59,665)**	(41,786)	(53,407)
Patronage distributions paid	**(88,558)**	(87,204)	(77,506)
Net cash provided by (used in) financing activities	**$ 633,448**	$ 252,907	$ (27,440)
Net (decrease) in cash	**-**	(8)	(5)
Cash at the beginning of the year	**2**	10	15
Cash at the end of the year	**$ 2**	$ 2	$ 10
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan foreclosure	**$ 1,372**	$ 636	$ 1,117
Net loans charged off	**2,137**	4,709	2,295
Patronage distributions declared	**98,280**	88,550	87,543
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 171,806**	$ 192,118	$ 164,422
Income taxes	**-**	-	-

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

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively called 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 in 192 counties in the state of Texas.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2020, the System was composed of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the "district." The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2020, the district consisted of the bank, one FLCA and 13 ACA parent companies (including Capital Farm Credit, ACA), which have two wholly owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund, based on its annual average adjusted outstanding insured debt, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank. The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas's Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements"), and the accounting and reporting policies of the association have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry. In consolidation, all significant intercompany accounts and transactions are eliminated and all material wholly owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the determination of fair value of financial instruments and subsequent impairment analysis. Significant estimates are discussed in these footnotes, as applicable.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation.

A. Recently Issued or Adopted Accounting Pronouncements:

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021, will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the association's financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The association early adopted the removal and modified disclosures during the fourth quarter of 2019. The adoption of this guidance did not impact the association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The association qualifies for the delay in the adoption date. The association continues to evaluate the impact of adoption on the association's financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

B. Cash: Cash, as included in the balance sheet and statement of cash flows, represents cash on hand and on deposit at banks.

C. Investments: The association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

The association holds additional investments in accordance with mission-related investment and other investment programs approved by the FCA. These programs allow the association to make investments that further the System's mission to serve rural America. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

In accordance with the Farm Credit Administration regulations, the association, with the approval of its bank, may purchase and hold investments to manage risks. The association must identify and evaluate how the investments that it purchases contributes to management of its risks. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States government or its agencies are investments that the association may acquire. The total amount of investments allowed must not exceed 10 percent of the association's total outstanding loans.

The association may also hold additional investments in accordance with other investment programs approved by the Farm Credit Administration. These programs allow the association to make investments that further the System's mission to serve rural America. These other investments are not included in the investment limitation specified by the Farm Credit Administration regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments. Other investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. Loans and Allowance for Credit Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

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. Additionally, all loans over 180 days past due are placed in nonaccrual status. 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 credit losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor’s financial difficulties the association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the association’s economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

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, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management’s estimate as to the anticipated principal loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a “9” to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain, or that default has occurred.

The credit risk-rating methodology is a key component of the association’s allowance for credit losses evaluation and is incorporated into its loan underwriting standards and internal lending limit. The allowance for credit losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The association calculates its allowance in two parts, specific allowances and general allowance. The association evaluates all loans classified as impaired for a specific allowance. Generally, for loans individually evaluated the allowance for credit losses represents the difference between the loan balance and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for credit losses is determined using factors related to its risk rating, and its commodity type.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred to as the "allowance for credit losses."

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the association, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the association does not maintain effective control over the transferred assets.

The association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

E. Capital Stock Investment in the Bank: The association's investment in the bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted annually. The bank requires a minimum stock investment of 2 percent of the association's average borrowing from the bank. This investment is carried at cost plus allocated equities from the bank in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the bank to a maximum of 5 percent of the average outstanding balance of borrowings from the bank.

F. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for credit losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost and not depreciated. Depreciation is provided on the straight-line method using estimated useful lives of each asset. Estimate useful lives are as follows: Buildings are 40 years, leasehold improvements are 15 years, furniture and equipment are 10 years, computer equipment and software are 3 years and automobiles are 5 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

H. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheets. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

I. Employee Benefit Plans: Employees of the association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

The structure of the District's DB plan is characterized as multiemployer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of $1,834, $2,346 and $2,920 for the years ended December 31, 2020, 2019 and 2018, respectively.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2020, made on their behalf into various investment alternatives. The association recognized costs for the DC plan of $2,662, $2,457 and $2,267 for the years ended December 31, 2020, 2019 and 2018, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $2,090, $2,006 and $1,904 for the years ended December 31, 2020, 2019 and 2018, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plan discussed above, the association also sponsors a defined contribution nonqualified supplemental 401(k) plan. The purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. The associated liabilities are included in the association's consolidated balance sheet in other liabilities. The total expenses of the nonqualified plan included in the association's employee benefit costs were $864, $694 and $625 for the years ended December 31, 2020, 2019 and 2018, respectively.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheets. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

J. Income Taxes: The ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through the wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or qualified allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the bank prior to January 1, 1993, the adoption date of FASB guidance on "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

The association has not provided deferred income taxes on amounts allocated to the association which relate to the bank's post-1992 earnings to the extent that such earnings will be passed through to association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the bank's post-1992 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the association level.

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.

L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds which relate to deferred compensation and the association's supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2. The association does not have any assets that fall within this level.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, and certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are disclosed in Note 15, "Fair Value Measurements."

M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investments consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	**$ 2,582**	**$ 66**	**$ -**	**$ 2,648**	**4.70%**	**$ 3.15**

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 3,418	$ 45	$ -	$ 3,463	5.57%	$ 2.82

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 4,388	$ 6	$ -	$ 4,394	5.74%	$ 2.82

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans as of December 31 follows:

	2020		2019		2018	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Production agriculture:						
Real estate mortgage	**$ 6,739,225**	**77.5%**	$ 5,970,318	76.4%	$ 5,642,145	76.4%
Production intermediate term	**954,191**	**11.0%**	938,685	12.0%	919,784	12.4%
Farm-related business	**705,645**	**8.1%**	659,056	8.4%	594,483	8.0%
Rural residential real estate	**110,330**	**1.3%**	101,540	1.3%	102,225	1.4%
Communication	**99,968**	**1.2%**	56,378	0.7%	41,122	0.6%
Energy	**52,007**	**0.6%**	64,481	0.8%	60,626	0.8%
Lease receivables	**15,241**	**0.2%**	16,558	0.2%	17,951	0.2%
Mission-related investments	**6,041**	**0.1%**	6,022	0.1%	6,530	0.1%
Water and waste disposal	**1,483**	**0.0%**	9,800	0.1%	8,140	0.1%
Total	**$ 8,684,131**	**100.0%**	$ 7,822,838	100.0%	$ 7,393,006	100.0%

At December 31, 2020, the association held four transactions, which are reported as loans on the consolidated balance sheet totaling $5,758 and with $0 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing qualified loans in rural areas.

The association has purchased and sold participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. In September 2018, the association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of their capitalized participation pool (CPP). In accordance with this program, the association capitalizes this loan pool with a 6 percent investment in the bank in exchange for the net earnings this pool generates. The CPP program allows the association to manage its capital by controlling the amount of loan volume on the balance sheet. The following table presents information regarding participations purchased and sold as of December 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 173,260	$ 777,640	$ 7,763	$ -	$ 181,023	$ 777,640
Production and intermediate term	281,292	713,932	-	-	281,292	713,932
Farm-related business	525,705	151,924	4,583	-	530,288	151,924
Communication	99,968	-	-	-	99,968	-
Energy	52,007	-	-	-	52,007	-
Mission-related investments	1,951	-	3,806	-	5,757	-
Lease receivables	15,241	-	-	-	15,241	-
Water and waste disposal	1,400	-	-	-	1,400	-
Total	$ 1,150,824	$ 1,643,496	$ 16,152	$ -	$ 1,166,976	$ 1,643,496

Loan Volume by Office

Offices	2020	2019	2018
Capital Markets*	**14.2%**	13.7%	14.3%
Bryan	**3.9%**	3.8%	4.1%
Muleshoe	**3.3%**	3.2%	3.2%
Lubbock	**3.2%**	3.4%	2.8%
Conroe	**3.1%**	3.1%	2.7%
Kerrville	**3.0%**	3.1%	3.4%
San Antonio	**2.9%**	3.0%	3.0%
Austin	**2.8%**	2.9%	2.9%
Burnet	**2.5%**	2.3%	2.0%
Fredericksburg	**2.5%**	2.5%	2.5%
Hondo	**2.5%**	2.4%	2.3%
Rosenberg	**2.2%**	2.1%	1.6%
Mason	**2.2%**	2.3%	2.3%
La Grange	**2.2%**	2.4%	2.4%
Katy	**2.1%**	2.1%	1.7%
Dayton	**2.0%**	1.9%	2.0%
Uvalde	**2.0%**	2.1%	2.3%
Dalhart	**1.9%**	2.1%	1.9%
Temple	**1.9%**	1.7%	1.7%
Hereford	**1.9%**	2.0%	1.8%
San Angelo	**1.8%**	1.5%	1.5%
New Braunfels	**1.8%**	1.5%	1.5%
Edna	**1.8%**	1.9%	2.1%
Robstown	**1.7%**	1.8%	1.8%
Bellville	**1.7%**	1.8%	1.8%
El Campo	**1.7%**	1.7%	1.8%
Waco	**1.5%**	1.7%	1.6%
Jourdanton	**1.5%**	1.5%	1.6%
Bowie	**1.4%**	1.3%	1.2%
San Saba	**1.4%**	1.3%	1.4%
Taylor	**1.4%**	1.4%	1.4%
Kenedy	**1.3%**	1.4%	1.4%
Lockhart	**1.3%**	1.4%	1.4%
Wichita Falls	**1.2%**	1.3%	1.3%
Lamesa	**1.2%**	1.1%	0.9%
Madisonville	**1.1%**	1.2%	1.2%
Laredo	**1.1%**	1.2%	1.2%
Edinburg	**1.1%**	1.2%	1.2%
Stamford	**1.0%**	1.3%	1.5%
Bay City	**1.0%**	1.0%	1.0%
Pampa	**0.9%**	0.9%	1.1%
Abilene	**0.8%**	0.9%	0.9%
Munday	**0.8%**	1.0%	1.1%
Perryton	**0.8%**	1.0%	1.0%
Clifton	**0.8%**	0.6%	0.5%
Spur	**0.6%**	0.6%	0.8%
Snyder	**0.6%**	0.7%	0.6%
Crockett	**0.6%**	0.6%	0.6%
All Other Offices	**3.8%**	3.1%	3.7%
Totals	**100.0%**	**100.0%**	**100.0%**

*Capital Markets loans include loans purchased from other entities and/or outside of the association's territory.

El Paso and Alpine offices were moved to "All Other Offices" in 2020 and 2019, respectively, for prior year presentations.

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized, and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the determination of the allowance for credit losses.

	2020		2019		2018	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 4,306,945**	**49.6%**	$ 3,907,804	49.9%	$ 3,822,558	51.7%
Crops	**1,595,403**	**18.3%**	1,535,384	19.6%	1,498,424	20.3%
Hunting	**970,580**	**11.2%**	795,725	10.2%	712,703	9.6%
Dairy	**433,783**	**5.0%**	351,552	4.5%	261,514	3.5%
Timber	**308,932**	**3.6%**	263,096	3.4%	212,063	2.9%
Rural home loans	**200,044**	**2.3%**	183,207	2.3%	159,207	2.2%
Utilities	**156,197**	**1.8%**	123,967	1.6%	103,348	1.4%
Poultry	**93,836**	**1.1%**	85,410	1.1%	75,540	1.0%
Industrial/organic chemical	**9,950**	**0.1%**	5,298	0.1%	3,456	0.0%
Other	**608,461**	**7.0%**	571,395	7.3%	544,193	7.4%
Total	**$ 8,684,131**	**100.0%**	$ 7,822,838	100.0%	$ 7,393,006	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2020, 2019 and 2018, loans totaling $9,906, $12,620 and $15,241, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $45, $55 and $110 in 2020, 2019 and 2018, respectively, and are reflected in "other noninterest expense" in the consolidated statements of comprehensive income.

Nonperforming loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31, 2020	December 31, 2019	December 31, 2018
Nonaccrual loans:			
Real estate mortgage	**$ 26,919**	$ 32,198	$ 30,222
Production and intermediate-term	**16,472**	20,827	11,173
Farm-related business	**2,555**	5,316	2,793
Residential real estate	**256**	108	391
Energy	**1,936**	3,086	3,428
Lease receivable	**-**	-	-
Total nonaccrual loans	**$ 48,138**	$ 61,535	$ 48,007
Accruing restructured loans:			
Real estate mortgage	**$ 4,960**	$ 4,798	$ 5,532
Production and intermediate-term	**2,060**	2,224	4,158
Energy	**-**	1,944	-
Mission related invesments	**1,972**	2,041	2,105
Total accruing restructured loans	**$ 8,992**	$ 11,007	$ 11,795
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ -**	$ 3,224	$ 37
Production and intermediate-term	**212**	670	-
Total accruing loans 90 days or more past due	**$ 212**	$ 3,894	$ 37
Total nonperforming loans	**$ 57,342**	$ 76,436	$ 59,839
Other property owned, net	**601**	859	972
Total nonperforming assets	**$ 57,943**	$ 77,295	$ 60,811

One credit quality indicator utilized by the bank and the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are considered to be currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2020	2019	2018
Real estate mortgage			
Acceptable	**97.6%**	97.5%	97.4%
OAEM	**1.3%**	0.9%	1.3%
Substandard/doubtful	**1.1%**	1.6%	1.3%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**92.1%**	91.8%	91.0%
OAEM	**4.1%**	3.2%	4.6%
Substandard/doubtful	**3.8%**	5.0%	4.4%
	100.0%	100.0%	100.0%
Farm-related business			
Acceptable	**94.3%**	93.6%	96.8%
OAEM	**4.2%**	5.1%	0.4%
Substandard/doubtful	**1.5%**	1.3%	2.8%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**98.6%**	98.3%	98.4%
OAEM	**1.0%**	1.3%	0.9%
Substandard/doubtful	**0.4%**	0.4%	0.7%
	100.0%	100.0%	100.0%
Communication			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Energy			
Acceptable	**94.3%**	92.2%	92.2%
OAEM	**-**	-	2.2%
Substandard/doubtful	**5.7%**	7.8%	5.6%
	100.0%	100.0%	100.0%
Mission-related investments			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**91.9%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**8.1%**	-	-
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Total loans			
Acceptable	**96.8%**	96.5%	96.6%
OAEM	**1.8%**	1.5%	1.6%
Substandard/doubtful	**1.4%**	2.0%	1.8%
	100.0%	100.0%	100.0%

There were no loans and related interest in the loss category.

The following table provides an aging analysis of past due loans (including accrued interest) as of December 31:

December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	**$ 51,809**	**$ 9,724**	**$ 61,533**	**$ 6,730,330**	**$ 6,791,863**	**-**
Production and intermediate term	**20,624**	**1,276**	**21,900**	**939,039**	**960,939**	**212**
Farm-related business	**367**	**307**	**674**	**706,882**	**707,556**	**-**
Rural residential real estate	**1,090**	**-**	**1,090**	**109,603**	**110,693**	**-**
Communication	**-**	**-**	**-**	**99,998**	**99,998**	**-**
Energy	**1,924**	**-**	**1,924**	**50,202**	**52,126**	**-**
Mission-related investments	**-**	**-**	**-**	**6,093**	**6,093**	**-**
Lease receivables	**-**	**-**	**-**	**15,333**	**15,333**	**-**
Water and waste disposal	**-**	**-**	**-**	**1,486**	**1,486**	**-**
Total	**$ 75,814**	**$ 11,307**	**$ 87,121**	**$ 8,658,966**	**$ 8,746,087**	**$ 212**

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 52,469	$ 16,315	$ 68,784	$ 5,956,359	$ 6,025,143	$ 3,224
Production and intermediate term	10,402	10,972	21,374	930,226	951,600	670
Farm-related business	2,090	-	2,090	659,947	662,037	-
Rural residential real estate	1,196	30	1,226	100,697	101,923	-
Communication	-	-	-	56,381	56,381	-
Energy	-	-	199	64,623	64,623	-
Mission-related investments	-	-	-	6,076	6,076	-
Lease receivables	-	-	-	16,607	16,607	-
Water and waste disposal	-	-	-	9,826	9,826	-
Total	$ 66,157	$ 27,317	$ 93,474	$ 7,800,742	$ 7,894,216	$ 3,894

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 29,535	$ 10,016	$ 39,551	$ 5,652,902	$ 5,692,453	$ 37
Production and intermediate term	16,571	2,373	18,944	916,582	935,526	-
Farm-related business	5,996	131	6,127	590,510	596,637	-
Rural residential real estate	743	41	784	101,801	102,585	-
Communication	-	-	-	41,125	41,125	-
Energy	199	-	199	60,554	60,753	-
Mission-related investments	-	-	-	6,586	6,586	-
Lease receivables	-	-	-	18,017	18,017	-
Water and waste disposal	-	-	-	8,148	8,148	-
Total	$ 53,044	$ 12,561	$ 65,605	$ 7,396,225	$ 7,461,830	$ 37

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2020, total troubled debt restructured loans was $22,249, including $13,257 classified as nonaccrual and $8,992 classified as accrual, with specific allowance for credit losses of $2,067. As of December 31, 2020, 2019 and 2018, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $110, $80 and $1, respectively. The association applied CARES guidance for COVID modifications, and as such, no modifications made under the association's COVID deferral programs met the criteria for TDR as of December 31, 2020.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred during the year ended December 31, 2020, 2019 and 2018. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

2020	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	**$ 2,561**	**$ 2,489**
Production and intermediate term	**6,355**	**4,835**
Total	**$ 8,916**	**$ 7,324**

2019	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Production and intermediate term	$ 1,002	$ 1,674
Real estate mortgage	863	857
Energy	2,395	1,944
Total	$ 4,260	$ 4,475

2018	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Production and intermediate term	$ 7,786	$ 5,102
Real estate mortgage	2,399	2,674
Total	$ 10,185	$ 7,776

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were $707 in charge-offs recorded at the modification date for the year ending December 31, 2020.

The predominant form of concession granted for troubled debt restructuring is an extension of term. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at December 31, 2020	Recorded Investment at December 31, 2019	Recorded Investment at December 31, 2018
Real estate mortgage	$ -	$ -	$ 153
Production and intermediate term	-	-	783
Total	$ -	$ -	$ 936

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs		
	December 31, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	**$ 9,181**	$ 7,379	$ 6,671
Production and intermediate term	**9,160**	6,220	8,638
Farm-related business	**-**	-	131
Mission-related investments	**1,972**	2,042	2,105
Energy	**1,936**	1,944	-
Total	**$ 22,249**	$ 17,585	$ 17,545

	TDRs in Nonaccrual Status*		
	December 31, 2020	December 31, 2019	December 31, 2018
Troubled debt restructurings:			
Real estate mortgage	**$ 4,221**	$ 2,581	$ 1,139
Production and intermediate term	**7,100**	3,997	4,480
Farm-related business	**-**	-	131
Energy	**1,936**	-	-
Total	**$ 13,257**	$ 6,578	$ 5,750

*Represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	Loan Balance at 12/31/2020	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 121	$ 121	$ 4	$ 122	$ -
Production and intermediate term	6,430	7,767	1,426	7,717	56
Farm-related business	2,247	2,247	368	1,807	-
Rural residential real estate	32	55	7	29	-
Energy	1,924	1,924	1,316	1,778	-
Mission-related investments	1,946	1,946	44	1,655	122
Total	$ 12,700	$ 14,060	$ 3,165	$ 13,108	$ 178
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 31,682	$ 32,594	$ -	$ 40,264	$ 1,398
Production and intermediate term	12,210	19,549	-	17,272	394
Farm-related business	307	2,383	-	2,824	2
Rural residential real estate	224	298	-	246	16
Energy	12	12	-	491	-
Mission-related investments	6	6	-	321	1
Lease receivables	-	-	-	-	
Total	$ 44,441	$ 54,842	$ -	$ 61,418	$ 1,811
Total impaired loans:					
Real estate mortgage	$ 31,803	$ 32,715	$ 4	$ 40,386	$ 1,398
Production and intermediate term	18,640	27,316	1,426	24,989	450
Farm-related business	2,554	4,630	368	4,631	2
Rural residential real estate	256	353	7	275	16
Energy	1,936	1,936	1,316	2,269	-
Mission-related investments	1,952	1,952	44	1,976	123
Lease receivables	-	-	-	-	-
Total	$ 57,141	$ 68,902	$ 3,165	$ 74,526	$ 1,989

Unpaid principal balance represents the recorded principal balance of the loan.

	Loan Balance at 12/31/2019	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 771	$ 934	$ 37	$ 1,147	$ 4
Production and intermediate term	6,870	9,301	892	8,107	212
Farm-related business	1,602	2,583	368	2,367	177
Rural residential real estate	-	-	-	7	-
Energy	3,086	3,086	167	3,234	-
Mission-related investments	134	134	42	135	11
Total	$ 12,463	$ 16,038	$ 1,506	$ 14,997	$ 404
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 39,340	$ 40,691	$ -	$ 36,944	$ 1,025
Production and intermediate term	16,790	24,123	-	16,773	297
Farm-related business	3,714	5,977	-	3,827	3
Rural residential real estate	108	279	-	254	-
Energy	1,934	-	-	214	2
Mission-related investments	1,887	1,887	-	1,907	116
Lease receivables	-	-	-	7	
Total	$ 63,773	$ 72,957	$ -	$ 59,926	$ 1,443
Total impaired loans:					
Real estate mortgage	$ 40,111	$ 41,625	$ 37	$ 38,091	$ 1,029
Production and intermediate term	23,660	33,424	892	24,880	509
Farm-related business	5,316	8,560	368	6,194	180
Rural residential real estate	108	279	-	261	-
Energy	5,020	3,086	167	3,448	2
Mission-related investments	2,021	2,021	42	2,042	127
Lease receivables	-	-	-	7	-
Total	$ 76,236	$ 88,995	$ 1,506	$ 74,923	$ 1,847

Unpaid principal balance represents the recorded principal balance of the loan.

	Loan Balance at 12/31/2018	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 1,768	$ 1,972	$ 235	$ 1,263	$ 19
Production and intermediate term	5,786	7,873	927	6,239	50
Farm-related business	2,653	2,653	368	2,691	201
Rural residential real estate	29	48	4	5	3
Energy	3,428	3,428	1,053	2,982	-
Mission-related investments	137	137	40	156	11
Total	$ 13,801	$ 16,111	$ 2,627	$ 13,336	$ 284
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 33,937	$ 36,000	$ -	$ 42,520	$ 711
Production and intermediate term	9,344	13,175	-	14,983	417
Farm-related business	140	3,097	-	134	45
Rural residential real estate	362	567	-	408	5
Energy	-	-	-	3	-
Mission-related investments	1,947	1,947	-	1,950	119
Lease receivables	-	-	-	40	-
Total	$ 45,730	$ 54,786	$ -	$ 60,038	$ 1,297
Total impaired loans:					
Real estate mortgage	$ 35,705	$ 37,972	$ 235	$ 43,783	$ 730
Production and intermediate term	15,130	21,048	927	21,222	467
Farm-related business	2,793	5,750	368	2,825	246
Rural residential real estate	391	615	4	413	8
Energy	3,428	3,428	1,053	2,985	-
Mission-related investments	2,084	2,084	40	2,106	130
Lease receivables	-	-	-	40	-
Total	$ 59,531	$ 70,897	$ 2,627	$ 73,374	$ 1,581

Unpaid principal balance represents the recorded principal balance of the loan.

The association has remaining commitments to lend additional funds to borrowers whose loans were classified as impaired at December 31, 2020, 2019 and 2018, respectively. These commitments totaled $3,947, $3,150 and $2,682 at December 31, 2020, 2019 and 2018, respectively. The remaining commitments have been considered when establishing the allowance for loan losses, which is recorded in the liabilities section of the consolidated balance sheet as a reserve for unfunded commitments.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2020	2019	2018
Total interest income which would have been recognized under the orignal terms	**$ 4,101**	$ 5,404	$ 3,910
Less: interest income recognized	**1,989**	1,847	1,581
Interest income not recognized	**$ 2,112**	$ 3,557	$ 2,329

A summary of the changes in the allowance for credit losses, unfunded commitments and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy and Water and Waste Disposal	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2019	$ 13,664	$ 12,989	$ 3,314	$ 109	$ 77	$ 519	$ 42	$ 84	$ 30,798
Charge-offs	(72)	(1,660)	-	(25)	-	(380)	-	-	(2,137)
Recoveries	510	1,538	191	23	-	-	-	-	2,262
Provision for credit losses	398	(1,550)	30	(20)	74	1,381	3	266	582
Transfer from reserve on unfunded commitments	(13)	77	21	-	-	2	-	-	87
Balance at December 31, 2020	$ 14,487	$ 11,394	$ 3,556	$ 87	$ 151	$ 1,522	$ 45	$ 350	$ 31,592
Allowance for credit losses: individually evaluated for impairment	$ 4	$ 1,426	$ 368	$ 7	$ -	$ 1,316	$ 44	$ -	$ 3,165
Allowance for credit losses: collectively evaluated for impairment	$ 14,483	$ 9,968	$ 3,188	$ 80	$ 151	$ 206	$ 1	$ 350	$ 28,427
Loans, including accrued interest:									
Ending Balance at December 31, 2020	$ 6,791,863	$ 960,939	$ 707,556	$ 110,693	$ 99,998	$ 53,612	$ 6,093	$ 15,333	$ 8,746,087
Ending balance for loans individually evaluated for impairment	$ 31,605	$ 18,744	$ 2,555	$ 256	$ -	$ 1,936	$ 1,972	$ -	$ 57,068
Ending balance for loans collectively evaluated for impairment	$ 6,760,258	$ 942,195	$ 705,001	$ 110,437	$ 99,998	$ 51,676	$ 4,121	$ 15,333	$ 8,689,019

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2018	$ 8,517	$ 11,915	$ 3,439	$ 98	$ 86	$ 1,331	$ 41	$ 68	$ 25,495
Charge-offs	(230)	(4,468)	-	(11)	-	-	-	-	(4,709)
Recoveries	820	547	738	40	-	-	-	-	2,145
Provision for credit losses	4,560	5,159	(799)	(18)	(9)	(809)	1	16	8,101
Transfer to reserve on unfunded commitments	(3)	(164)	(64)	-	-	(3)	-	-	(234)
Balance at December 31, 2019	$ 13,664	$ 12,989	$ 3,314	$ 109	$ 77	$ 519	$ 42	$ 84	$ 30,798
Allowance for credit losses: individually evaluated for impairment	$ 37	$ 892	$ 368	$ -	$ -	$ 167	$ 42	$ -	$ 1,506
Allowance for credit losses: collectively evaluated for impairment	$ 13,627	$ 12,097	$ 2,946	$ 109	$ 77	$ 352	$ -	$ 84	$ 29,292
Loans, including accrued interest:									
Ending Balance at December 31, 2019	$ 6,025,143	$ 951,600	$ 662,037	$ 101,923	$ 56,381	$ 74,449	$ 6,076	$ 16,607	$ 7,894,216
Ending balance for loans individually evaluated for impairment	$ 40,111	$ 23,660	$ 5,316	$ 108	$ -	$ 5,020	$ 2,021	$ -	$ 76,236
Ending balance for loans collectively evaluated for impairment	$ 5,985,032	$ 927,940	$ 656,721	$ 101,815	$ 56,381	$ 69,429	$ 4,055	$ 16,607	$ 7,817,980

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2017	$ 10,470	$ 12,955	$ 4,002	$ 150	$ 145	$ 1,615	$ 82	$ 31	$ 29,450
Charge-offs	(83)	(2,168)	-	(28)	-	-	-	(16)	(2,295)
Recoveries	530	762	76	36	30	-	-	-	1,434
Provision for credit losses	(2,415)	114	(708)	(60)	(89)	(313)	(51)	53	(3,469)
Transfer to reserve on unfunded commitments	15	252	69	-	-	29	10	-	375
Balance at December 31, 2018	$ 8,517	$ 11,915	$ 3,439	$ 98	$ 86	$ 1,331	$ 41	$ 68	$ 25,495
Allowance for credit losses: individually evaluated for impairment	$ 235	$ 927	$ 368	$ 4	$ -	$ 1,053	$ 40	$ -	$ 2,627
Allowance for credit losses: collectively evaluated for impairment	$ 8,282	$ 10,988	$ 3,071	$ 94	$ 86	$ 278	$ 1	$ 68	$ 22,868
Loans, including accrued interest:									
Ending Balance at December 31, 2018	$ 5,692,453	$ 935,526	$ 596,637	$ 102,585	$ 41,125	$ 68,901	$ 6,586	$ 18,017	$ 7,461,830
Ending balance for loans individually evaluated for impairment	$ 35,705	$ 15,130	$ 2,793	$ 391	$ -	$ 3,428	$ 2,084	$ -	$ 59,531
Ending balance for loans collectively evaluated for impairment	$ 5,656,748	$ 920,396	$ 593,844	$ 102,194	$ 41,125	$ 65,473	$ 4,502	$ 18,017	$ 7,402,299

NOTE 5 — LEASES

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases with terms greater than 12 months are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

ROU assets represent the association's right to use an underlying asset for the lease term and lease liabilities represent the association's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. As the rate implicit in the lease is generally not readily determinable for our operating leases, the discount rates used to determine the present value of our lease liability are based on our incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. Our incremental borrowing rate for a lease is our cost of funds from the bank over a similar term at an amount equal to the lease payments in a similar economic environment. The association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The components of lease expense were as follows:

		For the year ended December 31,	
	Classification	**2020**	2019
Operating lease cost	Operating	**$ 2,380**	$ 2,126
Short-term lease cost	Operating	**220**	202
Net lease cost		**$ 2,600**	$ 2,328

Other information related to leases was as follows:

	For the year ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 2,380**	$ 2,301
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	**$ 1,634**	$ 1,243

Lease term and discount rate are as follows:

	December 31, 2020	December 31, 2019
Weighted average remaining lease term in years:		
Operating leases	**4.38**	4.96
Weighted average discount rate:		
Operating leases	**2.2%**	3.3%

Future minimum lease payments under non-cancellable leases as of December 30, 2020, were as follows:

	Total Operating Leases
2021	$ 2,404
2022	$ 2,245
2023	$ 1,958
2024	$ 1,592
2025	$ 969
Thereafter	$ 1,881
Total lease payments	11,049
Less: interest	-
Total	$ 11,049

The association leases office space in Abilene, Austin, Bay City, Boerne, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio, Seminole and Winnie, Texas. The association had temporary leases in Edna and Kenedy during 2019. The association also has leases for billboards and postage meters as of December 31, 2020 and 2019. Lease expense was $2,600, $2,328 and $2,075 for 2020, 2019 and 2018, respectively.

NOTE 6 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the bank and is carried at cost plus allocated equities, not fair value, in the accompanying consolidated balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owns 39.7 percent, 40.3 percent and 39.8 percent of the issued stock of the bank as of December 31, 2020, 2019 and 2018. As of those dates, the bank's assets totaled $28,227,505 $25,663,816 and $24,529,150, respectively, and members' equity totaled $1,991,533, $1,844,183 and $1,776,933, respectively. The bank's earnings were $251,137, $202,954 and $190,530 during 2020, 2019 and 2018, respectively.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2020	2019	2018
Land and Improvements	**$ 4,056**	$ 3,577	$ 3,325
Building and leasehould improvements	**17,003**	15,809	15,071
Furniture and equipment	**2,276**	2,316	2,386
Computer equipment and software	**2,895**	2,981	5,494
Automobiles	**7,356**	6,932	8,097
Construction in progess	**345**	986	459
	33,931	32,601	34,832
Accumulated depreciation	**(18,936)**	(17,198)	(19,467)
Total	**$ 14,995**	$ 15,403	$ 15,365

NOTE 8 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consisted of the following for the years ended December 31:

	2020	2019	2018
Gain on sale of other property owned	**$ 251**	$ 95	$ 1,029
Carrying value adjustments	**(221)**	(4)	2
Operating income (expense), net	**88**	413	(197)
Net gain on other property owned	**$ 118**	$ 504	$ 834

The association's other property owned (OPO) at December 31, 2020, includes two properties totaling 78.6 acres as well as inventory. All these properties have been individually appraised and the carrying amounts are not in excess of appraised values at December 31, 2020.

NOTE 9 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2020	2019	2018
Prepaid captive insurance premium	**$ 2,771**	$ 2,161	$ 2,214
Nonqualified deferred compensation trust	**9,365**	8,293	7,103
Acquisition intangibles	**1,888**	2,192	2,517
Other assets	**2,737**	2,536	2,179
Total assets	**$ 16,761**	$ 15,182	$ 14,013

Other liabilities comprised the following at December 31:

	2020	2019	2018
Accounts payable	**$ 24,671**	$ 22,652	$ 23,600
Annual leave payable	**3,097**	3,150	3,066
FCS insurance payable	**6,214**	5,425	5,253
Nonqualified deferred compensation payable	**9,365**	8,293	7,103
Other liabilities	**9,987**	6,799	6,857
Total liabilities	**$ 53,334**	$ 46,319	$ 45,879

NOTE 10 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2020, 2019 and 2018, were $7,374,054 at 1.98 percent, $6,604,398 at 2.73 percent and $6,223,546 at 2.81 percent, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank 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, 2020, 2019 and 2018, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2020, was $8,533,676 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and maintaining records, reporting financial information and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, and reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2020, 2019 and 2018, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 11 — MEMBERS' EQUITY:

A description of the association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation certificates is made solely at the discretion of the association's board of directors. At December 31, 2020, 2019 and 2018, the association did not have any material Class A stock outstanding.

During 2020, the stockholders approved to revise the capitalization bylaws to allow for the issuance of noncumulative perpetual preferred stock. As of December 31, 2020, there was no preferred stock outstanding. All stock and allocated equities are at-risk. Net losses recorded by the association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with association bylaws and be borne first on a pro-rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates and then on a pro-rata basis by all holders of preferred stock. In the event of liquidation or dissolution of the association, any assets of the association remaining after payment or retirement of all liabilities shall first be distributed to the holders of preferred stock pro-rata in proportion to the number of shares of preferred stock then outstanding until an amount equal to the aggregate par value of all shares of such preferred stock issued and outstanding has been distributed to such holders; second to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; third, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; fourth, to the holders of nonqualified allocated earnings on a pro rata basis until an amount equal to the total of all notices outstanding has been distributed to the holders; and fifth, any remaining assets of the association in excess of the association's obligations to external parties and to the bank shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

Patronage distributions may be paid as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared and paid in 2020, 2019 and 2018, respectively:

		Cash Patronage	
Date Declared	**Nonqualified Allocated Retained Earnings Issued**	**Amount**	**Date Paid (Payable)**
December 2020	**$ 117,585**	**$ 98,280**	**March 2021**
December 2019	$ 87,987	$ 88,550	March 2020
December 2018	$ 97,044	$ 87,543	March 2019

The association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "nonqualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the association has no qualified allocated equity outstanding.

All allocations in the form of nonqualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the discretion of the board. The association currently has the following series of nonqualified allocated retained earnings outstanding which includes adjustments made to finalize the computation of these contributions.

Declaration for Year		Nonqualified Allocated Retained Earnings
2012		41,105
2013		78,649
2014		70,067
2015		80,881
2016		77,795
2017		86,341
2018		97,044
2019		87,987
2020		117,585
Total	**$**	**737,454**

In September 2020, the board of directors approved a resolution to retire $55,000 in nonqualified allocated equities that were paid to the stockholders in November 2020. The equities retired represented 57 percent of the earnings allocated in 2012.

In September 2019, the board of directors approved a resolution to retire $38,206 in nonqualified allocated equities that were paid to stockholders in November 2019. The equities retired represented all of the remaining equities allocated in 2011.

In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities that were paid to stockholders in November 2018. The equities retired represented 56 percent of the earnings allocated in 2011.

As of December 31, 2020, the association is not prohibited from retiring stock or distributing earnings. Furthermore, the association is unaware of any such prohibitions that may apply during 2021.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2020:

	Regulatory Minimums	**Capital Conservation Buffers**	**Total**	**Association's ratios as of December 31, 2020**
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.0%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.0%
Total capital ratio	8.00%	2.50%	10.50%	14.4%
Permanent capital ratio	7.00%	0.00%	7.00%	14.1%
Non-risk-adjusted:				
Tier 1 leverage ratio*	4.00%	1.00%	5.00%	14.7%
UREE leverage ratio	1.50%	0.00%	1.50%	8.4%

*Must include the regulatory minimum requirements for the URE and UREE Leverage ratio

Risk-adjusted assets have been defined by FCA Regulation as the Statement of Condition assets and off balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months.
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status.

Risk-adjusted assets is calculated differently for the permanent capital ratio compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratios is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, as the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The components of the association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2020:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 734,334	$ 734,334	$ 734,334	$ 734,334
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	26,757	26,757	26,757	26,757
Allocated equities held ≥seven years	632,209	632,209	632,209	632,209
Nonqualified allocated equities not subject to retirement	-	-	-	-
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	36,800	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(133,847)	(133,847)	(133,847)	(133,847)
Other regulatory required deductions	(1,939)	(1,939)	(1,939)	(1,939)
	$ 1,257,514	**$ 1,257,514**	**$ 1,294,314**	**$ 1,257,514**
Denominator:				
Risk-adjusted assets excluding allowance	$ 8,966,541	$ 8,966,541	$ 8,966,541	$ 8,966,541
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	-	-	-	-
Allowance for loan losses				(36,253)
	$ 8,966,541	**$ 8,966,541**	**$ 8,966,541**	**$ 8,930,288**

*Capped at 1.25% of risk-adjusted assets

The components of the association's non-risk-adjusted capital, based on 90 average balances, were as follows at December 31, 2020:

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	$ 734,334	$ 734,334
Statutory minimum purchased borrower stock	26,757	-
Allocated equities held ≥seven years	632,209	-
Nonqualified allocated equities not subject to retirement		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(133,847)	(9,894)
Other regulatory required deductions	(1,939)	(1,939)
	$ 1,257,514	**$ 722,501**
Denominator:		
Total Assets	$ 8,765,937	$ 8,765,937
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(193,364)	(193,364)
	$ 8,572,573	**$ 8,572,573**

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of $5 dollars per share:

	2020	2019	2018
Class A stock	**-**	-	-
Class B stock	**5,150**	4,946	4,909
Participation certificates	**259**	250	252
Total	**5,409**	5,196	5,161

The association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) and the location on the income statement for the year ended December 31:

	2020	2019	2018
Accumulated other comprehesive (loss) at January 1	**$ (2,923)**	$ (79)	$ (3,694)
Actuarial (losses) gains	**(621)**	(2,661)	2,601
Prior service (cost) credit	**-**	-	1,054
Amortization of prior service (credit) costs included in salaries and employee benefits	**(183)**	(183)	(224)
Amortization of actuarial loss included in salaries and employee benefits	**170**	-	184
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive (loss) gain, net of tax	**(634)**	(2,844)	3,615
Accumulated other comprehesive (loss) at December 31	**$ (3,557)**	$ (2,923)	$ (79)

NOTE 12 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	2020	2019	2018
Current federal tax	**$ -**	$ 5	$ (1)
Deferred federal tax	**-**	-	-
Provision for (Benefit from) income taxes	**$ -**	$ 5	$ (1)

The association has a net operating loss carryforward of $21,437 available to offset against future taxable income of which $780 will expire in 2024, $1,811 will expire in 2025, $8,512 will expire in 2029 and $10,334 will expire in 2030.

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2020	2019	2018
Federal tax at statutory rate	**$ 46,254**	$ 38,012	$ 39,869
Federal income tax attributable to:			
Income not subject to federal tax	**(43,425)**	(35,627)	(36,568)
Nondeductible provision for loan losses	**(324)**	813	(111)
Patronage distributions	**(2,442)**	(2,493)	(2,136)
(Charge-offs) on loans	**(10)**	(685)	(299)
Other	**(53)**	(15)	(756)
Provision for (Benefit from) income taxes	**$ 0**	$ 5	$ (1)

Deferred tax assets in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2020	2019	2018
Allowance for losses on loans	**$ 2,427**	**$ 2,764**	$ 2,636
Net operating loss carryfoward	**4,502**	4,556	4,556
Deferred tax assets	**6,929**	7,320	7,192
Valuation allowance	**(6,929)**	(7,320)	(7,192)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2020, non-patronage income is expected to be less than 5 percent of total taxable income (before patronage) and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The association recorded valuation allowances of $6,929, $7,320 and $7,192 during 2020, 2019 and 2018, respectively. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2020, 2019 and 2018, the association did not recognize a tax liability for any uncertain tax positions.

NOTE 13 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies." The structure of the District's DB plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements.

Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The association records current contributions to the DB plan as an expense in the current year.

The CEO and certain members of senior management or highly-compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows District employers to elect to participate in any or all the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The association elected to participate in the Supplemental 401(k) Plan and provided for elective deferrals and discretionary contributions to be made through the plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $864, $693 and $625 for the years ended December 31, 2020, 2019 and 2018, respectively.

Supplemental 401 (k) Plan

Plan Name	**Farm Credit Benefits Alliance Nonqualifed Supplemental 401 (k) Plan**
Present Value of accumulated benefits	**$9,365**
Contributions made during the year	**$864**
Distributions made during the year	**--**
Funded obligations	**$9,365**
Off-balance sheet amounts including benefits earned but not vested	**None**

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is the Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by the percentage approved by the plan sponsor. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligations exceeded the net assets of the DB plan as of December 31, 2020.

The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the association chooses to stop participating in some of its multiemployer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Funded status of plan	**62.6%**	66.2%	68.0%
Association's contribution	**$ 1,834**	$ 2,346	$ 2,920
Percentage of association's contribution to total contributions	**30.4%**	28.8%	29.9%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 64.3 percent, 68.0 percent and 70.1 percent at December 31, 2020, 2019 and 2018, respectively.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits) for those employees hired on or before December 31, 2003. These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in the liability section of the association's consolidated balance sheet. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:

Retiree Welfare Benefit Plans

	2020	2019	2018
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 26,300**	$ 22,991	$ 25,897
Service cost	**401**	311	456
Interest cost	**895**	1,072	1,022
Plan participants' contributions	**178**	165	156
Plan amendments	**-**	-	(1,054)
Actuarial (Gain) loss	**621**	2,661	(2,601)
Benefits paid	**(923)**	(900)	(885)
Accumulated postretirement benefit obligation, end of year	**$ 27,472**	$ 26,300	$ 22,991
Change in Plan Assets			
Association contributions	**$ 745**	$ 735	$ 729
Plan participants' contributions	**178**	165	156
Benefits paid	**(923)**	(900)	(885)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (27,472)**	$ (26,300)	$ (22,991)
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (859)**	$ (783)	$ (870)
Noncurrent liabilities	**(26,613)**	(25,517)	(22,121)
Total	**$ (27,472)**	$ (26,300)	$ (22,991)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial (gain)	**$ 4,245**	$ 3,794	$ 1,133
Prior service credit	**(688)**	(871)	(1,054)
Total	**$ 3,557**	$ 2,923	$ 79
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2020**	12/31/2019	12/31/2018
Discount rate	**2.80%**	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65)	**6.90%/6.40%**	6.90%/6.40%	7.30%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028/2029**	2028/2029	2026/2027

Disclosure Information Related to Retirement Benefits	2020	2019	2018
Components of Net Postretirement Benefit Cost			
Service Cost	**$ 401**	$ 311	$ 456
Interest cost	**895**	1,072	1,022
Amortization of:			
Unrecognized prior service credit	**(183)**	(183)	(224)
Unrecognized net loss	**170**	-	184
Actuarial loss	**-**	-	-
Net postretirement benefit cost	**$ 1,283**	$ 1,200	$ 1,438
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 621**	$ 2,661	$ (2,601)
Prior service cost	**183**	183	224
Net actuarial loss	**(170)**	-	(1,238)
Total recognized in other comprehensive loss (income)	**$ 634**	$ 2,844	$ (3,615)
AOCI Amounts Expected to be Amortized into Expense			
Unrecognized prior service cost	**$ (183)**	$ (183)	$ (224)
Unrecognized net loss	**228**	-	184
Total	**$ 45**	$ (183)	$ (40)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65)	**6.90%/6.40%**	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028**	2026	2026

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2021	**$ 859**
Fiscal 2022	**941**
Fiscal 2023	**966**
Fiscal 2024	**1,017**
Fiscal 2025	**1,021**
Fiscal 2026 to 2030	**5,860**
Expected Contributions	
Fiscal 2021	**$ 859**

NOTE 14 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the association amounted to $24,458, $24,229 and $22,046 at December 31, 2020, 2019 and 2018, respectively. During 2020, 2019 and 2018, $19,209, $22,470 and $17,177 of new loans were made and repayments totaled $18,980, $20,287 and $17,642, respectively. In the opinion of management, no such loans outstanding at December 31, 2020, 2019 and 2018 involved more than a normal risk of collection.

Expenses included in purchased services and data processing may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the bank and passed through to the associations, such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $1,659, $1,404 and $744 in 2020, 2019 and 2018, respectively

The association received patronage income from the bank totaling $48,940, $40,403 and $35,041 during 2020, 2019 and 2018, respectively.

NOTE 15 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Assets measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association's consolidated balance sheet, at December 31, 2020, 2019 and 2018 for each of the fair value hierarchy values are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

December 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 9,365**	**$ -**	**$ -**	**$ 9,365**
Total assets	**$ 9,365**	**$ -**	**$ -**	**$ 9,365**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 8,293	$ -	$ -	$ 8,293
Total assets	$ 8,293	$ -	$ -	$ 8,293

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 7,103	$ -	$ -	$ 7,103
Total assets	$ 7,103	$ -	$ -	$ 7,103

Assets measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy values are summarized below. The association did not have any liabilities measured at fair value on a nonrecurring basis.

December 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 9,535**	**$ 9,535**
Other property owned	**-**	**-**	**627**	**627**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 10,957	$ 10,957
Other property owned	-	-	942	942

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 11,174	$ 11,174
Other property owned	-	-	972	972

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral dependent loans for which real estate is the collateral.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Consolidated Balance Sheets for each of the fair value hierarchy values are summarized as follows:

	December 31, 2020				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 2**	**$ 2**	**$ -**	**$ -**	**$ 2**
Mission-related and other investments held-to-maturity	**2,582**	**-**	**-**	**2,648**	**2,648**
Net loans	**8,643,004**	**-**	**-**	**$ 8,836,797**	**8,836,797**
Total Assets	**$ 8,645,588**	**$ 2**	**$ -**	**$ 8,839,445**	**$ 8,839,447**
Liabilities:					
Note payable to the Bank	**$ 7,374,054**	**$ -**	**-**	**$ 7,538,853**	**$ 7,538,853**
Total Liabilities	**$ 7,374,054**	**$ -**	**$ -**	**$ 7,538,853**	**$ 7,538,853**

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 2	$ 2	$ -	$ -	$ 2
Mission-related and other investments held-to-maturity	3,418	-	-	3,463	3,463
Net loans	7,781,083	-	-	$ 7,861,821	7,861,821
Total Assets	$ 7,784,503	$ 2	$ -	$ 7,865,284	$ 7,865,286
Liabilities:					
Note payable to the Bank	$ 6,604,398	$ -	-	$ 6,672,669	$ 6,672,669
Total Liabilities	$ 6,604,398	$ -	$ -	$ 6,672,669	$ 6,672,669

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 10	$ 10	$ -	$ -	$ 10
Mission-related and other investments held-to-maturity	4,388	-	-	4,394	4,394
Net loans	7,356,337	-	-	$ 7,255,620	7,255,620
Total Assets	$ 7,360,735	$ 10	$ -	$ 7,260,014	$ 7,260,024
Liabilities:					
Note payable to the Bank	$ 6,223,546	$ -	-	$ 6,138,603	$ 6,138,603
Total Liabilities	$ 6,223,546	$ -	$ -	$ 6,138,603	$ 6,138,603

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the association for assets and liabilities:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield
Other property owned	Carrying value	Each collateral property is unique

Information About Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range of Inputs
Investments held-to-maturity	Discounted cash flow	Prepayment rates	1.4% - 44.5%

A. Cash:

For cash, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgements and experience with the securities. These fair value measurements are classified as level 3 investments.

C. Loans Evaluated for Impairment:

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The carrying value of accrued interest approximates its fair value.

D. Assets Held in Nonqualified Benefits Trusts:

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace.

E. Standby Letters of Credit:

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

F. Other Property Owned:

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

G. Note Payable to the Bank:

The note payable to the bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

NOTE 16 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the association is involved in various legal proceedings in the ordinary 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.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2020, the association had $1,188,681 of commitments to extend credit and $13,423 of letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts equal the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the association. At December 31, 2020, there were no standby letters of credit included in other liabilities. Outstanding standby letters of credit have expiration dates ranging from January 1, 2021, to July 16, 2025. The maximum potential amount of future payments the association is required to make under the guarantees is $13,423.

NOTE 17 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2020				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 60,418**	**$ 60,530**	**$ 62,505**	**$ 64,189**	**$ 247,642**
(Provision for) reversal of loan losses	**(14)**	**$ (549)**	**$ (4,455)**	**$ 4,436**	**(582)**
Noninterest expense, net	**(9,852)**	**$ (6,667)**	**$ (5,985)**	**$ (4,298)**	**(26,802)**
Net income	**$ 50,552**	**$ 53,314**	**$ 52,065**	**$ 64,327**	**$ 220,258**

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 58,246	$ 58,043	$ 58,912	$ 59,812	$ 235,013
(Provision for) reversal of loan losses	(4,538)	$ (3,063)	$ 549	$ (1,049)	(8,101)
Noninterest expense, net	(10,292)	$(12,545)	$(11,467)	$(11,603)	(45,907)
Net income	$ 43,416	$ 42,435	$ 47,994	$ 47,160	$ 181,005

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 58,191	$ 57,003	$ 58,528	$ 61,001	$ 234,723
(Provision for) reversal of loan losses	2,647	$ (540)	$ 2,660	$ (1,298)	3,469
Noninterest expense, net	(8,497)	$(13,664)	$ (9,063)	$(17,117)	(48,341)
Net income	$ 52,341	$ 42,799	$ 52,125	$ 42,586	$ 189,851

NOTE 18 – SUBSEQUENT EVENTS:

On January 19, 2021, the association issued $200,000 of Class A noncumulative subordinated perpetual preferred stock, Series 1 (Class A-1 preferred stock), representing 200,000 shares at $1,000 per share par value, for net proceeds of $195,455 with issuance costs of $4,545. Dividends on the Class A-1, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing March 15, 2021, at an annual fixed rate of 5.00 percent of par value of $1,000 per share up to, but excluding, March 15, 2026, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 4.52 percent. The Class A-1 is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the association, with prior approval from the FCA, on any dividend payment date on or after March 15, 2026. For regulatory purposes, the Class A-1 preferred stock will be included in permanent capital, total capital and tier 1 capital within certain limitations.

The association has evaluated subsequent events through March 12, 2021, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)
Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers, patronage or dividends, and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the association) serves its 192-county territory through its main administrative office at 3000 Briarcrest Drive, Suite 601, Bryan, Texas, and through its accounting/administration, agri-insurance, loan processing/review, special assets and marketing/operations offices, which are in Bryan, Lubbock, Hondo, Round Rock and Devine, Texas. Additionally, there are 72 lending offices located throughout the territory. The association owns the office buildings in Alpine, Bellville, Bowie, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Dimmitt, Edna, El Campo, Goldthwaite, Hereford, Hondo, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The association leases office buildings in Abilene, Austin, Bay City, Bay City, Boerne, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, Edna, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio, Seminole and Winnie, Texas.

In 2020, the association renewed leases in Hondo, Winnie, Crocket, Livingston, New Braunfels, Austin, Fredericksburg, Katy, and Harlingen.

In 2019, the association moved into a new leased building in Round Rock and expanded its lease in Bryan. In addition, renewals were executed for Georgetown, Robstown, Laredo, Burnet, Hondo and Seminole. The association also had temporary leases in Kenedy and Edna while new buildings were completed.

In 2018, the association entered into a new lease in Boerne, to accommodate staffing needs in the San Antonio region. In addition, the association entered into a 10-year lease agreement for its Round Rock location, which was completed in 2019.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements, "Note Payable to the Bank," Note 13, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 16 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The bank's 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, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the bank's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *Javier.Lemus@capitalfarmcredit.com*. The association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the association's annual stockholder report can also be requested 90 days after the year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2020, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The association's stockholder-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
John Malazzo	Chairman & Stockholder-Elected Director	2015	2023
Carl Sample**	Vice Chairman & Stockholder-Elected Director	2016	2020
Paul Aelvoet	Stockholder-Elected Director	2018	2022
Larry Boleman***	Stockholder-Elected Director	2016	2020
Dale Crenwelge	Stockholder-Elected Director	2017	2021
Kelly Gaskins	Stockholder-Elected Director	2018	2022
Dale Hoelscher	Stockholder-Elected Director	2015	2023
Jerred Hurst*	Director-Elected Director	2018	2022
Kenton B. Kimball	Stockholder-Elected Director	2015	2023
Terry McAlister	Stockholder-Elected Director	2018	2022
Phillip Munden	Stockholder-Elected Director	2017	2021
Lance D. Morris	Stockholder-Elected Director	2015	2023
Gary L. Palousek	Stockholder-Elected Director	2015	2023
Danny Parker	Stockholder-Elected Director	2017	2021
Ronnie Riddle	Stockholder-Elected Director	2016	2020
Roy Allan Schmidt	Stockholder-Elected Director	2017	2021
Steve Stevens*	Director-Elected Director	2017	2021
Sharleen Walkoviak*	Director-Elected Director	2018	2022
Lowell Woodward	Stockholder-Elected Director	2018	2022
Joe David Yates	Stockholder-Elected Director	2018	2022
Ben R. Novosad	Chief Executive Officer	1976	----
Don VandeVanter	Executive Vice President, CFO	1999	----
Patricia A. Gonzales	Executive Vice President, Accounting & Administration	1999	----
Roy A. West	Executive Vice President, Chief Administrative Officer	1998	----
Jeff Norte	Executive Vice President, Chief Credit Officer	2010	----
Glenn Trant	Interim Chief Lending Officer	2008	----
Wes Sutton	Executive Vice President, General Counsel	2018	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an outside director of the association or its subsidiaries).
**Carl Sample resigned effective December 31, 2020
***Dr. Larry Boleman was elected to the Farm Credit Bank of Texas board of directors effective January 1, 2021

A brief statement of the business and employment background of each director and senior officer as of December 31, 2020 is provided for informational purposes.

John Malazzo raises cotton and corn and has a cattle production operation in Brazos and Burleson counties, Texas. Mr. Malazzo resides in Caldwell, Texas. Mr. Malazzo also serves on the board of Producers Co-op of Bryan, Texas, which provides agricultural goods and services to farmers and ranchers.

Carl Sample resides in Smiley, Texas, and is a contract poultry grower and has a cattle operation in Gonzales County, Texas.

Paul Aelvoet is a self-employed farmer/rancher in Medina County, Texas, and resides in Hondo, Texas. He is managing partner of Aelvoet Partners and of D/A Cattle Co, which are farming and ranching operations. Mr. Aelvoet serves as co-chairman of the Hondo 4H Booster Club.

Larry Boleman served as the associate vice chancellor and professor emeritus for agriculture for Texas A&M AgriLife until August of 2018. He resides in College Station, Texas. Dr. Boleman owns Boleman Cattle Company, a cow-calf operation headquartered in College Station, Brazos County, Texas, which raises commercial grade beef cattle for show and regular market channels.

Dale Crenwelge resides in Comfort, Kerr County, Texas, and his principal occupation is ranching and real estate investment and development. Mr. Crenwelge's business interests include serving as president or general partner of Grobe-Lich Properties LTD, Grobe-Lich Properties LLC, DKBC I LTD, DKBC II LTD, Pine Ridge Developers LLC, Oak Creek/Mopac Self Storage LP, Crenwelge LLC, Port Aransas Ventures 7, Austin Mini Storage, Vega Altamesa Self Storage LP, D and D Terrell County Ranch Partnership, Dancing Hill, LLC, and Dale and Daniel F. Crenwelge. Mr. Crenwelge serves on the board of Hill Country Memorial Hospital in Fredericksburg, Texas, as Chairman of Audit/Finance Committee to Kerr County 4-H Foundation, and as a Trustee of Centurions of Kendall County.

Kelly Gaskins resides in Shamrock, Wheeler County, Texas, and is a self-employed owner of agricultural and pipeline construction businesses that operate under the names of Gaskins Double G Corp, Hoptoad Enterprises Inc., Salt Cedar Farms Inc., KG Farm Services Inc., Circle TK Land & Cattle, and Kelly Gaskins Farms Inc.

Dale Hoelscher farms and ranches in Bell, Falls, Milam, and Robertson counties, and resides in Bell County, Texas. He primarily grows corn, cotton, and , and also has a cow/calf operation. Mr. Hoelscher's business interests include Hoelscher Brothers Farm and R&D Hoelscher Farm LLC, a farming and ranching operation. His other business interests include D&M Grain, Producers Coop, and B.F. & M. Coop. Mr. Hoelscher currently serves as a director of Producers Co-op in Bryan, Texas, which provides feed, chemical, supplies, and fuel to farmers and ranchers in the regional area.

Jerred Hurst resides in Lubbock, Lubbock County, Texas and is the chief technology officer for Primitive Social, a digital agency specializing in web design and development, branding, inbound marketing, and social media. In addition, he is a founder for nSpire Labs, a stockholder and CTO for Hurst Farm Supply, a leading equipment dealership in West Texas, CTO and co-owner of Fastpay Payroll, which provides companies with payroll solutions, and co-owner of Elevate Accounting.

Kenton B. Kimball farms and ranches in Stratford, Texas. Mr. Kimball is the owner and president of Kimball Cattle Inc., a farming and cattle business with current operations in northeast Oklahoma. Mr. Kimball has also owned and managed agricultural operations in Sherman County, Texas in the past.

Terry McAlister resides in Electra, Texas, and farms and ranches in Wichita and Wilbarger counties. Mr. McAlister is president and CEO of McAlister Properties Inc. He serves as an appointed representative of the Wichita County Boll Weevil Eradication Foundation.

Phillip Munden is a full-time rancher and farmer, and owns 4M Cattle Company, a small farm and ranch construction business in Bosque County, Texas, near Walnut Springs. Mr. Munden is a board member of the Bosque Soil and Water Conservation District.

Lance D. Morris farms cotton, wheat and milo in Crosby, Dickens and Floyd counties and resides in Crosbyton, Texas. He owns Morris Farms, which is a farming and ranching operation. Mr. Morris is on the board of directors of the Associated Cotton Growers and White River Municipal Water District.

Gary L. Palousek is a self-employed farmer raising cotton, milo and corn in Willacy County, Texas and operates his businesses individually and as a partner of Las Dos Palmas Farms. Mr. Palousek resides and maintains an office in Raymondville, Texas. He is director and secretary-treasurer of the Willacy County Drainage District No. 2 and is committeeman of Willacy County Farm Service Agency.

Danny Parker is engaged in row crop farming and a cow/calf operation in Uvalde County and conducts his business as Danny Parker Farms. Mr. Parker resides in Uvalde, Texas, and serves as vice chairman of the board of directors of the Gulf Compress in Corpus Christi, Texas, a cotton compress and warehouse business. Mr. Parker is also a member of the Uvalde County Livestock Show Steer Committee and the Commercial Replacement Heifer Show Committee.

Ronnie Riddle is owner and operator of Riddle Farms, a farming and ranching operation headquartered in Jones County, Texas near Hamlin. He resides in Abilene, Texas, and farms in Fisher, Stonewall, Jones and Haskell counties. Mr. Riddle is a board member of the Texas Trail Council of the Boy Scouts of America.

Roy Allan Schmidt resides near Burton, Texas and has a cow-calf operation in Menard and Washington counties. Mr. Schmidt owns and operates La Bahia Antiques LLC, is president of Labahia Turn Verein, and is the chairman of the FSA board in Washington and Austin counties.

R. H. "Steve" Stevens is a certified public accountant, primarily as a consultant to Ham, Langston & Brezina of Houston, Harris County, Texas. Mr. Stevens resides in Houston, Texas and is a member of the board of partners for ANCO Insurance in Bryan, Texas, member of the board of directors of the Houston Livestock Show & Rodeo and member of the board of directors of the American Quarter Horse Association. Mr. Stevens also has a cattle/horse operation in Burleson County, Texas.

Sharleen Walkoviak resides in Houston, Texas and is a co-owner of Covenant Technology Services LLC, which provides outsourced IT and consulting services and is based in Houston, Harris County, Texas. She is a member of the board of directors of the Houston Livestock Show and Rodeo. She is also a director for Books Between Kids and serves on the development council for the George Bush School of Government and Public Service, KSBJ President's Council, and Amigas Para Niños.

Lowell Woodward ranches in Pecos, Crockett, Brewster and Upton counties, and resides in Pecos County, Texas. Mr. Woodward raises sheep, goats, cattle and horses, and has a hunting operation. He is a director of the Texas Sheep and Goat Raisers Association and owns Woodward Inc., an apartment complex.

Joe David Yates resides in Mason, Texas, and ranches in Texas and New Mexico. Mr. Yates sells ranch real estate in Texas, New Mexico and Oklahoma, with an office in Mason, Texas. He is the owner and president of Joe David Yates Inc., is part owner of Bay City Feeds, a feed operation in Bay City, Texas, is a director on the Farm Credit Council, and is the vice president/secretary of Stewart Ranch with operations in Texas and New Mexico.

Ben R. Novosad serves as president and chief executive officer of the association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System's President's Advisory Committee and the Farm Credit System's Risk Management Committee. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory board of directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Don VandeVanter serves as executive vice president and chief financial officer for the association. He is responsible for the financial administration and capital management of the association. Mr. VandeVanter, a certified public accountant, has worked for the association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Patricia A. Gonzales serves as the association's executive vice president and chief human resources officer. She is responsible for managing the association's human resources. She is a certified public accountant and was employed as chief financial officer in May 1999 for Southwest Texas ACA until its merger with Capital Farm Credit in 2006. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Prior to her time with Farm Credit, she worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the association's chief administrative officer. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Jeff Norte serves as the association's chief credit officer. Mr. Norte has been with the association since September 2010. Prior to joining the association, he served in various credit and risk positions, including overseeing credit for CoBank's corporate and international portfolio, as well as several years as a regulator in Kansas City with the FDIC. He is a veteran of the military serving with the U.S. Army. Mr. Norte is a certified public accountant and received his MBA from Concordia University Texas.

Glenn Trant currently serves as the interim chief lending officer. Mr. Trant joined Capital Farm Credit in 2008 after a merger with First Ag Credit and has more than 30 years of Farm Credit experience. Mr. Trant previously served as senior vice president, lending and relationship management, as well as regional president. He has a Bachelor of Science degree in Agricultural Economics and a Master of Business Administration degree in Finance and Accounting from Texas A&M University.

Wes Sutton serves as the association's general counsel and manages the legal department. Mr. Sutton earned his undergraduate degree from Erskine College and his juris doctorate from the University of South Carolina School of Law and is a member of the South Carolina Bar and the State Bar of Texas. Prior to his employment with the association, he was general counsel and executive vice president with AgSouth Farm Credit. He has also held several positions in the legal department at AgFirst Credit Bank and has over 19 years of service with the Farm Credit System.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

During 2020 directors were compensated for their service to the association in the form of an honorarium of $1,500 per month, $600 for each board meeting attended, $600 per meeting for audit committee meetings, $600 per meeting, per day for all other meetings, $200 per meeting for conference calls and $500 for travel days when required. Committee chairmen received an additional $200 per meeting for committee meetings. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2020 was paid at the IRS approved rate of 57.5 cents per mile for the year. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2020**
Paul Aelvoet	12	9	$ 31,300
Larry Boleman	12	24	37,700
Dale Crenwelge	9	8	32,300
Kelly Gaskins	10	11	31,300
Dale Hoelscher	12	11	31,600
Jerred Hurst	12	10	28,600
Kenton B. Kimball	12	29	42,100
John Malazzo	12	35	48,100
Terry McAlister	12	9	29,900
Lance D. Morris	12	22	36,100
Phillip Munden	12	29	39,600
Gary L. Palousek	12	11	35,600
Danny Parker	12	10	32,900
Ronnie Riddle	12	9	30,400
Carl Sample	12	32	47,300
Roy Allen Schmidt	12	10	31,000
Steve Stevens	11	24	36,400
Sharleen Walkoviak	12	24	37,100
Lowell Woodward	11	11	31,000
Joe David Yates	12	24	36,100
			$ 706,400

During 2020, there were six board meetings with six consisting of a two-day meeting (directors reflecting 12 days in board meeting attendance attended all board meetings held in 2020).

The aggregate compensation paid to directors in 2020, 2019 and 2018 was $706,400, $684,600 and $618,700, respectively.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee				
Director	Audit	Compensation	Governance	Other*	Total
Paul Aelvoet	$ -	$ -	$ 3,000	$ 2,400	$ 5,400
Larry Boleman	-	-	4,000	8,800	$ 12,800
Dale Crenwelge	-	-	3,000	1,800	$ 4,800
Kelly Gaskins	-	3,600	-	2,600	$ 6,200
Dale Hoelscher	-	3,600	-	2,600	$ 6,200
Jerred Hurst	-	-	2,600	2,200	$ 4,800
Kenton B. Kimball	3,400	1,800	600	8,400	$ 14,200
John Malazzo	2,400	2,400	1,200	9,200	$ 15,200
Terry McAlister	3,000	-	-	2,000	$ 5,000
Lance D. Morris	-	4,800	-	6,400	$ 11,200
Phillip Munden	-	-	3,000	11,200	$ 14,200
Gary L. Palousek	-	3,600	-	2,600	$ 6,200
Danny Parker	-	3,600	-	2,400	$ 6,000
Ronnie Riddle	-	-	3,000	2,000	$ 5,000
Carl Sample	1,800	1,800	600	10,200	$ 14,400
Roy Allan Schmidt	-	-	3,000	2,600	$ 5,600
Steve Stevens	3,000	-	-	8,100	$ 11,100
Sharleen Walkoviak	3,000		-	8,200	$ 11,200
Lowell Woodward	-	3,600	-	2,600	$ 6,200
Joe David Yates	3,000	-	-	8,200	$ 11,200
	$ 19,600	$ 28,800	$ 24,000	$ 104,500	$ 176,900

*Other includes the following meetings that were held: credit, compensation training, director development, national director conference, Texas District Conference, Director Advancement Program (DAP), Farm Credit Council and FCBT stockholder, Review, Audit and Appraisal Workgroup (RAAW) conference, compliance and audit conference.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $155,138, $303,086 and $282,483, 2020, 2018 and 2018, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the association's success is its ability to attract, develop and retain staff that are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value received by its membership. The association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its membership. The association's board of directors, based on recommendations of its Compensation Committee, establishes the salary and approves the incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for evaluation and establishment of salary and incentive plans used by the association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Other (d)	Change in Pension Value (e)	Total*
Ben R. Novosad,	**2020**	**$ 913,481**	**$ 249,665**	**$ 320,942**	**$ 58,947**	**$ 580,392**	**$2,123,427**
CEO	2019	878,347	280,201	355,096	36,038	721,955	2,271,637
	2018	836,505	319,120	320,928	37,214	(3,375)	1,510,392

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Includes contributions to 401(k) and defined contribution plans, automobile benefits which may exceed $5,000 and premiums paid for life insurance
(e) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

*The table above does not include the estimated Long-Term Incentive accruals of $939,313. For details regarding these accruals see disclosure more fully discussed within the LTI section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2020:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2020
Ben R. Novosad	Farm Credit Bank of Texas Pension Plan	46.10	$ 4,570,660	$ -

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's CEO participation in the defined benefit pension plan.

The CEO and one other senior officer of the association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers, excluding the CEO, of the association during 2020, 2019 and 2018. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Deferred Compensation (d)	Other (e)	Change in Pension Value (f)	Total*
Aggregate No. of Senior Officers in Year Excluding CEO								
6	**2020**	**$ 1,910,627**	**$ 339,533**	**$ 669,252**	**$ -**	**$ 324,611**	**$1,654,786**	**$ 4,898,809**
9	2019	1,889,559	411,320	753,746	-	274,633	617,203	3,946,461
10	2018	2,483,679	715,307	762,446	250,000	522,051	(273,568)	4,459,915

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Nonqualified deferred compensation earnings for one of the senior officers
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits which may exceed $5,000 and premiums paid for life insurance.
(f) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

*The table above does not include the estimated LTI incentive accruals of $1,529,967. For details regarding these accruals see disclosure more fully discussed within the Long-Term Incentives section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to senior officers for the year ended December 31, 2020:

Number	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2020
Aggregate No. of Senior Officers in Year Excluding CEO (One Person)	Farm Credit Bank of Texas Pension Plan	41	$ 5,428,869	$ ---

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's senior officers' participation in the defined benefit pension plan.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the association upon request.

Additional Nonqualified Supplemental 401(k) Plan:

During 2020, the association continued to plan for succession for key members of senior management who are reaching retirement eligibility. In conjunction with this plan during 2018, the association entered into an agreement with one of its senior management team members that called for a one-time discretionary contribution into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The association evaluated the need to restore a portion of benefits lost as a result of the addition of a member to the association's senior management team, and as a result developed a plan to address this shortfall and funded this plan during 2018. Expenses of the plan relating to this agreement for 2020, 2019 and 2018 were $0, $0 and $250,000 respectively.

Incentive Plan for Officers and Employees:

The association utilizes two incentive plans: the annual (short-term) incentive plan (STI) based on individual and association performance which drives behavior that supports annual association goals, and the Long-Term Incentive plan (LTI), which was developed to reward key employees for achievement of the association's long-term goals and objectives. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance annually and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The STI plan is a balanced scorecard plan which rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the board.

At the beginning of each plan year, the board reviews and approves STI plan performance objectives for the association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay which may be awarded if the association and participant achieve target performance goals. Failure to meet minimum thresholds for individual goals will result in no incentive, while achievement at superior levels for individual goals will result in the maximum incentive opportunity available at that salary grade for that goal. Potential individual award percentages vary based upon an employee's job grade level and are higher for those persons serving to direct performance of the association which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the association goals are achieved.

For calendar year 2020, the board approved the following goal performance measures, weightings and performance goals:

Performance Measures	Weight	Performance Goals Target	2020 Actual Performance	Performance Achievement
Acceptable credit quality as percentage of total loans	10%	96.00%	96.76%	Between target and superior
Net charge-offs as percentage of average loans plus other property owned	10%	0.15%	0.00%	Superior
Nonearning assets as percentage of loans plus other property owned	20%	0.65%	0.56%	Between target and superior
Return on equity results compared to System peer group	35%	3rd of System peers	1st	Superior
Growth in average accrual loan volume serviced compared to overchartered peer group	25%	>105.00% of growth in average serviced volume of peer group	67.96% of growth in average serviced volume of peer group	Less than threshold
Total	100%			

As part of this plan the association has also established parameters for goal performance which define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2020 resulted in the association's achievement of goal performance which overall achieves superior goals in two of the five measures. As a result, the board approved, and the association accrued an estimated payment of $13,727,639 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2021.

During December 2020, the board of directors approved a one-time discretionary bonus for employees that is to be paid to all active employees meeting required performance parameters. The accrual of this bonus, not to exceed $2,083,000 is to be paid in February. The board recognized the exceptional efforts required by employees in achieving record earnings, exceptional growth and strong credit quality while working through the extreme pressures and unusual challenges resulting from COVID.

Long Term Incentive Plan (LTI)

The purpose of the association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the association. The board is the administrator of the LTI. The board has retained the authority to review and approve plan participants, the incentives prior to payment, and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for board approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the association and the award formula or matrix by which all awards under this plan are based. Since its inception in 2011, the LTI plan established goals and metrics which management and the board felt were long term in nature and fostered the long-term health and viability of the association and its stockholders. These goals included loan volume growth, operating efficiency and capital distributions to the association's stockholders. The association's vision is to be the partner of choice for lending and related services in rural America through outstanding people, performance and member value. The board believes the goals established for the LTI support this vision.

For the LTI performance period 2020-2022, the board approved the following goal performance measures, weightings and performance goals, which are consistent with goals established for the LTI plan performance periods of 2019-2021 and 2018-2020.

	Performance Goals	
Performance Measures	**Target**	**Weight**
Capital distributions- Three-year average annual cash patronage plus allocated equity retirements in excess of certain % of average accrual loans	1.0%	33.3%
Growth- Net change in three-year average recorded investment of accrual loan volume serviced	105% of growth in average serviced volume of peer group	33.3%
Three-year average operating expenses as a percentage of net interest income plus other income	3rd of large system associations	33.4%

The actual/projected results for LTI performance and the estimated incentives based upon the performance for each of the three performance periods are as follows:

	Performance Level					
Plan Period	**Capital Distributions**	**Growth**	**Efficiency**	**CEO LTI**	**Senior Officer LTI**	**Other Officers LTI**
2018-2020 projected	superior	between target and superior	between threshold and target	$ 356,435	$ 594,028	$ 480,780
2019-2021 projected	superior	between threshold and target	between threshold and target	303,815	500,061	443,298
2020-2022 projected	superior	below threshold	target	279,063	435,878	499,918

Other

Employees who use their personal automobile for business purposes were reimbursed during 2020 at the IRS-approved rate of 57.5 cents per mile.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services paid by the association during 2020 to PricewaterhouseCoopers are as follows:

Service Category	Fees
Professional Services	$ 167,450
Non-audit services*	2,700
	$ 170,150

*Non-audit services include fees related to the financial statement disclosure checklist and a licensing of a research tool which were approved by the association's audit committee.

Fees paid in 2020 related to 2019 audit services were $68,000 and $6,117 related to out-of-pocket expenses for 2019.
Fees paid in 2020 for professional services rendered in 2020 were $93,333.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association and the bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $11,384, $12,631 and $11,624 at December 31, 2020, 2019 and 2018, respectively. This investment is included in "other assets" on the balance sheet.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 12, 2021, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. The directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS (UNAUDITED)

The association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as producers with 10 years or less of experience at farming, ranching or producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the association's loan accounting records as of June 30, 2020, the following table compares the percentage of YBS farmers in the association's territory (based on USDA data) with the percentage of YBS customers in the association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the association, the statistics presented herein serve as a quantitative measurement of the association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the association's territory.

In the following table, 4.7 percent of the farmers in the association's territory are "Young" farmers while 17.8 percent of our customers that live or operate in the association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.7%	17.8%
Beginning	28.1%	67.5%

In the following table, 95.5 percent of the farms in the association's territory are "Small" farms, while 89.9 percent of our customers that live or operate in the association's territory are producers that normally generate less than $250,000 in annual gross sales of agricultural or aquatic products.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMS IN TERRITORY	ASSOCIATION CUSTOMERS
Small	95.5%	89.9%

At December 31, 2020, the association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
5,010	$1,034,433	17,373	$4,597,273	22,978	$5,528,187

The association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (A) attract and retain YBS customers, (B) implement lending programs and/or services that meet the needs of YBS customers and (C) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component by:

Attracting and retaining YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals who become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas A&M AgriLife Extension Service. Programs such as the "Next Generation Program" and others have been successful in helping to educate and provide knowledge and other resources to thousands of individuals who are taking steps to initiate or increase their involvement in agriculture or increase the size and productivity of their existing operations. The association is concerned about the next generation of agriculture and utilizes its programs and personnel to help develop those who will be producing food and fiber after the current generation of farmers and ranchers retire.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs and services can be of value to them as they improve or expand their current operations but also aids them in improving or expanding their operation regardless of whether they do business with Capital Farm Credit.

Implementing lending programs and/or services that meet the needs of YBS customers – The association implemented a policy that permits the association to provide constructive credit to serve any financing need of YBS customers that are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allow customers who engage in agriculture operations less than full time to have the capital resources they need to begin or grow their operations. In addition, the association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Developing quantitative standards that may be used to measure the number of YBS customers served as compared with the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.

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