CAPITAL FARM CREDIT

PART OF THE FARM CREDIT SYSTEM

2009 ANNUAL REPORT

TEXAS' LARGEST RURAL LENDER

Capital Farm Credit Has Roots

Capital Farm Credit has been serving Texas' farmers, ranchers and other rural property owners for more than 90 years. Over the years, we have grown to become the largest rural lender in the state.

Our customers know that they have a lender that is strong enough to meet their financing needs, flexible enough to structure a loan to fit their individual situations and committed enough to be there for agriculture even when times get tough.

A Strong Cooperative Foundation

The key to our longstanding success is our cooperative structure. Capital Farm Credit is owned by our customers, and we share our earnings with them through our patronage program.

Although 2009 proved to be a challenging year for us and for many of our customers, our operations achieved net income of $57.6 million. While 2009 results decreased from 2008 levels, the association's capital position remains strong. True to its cooperative mission, the association, through its board of directors, approved a patronage payment based on our 2009 earnings. The board is pleased to distribute earnings during times when many other financial institutions are not paying dividends.

Involved in Our Communities

Employees of Capital Farm Credit offer customers more than extensive experience and lending skills. They also live and work in the areas they serve and, because of that, have a better understanding of the needs of their customers. Loan decisions are made locally, and our staff works hard to provide each customer with personalized service.

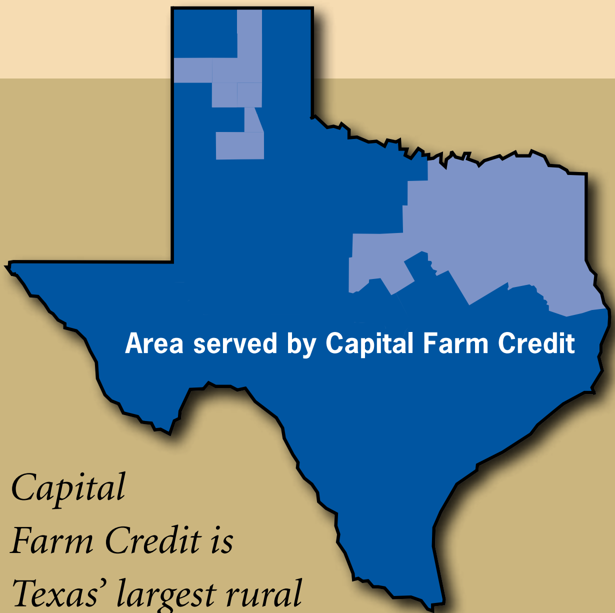
Our employees also donate time, money and energy to serving their communities through local civic groups, agricultural events and charitable organizations. In addition, the association invests

Buried Deep in Texas Soil

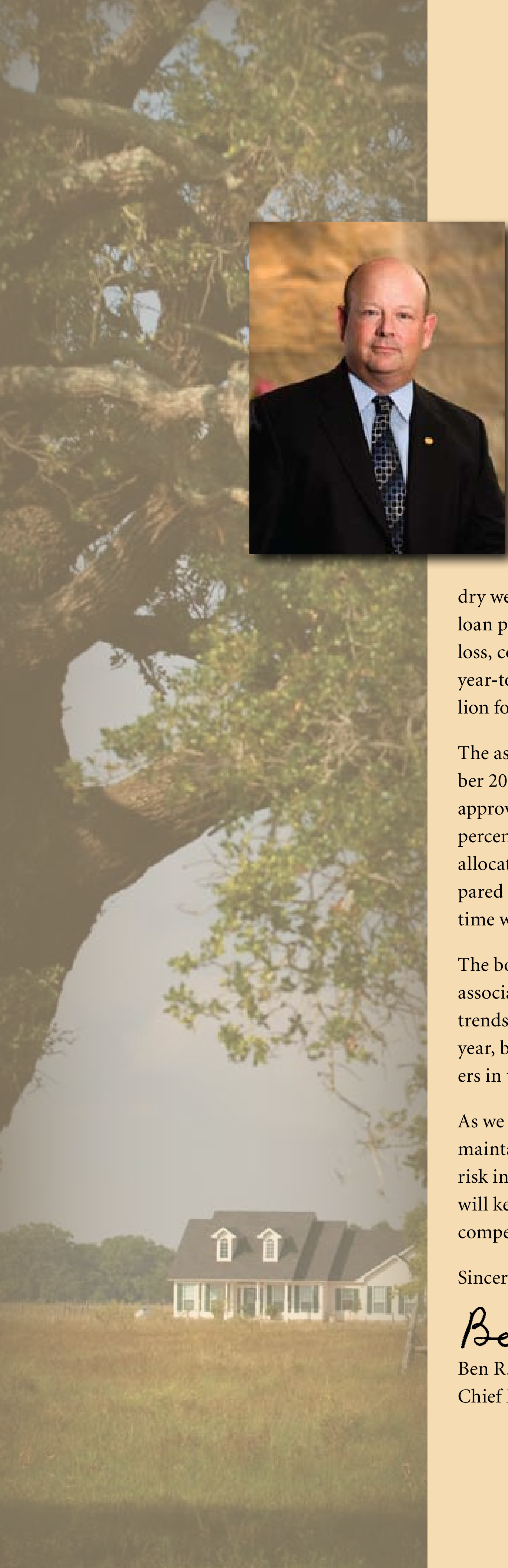
time and financial support in other statewide and local causes. Capital Farm Credit is a proud sponsor of youth and education and many other agricultural-related programs throughout Texas.

Focused on the Future

Capital Farm Credit has focused on running an efficient organization, which has been instrumental in the patronage returned to our customers. As we move forward, we will continue to look for opportunities to increase efficiency and preserve capital, in order to best insulate the association from any potential negative impact from today's economic climate.



Capital Farm Credit is Texas' largest rural lender with offices across the state. When you need a lender who is committed to your agricultural financing needs, we're the answer.



Letter From the CEO

Dear Stockholder:

Both the agriculture industry and the general economy suffered in 2009, and as one might imagine, as the state's largest rural lender, Capital Farm Credit also felt those negative effects through its membership. In the troubled financial environment, it was difficult to procure reasonably priced funds at reasonable maturities to meet our customers' operating and real estate financing needs, but we prevailed. We remained strong although the adversities faced by agriculture and related commercial markets, including dry weather and lower commodity prices, negatively impacted the credit risk in our loan portfolio. As a result, we did add more than $58 million in provision for loan loss, compared to $14 million in 2008. Although loan loss provisions were increased year-to-year, the association's strong earnings base returned net income of $57.6 million for the year.

The association improved its permanent capital ratio from 12.5 percent at December 2008 to over 13 percent in December 2009. In addition, the board of directors approved a $57.6 million patronage distribution based on 2009 earnings, with 30 percent of this allocation being paid in cash and 70 percent distributed in the form of allocated equities. Although the patronage distribution represented a decrease compared to 2008, the refund demonstrates our financial strength and commitment at a time when many other financial institutions are constrained from a capital position.

The board of directors believes it is prudent to preserve, protect and improve the association's capital position in times of uncertainty and deteriorating loan portfolio trends. Accordingly, the board elected not to revolve out any existing allocations this year, but stands committed to annually evaluate allocated equities to our stockholders in the future.

As we move ahead in 2010, the association management and board will work hard to maintain our high level of efficiency, and also will pay close attention to the credit risk in our portfolio and to our capital position. With each decision we make, we will keep our customers in mind, managing our capital position so that we can offer competitive interest rates and ensure our long-term viability.

Sincerely,

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

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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 appropriate in the circumstances. 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 auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the 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 Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

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 his knowledge and belief.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 3, 2010

Phillip Munden

Phillip Munden, Chairman, Board of Directors
March 3, 2010

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 3, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, 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, and (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 and Credit Review staff 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, 2009. 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, 2009, 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, 2009.

Ben R. Novosad, Chief Executive Officer
March 3, 2010

Don VandeVanter, Chief Financial Officer
March 3, 2010

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of five directors of Capital Farm Credit, ACA (the Association). In 2009, the committee met five times and conducted business by conference call on four occasions. The committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from all audit activities. The committee's responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the Association's Web site. The committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) for 2009.

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. 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 to issue 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, 2009, with management and PwC. The committee also reviews with PwC the matters required to be discussed by Statement of Auditing Standards No. 114 (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 outside auditor'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, 2009.

George S. Harrington, Chairman

Members: Richard Counts
Kelly Gaskins
Leigh Hudson
Kenton Kimball

March 3, 2010

FARM CREDIT ADMINISTRATION REQUIRED DISCLOSURES TO SHAREHOLDERS

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, Mergers 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 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 507 East 26th Street, Bryan, Texas, and through its accounting/administration and marketing/operations offices, which are located in Lubbock, Hondo and Devine, Texas. Additionally, there are 66 lending offices located throughout the territory. The Association owns the office buildings in Alpine, Bellville, Bowie, Brady, Bryan, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Devine, Dimmitt, Edna, El Campo, Gatesville, 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, Brownfield, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Graham, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Rocksprings, Round Rock, San Antonio and Seminole, Texas, and Memphis, Tennessee.

During 2007, the Association completed construction of the new Jourdanton and La Grange offices. In conjunction with the construction of the new La Grange office, the existing La Grange office building was sold during 2007. The Association also sold the Marfa office building during the spring of 2007 and relocated this office to Alpine. The Association subsequently purchased this office space in Alpine during the latter part of 2007. Lastly, the Association sold its Devine lending office during the spring of 2007 and consolidated its lending and administrative operations into the existing administrative office located in Devine. During 2007, the Association also opened a new lending office that is leased in Katy, and leased space for a new lending office in Livingston, which opened in February 2008.

During 2008, the Association began construction on a new credit office in Dalhart which was completed in the first quarter of 2009. Also during 2008, the Association entered into negotiations for new leased office space for its Edinburg and Robstown locations. The Edinburg office relocated to its new leased space in February 2009 and sold its old building in 2009. The Robstown office began occupancy of its new lease in 2009 and sold its existing building at the end of January 2010.

During 2009, the credit office buildings in Seymour and Sugar Land were closed. Both offices were in proximity to existing credit offices in the Association’s territory and this customer base is serviced from these locations.

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 consolidated financial statements of the Association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to Note 7 to the consolidated financial statements, “Members’ Equity,” included in this annual report.

DESCRIPTION OF LIABILITIES

The Farm Credit System (System), is a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress. The description of contingent liabilities and intra-System financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference to Notes 2 and 12 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, Mergers 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 Tenth Farm Credit District’s (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Web site at *www.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 *isela.morales@capitalfarmcredit.com*. The Association's annual stockholder report is available on its Web site 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.

CAPITAL FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data					
Assets					
Loans	**$ 5,218,700**	$ 5,271,307	$ 4,842,335	$ 4,169,237	$ 3,394,517
Less: allowance for loan losses	**(46,732)**	(23,646)	(15,805)	(8,849)	(5,363)
Net loans	**5,171,968**	5,247,661	4,826,530	4,160,388	3,389,154
Investment in and receivable from the Bank	**93,580**	90,641	77,377	62,615	51,813
Other property owned, net	**19,893**	689	133	851	276
Other assets	**96,498**	100,489	110,625	98,043	79,586
Total assets	**$ 5,381,939**	$ 5,439,480	$ 5,014,665	$ 4,321,897	$ 3,520,829
Liabilities					
Obligations with maturities of one year or less	**$ 59,596**	$ 79,972	$ 90,187	$ 91,526	$ 80,035
Obligations with maturities greater than one year	**4,543,528**	4,620,305	4,254,901	3,624,179	2,885,867
Total liabilities	**4,603,124**	4,700,277	4,345,088	3,715,705	2,965,902
Members' Equity					
Capital stock and participation certificates	**22,910**	23,231	22,681	21,176	25,066
Allocated retained earnings	**184,905**	144,794	76,995	39,455	-
Unallocated retained earnings	**566,647**	566,967	565,524	545,561	529,861
Accumulated other comprehensive income	**4,353**	4,211	4,377	-	-
Total members' equity	**778,815**	739,203	669,577	606,192	554,927
Total liabilities and members' equity	**$ 5,381,939**	$ 5,439,480	$ 5,014,665	$ 4,321,897	$ 3,520,829

	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 152,361**	$ 144,078	$ 131,581	$ 117,677	$ 104,762
Provision for loan losses	**(58,198)**	(14,190)	(8,620)	(3,578)	(78)
Income from the Bank	**20,121**	15,706	14,464	12,092	9,560
Other noninterest income	**13,129**	15,216	14,916	12,688	11,234
Noninterest expense	**(69,780)**	(62,293)	(57,342)	(54,433)	(47,122)
(Provision for) benefit from income taxes	**(7)**	3	(37)	(35)	(1,113)
Net income	**$ 57,626**	$ 98,520	$ 94,962	$ 84,411	$ 77,243
Key Financial Ratios for the Year					
Return on average assets	**1.1%**	1.9%	2.0%	2.2%	2.4%
Return on average members' equity	**7.7%**	13.4%	14.9%	14.5%	14.6%
Net interest margin as a percentage of average earning assets	**3.0%**	2.9%	2.9%	3.1%	3.3%
Net charge-offs as a percentage of average loans	**0.7%**	0.1%	0.0%	0.0%	0.0%

CAPITAL FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2009	2008	2007	2006	2005
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**14.5%**	13.6%	13.4%	14.0%	15.8%
Debt as a percentage of members' equity	**591.0%**	635.9%	648.9%	613.0%	534.5%
Allowance for loan losses as a percentage of loans	**0.9%**	0.4%	0.3%	0.2%	0.2%
Permanent capital ratio	**13.2%**	12.5%	12.9%	13.5%	15.2%
Core surplus ratio	**12.2%**	11.4%	12.4%	13.0%	14.5%
Total surplus ratio	**12.8%**	12.1%	12.4%	13.0%	14.5%
Net Income Distribution/Allocation					
Cash patronage paid	**$ 22,784**	$ 38,110	$ 25,889	$ 25,277	$ 18,453
Cash retirement of nonqualified written notices of allocation	-	-	6,020	-	5,011
Nonqualified notices of allocation	**39,885**	67,799	43,560	39,455	-

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, 2009, 2008 and 2007, and should be read in conjunction with the accompanying consolidated financial statements.

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 our 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
- actions taken by the Federal Reserve System in implementing monetary policy.

Commodity Review and Outlook:

The geographical dispersion of the Association's territory allows the Association's portfolio to have strong diversity. The primary crops grown will vary by region but each region has a mixture of corn, cotton, grain sorghum, wheat and grass hay. Some regions also have soybeans, and rice is grown in the coastal plains area. Most of the regions across the Southern half of the territory also have livestock production. This includes cattle, sheep and goats, with the vast majority of the value in cattle. While there are some cattle feedyards in the Southern region, the vast majority are located in the high plains area. In the Eastern part of the state, there is also some timber production.

The global recession's effect on the Texas economy included a reduction in housing sales and construction, an increase in state unemployment levels, and depressed commodity prices for many of the state's agricultural producers. The decrease in commodity prices, particularly fed cattle, crop, dairy and biofuel prices, significantly affected the Association's production, agribusiness and energy volume at year end 2009. Increases in land values experienced through much of the decade subsided in 2009, particularly land surrounding large metropolitan areas where residential and commercial development declined significantly. While the Association did experience an increase in its real estate mortgage volume during 2009, the growth was very limited in comparison to prior years. It is anticipated that growth in this area will continue to be limited in 2010 because of the stabilization or further decrease in land values.

Significant Events:

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

The board of directors approved a $57,626 patronage distribution for 2009. $17,741 of this distribution will be paid in cash in March 2010. $39,885 of this distribution was made in the form of nonqualified allocated equity distributions, 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 this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity 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 2009, the Association received income in the form of a direct loan patronage of $18,390 from the Farm Credit Bank of Texas (Bank), representing .40 percent on the average daily balance of the Association's direct loan with the Bank. During 2009, the Association also received $1,526 in interest credit patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $205 from the Bank, representing .65 percent on the year's average daily balance of participations in capital markets loans with patronage commitments.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists 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 and index-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 index-based products, and from 90 days to 30 years on fixed-rate products. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and five- to 20-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.

The Association's loan growth slowed in 2009. For 2009, 2008 and 2007, loan volume has decreased 1 percent, increased 9 percent and increased 16 percent, respectively. The growth in loan volume for 2008 and 2007 is the result of the strong demand for real estate and funding for agricultural production, and the Association's purchase of loan participations. During 2008, economic conditions weakened across the globe. In response to this change, Association management implemented more restrictive lending standards which, coupled with a slowdown in demand, impacted growth during 2009. The Association continues to see some growth in its real estate mortgage portfolio, but has experienced a significant recent slowdown in the growth of its production and agribusiness portfolios. The credit quality of the portfolio has weakened somewhat over the past 12 months, but still remains satisfactory with more than 95 percent of the Association's portfolio assigned a non-adverse credit rating. 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, including principal less funds held of $5,218,700, $5,271,307 and $4,842,335 as of December 31, 2009, 2008 and 2007, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses."

At December 31, 2009, 2008 and 2007, the Association held 13, three and three transactions respectively, which are reported as loans on the consolidated balance sheet totaling $11,869, $4,302 and $4,302 and with remaining commitments of $3,653, $3,653 and $8,698 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 through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2009, 2008 and 2007, loans totaling $96,830, $113,151 and $47,189, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $337, $230 and $200 in 2009, 2008 and 2007, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The Association buys and sells loan participations with other lenders in order to diversify its loan portfolio from a commodity and geographical standpoint. As of December 31, 2009, 2008 and 2007, purchased participations totaled $598,137, $721,716 and $682,015, or 11.5 percent, 13.7 percent and 14.1 percent of total loans, respectively. Included in these amounts are participations purchased from entities outside the Bank and its related associations collectively referred to as the "District" of $224,508, $240,801 and $167,737, or 4.3 percent, 4.6 percent and 3.5 percent of total loans, respectively. The Association has also sold loan participations of $88,314, $179,982 and $205,624 as of December 31, 2009, 2008 and 2007, respectively.

In relation to the purchased participation activity discussed above, two purchased participations were in the process of being sold at the end of 2009. Therefore, at December 31, 2009 these loans of $6,754 were reclassified from "loans" to "other assets" in the consolidated balance sheet.

Risk Exposure:

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

	2009		2008		2007	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 147,883**	**84.0%**	$ 92,126	82.9%	$ 40,266	87.1%
90 days past due and still accruing interest	**7,057**	**4.0%**	13,516	12.2%	678	1.5%
Formally restructured	**1,229**	**0.7%**	4,784	4.3%	5,129	11.1%
Other property owned, net	**19,893**	**11.3%**	689	0.6%	133	0.3%
Total	**$ 176,062**	**100.0%**	$ 111,115	100.0%	$ 46,206	100.0%

At December 31, 2009, 2008 and 2007, loans that were considered impaired were $156,169, $110,426 and $46,073, representing 3.0 percent, 2.1 percent and 1.0 percent of loan volume, respectively. For the year, nonaccrual loans increased $55,757, while formally restructured loans decreased $3,555, and loans 90 days past due but still accruing interest decreased $6,459.

Overall, the quality of the portfolio declined in 2009 as adverse economic, market and weather factors negatively affected some borrowers' ability to make loan payments. Over the past 12 months, loans classed substandard and doubtful increased from 2.6 percent to 4.2 percent of the portfolio. Loans with potential weaknesses (classed special mention) increased from 3.4 percent as of the end of 2008 to 5.0 percent as of the end of 2009.

Most industries were negatively impacted by the economic recession in 2009, but the biofuels, fed cattle, dairy, timber, communications and transitional property industries experienced a higher level of financial stress. The financial stress in these six industries was the primary driver that resulted in the increase in nonaccrual, substandard and special mention loans. The biofuel industry was affected by the significant increase in corn prices during the first half of 2008, followed by a steep drop in ethanol prices in the fourth quarter of that year. In addition, the sudden decline in milk and live cattle commodity prices in late 2008 and into 2009 made it very hard on the dairy and fed cattle producers, respectively. Timber producers have been negatively affected by the decline in the homebuilding industry. The Association has also experienced some losses on land loans surrounding large metropolitan areas where land values have been affected by the sudden decline in residential and commercial development. The decrease in credit quality was not limited to only a few borrowers as the systemic adverse factors caused many borrowers in these groups to experience financial hardships in 2009. By year end, some of the factors that caused the decline in credit quality had improved but the noted improvements were not strong enough or sustained long enough to result in overall improved credit quality.

Other industries also dealt with adverse conditions during the year. Grain, cotton and forage producers had their yields reduced by drought conditions across much of the Association's territory. Drought conditions reduced or eliminated pasture grazing for cow-calf and stocker cattle producers who also had lower per head revenues because of depressed cattle prices. The drought appears to have subsided at the end of 2009 as most parts of the state have received substantial rain. Water sources such as creeks and stock tanks have returned to normal levels and pre-planting conditions for the 2010 crop appear favorable for most areas of the state.

While the portion of the portfolio related to part-time operators did not escape adversity either, over 90 percent of the credit in this area is classed very good or better. Approximately one third of the Association's loan portfolio is to borrowers whose loan repayment is not solely dependent on farm income. Although some of the salaried customers in this group experienced job losses and customers that generate their repayment from nonagricultural businesses had lower sales or revenues in 2009, the effect on this section of the Association's portfolio was very minimal.

All of these adversities resulted in a collective decline in customers' ability to repay and deterioration in the overall portfolio.
The Association took several steps in 2009 to minimize its losses and potential for losses, including the following:

- Selling loans and parts of loans to reduce exposure in a particular industry;
- Implementing more restrictive lending standards;
- Modifying loan terms on some credits to maximize the borrower's ability to repay the loan;
- Where appropriate, foreclosing on the collateral that secures the loan to sell it.

Management practices fair collection practices and attempts to work with all customers that are past due on their payments but in several cases there was not a workable solution to repay the loan except through the forced liquidation of the collateral that was pledged to the loan. This collection practice resulted in the $19,204 increase in other property owned at December 31, 2009. Economic recession and the financial adversities previously discussed have made the sale of other property owned to be slow and in some cases only occur at depressed prices. Management strives to market real estate acquired through foreclosure at or close to market prices.

Management continues to maintain the more restrictive credit underwriting standards that were put in place in the fourth quarter of 2008 and has also enhanced its portfolio and collateral monitoring practices and emphasized the need for quick and accurate credit risk identification in all credit offices. Management also continues to routinely evaluate and monitor counterparty risk in an effort to avoid, or at least minimize, doing business with other lenders that are not financially sound. All of these steps are necessary for management to work with problem customers and industries during this period of adversity for agriculture and the overall economy. The implementation of stricter lending practices, more active portfolio monitoring and fair but firm collection efforts will be maintained during and after the aforementioned adverse economic factors subside and overall credit quality improves.

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.

Allowance for Loan Losses:

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

	2009	2008	2007
Allowance for loan losses - beginning of year	**$ 23,646**	$ 15,805	$ 8,849
Provision for loan losses	**58,198**	14,190	8,620
Loans charged off	**(35,457)**	(6,510)	(5,443)
Recoveries	**345**	161	3,779
Allowance for loan losses - end of year	**46,732**	23,646	15,805
Allowance for loan losses to total loans	**0.9%**	0.4%	0.3%
Allowance for loan losses to nonaccrual loans	**31.6%**	25.7%	39.3%
Allowance for loan losses to impaired loans	**29.9%**	21.4%	34.3%
Net charge-offs to average loans	**0.7%**	0.1%	0.0%

The Association's loan chargeoffs increased significantly in 2009 to $35,457 compared to $6,510 and $5,443 in 2008 and 2007, respectively. Most of these chargeoffs were experienced in the ethanol, feedlot, timber, transitional properties, dairy and utilities industries. As mentioned above, many of the losses were a direct result of significant fluctuations in commodity prices experienced between 2008 and 2009. The loans charged off in 2008 were primarily related to a biofuel loan participation purchased from an association outside the District, while the loans charged off in 2007 were principally related to a real estate participation loan purchased from another District association.

Because of the loans charged off in 2009, and the increased risk in the Association's loan portfolio, most notably the increase in nonaccrual loans, the Association made significant additions to its allowance for loan losses through its provision for loan losses in 2009.

The year-end allowance for loan 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 a general allowance. The Association evaluates all loans classified as impaired for a specific allowance. This specific allowance is based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for loan losses of $20,556, $10,363 and $5,001 were specifically related to impaired loans totaling $156,169, $110,426 and $46,073 at December 31, 2009, 2008 and 2007, respectively. These specific allowances represent 13.2 percent, 9.4 percent and 10.9 percent of the impaired loans at December 31, 2009, 2008 and 2007, respectively. The Association uses industry-based loan pools to calculate its general allowance on the rest of the loan portfolio. 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 $26,176, $13,283 and $10,804 at December 31, 2009, 2008 and 2007, respectively. The allowance for loan losses at December 31, 2009 is considered adequate by management to compensate for inherent losses in the loan portfolio.

Results of Operations:

The Association's net income for the year ended December 31, 2009, was $57,626 as compared to $98,520 for the year ended December 31, 2008, reflecting a decrease of $40,894 or 41.5 percent. The Association's net income for the year ended December 31, 2007 was $94,962. Net income increased $3,558, or 3.7 percent, in 2008 versus 2007.

Net interest income for 2009, 2008 and 2007 was $152,361, $144,078 and $131,581, reflecting increases of $8,283, or 5.7 percent, for 2009 versus 2008 and $12,497, or 9.5 percent, for 2008 versus 2007. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. During 2009, although the Association's average loan volume only increased slightly, the Association benefited from a reduced cost of funding from the Bank as funding rates remained low as a result of actions taken by the Federal Reserve in 2008. The improvement in spreads which occurred during the fourth quarter of 2008, continued into 2009 as the Association was able to offer borrowers funding at a reduced rate while still increasing the net spread associated with each new loan or refinancing of existing 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:

	2009		2008		2007	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 5,254,936**	**$ 307,038**	$ 5,105,075	$ 339,904	$ 4,527,159	$ 346,812
Interest-bearing liabilities	**4,597,597**	**154,677**	4,470,919	195,826	3,974,529	215,231
Impact of capital	**$ 657,339**		$ 634,156		$ 552,630	
Net interest income		**$ 152,361**		$ 144,078		$ 131,581

	2009	2008	2007
	Average Yield	Average Yield	Average Yield
Yield on loans	**5.84%**	6.66%	7.66%
Cost of interest-bearing liabilities	**3.36%**	4.38%	5.42%
Interest rate spread	**2.48%**	2.28%	2.24%

	2009 vs. 2008			2008 vs. 2007		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ 9,978**	**$ (42,844)**	**$ (32,866)**	$ 44,272	$ (51,180)	$ (6,908)
Interest expense	**5,548**	**(46,697)**	**(41,149)**	26,881	(46,286)	(19,405)
Net interest income	**$ 4,430**	**$ 3,853**	**$ 8,283**	$ 17,391	$ (4,894)	$ 12,497

Interest income for 2009 decreased by $32,866, or 9.7 percent, compared to 2008, primarily due to a significant drop in the yield on loans. Interest expense for 2009 decreased by $41,149, or 21.0 percent, compared to 2008. The drop in the cost of interest-bearing liabilities was a result of an overall decline in interest rates, precipitated by the Federal Reserve's move to maintain lower rates in response to perceived weakness in the economy during 2008. The average interest rate spread increased by .20 percent to 2.48 percent in 2009 from 2.28 percent in 2008. The average interest rate spread increased by .04 percent to 2.28 percent in 2008 from 2.24 percent in 2007.

Noninterest income for 2009 increased by $2,328, or 7.5 percent, compared to 2008, due to an increase in patronage received from the Bank. The Bank increased the patronage paid to the Association from .30 percent of the Association's average direct note with the Bank paid in 2008 to .40 percent in 2009. Offsetting this increase in noninterest income was a decrease in loan fee income. As loan growth and conversion of loans into new products slowed, fees generated during the year decreased. Noninterest income for 2008 increased by $1,542 or 5.2 percent, compared to 2007, due primarily to an increase in patronage received from the Bank and increases in loan fees resulting from interest rate conversions during the first and second quarters of 2008.

Noninterest expenses consist primarily of salaries, employee benefits, purchased services and Insurance Fund premiums. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Noninterest expenses for 2009 increased $7,487, or 12.0 percent, compared to 2008. Significant increases were experienced in pension plan funding expense, losses on other property owned and in Insurance Fund premiums. Contributions to the Association's defined benefit plan increased by $5,550 as deterioration in the stock market during 2008 required additional funding to the plan in 2009 to maintain funding levels needed in anticipation of future retirements. Contributions to the plan for the coming year are based on data at the end of the prior calendar year. Based on the stock market valuation at December 31, 2009, the 2010 contribution to the plan will be $6,143 as compared to $9,205 for the year ended December 31, 2009. Liquidation of collateral pledged against nonperforming loans resulted in increases in losses on other property owned of $5,274. Insurance Fund premiums increased $1,584 as a result of an increase in the premium rates. Beginning in 2010, the Farm Credit System Insurance Corporation (FCSIC) has reduced insurance premium assessments on insured debt from .20 percent to .10 percent. As a result of this decrease, the Association anticipates a significant decrease in its Insurance Fund premiums during 2010. These increases in noninterest expenses were offset in part by a net reduction in all other expenses of $4,921 resulting from operating efficiencies gained due to the merger which resulted in reduced salaries, director expense, marketing and other operating expenses. Noninterest expenses for 2008 increased $4,951, or 8.6 percent, compared to 2007, primarily due to increases in the Insurance Fund (FCSIC) premium and increases in salary and benefits expense.

For the year ended December 31, 2009, the Association's return on average assets was 1.1 percent, as compared to 1.9 percent and 2.0 percent for the years ended December 31, 2008 and 2007, respectively. For the year ended December 31, 2009, the Association's return on average members' equity was 7.7 percent, as compared to 13.4 percent and 14.9 percent for the years ended December 31, 2008 and 2007, respectively. The Association's return on average assets and return on average member's equity were significantly reduced by increased provision for loan loss expenses as previously discussed in the Allowance for Loan Loss section of this report.

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.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $4,531,494, $4,604,485 and $4,236,076 as of December 31, 2009, 2008 and 2007, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.36 percent, 4.38 percent and 5.42 percent at December 31, 2009, 2008 and 2007, 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. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2008, is the result of a slight reduction in the Association's loan portfolio. The Association's average loan portfolio funded by the Association's equity was $649,476, $634,156 and $552,630 for the years 2009, 2008 and 2007, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2009, was $5,080,914 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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 2010. 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 borrower 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 $778,815, $739,203 and $669,577 at December 31, 2009, 2008 and 2007, 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 loan loss accounts. The Association's permanent capital ratio at December 31, 2009, 2008 and 2007 was 13.2 percent, 12.5 percent and 12.9 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2009, 2008 and 2007 was 12.2 percent, 11.4 percent and 12.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect stockholders' investment in the Association. The Association's total surplus ratio at December 31, 2009, 2008 and 2007 was 12.8 percent, 12.1 percent and 12.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

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 $17,741, $29,439 and $31,455 in 2009, 2008 and 2007, respectively. The board of directors also issued $39,885, $67,799 and $43,560 in nonqualified written notices of allocation in 2009, 2008 and 2007, respectively. In addition, the Association retired $6,020 of previously allocated nonqualified written notices of allocation in December 2007. See Note 7 to the consolidated financial statements "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 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 Management's Discussion and Analysis and in Note 6 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, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION*	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Phillip Munden	Chairman & Stockholder-Elected Director	2009	2013
Danny Parker	Vice Chairman & Stockholder-Elected Director	2009	2013
Paul Aelvoet	Stockholder-Elected Director	2009	2010
Allen Arfsten	Stockholder-Elected Director	2009	2012
Roy H. Carlson	Stockholder-Elected Director	2009	2010
Keith Corzine	Stockholder-Elected Director	2009	2012
Richard Counts	Director-Elected Director	2009	2013
Dale Crenwelge	Stockholder-Elected Director	2009	2013
Kelly Gaskins	Stockholder-Elected Director	2009	2010
George S. Harrington	Stockholder-Elected Director	2009	2013
Dan Henard, Jr.	Stockholder-Elected Director	2009	2012
F. Shelby Henke	Stockholder-Elected Director	2009	2013
Dale Hoelscher	Stockholder-Elected Director	2009	2011
Leigh Hudson	Director-Elected Director	2009	2012
Kenton B. Kimball	Stockholder-Elected Director	2009	2011
John Malazzo	Stockholder-Elected Director	2009	2011
Larry McBee	Stockholder-Elected Director	2009	2012
Harlan Metting	Stockholder-Elected Director	2009	2010
Larry Miller	Stockholder-Elected Director	2009	2010
Steve Moore	Stockholder-Elected Director	2009	2012
Lance D. Morris	Stockholder-Elected Director	2009	2011
Gary L. Palousek	Stockholder-Elected Director	2009	2011
John B. Phillips	Stockholder-Elected Director	2009	2011
Carl Sample	Stockholder-Elected Director	2009	2012
Stanley Schilling	Stockholder-Elected Director	2009	2011
Roy Allen Schmidt	Stockholder-Elected Director	2009	2013
Rudy Schroeder	Stockholder-Elected Director	2009	2013
Lloyd Shoppa	Director-Elected Director	2009	2011
Mike Vickers, D.V.M.	Stockholder-Elected Director	2009	2010
Ed Walker	Stockholder-Elected Director	2009	2011
James L. Wedel	Stockholder-Elected Director	2009	2013
Wayne Wilson	Stockholder-Elected Director	2009	2012
Lowell Woodward	Stockholder-Elected Director	2009	2010
Ben R. Novosad	Chief Executive Officer	1976	----
Eric C. Rothe	Executive Vice President, Lending	1984	----
Kenny S. Brown	Senior Vice President, Compliance	2000	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Mark L. Hiler	Senior Vice President, Marketing	1980	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Roy A. West	Senior Vice President, Lending	1998	----
Mark Loveland	Senior Vice President, Lending	1997	----
Scott Taylor	Senior Vice President, Commercial Credit	2009	----
Chris Boutwell	Senior Vice President, Internal Audit & Credit Review	2004	----

*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).

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Phillip Munden runs a cow-calf and stocker operation in Bosque County. He obtained a B.S. and M.S. degree in animal science and animal nutrition from Sul Ross State University in Alpine, Texas. Previously jointly serving on both PCA and FLBA boards and currently serving on the Capital Farm Credit Board since its merger with the Heart of Texas PCA, he has filled numerous positions. He was elected CFC board chairman in April, 2009, having served as vice chairman of the CFC board; chairman of the compensation committee (a position held for the past 4 years); and a member of the board's planning committee, steering committee and executive committee. He is a member of the Bosque County Soil & Water Conservation board; committeeman for the Houston Livestock Show; member of Texas & Southwestern Cattle Raisers; previous board chairman of the Walnut Springs ISD; member of the Walnut Springs Memorial United Methodist Church; and chairman of the board of trustees.

Danny Parker served proudly for three years in the U.S. Army and attended Texas A&I University in Kingsville, Texas. Mr. Parker and his wife, Barbara, have farmed and ranched for 31 years in Uvalde and Zavala counties. He is currently serving on the Winter Garden Spinach Board, Texas Onion Board, as executive director of the Gulf Compress in Corpus Christi, director of the Uvalde County Farmers Co-op, a member of the Uvalde County Extension program Council, the Texas and Southwestern Cattle Raisers Association and the Cattle Feeders Association. He and his family attend the First Baptist Church in Uvalde.

Paul Aelvoet has ranched and farmed in Medina County for more than 30 years. He has been the 4-H club manager for more than 20 years and is a past director of the Medina County Farm Bureau, Texas Limousin Association and the Medina County Fair. Mr. Aelvoet is also a member of the Association's Governance Committee.

Allen Arfsten is a farmer and rancher in San Saba, where he raises wheat and hay and runs stocker cattle on wheat and pastureland. He is a member of the San Saba County Young Farmers, San Saba County Farm Bureau and is serving on the County Crop Committee. He serves as a deacon for First Baptist Church in San Saba.

Roy H. Carlson has been in the farming/ranching business for 41 years, with operations in Deaf Smith County, Texas and Quay County, New Mexico. Mr. Carlson produces food corn, wheat, black-eyed peas, seed milo, cotton, vegetables and has a cow-calf operation. In 2007, Mr. Carlson was elected vice chairman of the Texas Farm Credit District Stockholders' Advisory Committee. He currently serves on the Planning and Executive committees for Capital Farm Credit, and serves as their Stockholder Advisory Representative. Mr. Carlson is past member of Deaf Smith County Tax Appraisal Review Board, serving two years as chairman. In 1983 he received the Star Young Farmer of Texas Award, he received the Outstanding Soil Conservation Farmer award in 1987. He is past member of the American Land Foundation and currently serves on Deaf Smith County 4-H committee, and County Crops and Livestock committees. He is a member of First Methodist church where he serves on various boards. Mr. Carlson resides in Hereford, Deaf Smith County, Texas.

Keith Corzine resides in the Stamford community and has been a member of the Association since 1977. He is involved in farming cotton, wheat and milo, as well as raising cattle in Haskell County. He serves as a member of the board of the Farmers Co-op Gin of Stamford and is a former board member of the Tri-Area Livestock Association, the Farmers Union and the Sagerton Water Supply Corporation. He is a member of Faith Lutheran Church in Sagerton.

Richard Counts started serving as an outside director in February 2005. Mr. Counts retired as a CPA and audit partner with Arthur Andersen, LLP in June 1996. He has served as a financial consultant for various companies from 1996 through 2005. Mr. Counts has served on the Association's Audit Committee since March 2005.

Dale Crenwelge operates agricultural and investment properties in Central and West Texas. Mr. Crenwelge obtained his bachelor of science degree in civil engineering from Texas A&M University in 1981, and became employed as project engineer by Conoco. He subsequently returned to Texas A&M, earning his MBA in 1985. Mr. Crenwelge became a real estate broker and investor, owning ranch, commercial real estate and residential development properties. He has served as trustee of the American Realty Trust. Mr. Crenwelge served as trustee and president of the Comfort ISD School board, presently serves as trustee of the Ambleside School in Fredericksburg, also presently serves as a director on the Hill Country Higher Education Foundation and has been active in the Kerrville, Fredericksburg, Boerne and Comfort Chambers of Commerce. Mr. Crenwelge is a current member of the Texas Farm Bureau, the Texas Wildlife Association and the Centurions of Kendall County.

Kelly Gaskins and his brother farm approximately 7,500 acres of dry land cotton and 170 acres of irrigated cotton in Howard, Martin and Dawson counties. They also own a ditching company. Mr. Gaskins has a bachelor's and master's degree from Texas A&M University. He has served on the Howard County Farm Bureau Board and has been vice president and chairman of the Sales Committee for the Howard County Jr. Livestock Association. He served on the Policy and By-laws Committee for First Ag Credit and has attended seven Director Development Programs. He was also a member of First Ag Credit's C.A.P.s program, and currently serves on the Governance Committee for Capital Farm Credit. He is also president of the board for the Knott Co-op Gin, Fire Chief for the Knott Volunteer Fire Department and a member of the Knott Church of Christ. Mr. Gaskins has been a past Farmer of the Year for Howard County, 4-H Adult Leader of the Year for Howard County, and received an Honorary American Farmer FFA degree.

George S. Harrington is a rancher from Colorado County. Mr. Harrington is retired from Tenneco Inc., where he was director of financial controls and assistant corporate controller. Mr. Harrington is chairman of the Audit Committee and has been appointed by the board as the Association's "financial expert." Mr. Harrington is also a member of the board's Planning Committee and Executive Committee.

Dan Henard, Jr. has been a member of the Association since 1960. He resides in the Wellington community where he is involved in farming cotton, peanuts and wheat, as well as raising livestock. He is on the board of Mesquite Ground Water District, and serves as finance chairman of First United Methodist Church of Wellington. He formerly served as chairman of the Salt Fork Soil & Water Conservation District and president of the Panhandle Association of Soil and Water Conservation District boards. He has a bachelor's degree in range science from Texas A&M University. He also represents the Association and serves on the board for the Farm Credit Council.

F. Shelby Henke is a farmer/rancher from Atascosa County and has been engaged in farming and ranching for 48 years. Mr. Henke also has managed Peggy-Fashing Rural Water Supply Corporation for the past 33 years and is a member and organist of Sacred Heart Catholic Church in Campbellton. He chairs the annual fund raiser for the Campbellton Fire Department and Sacred Heart Catholic Church. Mr. Henke also serves on the Stockholders' Advisory Committee for the Farm Credit Bank of Texas.

Dale Hoelscher is a farmer/rancher from Falls County and has been engaged in farming and ranching for more than 20 years. Mr. Hoelscher and his brother operate more than 4,000 acres with a main crop of corn and rotate a few acres of wheat in Bell, Falls and Milam counties. He and his brother also run a cow/calf operation. Mr. Hoelscher held a position of secretary while serving on the Bell Falls Electric Co-op. He is a member of the Westphalia Knights of Columbus, Westphalia Volunteer Fire Department and the Catholic Church of the Visitation. He received the Falls County Young Farmer of the Year Award in 1997. He served on the Heart of Texas PCA Board for four years during the time of the merger with Capital Farm Credit. While serving on the board, Mr. Hoelscher was on the Audit Committee, attended several director classes and the State Convention. Mr. Hoelscher was elected to the Capital Farm Credit Board of Directors in June 2009 for a two-year term expiring June 2011, and currently serves on the Association's Compensation Committee.

Leigh Hudson resides in Dallas where she and her husband own an advertising agency. She has more than 20 years of experience in a variety of industries including internet hosting, IT consulting, real estate and advertising. She began her career working in public accounting with Arthur Andersen. She graduated from Texas Christian University with a B.B.A. in accounting and is licensed as a certified public accountant.

Kenton B. Kimball owns and manages a 4,000-acre farm and stocker cattle operation in Sherman County. He has served as president on Stratford Independent School board and Stratford Hospital board. He has served on Sherman County Economic Development board, Sherman County Livestock Show board, Sherman County Soil and Conservation board, and Sherman County Appraisal board. He has a bachelor's degree in business administration with a major in finance from Kansas State University. He has served on the Audit Committee in Farm Credit associations.

John Malazzo is the owner and operator of John Malazzo Farms in Burleson and Brazos counties. He raises cotton, corn, milo, hay and F-1 replacement heifers. Mr. Malazzo graduated with a B.S. in agricultural economics from Texas A&M University. He was named Conservation Rancher of the Year in 1996 by the Region III Soil and Water Conservation Districts of Texas. Mr. Malazzo served as a director of Heart of Texas PCA through its merger with Capital Farm Credit. He currently serves as a director of Capital Farm Credit, Producers Co-op Association of Bryan, the Texas Cotton Growers Cooperative Association – Taylor Compress, as well as the Farm Service Agency – USDA Burleson County Committee. He is past director and agricultural representative of the Post Oak Savannah Underground Water Conservation District, the Burleson County Fair Association, the Burleson County 4-H and FFA Commercial Heifer Show and Sale, the Burleson County Field Crops Committee, the Burleson County Beef & Forage Committee, the Extension Program Council and the Extension Leadership Advisory board. He is a member of St. Mary's Catholic Church in Caldwell.

Larry McBee is the managing partner in a family ranching operation in Val Verde, Kinney and Edwards counties, and has been involved in agriculture for 39 years. Mr. McBee is serving on the NRCS board of the Devils River SWCD. Mr. McBee has also served on the Texas A&M Agriculture Development Council and as a director of the Texas Sheep and Goat Raisers' Association.

Harlan Metting is a full-time rancher. He has had a cow-calf operation for 47 years in DeWitt, Gonzales and Goliad counties. He was a director of FLBA of South Texas for two years and has been for Capital Farm Credit for the past nine years. Mr. Metting was chosen the 2004 Outstanding Farmer-Rancher by the Yorktown Chamber of Commerce. Present affiliations include being a member of First United Methodist Church of Yorktown, where he has served on the Pastor-Parish Relations Committee as trustee and on the Nominating Committee. He is a member of the Gruenau Verein, Yorktown Volunteer Fire Department, Farm Bureau, Farmers Union, R. Calf USA and Yorktown Athletic Booster Club.

Larry Miller has been a member of the Association since 1966. He is a lifetime resident of Baylor County, where he and his family farm wheat, hay, milo and oats, as well as manage range pasture. He was employed by the NRCS for 30 years. He served on the board of directors of FGS Corp Association, the Tri County Electric Co-op and the Farmers Cooperative Association. He currently serves on various committees of the Baylor County Extension board and Baylor County Appraisal Office. He has a bachelor's degree in range management from Texas Tech University.

Steve Moore has been a member of the Association since 2002. He resides in Roscoe, and he owns a farming operation in Scurry County. He serves as a director for Rolling Plains Cotton Growers, as well as Scurry County Farm Bureau, Big County Electric Co-op and the Central Rolling Plains Co-op Gin. He previously served as director for Pyco Industries and Scurry County FSA. He is a member of First Baptist Church of Snyder.

Lance D. Morris resides in the Crosbyton community and has been a member of the Association since 1974. He and his brother are partners in a cotton and milo farming operation in Dickens, Floyd and Crosby counties. He currently serves on the AgFirst/FCBT Joint Plan Sponsor Committee and Defined Benefit Administration Committee. He is on the board of directors of Crosby County Fuel Association, Associated Cotton Growers and White River Municipal Water District. He serves as deacon and treasurer of First Baptist Church in Crosbyton. His past service includes the board of directors of the South Plains Association of Governments, and the Crosby County Appraisal District. He served as mayor of Crosbyton from 1986 to 1996. He has a bachelor's degree in accounting from Texas Tech University.

Gary L. Palousek is a self-employed farmer in Willacy County and has been raising cotton, milo and sugarcane for 38 years. Mr. Palousek serves as a board member and immediate past president of the Willacy Co-op, is director and secretary/treasurer of Willacy County Drainage District No. 2, is the immediate past chairman of the county committee of the USDA/Farm Service Agency, is a member of the Nominating Committee and a member of the Advisory Committee of Magic Valley Electric Cooperative, and serves on the parish council of St. Anthony's Catholic Church in Raymondville.

John B. Phillips has been self employed in farming and ranching business for the past 42 years. He was elected to the Capital Farm Credit Board of Directors in April 2009, and will serve an initial two-year term.

Carl Sample is a rancher and poultry producer from Gonzales County. He was a former director for the Gonzales County Underground Water Conservation District. Mr. Sample is a life member of the San Antonio Livestock Exposition, where he serves as a member of the Calf Scramble Committee. He also serves on the Finance Committee of Smiley United Methodist Church.

Stanley Schilling is a native of Live Oak County, where he resides and is an agribusinessman involved in ranching, farming, hunting and real estate. He has served for 33 years as director of the Farm Credit System and served as chairman and vice chairman of South Texas FLBA of Kenedy from 1980 to 2001. He is currently serving on the Planning Committee, and is the representative to the Texas District on the Farm Credit Council. Mr. Schilling served on the Capital Farm Credit Legislative Committee and the Steering Committee. Mr. Schilling has 27 years' experience as a sales representative of Pioneer Hybrid International, a DuPont Company. Locally, he has served on the Live Oak County Soil and Water Conservation District, Farm Service Agency and Appraisal District Agricultural boards and is a member of the Texas Farm Bureau. He is the past president of the Texas Junior Meat Goat Show Circuit, South Texas SWCD, Bee County Marketing Club and Bee County Co-op. In 2003, he was chosen to receive Texas County Agricultural Agents Association Man of the Year award. He has served on the Governor's Committee, and Make Texas Number One in Agriculture Committee.

Roy Allen Schmidt operates a cow-calf operation in Washington County and has been farming and ranching all of his life. He owns and operates LaBahia Antiques and Schmidt Construction LLC providing on-farm pond and brush work. Also, he has served as an auctioneer since 1988. In addition to serving as a director of Capital Farm Credit for the past 20 years, Mr. Schmidt is a director of the Property Owners Association of Washington County, a vice president for the Burton Independent School District trustees, a member of the Texas and Southwestern Cattle Raisers Association, and a member of the American Legion Post 242. He attended Blinn College and has completed Director Development programs with the Southwestern Graduate School of Banking and the Farm Credit Bank of Texas.

Rudy Schroeder is a farmer in Caldwell County. Mr. Schroeder serves as a director of the Caldwell County Farm Bureau and the Caldwell-Travis Soil and Water Conservation board.

Lloyd Shoppa is a businessman from Wharton, Texas. Mr. Shoppa started serving as an outside director in February 2005. Mr. Shoppa is retired president of Bell Helicopter Textron, Inc., and currently owns five John Deere dealerships in South Texas. He is former president of the Hurst-Euless-Bedford (HEB) Rotary Club and Chamber of Commerce and has also served as president of the HEB School board. Mr. Shoppa was inducted into the National Management Association Hall of Fame in 1997.

Mike Vickers, D.V.M. lives in Brooks County and has ranching operations in Brooks, Hidalgo and Jim Hogg counties. He is a practicing veterinarian and president of Las Palmas Veterinary Hospital, Inc. He has been ranching for 36 years and has operated his veterinary hospital for 34 years. He works with youth in the FFA and 4-H and is an avid hunter. Dr. Vickers received his B.S. from Texas A&M University in 1972 and his D.V.M. from Texas A&M University in 1973. He is an FFA "Loan Star Farmer," commissioner on the Texas Animal Health Commission, and a consultant to the Texas Beef Quality Producers. He authored and instituted legislation that removed biological waste issues from TNRCC (TCEQ) and put TAHC in charge of these issues. He also works with the U.S. military on anthrax research.

Ed Walker is a fourth-generation, lifetime resident of the Winter Garden area, and serves as general manager of the Winter Garden Groundwater Conservation District since its inception in 1999, as well as general manager of the Southwest Texas Rain Enhancement Association. He is a graduate of Texas A&M University, College Station, with a bachelor of science degree in agriculture economics, business minor, and is a member of the First Baptist Church in Carrizo Springs. Mr. Walker has been involved in agriculture all of his life, including pecans and custom farming operations, and currently operates a small cow/calf grazing operation. Mr. Walker is a member of the Dimmit County Farm Bureau, Carrizo Springs Noon Lions Club and former treasurer of the Dimmit County Junior Livestock Show Association, Inc. and continues to participate on the Sales Committee for the Livestock Association.

James L. Wedel is a farmer who presently farms 5,000 acres in Bailey and Parmer counties. He has been a member of the Association since 1989, resides in Muleshoe and currently serves on the boards of the Texas Corn Producers, Corn Producers Association of Texas, Sunland, Inc. and Texas Organic Cotton Marketing Cooperative. He has a bachelor's of science degree in agriculture economics from Texas Tech University.

Wayne Wilson operates a diversified stocker operation headquartered in Brazos county. Mr. Wilson also owns and operates LW Management Services, a consulting firm specializing in business, insurance and risk management. He serves as a director of the Brazos Valley Groundwater Conservation District, a director of Groundwater Management Area 12 and a director of the State Brazos G Regional Water Planning Group. He also has served as secretary of the Brazos County Youth Commercial Heifer Show, president of Brazos County Farm Bureau, chairman of the Brazos County Beef and Forage Committee, treasurer of the Brazos County Extension Executive Board and on the Texas Farm Bureau State Young Farmer and Rancher Committee. Mr. Wilson is a member of Crossroads Community Church, Texas Cattle Feeders, Texas and Southwestern Cattle Raisers Association and Texas Farm Bureau.

Lowell Woodward has conducted ranching operations in Pecos, Crockett and Brewster counties for 30 years raising cattle, sheep, goats and horses. He holds a certificate in ranch management from Texas Christian University. Being a fourth-generation rancher he has been associated with the Farm Credit System all of his life. Mr. Woodward was elected as a director in 2005 and is currently serving as a compensation committee member as well as a director. He has also served for nine years as a director on the Rio Grande Electric Co-op, and is a Credentialed Cooperative Director. Mr. Woodward has been involved in the Wind Energy development in Pecos County since it began and continues to be influential in the development of green energy. Mr. Woodward was a founding directors of a wool and mohair cooperative, Producers Marketing Cooperative Incorporated (PMCI) to assist ranchers' sales of their products through vertical integration in the marketplace. Mr. Woodward is also a committeeman of Texas Sheep and Goat Raisers' Association and past director of the Region F Water Planning Group as well as past president of the Pecos County Farm Bureau. He was recognized as Pecos County Conservation Rancher of the year.

Ben R. Novosad is 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, the Farm Credit System's Risk Management Committee and the Farm Credit System's Risk Management Work Group. 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.

Eric C. Rothe currently serves as the Association's executive vice president, lending. He had previously served as the CEO of Southwest Texas, ACA. Prior to that, he also held positions with the Federal Land Bank of Texas in Austin, and the Marfa and Uvalde Federal Land Bank Associations.

Kenny S. Brown, senior vice president/policy and compliance, has been with Capital Farm Credit since October 2000 when he was hired to coordinate the Association's internal credit review. In his current position since 2006, Mr. Brown is responsible for ensuring the Association takes steps to operate under safe and sound policies and in compliance with applicable laws and regulations. Mr. Brown has more than 20 years of experience in the Farm Credit System following his graduation from Louisiana State University in 1986.

Patricia A. Gonzales is a certified public accountant and was employed as chief financial officer in May 1999. Mrs. Gonzales currently serves as the Association's senior vice president, accounting and administration. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Mrs. Gonzales also serves on the Farm Credit System Accounting Standards Work Group.

Mark L. Hiler was employed in 1980 with the Federal Land Bank Association of Uvalde. He served as chief executive officer of that Association prior to its merger with Southwest FLBA in 1995. He served Southwest as president/chief operating officer until its merger with Capital Farm Credit in 2006. Mr. Hiler serves as the Association's senior vice president and chief operating officer.

Don VandeVanter serves as senior vice president and chief financial officer for the Association. He is responsible for the financial administration and capital management of the Association. Don, 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 for more than two years.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the Association's senior vice president, lending. 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.

Mark Loveland serves the Association as senior vice president, credit. Prior to his employment with the Association, he was chief credit officer of First Ag Credit, FCS. He has also held several positions with the Farm Credit Bank of Texas including director of credit operations, engineer/appraiser, mineral representative and loan officer. He has 27 years of service with the Farm Credit System.

Scott Taylor joined Capital Farm Credit in mid-2009 as managing director of agribusiness/capital markets/correspondent lending. His prior employment history was with several Texas-based banks with a focus on agriculture, energy and general commercial/corporate lending. He spent approximately 20 years with a major global agribusiness bank in Dallas and Chicago, including managing project finance, and was a senior relationship manager in agribusiness and production ag lending.

Chris Boutwell serves the Association as senior vice president, internal audit and review. He joined the Association in 2004 and prior to his employment with the System, he worked as a certified public accountant with a local firm in Lubbock, Texas. He currently serves on the board and is actively involved with CASA, or Court Appointed Special Advocates, of Lubbock.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

In 2009 directors were compensated for their service to the Association in the form of an honorarium of $700 per month, $100 for each board meeting attended, $500 per day for committee meetings attended, $200 per meeting for conference calls and $200 for travel days when required. The directors were also reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2009 was paid at the IRS-approved rate of 55 cents per mile.

A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With: Board Meetings	Other Official Activities	Total Compensation in 2009
Paul Aelvoet	11	10	$ 11,500
Mark N. Anderson*	3	1	3,900
Allen Arfsten	11	18	13,400
Ute Becton*	3	20	8,894
Rodney Carlisle*	3	1	3,925
James B. Carlson*	1	0	3,500
Roy H. Carlson	10	15	12,800
Keith Corzine	11	10	11,400
Richard Counts	10	26	15,695
Dale Crenwelge	7	5	10,100
Lee J. Fazzino*	3	0	3,739
David Franklin*	3	1	3,900
Paul L. Garrison Jr.*	3	0	3,700
Kelly Gaskins	11	10	11,234
Grady Grounds Jr.*	3	0	3,732
George S. Harrington	11	26	16,352
Kenneth Hees*	3	0	3,712
Dan Henard, Jr.	11	30	13,931
F. Shelby Henke	9	4	10,351
Dale Hoelscher	6	12	7,800
Leigh Hudson	8	26	14,974
David Hughes*	3	0	3,733
Gary Key*	3	0	3,730
Kenton B. Kimball	11	19	13,900
Benson J. Long**	2	0	2,100
John Malazzo	10	10	11,738
Terry McAlister*	3	4	4,658
Larry McBee	11	9	11,755
Harlan Metting	11	7	11,186
Larry Miller	11	17	12,882
Steve Moore	9	9	11,825
Lance D. Morris	11	16	13,400
Phillip Munden	9	42	18,644
Nolan Niehues*	2	0	3,600
Robert B. Nunley, Jr.*	0	0	3,500
Gary L. Palousek	11	16	14,495
Danny Parker	9	19	13,300
Ann H. Patrie*	3	5	4,600
John Perryman*	3	2	4,200
John B. Phillips	8	9	7,630
Jack A. Quirey*	3	0	3,700
Robert Rieck*	3	5	5,188
Carl Sample	11	11	11,688
Billy B. Savell*	2	0	3,600
Stanley Schilling	9	34	15,822
Roy Allen Schmidt	10	8	11,214
Rudy Schroeder	11	7	10,943
Victor Schumann*	3	2	4,200

Lloyd Shoppa	10	18	13,114
Billy Ray Smith**	2	0	2,200
Wayne Stroud*	3	0	3,700
Dean Turner*	3	2	4,100
Mark W. Vanham*	3	0	3,600
Mike Vickers, D.V.M.	6	5	10,100
Ed Walker	10	10	11,108
Gene Walker*	3	0	3,700
James L. Wedel	11	8	11,323
James D. Wieck*	3	0	3,700
Wayne Wilson	11	19	13,645
Lowell Woodward	10	18	13,000
Jim Wright*	3	0	3,700
			$ 522,760

* As part of the board's governance plan to reduce the number of board positions, elections held in 2009 resulted in these directors vacating their director positions following the 2009 annual meeting.
**Resigned position during 2009.

The aggregate compensation paid to directors in 2009, 2008 and 2007 was $522,760, $962,479 and $895,931, 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	Planning / Steering	Other*	Total
Paul Aelvoet	$ -	$ -	$ 2,000	$ -	$ -	$ 2,000
Mark N. Anderson	-	-	-	-	-	-
Allen Arfsten	-	-	2,400	1,500	-	3,900
Ute Becton	500	-	500	-	2,700	3,700
Rodney Carlisle	-	-	-	-	-	-
James B. Carlson	-	-	-	-	-	-
Roy H. Carlson	-	-	-	1,500	1,600	3,100
Keith Corzine	-	-	-	-	1,300	1,300
Richard Counts	2,500	-	-	1,500	600	4,600
Dale Crenwelge	-	-	-	-	800	800
Lee J. Fazzino	-	-	-	-	-	-
David Franklin	-	-	-	-	-	-
Paul L. Garrison Jr.	-	-	-	-	-	-
Kelly Gaskins	1,500	-	-	-	-	1,500
Grady Grounds Jr.	-	-	-	-	-	-
George S. Harrington	3,000	-	-	1,500	600	5,100
Kenneth Hees	-	-	-	-	-	-
Dan Henard Jr.	-	-	-	1,000	2,100	3,100
F. Shelby Henke	-	-	-	500	800	1,300
Dale Hoelscher	-	1,500	-	-	900	2,400
Leigh Hudson	2,500	-	-	1,000	600	4,100
David Hughes	-	-	-	-	-	-
Gary Key	-	-	-	-	-	-
Kenton B. Kimball	2,500	-	-	-	600	3,100
Benson J. Long	-	-	-	-	-	-
John Malazzo	-	-	2,000	-	-	2,000
Terry McAlister	-	-	-	-	500	500
Larry McBee	-	-	2,000	-	-	2,000
Harlan Metting	-	-	-	-	1,300	1,300
Larry Miller	-	-	-	-	2,100	2,100
Steve Moore	-	-	2,000	-	-	2,000
Lance D. Morris	-	1,800	-	500	1,200	3,500
Phillip Munden	2,000	1,000	1,000	1,800	2,800	8,600
Nolan Niehues	-	-	-	-	-	-
Robert B. Nunley	-	-	-	-	-	-
Gary L. Palousek	-	1,500	500	-	600	2,600
Danny Parker	1,500	500	-	-	1,900	3,900
Ann H. Patrie	-	-	-	-	300	300
John Perryman	-	-	500	-	-	500
John B. Phillips	-	-	-	-	1,600	1,600
Jack A. Quirey	-	-	-	-	-	-
Robert Rieck	500	-	-	-	-	500
Carl Sample	-	-	-	-	2,100	2,100
Billy B. Savell	-	-	-	-	-	-
Stanley Schilling	500	-	500	1,500	3,000	5,500
Roy Allen Schmidt	-	-	1,500	-	-	1,500
Rudy Schroeder	-	-	1,500	-	-	1,500
Victor Schumann	-	-	500	-	-	500
Lloyd Shoppa	-	1,500	-	1,000	600	3,100
Billy Ray Smith	-	-	-	-	-	-
Wayne Stroud	-	-	-	-	-	-
Dean Turner	-	-	-	-	-	-
Mark W. Vanham	-	-	-	-	-	-

Mike Vickers, D.V.M.	-	-	1,000	-	-	1,000
Ed Walker	-	1,000	-	-	600	1,600
Gene Walker	-	-	-	-	-	-
James L. Wedel	-	1,500	-	-	-	1,500
James D. Wieck	-	-	-	-	-	-
Wayne Wilson	-	-	-	1,500	2,300	3,800
Lowell Woodward	-	1,500	-	-	600	2,100
Jim Wright	-	-	-	-	-	-
	$ 17,000	$ 11,800	$ 17,900	$ 14,800	$ 34,100	$ 95,600

*Other includes the following meetings that were held: credit, director development, executive, appreciation dinners, district nominating committee, Farm Credit Council, FCBT stockholder, FCA review and Annual Stockholder meetings.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $325,229, $568,709 and $473,372 in 2009, 2008 and 2007, respectively.

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. This objective holds particularly true for the Association's senior officer group. 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, through its Compensation Committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Name of Individual or Group	Year	Salary (a)	Prior Year Incentives (b)	Current Year Incentives (c)	Deferred/ Perquisite (d)	Other (e)	Total
Ben R. Novosad, CEO	2009	$ 470,078	$ 47,937	$ 70,509	$ 1,035,606	$ 24,257	$ 1,648,387
	2008	323,012	67,324	57,000	657,312	92,913	1,197,561
	2007	304,812	48,718	57,000	44,104	21,133	475,767
Aggregate No. of Senior Officers in Year Excluding CEO							
9	2009	$ 1,573,794	$ 134,218	$ 218,411	$ 351,881	$ 143,368	$ 2,421,672
9	2008	1,513,234	287,706	201,394	277,584	149,190	2,429,108
9	2007	1,339,049	171,521	102,750	99,738	132,682	1,845,740

(a) Gross salary
(b) Profit sharing incentives earned in the prior year and paid in the current year and payout of 20 percent of deferred incentives previously accrued
(c) Cash payout of current year incentives earned
(d) Change in pension value and nonqualified deferred compensation earnings
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance

The CEO of the Association participates 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 CEO's 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 CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, 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.

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 is available and will be disclosed to shareholders of the institution upon request.

The CEO of the Association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the Participating Employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the "Administrative Agreement") and their eligible employees. One of the purposes of the Plan is to allow a means for Participating Employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan.

The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and has begun funding this shortfall over a five-year period using a five-year vesting schedule. The funding of this shortfall occurs annually. Contributions to the Plan for 2009 and 2008 were $797 and $550, respectively. At December 31, 2009 the total potential obligation to the Association is $3,500, with $1,347 of this obligation funded through December 31, 2009.

Employees who are assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2009 at the IRS-approved rate of 55 cents per mile.

Incentive Plan for Officers and Employees:

The Association has a three-part incentive plan in place for all of its full-time employees including its officers. All full-time employees are eligible to earn an individual incentive up to 15 percent of their annual salary based upon their individual performance objectives for the fiscal period ended September 30. In addition, employees may participate in a second and third incentive program based upon the Association's financial performance for the calendar year relative to other agricultural credit associations in the System. Financial performance is based upon the Association's credit quality, earnings, capital and growth relative to its peers in the System. If the Association's financial performance qualifies the employees to participate in these incentives, the employees may earn up to an additional 10 percent of their annual salary in each of these two incentives. The second incentive is paid in cash and the third incentive is a matching amount earned in the year in which the financial performance was achieved, in which payment is deferred for five years. At the end of each year, the Association credits the employee's Deferred Incentive Account (an "Account") with an amount equal to the employee's Profit Sharing Incentive for such year. This Deferred Incentive will be accumulated in the Account. The Deferred Incentive will be deemed to have been credited to the employee's Account on December 31 of the year for which the Deferred Incentive was earned. Employees receive payments of 20 percent of the employee's Account balance on each January 1, beginning on the fifth January 1 after the employee was first eligible to receive a Deferred Incentive. For 2009, the Association's financial performance did not qualify the employees to participate in any incentives other than the individual incentive. For 2008 and 2007 the Association's financial performance has qualified its employees to participate in the second and third incentive programs. For 2008 and 2007 the board of directors awarded some senior officers, as well as other employees, with an additional bonus. The total of these additional bonuses was $0, $147,460 and $349,000 for 2009, 2008 and 2007, respectively.

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 10 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 on January 1, 2009, or 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.

Total fees paid to outside auditors by category of service for 2009 are as follows:

Service Category	Fee
Annual audit services	$ 117,270
Tax services	16,000
Total	$ 133,270

CAPITAL FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	December 31, 2009	2008	2007
Assets			
Cash	**$ 15,098**	$ 20,163	$ 20,867
Loans	**5,218,700**	5,271,307	4,842,335
Less: allowance for loan losses	**(46,732)**	(23,646)	(15,805)
Net loans	**5,171,968**	5,247,661	4,826,530
Accrued interest receivable	**58,837**	64,333	73,170
Investment in and receivable from the Bank:			
Capital stock	**91,342**	88,168	76,333
Receivable	**2,238**	2,473	1,044
Other property owned, net	**19,893**	689	133
Premises and equipment, net	**12,325**	13,416	13,682
Other assets	**10,238**	2,577	2,906
Total assets	**$ 5,381,939**	$ 5,439,480	$ 5,014,665
Liabilities			
Note payable to the Bank	**$ 4,531,494**	$ 4,604,485	$ 4,236,076
Advance conditional payments	**3,996**	8,173	19,777
Accrued interest payable	**12,034**	15,820	18,825
Drafts outstanding	**8,925**	15,260	9,688
Patronage distributions payable	**17,760**	22,807	31,446
Unfunded post retirement medical obligation	**13,506**	13,177	12,326
Other liabilities	**15,409**	20,555	16,950
Total liabilities	**4,603,124**	4,700,277	4,345,088
Members' Equity			
Capital stock and participation certificates	**22,910**	23,231	22,681
Allocated retained earnings	**184,905**	144,794	76,995
Unallocated retained earnings	**566,647**	566,967	565,524
Accumulated other comprehensive income	**4,353**	4,211	4,377
Total members' equity	**778,815**	739,203	669,577
Total liabilities and members' equity	**$ 5,381,939**	$ 5,439,480	$ 5,014,665

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
Interest Income			
Loans	**$ 307,038**	$ 339,904	$ 346,812
Interest Expense			
Note payable to the Bank	**154,675**	195,722	214,910
Advance conditional payments	**2**	104	321
Total interest expense	**154,677**	195,826	215,231
Net interest income	**152,361**	144,078	131,581
Provision for Loan Losses			
Provision for loan losses	**58,198**	14,190	8,620
Net interest income after provision for loan losses	**94,163**	129,888	122,961
Noninterest Income			
Patronage income from the Bank	**20,121**	15,706	14,464
Loan fees	**10,907**	13,313	12,492
Financially related services income	**233**	486	560
Gain on sale of premises and equipment, net	**866**	244	692
Other noninterest income	**1,123**	1,173	1,172
Total noninterest income	**33,250**	30,922	29,380
Noninterest Expenses			
Salaries and employee benefits	**30,934**	33,404	31,392
Pension plan funding expense	**9,205**	3,655	1,941
Insurance Fund premiums	**8,908**	7,324	6,846
Loss (gain)on other property owned, net	**5,364**	90	(142)
Purchased services	**3,464**	4,012	3,600
Occupancy and equipment	**2,138**	2,392	2,295
Travel	**1,889**	2,058	1,912
Supervisory and exam expense	**1,317**	1,119	1,202
Advertising	**1,298**	2,036	2,157
Public and member relations	**1,286**	1,754	1,713
Directors' expense	**848**	1,531	1,369
Communications	**837**	757	808
Other noninterest expense	**2,292**	2,161	2,249
Total noninterest expenses	**69,780**	62,293	57,342
Income before income taxes	**57,633**	98,517	94,999
Provision for (benefit from) income taxes	**7**	(3)	37
Net income	**$ 57,626**	$ 98,520	$ 94,962

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

CAPITAL FARM CREDIT, ACA

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

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	$ 21,176	$ 39,455	$ 545,561	$ -	$ 606,192
Net income	-	-	94,962	-	94,962
Adjustment to initially apply new pension accounting principle, net of tax	-	-	-	4,377	4,377
Capital stock/participation certificates issued	4,621	-	-	-	4,621
Capital stock/participation certificates/ allocated equities retired	(3,116)	(6,020)	-	-	(9,136)
Patronage distributions declared:					
Cash	-	-	(31,455)	-	(31,455)
Other	-	-	16	-	16
Nonqualified allocations	-	43,560	(43,560)	-	-
Balance at December 31, 2007	22,681	76,995	565,524	4,377	669,577
Adjustment to beginning balance due to pension accounting change	-	-	(205)	-	(205)
Balance at January 1, 2008	22,681	76,995	565,319	4,377	669,372
Comprehensive Income:					
Net Income	-	-	98,520	-	98,520
Change in postretirement benefit plans	-	-	-	(166)	(166)
Total comprehensive income	-	-	98,520	(166)	98,354
Capital stock/participation certificates issued	3,970	-	-	-	3,970
Capital stock/participation certificates retired	(3,420)	-	-	-	(3,420)
Patronage distributions declared:					
Cash	-	-	(29,439)	-	(29,439)
Other	-	-	366	-	366
Nonqualified allocations	-	67,799	(67,799)	-	-
Balance at December 31, 2008	23,231	144,794	566,967	4,211	739,203
Comprehensive income:					
Net income	-	-	57,626	-	57,626
Change in postretirement benefit plans	-	-	-	142	142
Total comprehensive income	-	-	57,626	142	57,768
Capital stock/participation certificates issued	2,665	-	-	-	2,665
Capital stock/participation certificates retired	(2,986)	-	-	-	(2,986)
Patronage distributions declared:					
Cash	-	-	(17,741)	-	(17,741)
Other	-	226	(320)	-	(94)
Nonqualifed allocations	-	39,885	(39,885)	-	-
Balance at December 31, 2009	**$ 22,910**	**$ 184,905**	**$ 566,647**	**$ 4,353**	**$ 778,815**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	**$ 57,626**	$ 98,520	$ 94,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**58,198**	14,190	8,620
Loss (gain) on other property owned, net	**5,364**	90	(215)
Depreciation	**1,447**	1,636	1,668
Gain on sale of premises and equipment, net	**(866)**	(244)	(692)
Decrease (increase) in accrued interest receivable	**5,496**	8,837	(5,577)
Increase in other assets	**(7,426)**	(1,100)	(1,571)
(Decrease) increase in accrued interest payable	**(3,786)**	(3,005)	2,311
(Decrease) increase in other liabilities	**(4,675)**	4,290	2,769
Net cash provided by operating activities	**$ 111,378**	$ 123,214	$ 102,275
Cash flows from investing activities:			
Increase in loans, net	**$ (18,018)**	$ (436,296)	$ (679,010)
Cash recoveries of loans previously charged off	**345**	161	3,779
Purchase of investment in the Bank	**(3,174)**	(11,835)	(14,151)
Purchases of premises and equipment	**(835)**	(2,026)	(2,987)
Proceeds from sales of premises and equipment	**1,346**	900	1,157
Proceeds from sales of other property owned	**10,599**	168	1,459
Net cash used in investing activities	**$ (9,737)**	$ (448,928)	$ (689,753)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
Cash flows from financing activities:			
Net (decrease) increase in note payable to the Bank	**$ (72,991)**	$ 368,409	$ 628,411
(Decrease) increase in drafts outstanding	**(6,335)**	5,572	(4,678)
Decrease in advance conditional payments	**(4,177)**	(11,604)	(619)
Issuance of capital stock and participation certificates	**2,665**	3,970	4,621
Retirement of capital stock, participation certificates and allocated equities	**(2,986)**	(3,420)	(9,136)
Patronage distributions paid	**(22,882)**	(37,917)	(25,873)
Net cash (used in) provided by financing activities	**$ (106,706)**	$ 325,010	$ 592,726
Net (decrease) increase in cash	**(5,065)**	(704)	5,248
Cash at the beginning of the year	**20,163**	20,867	15,619
Cash at the end of the year	**$ 15,098**	$ 20,163	$ 20,867
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan forclosure	**$ 35,168**	$ 814	$ 469
Net loans charged off	**35,457**	6,510	5,443
Effect of adoption of guidance on defined benefit pension and other postretirement plans	**-**	(205)	4,377
Patronage distributions declared	**17,741**	29,439	31,455
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 158,463**	$ 198,831	$ 212,920
Income taxes	-	-	39

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 — ORGANIZATION, MERGERS 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 which 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). The most recent significant amendment to the Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2009, the System was composed of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks 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, 2009, the District consisted of the Bank, five FLCAs and 14 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. In January, 2010, four FLCAs restructured to form an ACA structure with operating FLCA and Production Credit Association subsidiaries.

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, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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 outstanding insured debt, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 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, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

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

C. 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' investment in the Association. Upon request, stockholders of the Association will be provided with the Texas Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1 of the District's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. This guidance did not have any impact on the Association's financial statement disclosure except for references made to authoritative accounting literature.

In May 2009, the FASB issued guidance on "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

In April 2009, the FASB issued guidance on "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. It further indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate.

In April 2009, the FASB issued guidance on "Recognition and Presentation of Other-Than-Temporary Impairments," which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This guidance did not have any impact on the Association's financial statement disclosure because the Association does not maintain any debt or equity securities other than ownership in the Bank.

This guidance changed existing impairment guidance on "Accounting for Certain Investments in Debt and Equity Securities" by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now 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 an entity 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 an entity 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. For held-to-maturity securities, the portion of the other-than-temporary impairment, if any, not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities were expanded and are now required quarterly, as well as annually. This guidance was effective for interim and annual periods ending after June 15, 2009.

For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The adoption of the guidance did not have any impact on the Association's financial statement disclosure because the Association does not maintain any investments in debt and equity securities other than ownership in the Bank.

In addition, in April 2009, the FASB issued guidance on "Interim Disclosures about Fair Value of Financial Instruments." This requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The guidance was effective for interim periods ending after June 15, 2009.

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009.

B. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at banks.

C. Investment Securities: The association may hold additional investments in accordance with mission-related investments and 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. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as loans and carried as cost, adjusted for the amortization of premiums and accretion of discounts.

D. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging up 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.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. This guidance has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

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. 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. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

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

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower’s ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

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 periodically based on the Association’s proportional utilization of the Bank compared to other District associations. 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 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, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. 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 are included in gains (losses) on other property owned, net.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of 40 years for buildings and improvements; three to 10 years for furniture, equipment and certain leasehold improvements; and three to four years for automobiles. Computer software and hardware are amortized over three years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

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 sheet. 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 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. 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.

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 salaries for the year ended December 31, 2009, made on their behalf into various investment alternatives.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of any 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. The Association recognized pension costs for the DC Plan of $723, $745 and $662 for the years ended December 31, 2009, 2008 and 2007, respectively. For the DB Plan, the Association recognized pension costs of $9,205, $3,655 and $1,941 for the years ended December 31, 2009, 2008 and 2007, 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 base salary 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 base salary. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $875, $953 and $866 for the years ended December 31, 2009, 2008 and 2007, respectively.

In addition to the DB Plan, the DC Plan and the Farm Credit Benefits Alliance 401(k) plans above, effective December 2007, the Association sponsors a defined contribution supplemental retirement 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. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were $806, $223 and $327 for the years ended December 31, 2009, 2008 and 2007, 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 multi-employer. 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 allocated retained earnings. Provisions for income taxes are made only on those 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 (more than 50 percent probability), based on management's estimate, that they will not be realized.

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 Bank: The Association accrues patronage refunds from the Bank on a quarterly basis based upon prior years' experience. At year end, the Bank will formally declare and pay the patronage refund to the Association. All amounts represented in these financial statements reflect the actual patronage refund paid from the Bank.

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. Assets held in trust funds relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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. 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, and highly structured or long-term derivative contracts.

The fair value disclosures are disclosed in Note 11 "Fair Value Measurements."

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2009		2008		2007	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 4,045,814**	**77.5%**	$ 3,971,263	75.3%	$ 3,622,869	74.8%
Production and intermediate term	**580,017**	**11.1%**	640,483	12.2%	638,979	13.2%
Agribusiness	**449,047**	**8.6%**	491,359	9.3%	446,059	9.2%
Rural residential real estate	**73,789**	**1.4%**	63,049	1.2%	57,747	1.2%
Communication	**34,283**	**0.7%**	45,443	0.9%	37,271	0.8%
Energy	**33,009**	**0.6%**	58,005	1.1%	36,945	0.8%
Lease receivables	**2,741**	**0.1%**	1,178	0.0%	1,727	0.0%
International	**-**	**0.0%**	452	0.0%	662	0.0%
Water and waste disposal	**-**	**0.0%**	75	0.0%	76	0.0%
Total	**$ 5,218,700**	**100.0%**	$ 5,271,307	100.0%	$ 4,842,335	100.0%

At December 31, 2009, the Association held 13 transactions, which are reported as loans on the consolidated balance sheet totaling $11,869 and with remaining commitments of $3,653 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.

Loan Volume by Office:

Offices	**2009**	2008	2007
Capital Markets	**11.7%**	14.3%	14.4%
Dayton	**5.5%**	3.5%	7.5%
Kerrville	**4.3%**	4.0%	3.4%
Mason	**3.9%**	3.7%	3.6%
Austin	**3.4%**	3.2%	3.7%
Bryan	**3.3%**	3.3%	3.5%
Edna	**3.2%**	3.7%	2.1%
San Antonio	**2.7%**	2.8%	2.8%
Hondo	**2.7%**	2.5%	2.6%
Devine	**2.5%**	2.4%	2.4%
La Grange	**2.3%**	2.3%	1.7%
Bellville	**2.3%**	2.3%	2.0%
Conroe	**2.3%**	2.2%	1.6%
Uvalde	**2.2%**	2.1%	1.8%
Edinburg	**2.2%**	1.8%	1.9%
Hereford	**2.1%**	2.3%	2.0%
Kenedy	**1.9%**	2.0%	2.0%
Burnet	**1.8%**	1.7%	1.2%
Wichita Falls	**1.8%**	1.6%	1.9%
Dalhart	**1.7%**	1.6%	1.8%
El Campo	**1.7%**	1.0%	2.4%
Munday	**1.6%**	1.5%	1.5%
Robstown	**1.5%**	1.5%	2.7%
Madisonville	**1.4%**	1.4%	1.2%
Temple	**1.3%**	1.2%	1.0%
San Angelo	**1.3%**	1.3%	1.3%
Lockhart	**1.2%**	1.1%	1.0%
Laredo	**1.2%**	1.2%	1.0%
San Saba	**1.2%**	1.1%	1.1%
Bowie	**1.1%**	1.2%	0.5%
Rosenberg	**1.1%**	1.1%	0.9%
Lamesa	**1.1%**	1.1%	1.2%
Fredericksburg	**1.1%**	0.8%	0.6%
Lubbock	**1.1%**	1.0%	1.2%
Levelland	**1.0%**	1.0%	1.0%
Jourdanton	**1.0%**	0.9%	1.0%
Muleshoe	**1.0%**	1.1%	1.1%
Taylor	**1.0%**	1.0%	1.0%
Waco	**0.9%**	0.8%	0.8%
Stamford	**0.9%**	0.9%	1.0%
Littlefield	**0.9%**	0.8%	0.9%
Spur	**0.8%**	0.8%	0.8%
Alpine	**0.7%**	0.7%	0.7%
Graham	**0.7%**	0.7%	0.6%
Childress	**0.7%**	0.7%	0.8%
New Braunfels	**0.7%**	0.6%	0.5%
El Paso	**0.7%**	0.5%	0.4%
Sonora	**0.7%**	0.7%	0.7%
Goldthwaite	**0.6%**	0.6%	0.6%
Gatesville	**0.5%**	0.5%	0.4%
Crockett	**0.5%**	0.5%	0.5%
Sugar Land	**0.0%**	2.2%	0.1%
All Other Offices	**5.0%**	5.2%	5.6%
Totals	**100.0%**	100.0%	100.0%

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 loan losses.

	2009		2008		2007	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$2,998,845**	**57.5%**	$3,011,154	57.1%	$2,885,425	59.6%
Crops	**1,034,136**	**19.8%**	986,876	18.7%	944,824	19.5%
Hunting	**304,451**	**5.8%**	289,052	5.5%	206,546	4.3%
Timber	**217,033**	**4.2%**	249,077	4.7%	192,962	4.0%
Utilities	**80,683**	**1.5%**	76,800	1.5%	50,551	1.0%
Industrial/organic chemical	**72,663**	**1.4%**	95,587	1.8%	55,720	1.2%
Rural home loans	**58,894**	**1.1%**	52,516	1.0%	43,291	0.9%
Poultry	**46,164**	**0.9%**	51,581	1.0%	35,179	0.7%
Other	**405,831**	**7.8%**	458,664	8.7%	427,837	8.8%
Total	**$5,218,700**	**100.0%**	$5,271,307	100.0%	$4,842,335	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 the loan-to-value ratios in excess of the regulatory maximum.

The Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the Bank. At December 31, 2009, 2008 and 2007, loans totaling $96,830, $113,151 and $47,189, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $337, $230 and $200 in 2009, 2008 and 2007, respectively, and are reflected in "other noninterest expense," in the Consolidated Statement of Income.

Asset Quality:

The following table reflects the credit quality of the Association's loan volume as of December 31:

	2009	2008	2007
Acceptable	**90.7%**	94.0%	96.2%
Special mention	**5.0%**	3.4%	2.3%
Substandard	**4.2%**	2.6%	1.5%
Doubtful	**0.1%**	0.0%	0.0%
Total	**100.0%**	100.0%	100.0%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	2009		2008		2007	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual loans						
Current as to principal and interest	**$ 82,091**	**52.6%**	$ 75,084	68.0%	$ 29,496	64.0%
Past due	**65,792**	**42.1%**	17,042	15.4%	10,770	23.4%
Total nonaccrual loans	**147,883**	**94.7%**	92,126	83.4%	40,266	87.4%
Accrual loans						
90 days or more past due	**7,057**	**4.5%**	13,516	12.2%	678	1.5%
Formally restructured	**1,229**	**0.8%**	4,784	4.4%	5,129	11.1%
Total impaired accrual loans	**8,286**	**5.3%**	18,300	16.6%	5,807	12.6%
Total impaired loans	**$ 156,169**	**100.0%**	$ 110,426	100.0%	$ 46,073	100.0%

The Association has remaining commitments to lend additional funds to 18 borrowers whose loans were classified as impaired at December 31, 2009 of $10,200.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	2009	2008	2007
Interest income recognized on nonaccrual loans	**$ 5,117**	$ 3,029	$ 1,842
Interest income recognized on impaired accrual loans	**439**	1,576	369
Interest income recognized on impaired loans	**$ 5,556**	$ 4,605	$ 2,211

The following table presents additional information concerning impaired loans as of December 31:

	2009	2008	2007
Impaired loans with related specific allowance	**$ 86,022**	$ 45,583	$ 15,542
Impaired loans with no related specific allowance	**70,147**	64,843	30,531
Total impaired loans	**$ 156,169**	$ 110,426	$ 46,073
Allowance on impaired loans	**$ 20,556**	$ 10,363	$ 5,001
Average impaired loans	**$ 132,169**	$ 74,773	$ 31,414

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

	2009	2008	2007
Total interest income which would have been recognized under the original terms	**$ 13,131**	$ 5,943	$ 4,126
Less: interest income recognized	**5,556**	4,605	2,211
Foregone interest income	**$ 7,575**	$ 1,338	$ 1,915

A summary of the allowance for loan losses as of December 31 follows:

		2009		2008		2007
Beginning balance	**$**	**23,646**	$	15,805	$	8,849
Provision for loan losses		**58,198**		14,190		8,620
Loans charged off		**(35,457)**		(6,510)		(5,443)
Recoveries		**345**		161		3,779
Ending Balance	**$**	**46,732**	$	23,646	$	15,805

The Association's loan chargeoffs increased significantly in 2009 to $35,457 compared to $6,510 and $5,443 in 2008 and 2007, respectively. Most of these chargeoffs were experienced in the ethanol, feedlot, timber, transitional properties, dairy and utilities industries. Many of the losses were a direct result of significant fluctuations in commodity prices experienced between 2008 and 2009. The loans charged off in 2008 were primarily related to a biofuel loan participation purchased from an association outside the District, while the loans charged off in 2007 were principally related to a real estate participation loan purchased from another District association.

NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

		2009		2008		2007
Land and improvements	**$**	**3,419**	$	3,394	$	2,974
Building and improvements		**12,535**		12,428		12,739
Furniture and equipment		**3,261**		3,251		3,350
Computer equipment and software		**1,741**		1,657		1,639
Automobiles		**2,383**		3,554		3,524
Construction in progress		**-**		256		13
		23,339		24,540		24,239
Accumulated depreciation		**(11,014)**		(11,124)		(10,557)
Total	**$**	**12,325**	$	13,416	$	13,682

The Association leases office space in Abilene, Austin, Bay City, Brownfield, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Graham, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Rocksprings, Round Rock, San Antonio and Seminole, Texas, and Memphis, Tennessee. Lease expense was $679, $536 and $564 for 2009, 2008 and 2007, respectively. Minimum annual lease payments for the next five years are as follows:

2010	$	455
2011		292
2012		253
2013		137
2014		69
Thereafter		328
Total	$	1,534

NOTE 5 – OTHER PROPERTY OWNED, NET:

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

	2009	2008	2007
Gain (loss) on sale, net	**$ 324**	$ 33	$ (73)
(Provision) provision reversal for losses related to other property owned	**(5,407)**	(94)	288
Operating expense, net	**(281)**	(29)	(73)
Net (loss) gain on other property owned	**$ (5,364)**	$ (90)	$ 142

NOTE 6 — 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 total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2009, 2008 and 2007, was $4,531,494 at 3.36 percent, $4,604,485 at 4.38 percent and $4,236,076 at 5.42 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, 2009, 2008 and 2007, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2009 was $5,080,914 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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 provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2009, 2008 and 2007, the Association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 7 — MEMBERS' EQUITY:

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.

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, 2009, 2008 and 2007, the Association had $98, $122 and $130, respectively, of Class A stock.

All borrower 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, Class B capital stock and participation certificates. 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 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; second, to the holders of allocated surplus 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; third, to the holders of nonqualified written notices of allocation on the basis of the oldest notices first, until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the Association 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 on the capital stock and participation certificates of the Association, 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 2009, 2008 and 2007, respectively:

Date Declared	Non-Qualified Allocations	Cash Patronage Amount	Date Paid (Payable)
December 2009	**$ 39,885**	**$ 17,741**	**March 2010**
December 2008	$ 52,272	$ 22,784	March 2009
September 2008 (First Ag)	$ 15,527	$ 6,655	December 2008
December 2007	$ 43,560	$ 18,855	March 2008
December 2007 (First Ag)	$ -	$ 12,600	March 2008

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2009, were 13.2 percent, 12.2 percent and 12.8 percent, respectively.

The Association has a capital plan in place for 2010 with the objective of managing capital at a level that supports the growth of the Association's lending activities. The Association's plan is to continue to generate earnings to meet plan objectives, retire stock on paid loans in an orderly manner, and to pay patronage refunds to its stockholders as capital allows.

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 five dollars per share:

	2009	2008	2007
Class A stock	**19,543**	24,365	25,900
Class B stock	**4,415,607**	4,489,088	4,387,156
Participation certificates	**146,759**	132,933	123,061
Total	**4,581,909**	4,646,386	4,536,117

NOTE 8 — INCOME TAXES:

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

	2009	2008	2007
Current federal tax	**$ 7**	$ (3)	$ 37
Deferred federal tax	**-**	-	-
Provision for (benefit from) income taxes	**$ 7**	$ (3)	$ 37

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:

	2009	2008	2007
Federal tax at statutory rate	**$ 19,593**	$ 33,497	$ 32,295
Federal income tax attributable to:			
Income not subject to federal tax	**(22,271)**	(34,322)	(28,159)
Nondeductible provision for loan losses	**5,508**	2,323	-
Patronage distributions	**-**	(916)	(4,284)
Charge-offs on loans	**(4,071)**	(614)	(46)
Other	**1,248**	29	231
Provision for (benefit from) income taxes	**$ 7**	$ (3)	$ 37

Deferred tax assets and liabilities in accordance with FASB guidance, "Accounting for Income Taxes," result from the following at December 31:

	2009	2008	2007
Allowance for losses on loans	**$ 5,974**	$ 4,538	$ 2,829
Allowance for other property owned	**19**	32	-
Retirement and other postretirement benefits	**-**	1,644	1,546
Net operating loss carryfoward	**938**	938	938
Deferred tax assets	**6,931**	7,152	5,313
Valuation allowance	**(6,931)**	(7,152)	(5,313)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings, including the following at December 31, 2009. Nonpatronage 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 $6,931, $7,152 and $5,313 during 2009, 2008 and 2007, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

NOTE 9 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions 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."

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). No Association employees hired after January 1, 2004, will be eligible for these health care and life insurance benefits upon retirement. These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. 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.

In September 2006, the FASB issued guidance on defined benefit pension and other postretirement benefits, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans in the balance sheet. The balance sheet recognition provisions of the guidance were adopted at December 31, 2007. The guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The standard provides two approaches for an employer to transition to a fiscal year-end measurement date. The Association has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings $205, net of taxes and increased the pension and other postretirement benefit liabilities by $205.

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

Disclosure Information Related to Retirement Benefits	2009	2008	2007
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 13,284**	$ 12,399	$ 12,608
Service cost	**458**	475	443
Interest cost	**825**	992	746
Plan participants' contributions	**108**	127	96
Plan amendments	**-**	(658)	-
Actuarial loss (gain)	**(647)**	471	(1,070)
Benefits paid	**(522)**	(522)	(424)
Accumulated postretirement benefit obligation, end of year	**$ 13,506**	$ 13,284	$ 12,399
Change in Plan Assets			
Association contributions	**414**	395	329
Plan participants' contributions	**108**	127	96
Benefits paid	**(522)**	(522)	(425)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (407)**	$ (98)	$ 192
Noncurrent liabilities	**(13,099)**	(13,079)	(12,518)
Total	**$ (13,506)**	$ (13,177)	$ (12,326)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial gain	**$ (1,212)**	$ (638)	$ (1,024)
Prior service credit	**(3,141)**	(3,573)	(3,353)
Total	**$ (4,353)**	$ (4,211)	$ (4,377)
Additional Information			
Increase in minimum liability included in other comprehensive income	**$ -**	$ 166	$ -
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2009**	12/31/2008	9/30/2007
Discount rate	**6.05%**	6.30%	6.50%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**8.0%/7.0%**	8.5%/6.5%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	**10.50%**	12.00%	12.00%
Ultimate health care cost trend rate	**5.00%**	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	**2017**	2015	2016

Disclosure Information Related to Retirement Benefits	**2009**	2008	2007
Components of Net Postretirement Benefit Cost			
Service Cost	**$ 458**	$ 380	$ 443
Interest cost	**825**	793	746
Amortization of:			-
Unrecognized prior service cost	**(432)**	(362)	(414)
Unrecognized net loss	**-**	9	11
Net postretirement benefit cost	**$ 851**	$ 820	$ 786
Adjustment to Retained Earnings due to change in measurement date	**$ -**	$ (205)	$ -
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net Actuarial Gain	**$ (647)**		
Prior Service Cost	**432**		
Total Recognized in Other Comprehensive Income	**$ (215)**		
AOCI Amounts Expected to be Amortized into Expense in 2010			
Unrecognized prior service cost	**(432)**	(432)	(362)
Unrecognized net loss	**-**	-	9
Total	**$ (432)**	$ (432)	$ (353)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
Measurement date	**12/31/2008**	9/30/2007	9/30/2006
Discount Rate	**6.30%**	6.50%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**8.5%/6.5%**	9.0%/6.75%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	**11.00%**	13.00%	13.00%
Ultimate health care cost trend rate	**5.00%**	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	**2015**	2016	2016

Expected Future Cash Flows	
Expected Benefit Payments (net of employee contributions)	
Fiscal 2010	**$ 407**
Fiscal 2011	**485**
Fiscal 2012	**547**
Fiscal 2013	**639**
Fiscal 2014	**709**
Fiscal 2015 - 2019	**4,603**
Expected Contributions	
Fiscal 2010	**$ 407**

NOTE 10 — 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 and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to $40,896, $42,899 and $35,938 at December 31, 2009, 2008 and 2007, respectively. During 2009, $43,214 of new loans were made and repayments totaled $45,217. In the opinion of management, no such loans outstanding at December 31, 2009, 2008 and 2007 involved more than a normal risk of collection.

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 such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $11,563, $10,298 and $10,162 in 2009, 2008 and 2007, respectively.

The Association received patronage payments from the Bank totaling $20,121 $15,706 and $14,464 during 2009, 2008 and 2007, respectively.

NOTE 11 — 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. Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Association has several assets that are carried on its books at fair value including: assets held in non-qualified benefits trusts, loans that have been evaluated for impairment and other property owned.

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. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with 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 assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis at December 31, 2009 and are summarized below:

	Total Fair Value
Assets held in non-qualified benefits trusts	**$ 1,475**

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge and judgment about current market conditions, specific issues related to collateral and other matters. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Cost to sell represent transaction cost and are not included as a component of the asset's fair value.

These assets are measured at fair value on a non-recurring basis at December 31, 2009 and are summarized below:

	Total Fair Value
Loans	**$ 156,169**
Other property owned	**25,223**
Total	**$ 181,392**

NOTE 12 — 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 commercial 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, 2009, $567,811 of commitments and $31,642 of commercial 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. 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 the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The Plan is a defined contribution plan and maintained for the benefit of the Participating Employers including the Association and its eligible employees. One of the purposes of the Plan is to allow a means for Participating Employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the Association's existing Pension Plan. The Association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the Association and has begun funding this shortfall over a five-year period using a five-year vesting schedule. At December 31, 2009 the total potential obligation to the Association is $3,500, with $1,347 of this obligation funded through December 31, 2009.

NOTE 13 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the Association's financial instruments at December 31, 2009, 2008 and 2007. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments as of December 31 follow:

	2009		2008		2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash	**$ 15,098**	**$ 15,098**	$ 20,163	$ 20,163	$ 20,867	$ 20,867
Loans, net	**5,171,968**	**5,157,797**	5,247,661	5,450,903	4,826,530	4,819,727
Nonqualified deferred compensation trust assets	**1,475**	**1,475**	639	639	-	-
Financial liabilities:						
Note payable to the Bank	**4,531,494**	**4,519,078**	4,604,485	4,782,789	4,236,076	4,229,311

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

C. Investment in the Bank:

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 38.33 percent of the issued common stock of the Bank as of December 31, 2009. As of that date, the Bank's assets totaled $13,776,502 and members' equity totaled $821,292. The Bank's earnings were $106,608 during 2009.

D. Assets held in non-qualified benefits trusts:

These assets relate to deferred compensation and supplemental retirement plans. As discussed in Note 11 "Fair Value Measurements," the fair value of these assets is quoted market values.

E. 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.

F. Commitments to Extend Credit:

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2009				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 38,220**	**$ 36,656**	**$ 37,794**	**$ 39,691**	**$ 152,361**
Provision for loan losses	**(17,921)**	**(12,872)**	**(14,728)**	**(12,677)**	**(58,198)**
Noninterest expense, net	**(9,103)**	**(9,439)**	**(10,713)**	**(7,282)**	**(36,537)**
Net income	**$ 11,196**	**$ 14,345**	**$ 12,353**	**$ 19,732**	**$ 57,626**

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 35,016	$ 35,511	$ 37,234	$ 36,317	$ 144,078
Provision for loan losses	(3,468)	(2,112)	(4,161)	(4,449)	(14,190)
Noninterest expense, net	(6,693)	(6,193)	(10,571)	(7,911)	(31,368)
Net income	$ 24,855	$ 27,206	$ 22,502	$ 23,957	$ 98,520

	2007				
	First	Second	Third	Fourth	Total
Net interest income	$ 31,864	$ 32,245	$ 32,954	$ 34,518	$ 131,581
Provision for loan losses	(549)	(5,849)	(1,915)	(307)	(8,620)
Noninterest expense, net	(6,477)	(6,234)	(5,846)	(9,442)	(27,999)
Net income	$ 24,838	$ 20,162	$ 25,193	$ 24,769	$ 94,962

NOTE 15 – SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 3, 2010, which is the date the financial statements were issued or available to be issued. The Association is not aware of any subsequent events that would materially impact the financial statements as presented.

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Report of Independent Auditors

To the Board of Directors and Members of
Capital Farm Credit, ACA:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity, and of cash flows present fairly, in all material respects, the financial position of Capital Farm Credit, ACA and subsidiaries (Association) at December 31, 2009, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 3, 2010

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 a producer with 10 years or less of experience at farming, ranching and 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, 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, 4.0 percent of the farmers in the Association's territory are "Young" farmers while 18.0 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	4.0%	18.0%
Beginning	30.7%	61.6%
Small	95.3%	83.4%

At December 31, 2009, 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
4,474	$656,052	14,040	$3,073,928	19,234	$3,451,021

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 CFCs territory. Management has implemented programs to address each component by:

Attract and retain 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 state-wide organizations but also with the Texas AgriLife Extension Service. These programs have been successful in helping to educate and provide knowledge and other resources to farmers and ranchers who are taking steps to increase their involvement in agriculture and/or the size of their operations.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs can be of value to them as they improve or expand their current operations.

Implement 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 who are taking demonstrated steps to become more fully engaged as a full-time farmers or ranchers. 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 the 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.

Develop quantitative standards that may be used to measure the number of YBS customers served as compared to 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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