

AGTEXAS FARM CREDIT SERVICES

**2009
Quarterly Report
First Quarter**



For the Quarter Ended March 31, 2009

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Mitchell Harris
Chief Executive Officer

April 23, 2009



James Ray Schronk
Chairman, Board of Directors

April 23, 2009



Jerry Spruill
Chief Financial Officer

April 23, 2009

**AGTEXAS FARM CREDIT SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

The Association is experiencing an extreme slowing in the real estate sector of new loan applications or even inquiries due to the state of the economy. This is a significant change from the last few years and could reflect lower earnings for the year 2009 along with a decrease in average loan volume. As a result, the Association is experiencing a deleveraging with some increases in spreads due to the current market rate environment. The slowing of new loan originations is reflected in lower fee income during the 1st quarter of 2009 of \$269,857. The Association recognized a gain on the sale of \$25,062,935 of individual loan securities in the amount of \$290,552.

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$484,492,929 compared to \$554,038,897 at December 31, 2008, reflecting an decrease of 12.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at March 31, 2009, compared to 1.1 percent at December 31, 2008. The decrease in volume is due to the normal operating loan pay downs and pending sale of \$25,062,935 of individual 100% guaranteed loan securities.

The Association recorded \$3,604 in recoveries and \$92,185 in charge-offs for the quarter ending March 31, 2009, and \$1,239 in recoveries and \$19,141 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 6,085,821	73.7%	\$ 6,069,477	94.0%
90 days past due and still accruing interest	2,177,799	26.3%	385,922	6.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 8,263,620</u>	<u>100.0%</u>	<u>\$ 6,455,399</u>	<u>100.0%</u>

The increase in 90 days past due and still accruing interest, reflected March 31, 2009 in the amount of \$2,177,799 are all associated with the 100% guaranteed purchased portfolio. All outstanding principal and interest is guaranteed on the current past due amounts. The unamortized at risk premium on the past due guaranteed loans is \$110,684 as of March 31, 2009.

Results of Operations:

The Association had net income of \$1,360,611 for the three months ended March 31, 2009, as compared to net income of \$1,421,414 for the same period in 2008 reflecting an decrease of 4.3 percent, respectively. Net interest income was \$2,746,967 for the three months ended March 31, 2009, compared to \$2,712,173 for the same period in 2008. Interest income for the first three months of 2009 decreased by \$191,521 or 2.6 percent from the same periods of 2008, primarily due to a decrease in yields or loan interest rates offset by an increase in average volume of loan assets. Interest expense for the first three months of 2009 decreased by \$226,315, or 5.0 percent, from the same periods of 2008 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2009 was \$530,246,319, compared to \$418,587,424 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 1.78 percent, compared to 1.96 percent in the first quarter of 2008.

The Association's return on average assets for the three months ended March 31, 2009, was 1.00 and 1.31 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 10.07 and 10.97 percent for the same period in 2008.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	March 31, 2009	December 31, 2008
Note payable to the Bank	\$ 478,804,040	\$ 524,372,757
Accrued interest on note payable	1,392,338	1,810,157
Total	<u>\$ 480,196,378</u>	<u>\$ 526,182,914</u>

Capital Resources:

The Association's capital position increased by \$1,360,822 at March 31, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 8.89:1 as of March 31, 2009, compared to 9.99:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 10.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 10.0 and 10.0 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of AgTexas Farm Credit Services more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to AgTexas Farm Credit Services, P.O. Box 53240, Lubbock, Texas 79453 or calling 806-687-4068. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing jspruill@agtexas.com.

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 2,468,264	\$ 2,861,414
Investments	17,710,853	17,928,982
Loans	484,492,929	554,038,897
Less: allowance for loan losses	894,399	950,003
Net loans	<u>483,598,530</u>	<u>553,088,894</u>
Accrued interest receivable	6,589,203	9,393,528
Investment in and receivable from the Bank:		
Capital stock	9,120,035	9,120,035
Other	943,714	1,149,888
Premises and equipment	2,731,422	2,817,623
Other assets	27,779,077	528,591
Total assets	<u><u>\$ 550,941,098</u></u>	<u><u>\$ 596,888,955</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 478,804,040	\$ 524,372,757
Advance conditional payments	9,461,807	8,545,285
Accrued interest payable	1,400,545	1,810,158
Drafts outstanding	2,226,786	2,858,739
Patronage distributions payable	-	1,200,000
Other liabilities	3,363,581	3,778,499
Total liabilities	<u>495,256,759</u>	<u>542,565,438</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,624,705	2,703,015
Allocated retained earnings	10,693,145	10,693,068
Unallocated retained earnings	41,950,711	40,595,928
Accumulated other comprehensive income (loss)	415,778	331,506
Total members' equity	<u>55,684,339</u>	<u>54,323,517</u>
Total liabilities and members' equity	<u><u>\$ 550,941,098</u></u>	<u><u>\$ 596,888,955</u></u>

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

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
<u>INTEREST INCOME</u>		
Loans	\$ 6,965,052	\$ 7,242,241
Investments	85,668	-
Total interest income	<u>7,050,720</u>	<u>7,242,241</u>
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	4,293,857	4,482,215
Advance conditional payments	9,896	47,853
Total interest expense	<u>4,303,753</u>	<u>4,530,068</u>
Net interest income	2,746,967	2,712,173
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	32,977	(110,130)
Net interest income after provision for loan losses	<u>2,713,990</u>	<u>2,822,303</u>
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	418,244	341,146
Loan fees	225,495	495,352
Financially related services income	294,538	292,333
Gain sale of loan securities	290,552	-
Gain sale of premises and equipment, net	539	11,365
Other noninterest income	63,823	45,841
Total noninterest income	<u>1,293,191</u>	<u>1,186,037</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,772,750	1,669,219
Directors' expense	54,110	38,948
Purchased services	99,615	118,595
Travel	74,883	87,745
Occupancy and equipment	229,533	270,771
Communications	39,875	38,797
Advertising	31,756	36,180
Public and member relations	61,242	79,840
Supervisory and exam expense	36,754	30,784
Insurance Fund premiums	180,411	138,068
Gain (loss) on other property owned, net	-	31
Other noninterest expense	65,641	77,948
Total noninterest expenses	<u>2,646,570</u>	<u>2,586,926</u>
Income before income taxes	<u>1,360,611</u>	<u>1,421,414</u>
Provision for (benefit from) income taxes	-	-
Net income	<u>\$ 1,360,611</u>	<u>\$ 1,421,414</u>

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

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 2,569,760	\$ 11,219,573	\$ 37,455,079	\$ 443,178	\$ 51,687,590
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	-
Balance at January 1, 2008	2,569,760	11,219,573	37,455,079	443,178	51,687,590
Comprehensive income					
Net income	-	-	1,421,414	-	1,421,414
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	(24,615)	(24,615)	(49,230)
Total comprehensive income	-	-	1,396,799	(24,615)	1,372,184
Capital stock/participation certificates issued	196,940	-	-	-	196,940
Capital stock/participation certificates and allocated retained earnings retired	(246,460)	-	-	-	(246,460)
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	(497,473)	-	(497,473)
Balance at March 31, 2008	<u>\$ 2,520,240</u>	<u>\$ 11,219,573</u>	<u>\$ 38,354,405</u>	<u>\$ 418,563</u>	<u>\$ 52,512,781</u>
Balance at December 31, 2008	\$ 2,703,015	\$ 10,693,068	\$ 40,595,928	\$ 331,506	\$ 54,323,517
Comprehensive income					
Net income	-	-	1,360,611	-	1,360,611
Change in unrealized gains (losses) on investment securities	-	-	-	105,400	105,400
Amortization of costs included in periodic retirement benefit costs	-	-	-	(21,128)	(21,128)
Total comprehensive income	-	-	1,360,611	84,272	1,444,883
Capital stock/participation certificates issued	124,460	-	-	-	124,460
Capital stock/participation certificates and allocated retained earnings retired	(202,770)	-	-	-	(202,770)
Patronage refunds:					
Cash	-	-	(5,828)	-	(5,828)
Capital stock/participation certificates and allocated retained earnings	-	77	-	-	77
Balance at March 31, 2009	<u>\$ 2,624,705</u>	<u>\$ 10,693,145</u>	<u>\$ 41,950,711</u>	<u>\$ 415,778</u>	<u>\$ 55,684,339</u>

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

AGTEXAS FARM CREDIT SERVICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Brown, Cochran, Comanche, Crosby, Eastland, Ellis, Erath, Gaines, Garza, Hamilton, Hill, Hockley, Hood, Johnson, Lubbock, Lynn, Navarro, Parker, Somervell, Tarrant, Terry, Wise and Yoakum. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31, 2009	March 31, 2008
Balance at beginning of quarter	\$ 950,003	\$ 506,632
Provision for loan losses	32,977	(110,130)
Charge-offs	(92,185)	(19,141)
Recoveries	3,604	1,239
Balance at end of quarter	<u>\$ 894,399</u>	<u>\$ 378,600</u>

The following table presents information concerning impaired loans:

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 2,059,783	\$ -
Impaired loans with no related allowance	6,203,837	214,271
Total impaired loans	<u>\$ 8,263,620</u>	<u>\$ 214,271</u>
Allowance on impaired loans	\$ 156,170	\$ 104,275
Average impaired loans	\$ 8,221,718	\$ 410,496
Interest income on impaired loans for the quarter	\$ 20,330	\$ (49,093)

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

NOTE 4 — INCOME TAXES:

AgTexas Farm Credit Services and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2009, and 2008 net income for tax purposes was \$0 due to the patronage exclusion.

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

NOTE 5 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 3 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale	\$ -	\$ 17,710,853	\$ -	\$ 17,710,853
Assets held in non-qualified benefit trusts	-	-	-	-
Total assets	<u>-</u>	<u>17,710,853</u>	<u>-</u>	<u>17,710,853</u>

Valuation Techniques

As more fully discussed in Note X to the 2008 Annual Report to Stockholders, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair

value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2009	2008
Service cost	\$ 18,356	\$ 16,672
Interest cost	36,298	33,363
Expected return on plan assets	-	-
Amortization of prior service costs	(25,486)	(25,821)
Amortizations of net (gain) loss	6,860	401
Net periodic benefit cost	<u>\$ 36,027</u>	<u>\$ 24,615</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 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, we 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. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, 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 result, the Association decreased retained earnings \$128,129, net of taxes of \$128,129 and increased the postretirement benefit asset/liability by \$128,129.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$1,680,933 to its defined pension plan in 2009. As of March 31, 2009, a \$1,680,933 contribution has been made. The total contribution will be amortized monthly during 2009. During the first quarter, the Association recognized \$420,233 of benefit expense due to the amortization. The Association presently does not anticipate contributing additional funds to its defined pension plan in 2009.