Farm Credit of Central Florida, ACA

FIRST QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2011 quarterly report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

Lewis S. Stidham
Chairman of the Audit committee

May 9, 2011

Farm Credit of Central Florida, ACA

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 designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides 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.

Internal control over financial reporting 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 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 March 31, 2011. 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 March 31, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2011.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

May 9, 2011

Farm Credit of Central Florida, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2011. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2010 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

March 31, 2011 compared to December 31, 2010

Loan volume of the Association as of March 31, 2011, was $355,351, a decrease of $20,650 as compared to $376,001 at December 31, 2010. Net loans outstanding at March 31, 2011, were $348,736 as compared to $371,575 at December 31, 2010. The Association has investment securities that are classified as held to maturity in the amount of $45,555 at March 31, 2011, as compared to $45,476 at December 31, 2010. Net loans and investment securities accounted for 93.40 percent of total assets at March 31, 2011, as compared to 92.33 percent of total assets at December 31, 2010.

The Association's total servicing portfolio has decreased to $925,028 as compared to $987,893 at December 31, 2010 due to large corporate customers lowering their commitment lines and offset by increased lending activity to other existing corporate and commercial customers. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between March and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines. Due to internal hold limits on individual credits and/or commodities and capital and growth management initiatives, more loan volume has been sold through loan participations to various AgFirst participation pools resulting in participation sold volume to be increased.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. While credit administration remains satisfactory, portfolio credit quality has weakened as compared to prior periods, primarily in those loans secured by real estate and in the nursery industry. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 87.21% as of March 31, 2011 compared to 88.27% at December 31, 2010 and 82.9% at March 31, 2010. Nonaccrual loan volume was $25,486 at March 31, 2011, compared to $23,910 at December 31, 2010 and $34,642 at March 31, 2010, an increase of $1,576 and a decrease of $9,156, respectively. Majority of the loan assets in nonaccrual are associated with several loans in the nursery industry, several agricultural real estate loans and residential lot loans.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2011, was $6,615 compared to $4,426 at December 31, 2010 and $7,984 at March 31, 2010, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2011 contains $4,367 in specific reserves and $2,248 in general reserves. The following outlines the allowance for loan loss activity as of March 31, 2011.

Allowance for Loan Losses Activity:	Q1 2011	YTD 2011
Balance at beginning of period	$ 4,426	$ 4,426
Charge-offs	(1,030)	(1,030)
Recoveries	81	81
Provisions/(Reversals)-General	501	501
Provisions/(Reversals)–Specifics	2,637	2,637
Balance at end of period	$ 6,615	$ 6,615

The increase in allowance for loan losses was a direct result of the increases in specific reserves within the nursery portfolio's tree farm segment. This increase in allowance was funded through an increase in the provision for loan losses, which was the primary cause for the significantly low final net income.

RESULTS OF OPERATIONS

For the three months ended March 31, 2011

Net income for the three months ended March 31, 2011, totaled $(1,510), as compared to $447 for the same period in 2010. The decrease of $1,957 for the period is associated directly with the increase of provisions for loan loss as compared to same period prior year coupled with less noninterest income generated and increased noninterest expense as compared to same period prior year.

Net interest income increased $205 for the three months ended March 31, 2011, as compared to the same period in 2010. The primary reason for the increase is the increased net loan assets as compared to the same time last year as well as the improved earning spreads associated with the net loan assets. Net interest income for the three months ending March 31, 2011 is shown in the following table:

	For the three months ended March 31,			
Net Interest Income	**2011**	**2010**	**$ change**	**% change**
Investment Interest Income	$ 221	$ 234	$ (13)	(5.56)%
Loan Interest Income	4,260	4,259	1	0.02
Total Interest Income	4,481	4,493	(12)	(0.27)
Total Interest Expense	2,039	2,256	(217)	(9.62)
Net Interest Income	$ 2,442	2,237	$ 205	9.16%

Provisions for loan losses for the quarter totaled $3,138, as compared to $2,155 for the same period last year. The increase in provisions was due mostly to the necessary increases required for specific reserves on certain nursery and real estate lot loans. Provisions for loan losses for the three months ending March 31, 2011 are shown in the following table:

	For the three months ended March 31,			
Provisions for Loan Losses	**2011**	**2010**	**$ change**	**% change**
Specific Reserves	$ 2,637	$ 1,707	$ 930	54.48%
General Reserves	501	448	53	11.83%
Total Provisions/(Reversals)	$ 3,138	$ 2,155	$ 983	45.61%

Noninterest income for the three months ended March 31, 2011, totaled $1,291, as compared to $2,302 for the same period of 2010, a decrease of $1,011. The decrease is primarily the result of decreased Loan Fees and Equity in Earnings of other Farm Credit Institutions as well as an increase in losses on Other Property Owned (OPO). Loan Fees have been affected due to decreased loan activity as compared to prior year. Equity in Earnings from other Farm Credit Institutions consists of patronage paid to the Association from AgFirst and/or other Farm Credit Associations. The decline from prior period is a result of deceased loan assets sold to others. Losses on OPO has increased due to increased assets in OPO from prior period. The losses are made up of expenses of holding the OPO asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. In addition, during the first quarter of 2010 the Association recorded $428 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment was nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Noninterest income for the three months ending March 31, 2011 is shown in the following table:

	For the three months ended March 31,			
Noninterest Income	**2011**	**2010**	**$ change**	**% change**
Loan fees	$ 21	$ 149	$ (128)	(85.91)%
Fees for financially related services	33	25	8	32.00
Equity in earnings from other Farm Credit Institutions	1,690	1,747	(57)	(3.26)
Gains (losses) on other property owned, net	(483)	(145)	(338)	(233.10)
Gains (losses) on sales of rural home loans, net	19	39	(20)	(51.28)
Insurance Fund refund	0	428	(428)	(100.00)
Other noninterest income	11	59	(48)	(81.36)
Total noninterest income	$ 1,291	$ 2,302	$ (1,011)	(43.92)%

Noninterest expense for the three months ended March 31, 2011, increased $168 compared to the same period of 2010. The primary reasons for the increase was the increase in Salary and Employee Benefits and Other Operating Expenses as compared to prior period. During the first quarter of 2011, the Association has been able to achieve full employment as compared to only employing 93% of the available positions in the first quarter of 2010. As a result, Salary and Employee Benefits are up 9.95% from same period prior year. Other Operating Expenses are 16.84% higher than same period prior year due to the implementation of loans guaranteed in the FarmerMac Long Term Stand-by Guarantee Program. The Association pays a fee to FarmerMac for an unconditional guarantee on certain loan assets placed in the program. In addition, the Association entered into a service contract with AgFirst to provide the ACA with all necessary personnel and assistance for the maintenance and management of all information technology issues. The decrease in Insurance Fund premiums is a result of decreased premium costs and decreased loan asset volumes. Noninterest expense for the three months ending March 31, 2011 is shown in the following table:

	For the three months ended March 31,			
Noninterest Expense	**2011**	**2010**	**$ change**	**% change**
Salary and employee benefits	1,425	1,296	129	9.95%
Occupancy and equipment	177	172	5	2.91
Insurance Fund Premium	52	83	(31)	(37.35)
Other operating expenses	451	386	65	16.84
Total noninterest expense	2,105	1,937	168	8.67%

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2011, was $341,353 as compared to $369,260 at December 31, 2010. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

CAPITAL RESOURCES

Total members' equity at March 31, 2011, decreased to $75,928 from the December 31, 2010, total of $77,484. The increase is primarily attributed to the decrease in unallocated surplus resulting from the decreased net income.

Total capital stock and participation certificates were $1,087 on March 31, 2011, compared to $1,129 on December 31, 2010. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2011, the Association's total surplus ratio and core surplus ratio were 17.78 percent and 15.52 percent, respectively, and the permanent capital ratio was 18.42 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On July 8, 2010, the Farm Credit Administration issued an advance notice of proposed rulemaking (ANPRM) to gather public comments on the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital standards would be similar to the capital tiers delineated in the Basel Accord that other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The Farm Credit Administration is seeking comments to facilitate the development of this regulatory capital framework, including new minimum risk-based and leverage ratio capital requirements that take into consideration both the System's cooperative structure of primarily wholesale banks owned by retail lender Associations that are, in turn, owned by their member borrowers, and the System's status as a GSE. The comment period for the ANPRM originally ended November 5, 2010 but it has been extended to May 4, 2011.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the rules and regulations are not applicable to the System. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are important to the U.S. financial system. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being considered a non-bank financial company and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the Volcker Rule will not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges and margin or cash collateral will be required for these transactions. Also, derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. The Dodd-Frank Act requires the Commodity Futures Trading Commission (CFTC) to consider whether to exempt System institutions from these new requirements. These requirements, whether or not System institutions are directly exempt from them, have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions. This may impact the System's funding strategies.

The Dodd-Frank Act will also require certain financial institutions to register as swap dealers or major swap participants, as applicable, with the CFTC and/or the Securities and Exchange Commission. Based on the proposed rules, it is possible that certain System institutions could be required to register with the CFTC as swap dealers based on swaps entered into between System institutions or between System institutions and their borrowers, which would subject these System institutions to considerable additional regulation and cost. In addition, the counterparties with which System institutions enter into derivative transactions for hedging and risk mitigation purposes will most likely be designated as swap dealers and, as a result, be subject to additional regulatory requirements.

As required by the Dodd-Frank Act, the U.S. Treasury and the U.S. Department of Housing and Urban Development issued in February 2011 their report to Congress entitled "Reforming America's Housing Finance Market". This report sets forth recommendations related to the future of the housing GSEs, including Fannie Mae and Freddie Mac. While this report did not specifically include or relate to the Farm Credit System, a potential risk exists that the System, as a GSE, may directly or indirectly be impacted by the decisions made as Congress addresses Fannie Mae, Freddie Mac and federal home loan finance.

In light of the foregoing, it is difficult to predict at this time the extent of the impact which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have on the System. However, it is possible they could affect funding strategies and increase funding costs.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.com.* The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2011	December 31, 2010
	(unaudited)	(audited)
Assets		
Cash	$ 195	$ 13
Investment securities:		
Held to maturity (fair value of $46,054 and $45,946 respectively)	45,555	45,476
Loans	355,351	376,001
Less: allowance for loan losses	6,615	4,426
Net loans	348,736	371,575
Accrued interest receivable	1,781	1,735
Investments in other Farm Credit institutions	12,806	13,348
Premises and equipment, net	834	870
Other property owned	6,282	6,806
Due from AgFirst Farm Credit Bank	1,667	6,980
Other assets	4,303	4,890
Total assets	$ 422,159	$ 451,693
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 341,353	$ 369,260
Accrued interest payable	683	724
Patronage refund payable	27	29
Other liabilities	4,168	4,196
Total liabilities	346,231	374,209
Commitments and contingencies		
Members' Equity		
Protected borrower stock	9	19
Capital stock and participation certificates	1,078	1,110
Retained earnings		
Allocated	33,183	33,183
Unallocated	41,643	43,153
Accumulated other comprehensive income	15	19
Total members' equity	75,928	77,484
Total liabilities and members' equity	$ 422,159	$ 451,693

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Operations

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2011	2010
Interest Income		
Investment securities	$ 221	$ 234
Loans	4,260	4,259
Total interest income	4,481	4,493
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	2,039	2,256
Net interest income	2,442	2,237
Provision for loan losses	3,138	2,155
Net interest income (loss) after provision for loan losses	(696)	82
Noninterest Income		
Loan fees	21	149
Fees for financially related services	33	25
Equity in earnings of other Farm Credit institutions	1,690	1,747
Gains (losses) on other property owned, net	(483)	(145)
Gains (losses) on sale of rural home loans, net	19	39
Insurance Fund refunds	—	428
Other noninterest income	11	59
Total noninterest income	1,291	2,302
Noninterest Expense		
Salaries and employee benefits	1,425	1,296
Occupancy and equipment	177	172
Insurance Fund premium	52	83
Other operating expenses	451	386
Total noninterest expense	2,105	1,937
Net income (loss)	$ (1,510)	$ 447

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2009	$ 33	$ 1,213	$ 33,183	$ 42,338	$ 27	$ 76,794
Comprehensive income						
Net income				447		447
Employee benefit plans adjustments					1	1
Total comprehensive income						448
Protected borrower equity retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(29)				(29)
Patronage distribution adjustment				1		1
Balance at March 31, 2010	$ 20	$ 1,184	$ 33,183	$ 42,786	$ 28	$ 77,201
Balance at December 31, 2010	$ 19	$ 1,110	$ 33,183	$ 43,153	$ 19	$ 77,484
Comprehensive income (loss)						
Net income (loss)				(1,510)		(1,510)
Employee benefit plans adjustments					(4)	(4)
Total comprehensive income (loss)						(1,514)
Protected borrower equity retired	(10)					(10)
Capital stock/participation certificates issued/(retired), net		(32)				(32)
Balance at March 31, 2011	$ 9	$ 1,078	$ 33,183	$ 41,643	$ 15	$ 75,928

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

Farm Credit of Central Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of Farm Credit of Central Florida, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited first quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

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 (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2011, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For public entities, the guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the guidance prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, the delayed TDR disclosures referenced above are also effective for the first interim or annual period beginning on or after June 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 6).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at March 31, 2011 and December 31, 2010 follows:

	March 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 45,555	$ 601	$ (102)	$ 46,054	1.93%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 45,476	$ 530	$ (60)	$ 45,946	1.82%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2011 and December 31, 2010 follows:

	March 31, 2011		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 95	$ 96	1.93%
After one year through five years	1,596	1,629	0.32
After five years through ten years	30,401	30,869	2.00
After ten years	13,463	13,460	1.96
Total	$ 45,555	$ 46,054	1.93%

	December 31, 2010		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 33	$ 33	1.46%
After one year through five years	1,738	1,771	1.37
After five years through ten years	31,382	31,785	1.90
After ten years	12,323	12,357	1.67
Total	$ 45,476	$ 45,946	1.82%

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. ABSs are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at March 31, 2011 are considered eligible under FCA regulatory guidelines.
An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that have been in a continuous unrealized loss position aggregated by investment category at March 31, 2011 and December 31, 2010.

	March 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 4,301	$ (59)	$ 1,271	$ (43)

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 1,885	$ (11)	$ 1,369	$ (49)

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from non-credit related factors. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of March 31, 2011 and December 31, 2010, follows:

	March 31, 2011	December 31, 2010
Real estate mortgage	$ 133,381	$ 135,214
Production and intermediate-term	159,292	175,070
Agribusiness		
Loans to cooperatives	16,708	18,711
Processing and marketing	9,496	5,933
Farm-related business	14,265	17,270
Total agribusiness	40,469	41,914
Energy	2,936	2,969
Rural residential real estate	19,273	20,834
Total Loans	$ 355,351	$ 376,001

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present the changes in principal balance of participations purchased and sold for the quarter ended March 31, 2011:

	Beginning Balance at December 31, 2010							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 81,750	$ –	$ –	$ –	$ –	$ –	$ 81,750
Production and intermediate-term	18,318	256,485	–	–	–	–	18,318	256,485
Agribusiness								
Loans to cooperatives	1,008	8,673	–	–	–	–	1,008	8,673
Processing and marketing	4,940	6,995	–	–	–	–	4,940	6,995
Farm-related business	–	2,324	–	–	–	–	–	2,324
Total agribusiness	5,948	17,992	–	–	–	–	5,948	17,992
Energy	2,969	–	–	–	–	–	2,969	–
Total	$ 27,235	$ 356,227	$ –	$ –	$ –	$ –	$ 27,235	$ 356,227

	Purchases and sales for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–	–	–	–
Agribusiness								
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–	–
Energy	–	–	–	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –

	Other activity for the quarter ended March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ (4,718)	$ –	$ –	$ –	$ –	$ –	$ (4,718)
Production and intermediate-term	(1,611)	(50,115)	–	–	–	–	(1,611)	(50,115)
Agribusiness								
Loans to cooperatives	(78)	(2,384)	–	–	–	–	(78)	(2,384)
Processing and marketing	100	(2,974)	–	–	–	–	100	(2,974)
Farm-related business	–	(22)	–	–	–	–	–	(22)
Total agribusiness	22	(5,380)	–	–	–	–	22	(5,380)
Energy	–	–	–	–	–	–	–	–
Total	$ (1,589)	$ (60,213)	$ –	$ –	$ –	$ –	$ (1,589)	$ (60,213)

	Ending balance at March 31, 2011							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 77,032	$ –	$ –	$ –	$ –	$ –	$ 77,032
Production and intermediate-term	16,707	206,370	–	–	–	–	16,707	206,370
Agribusiness								
Loans to cooperatives	930	6,289	–	–	–	–	930	6,289
Processing and marketing	5,040	4,021	–	–	–	–	5,040	4,021
Farm-related business	–	2,302	–	–	–	–	–	2,302
Total agribusiness	5,970	12,612	–	–	–	–	5,970	12,612
Energy	2,969	–	–	–	–	–	2,969	–
Total	$ 25,646	$ 296,014	$ –	$ –	$ –	$ –	$ 25,646	$ 296,014

Purchases and sales represent new participation contracts or major modifications of existing contracts. Other activities may consist of advances on existing participation contracts, payments, chargeoffs, recoveries, and/or classification changes.

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2011 and indicates that approximately 25.82 percent of loans had maturities of one year or less:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 14,012	$ 41,195	$ 78,174	$ 133,381
Production and intermediate-term	60,199	73,526	25,567	159,292
Agribusiness				
Loans to cooperatives	4,474	7,745	4,489	16,708
Processing and marketing	4,509	1,825	3,162	9,496
Farm-related business	2,522	7,810	3,933	14,265
Total agribusiness	11,505	17,380	11,584	40,469
Energy	2,936	–	–	2,936
Rural residential real estate	3,099	4,227	11,947	19,273
Total Loans	$ 91,751	$ 136,328	$ 127,272	$ 355,351

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of March 31, 2011 and December 31, 2010.

	March 31, 2011	December 31, 2010
Real estate mortgage:		
Acceptable	77.07%	77.31%
OAEM	8.39	7.10
Substandard/doubtful/loss	14.54	15.59
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	73.56%	75.53%
OAEM	12.66	14.95
Substandard/doubtful/loss	13.78	9.52
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	87.35%	92.71%
OAEM	11.58	6.33
Substandard/doubtful/loss	1.07	0.96
	100.00%	100.00%
Processing and marketing		
Acceptable	94.88%	90.72%
OAEM	5.12	9.28
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2011	December 31, 2010
Farm-related business		
Acceptable	95.17%	84.35%
OAEM	4.81	9.85
Substandard/doubtful/loss	0.02	5.80
	100.00%	100.00%
Total agribusiness		
Acceptable	91.86%	88.98%
OAEM	7.69	8.20
Substandard/doubtful/loss	0.45	2.82
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	72.15%	70.68%
OAEM	5.01	4.44
Substandard/doubtful/loss	22.84	24.88
	100.00%	100.00%
Total Loans:		
Acceptable	77.10%	77.60%
OAEM	9.97	10.67
Substandard/doubtful/loss	12.93	11.73
	100.00%	100.00%

The following table provides an age analysis of past due loans and related accrued interest as of March 31, 2011 and December 31, 2010:

	March 31, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,211	$ 5,907	$ 8,118	$ 125,881	$ 133,999	$ –
Production and intermediate-term	871	9,553	10,424	149,451	159,875	–
Agribusiness						
Loans to cooperatives	–	180	180	16,645	16,825	–
Processing and marketing	–	–	–	9,524	9,524	–
Farm-related business	–	45	45	14,270	14,315	–
Total agribusiness	–	225	225	40,439	40,664	–
Energy and water/waste disposal	–	–	–	2,935	2,935	–
Rural residential real estate	927	1,314	2,241	17,151	19,392	–
Total	$ 4,009	$ 16,999	$ 21,008	$ 335,857	$ 356,865	$ –

	December 31, 2010					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,993	$ 5,354	$ 7,347	$ 128,457	$ 135,804	$ –
Production and intermediate-term	6,024	5,024	11,048	164,605	175,653	–
Agribusiness						
Loans to cooperatives	–	–	–	18,835	18,835	–
Processing and marketing	–	–	–	5,948	5,948	–
Farm-related business	–	41	41	17,312	17,353	–
Total agribusiness	–	41	41	42,095	42,136	–
Energy and water/waste disposal	–	–	–	2,969	2,969	–
Rural residential real estate	275	1,505	1,780	19,135	20,915	–
Total	$ 8,292	$ 11,924	$ 20,216	$ 357,261	$ 377,477	$ –

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

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	March 31, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	$ 9,898	$ 7,375
Production and intermediate-term	13,093	13,981
Agribusiness		
Loans to cooperatives	180	–
Farm-related business	45	41
Total agribusiness	225	41
Rural residential real estate	2,270	2,513
Total nonaccrual loans	$ 25,486	$ 23,910
Accruing restructured loans:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Agribusiness		
Loans to cooperatives	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 25,486	$ 23,910
Other property owned	6,282	6,806
Total nonperforming assets	$ 31,768	$ 30,716
Nonaccrual loans as a percentage of total loans	7.17%	6.36%
Nonperforming assets as a percentage of total loans and other property owned	8.78%	8.02%
Nonperforming assets as a percentage of capital	41.84%	39.64%

The following table presents information relating to impaired loans (including accrued interest) at March 31, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	$ 6,589	$ 5,792
Past due	18,897	18,118
Total impaired nonaccrual loans	25,486	23,910
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	–	–
Total impaired accrual loans	–	–
Total impaired loans	$ 25,486	$ 23,910

Additional impaired loan information as of March 31, 2011 and December 31, 2010 is as follows:

	March 31, 2011			Quarter Ended March 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 7,050	$ 7,663	$ 1,993	$ 7,178	$ 6
Production and intermediate-term	10,543	16,732	2,065	10,735	10
Agribusiness					
Loans to cooperatives	180	180	24	184	–
Farm-related business	45	54	3	46	–
Total agribusiness	225	234	27	230	–
Rural residential real estate	1,126	1,495	283	1,145	1
Total	$ 18,944	$ 26,124	$ 4,368	$ 19,288	$ 17
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,848	$ 3,163	$ –	$ 2,900	$ 3
Production and intermediate-term	2,550	3,650	–	2,596	2
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
Rural residential real estate	1,144	1,977	–	1,166	1
Total	$ 6,542	$ 8,790	$ –	$ 6,662	$ 6
Total impaired loans:					
Real estate mortgage	$ 9,898	$ 10,826	$ 1,993	$ 10,078	$ 9
Production and intermediate-term	13,093	20,382	2,065	13,331	12
Agribusiness					
Loans to cooperatives	180	180	24	184	–
Farm-related business	45	54	3	46	–
Total agribusiness	225	234	27	230	–
Rural residential real estate	2,270	3,472	283	2,311	2
Total	$ 25,486	$ 34,914	$ 4,368	$ 25,950	$ 23

	December 31, 2010							Year Ended December 31, 2010			
	Recorded Investment		Unpaid Principal Balance		Related Allowance			Average Impaired Loans		Interest Income Recognized on Impaired Loans	
Impaired loans with a related allowance for credit losses:											
Real estate mortgage	$	3,918	$	4,109	$	1,392		$	4,940	$	12
Production and intermediate-term		4,768		5,579		949			6,011		15
Agribusiness											
Farm-related business		–		–		–			–		–
Total agribusiness		–		–		–			–		–
Rural residential real estate		1,013		1,037		338			1,277		3
Total	$	9,699	$	10,725	$	2,679		$	12,228	$	30
Impaired loans with no related allowance for credit losses:											
Real estate mortgage	$	3,457	$	4,349	$	–		$	4,358	$	11
Production and intermediate-term		9,213		15,276		–			11,615		28
Agribusiness											
Farm-related business		41		54		–			52		–
Total agribusiness		41		54		–			52		–
Rural residential real estate		1,500		2,404		–			1,892		5
Total	$	14,211	$	22,083	$	–		$	17,917	$	44
Total impaired loans:											
Real estate mortgage	$	7,375	$	8,458	$	1,392		$	9,298	$	23
Production and intermediate-term		13,981		20,855		949			17,626		43
Agribusiness											
Farm-related business		41		54		–			52		–
Total agribusiness		41		54		–			52		–
Rural residential real estate		2,513		3,441		338			3,169		8
Total	$	23,910	$	32,808	$	2,679		$	30,145	$	74

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at March 31, 2011 and December 31, 2010.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans for the quarters ended March 31, 2011 and March 31, 2010:

	Quarter Ended March 31,			
		2011		2010
Interest income which would have been recognized under the original loan terms	$	444	$	494
Less: interest income recognized		23		26
Foregone interest income	$	421	$	468

A summary of changes in the allowance for loan losses and period end recorded investment in loans at March 31, 2011 and December 31, 2010 is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2010	$ 2,266	$ 1,585	$ 59	$ 4	$ 512	$ 4,426
Charge-offs	(322)	(342)	(1)	–	(365)	(1,030)
Recoveries	–	80	–	–	1	81
Provision for loan losses	892	1,938	(15)	–	323	3,138
Balance at March 31, 2011	$ 2,836	$ 3,261	$ 43	$ 4	$ 471	$ 6,615
March 31, 2011 allowance ending balance:						
Loans individually evaluated for impairment	$ 1,993	$ 2,065	$ 27	$ –	$ 283	$ 4,368
Loans collectively evaluated for impairment	$ 843	$ 1,196	$ 16	$ 4	$ 188	$ 2,247
Recorded investment in loans outstanding:						
Ending Balance at March 31, 2011	$ 133,999	$ 159,875	$ 40,664	$ 2,935	$ 19,392	$ 356,865
March 31, 2011 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 9,900	$ 13,093	$ 225	$ –	$ 2,270	$ 25,488
Loans collectively evaluated for impairment	$ 124,099	$ 146,782	$ 40,439	$ 2,935	$ 17,122	$ 331,377

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2009	$ 2,144	$ 2,729	$ 143	$ 12	$ 931	$ 5,959
Charge-offs	(2,170)	(7,048)	(111)	–	(1,315)	(10,644)
Recoveries	15	244	–	–	35	294
Provision for loan losses	2,277	5,660	27	(8)	861	8,817
Balance at December 31, 2010	$ 2,266	$ 1,585	$ 59	$ 4	$ 512	$ 4,426
December 31, 2010 allowance ending balance:						
Loans individually evaluated for impairment	$ 1,392	$ 949	$ –	$ –	$ 338	$ 2,679
Loans collectively evaluated for impairment	$ 874	$ 636	$ 59	$ 4	$ 174	$ 1,747
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2010	$ 135,804	$ 175,653	$ 42,136	$ 2,969	$ 20,915	$ 377,477
December 31, 2010 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 7,375	$ 13,981	$ 41	$ –	$ 2,513	$ 23,910
Loans collectively evaluated for impairment	$ 128,429	$ 161,672	$ 42,095	$ 2,969	$ 18,402	$ 353,567

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended March 31, 2011	2010
Pension	$ 280	$ 280
401(k)	37	34
Other postretirement benefits	51	44
Total	$ 368	$ 358

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	$ 5	$ 918	$ 923
Other postretirement benefits	39	140	179
Total	$ 44	$ 1,058	$ 1,102

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2011.

Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

NOTE 5 — NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2010 and March 31, 2011. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. During the first quarter of 2011, the Bank approved a temporary waiver of the December 31, 2010 default and allowed the Association to continue to operate under a special credit agreement (SCA) pursuant to its GFA through December 31, 2011. The Association was in compliance with the earnings covenant under the SCA at March 31, 2011.

NOTE 6 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This 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.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2011 consist of assets held in trust funds related to a supplemental retirement plan. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2011.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at March 31, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at March 31, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at March 31, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at March 31, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

March 31, 2011	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 157	$ –	$ –	$ 157
Total Assets	$ 157	$ –	$ –	$ 157
Liabilities:				
Standby letters of credit	$ –	$ –	$ 51	$ 51
Total Liabilities	$ –	$ –	$ 51	$ 51

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 151	$ –	$ –	$ 151
Total Assets	$ 151	$ –	$ –	$ 151
Liabilities:				
Standby letters of credit	$ –	$ –	$ 61	$ 61
Total Liabilities	$ –	$ –	$ 61	$ 61

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	$ 61
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases	–
Sales	–
Issuances	–
Settlements	(10)
Transfers in and/or out of level 3	–
Balance at March 31, 2011	$ 51

	Standby Letters Of Credit
Balance at January 1, 2010	$ 97
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, sales, issuances and settlements, net	(9)
Transfers in and/or out of level 3	–
Balance at March 31, 2010	$ 88

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

March 31, 2011	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 14,165	$ 14,165	$ (2,637)
Other property owned	$ –	$ –	$ 1,757	$ 1,757	$ (450)

December 31, 2010	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 7,020	$ 7,020	$ (9,296)
Other property owned	$ –	$ –	$ 6,876	$ 6,876	$ (943)

NOTE 7 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at March 31, 2011 and December 31, 2010.

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, 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 are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 195	$ 195	$ 13	$ 13
Loans, net of allowance	$ 350,250	$ 351,719	$ 373,051	$ 369,038
Investment securities	$ 45,822	$ 46,054	$ 45,735	$ 45,946
Assets held in trust funds	$ 157	$ 157	$ 151	$ 151
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 342,036	$ 340,165	$ 369,984	$ 368,102

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 primarily 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. Discount rates are based on the Bank's loan rates as well as management estimates.

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

   Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves. The book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.

D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.46 percent of the issued stock of the Bank as of March 31, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.2 billion and shareholders' equity totaled $2.0 billion. The Bank's earnings were $103 million during the first three months of 2011.

   In addition, the Association has an investment of $296 related to other Farm Credit institutions.

E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

   The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

G. **Assets Held in Trust Funds:** See Note 6 for discussion of estimation of fair value for this instrument.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2011, which is the date the financial statements were issued.