
Farm Credit of Central Florida, ACA
THIRD QUARTER 2020

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting2
Management’s Discussion and Analysis of
 Financial Condition and Results of Operations3
Consolidated Financial Statements
 Consolidated Balance Sheets 10
 Consolidated Statements of Comprehensive Income 11
 Consolidated Statements of Changes in Members’ Equity 12
Notes to the Consolidated Financial Statements..... 13

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2020 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



Anne M. Sullivan
Chief Financial Officer



David A. Mereness
Chairman of the Audit committee

November 6, 2020

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 September 30, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, 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's management concluded that as of September 30, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2020.



Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer

November 6, 2020

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 September 30, 2020. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2019 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

Impacts of the COVID-19 Global Pandemic

The Association recognizes that the COVID-19 pandemic has created significant stress for agricultural and rural borrowers because of disruptions to employees, markets, transportation, processors, off-farm income and other factors important to their operations. If the effects of the COVID-19 disruptions result in widespread and sustained repayment shortfalls on loans in the Association's portfolio, the Association could incur increased nonperforming assets and credit losses, particularly if conditions cause land and asset values to deteriorate and the available collateral is insufficient to cover the Association's exposure. This could potentially have a material adverse effect on the Association's financial condition, results of operations, liquidity, or capital levels.

The Association's net effective spread and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19, as evidenced by the actions in March 2020 of the Federal Reserve to significantly lower the target range for the federal funds rate based on concerns about the disruption to economic activity. A prolonged period of extremely volatile and unstable market conditions would likely increase costs while negatively affecting market risk mitigation strategies.

One of AgFirst Farm Credit Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Funding Corporation. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Association's business, operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 18, 2020, the Association activated its business continuity plan and operated remotely from employee homes. As the state eased the "stay at home" restrictions, the Association has taken steps to re-open offices at 20% capacity, while following standard safety protocols such as mask requirements, social distancing, enhanced cleaning, and appointment-only customer meetings. Some employees continue work-from-home arrangements which introduces additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks presented by a workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

The Association relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the developing measures being undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continue for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's

own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Association's business, which could have a material adverse impact on its results of operations and financial condition.

The Association's efforts to manage and mitigate the above mentioned risks may be unsuccessful, and the effectiveness of these efforts and the extent to which the COVID-19 pandemic affects the Association's business, results of operations, and financial condition will depend on factors beyond its control, including the duration, severity, and spread of the pandemic, as well as third-party and government actions taken to contain COVID-19 and mitigate public health and economic effects, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic is over, the Association may continue to experience material adverse effects to its business as a result of the disruption in the global economy, the domestic agricultural economy, and any resulting recession. Because there have been no comparable recent global pandemics that resulted in similar global macroeconomic impacts, the Association does not yet know the full extent of the effects on its business, operations, or the global economy as a whole, but they could materially and adversely affect the Association's business, operations, operating results, financial condition, liquidity, or capital levels as discussed above.

COVID-19 Support Programs

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration (FCA), other federal banking regulators and the Financial Accounting Standards Board (FASB) issued guidance on restructurings of loans through loan modifications, such as payment deferrals and extensions of repayment terms, which would not be considered as troubled debt restructurings if made on a good faith basis in response to the national emergency.

The Association has developed and is refining payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. Programs vary by loan portfolio, entity and geographic location. These actions are designed to help farmers and ranchers preserve liquidity. As of September 30, the Association had deferred payments on 110 loans, totaling \$40.2 million in loan volume. The majority of these loans were in the nursery, nonfarm and cattle industries.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include approximately

\$10 billion of funding targeted to livestock and dairy producers, \$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA), which commenced on April 3, 2020. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or that fit within the revenue-based standard are eligible for PPP loans.

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from a District Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the PPP and Health Care Enhancement Act that provided \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provided an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The bill also extends the "covered period" during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made \$22.2 million in loans and recorded approximately \$830 thousand in loan-related fee income. At September 30, 2020, the Bank had purchased \$22.2 million of these loans.

On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide \$14 billion of financial support to

producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

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.

September 30, 2020 compared to December 31, 2019

Loan volume of the Association as of September 30, 2020, was \$612,049, an increase of \$43,614 as compared to \$568,435 at December 31, 2019. Net loans outstanding at September 30, 2020, were \$608,704 as compared to \$565,322 at December 31, 2019. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October 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. However, the ACA has experienced increased loan originations during 2020 in fully drawn long term loans therefore loan volumes have not declined as much as they have in past years.

The Association has investment securities that are classified as held to maturity in the amount of \$4,384 at September 30, 2020, as compared to \$5,262 at December 31, 2019. Net loans and investment securities accounted for 96.39 percent of total assets at September 30, 2020, as compared to 96.64 percent of total assets at December 31, 2019.

The Association's total servicing portfolio has increased to \$1,057,639 as compared to \$959,923 at December 31, 2019, due to increased new money closings which have exceeded run-off and liquidations during the year.

September 30, 2020 compared to September 30, 2019

Loan volume of the Association as of September 30, 2020, was \$612,049, an increase of \$88,365 as compared to \$523,684 at September 30, 2019. Net loans outstanding at September 30, 2020, were \$608,704 as compared to \$521,314 at September 30, 2019. The Association has investment securities that are classified as held to maturity in the amount of \$4,384 at September 30, 2020, as compared to \$5,758 at September 30, 2019. Net loans and investment securities accounted for 96.39 percent of total assets at September 30, 2020, as compared to 96.98 percent of total assets at September 30, 2019.

The Association's total servicing portfolio has increased to \$1,057,639 as compared to \$941,621 at September 30, 2019, due to increased new money closings which exceeded run-off and liquidations over the past twelve months.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved from year end and September 30, 2019, as a result of a decrease in substandard assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 98.88% as of September 30, 2020, compared to 98.58% at December 31, 2019 and 98.24% at September 30, 2019. Substandard credit quality was 1.12% as of September 30, 2020, compared to 1.42% at December 31, 2019 and 1.76% at September 30, 2019. The actual substandard asset volume has decreased by \$1,232 from year-end December 31, 2019. Nonaccrual loan volume was \$5,211 at September 30, 2020, compared to \$6,967 at December 31, 2019 and \$7,702 at September 30, 2019, decreases of \$1,756 and \$2,491, respectively. The majority of the loan assets in nonaccrual are in the blueberry and rural home industries.

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 September 30, 2020, was \$3,345 or 0.55% of total loans compared to \$3,113 or 0.55% of total loans at December 31, 2019, and \$2,370 or 0.45% of total loans at September 30, 2019, 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 September 30, 2020, contains \$1,151 in specific reserves and \$2,194 in general reserves, of which \$123 is allocated to the citrus portfolio and \$1,279 is allocated to the nonfarm income and nursery portfolio. The following outlines the allowance for loan loss activity as of September 30, 2020.

Allowance for Loan Losses Activity:	YTD 2020	
Balance at beginning of period	\$	3,113
Charge-offs		(3)
Recoveries		21
Provisions/(Reversals)-General		694
Provisions/(Reversals)-Specifics		(480)
Balance at end of period	\$	<u>3,345</u>

The increase in allowance for loan losses compared to December 2019 was a direct result of increased general allowance within our nursery and nonfarm pool. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2020

Net income for the three months ended September 30, 2020, totaled \$1,934, as compared to \$2,251 for the same period in 2019. The decrease of \$317 for the period is associated directly with increased operating expenses and increased provisions for loan losses, offset by increased net interest income.

Net interest income was \$3,849 for the three months ended September 30, 2020, as compared to \$3,501 for the same period in 2019. The increase is due to higher loan volumes, coupled with increased loan spreads. Net interest income for the three months ending September 30, 2020, is shown in the following table:

Net Interest Income	For the three months ended September 30,			
	2020	2019	\$ change	% change
Investment Interest Income	\$ 23	\$ 36	\$ (13)	(36.11)%
Loan Interest Income	6,639	6,967	(328)	(4.71)
Total Interest Income	6,662	7,003	(341)	(4.87)
Total Interest Expense	2,813	3,502	(689)	(19.67)
Net Interest Income	\$ 3,849	\$ 3,501	\$ 348	9.94 %

Allowance for loan loss activity for the quarter consisted of a \$90 provision for the period compared to a reversal of \$350 for the same period prior year. Provisions for loan losses for the three months ending September 30, 2020 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended September 30,			
	2020	2019	\$ Change	% change
General Reserves	\$ (14)	\$ 20	\$ (34)	(170.00)%
Specific Reserves	104	(370)	474	(128.11)
Total Provisions/(Reversals)	\$ 90	\$ (350)	\$ 440	(125.71)%

Noninterest income for the three months ended September 30, 2020, totaled \$1,428, as compared to \$1,327 for the same period of 2019, an increase of \$101. The increase is primarily the result of patronage refunds from other Farm Credit institutions. Noninterest income for the three months ending September 30, 2020, is shown in the following table:

Noninterest Income	For the three months ended September 30,			
	2020	2019	\$ change	% change
Loan fees	\$ 107	\$ 145	\$ (38)	(26.21)%
Fees for financially related services	42	69	(27)	(39.13)
Patronage refunds from other				
Farm Credit Institutions	1,206	990	216	21.82
Gains (losses) on sales of rural				
home loans, net	39	96	(57)	(59.38)
Gains (losses) on sales of premises				
and equipment, net	(19)	–	(19)	(100.00)
Gains (losses) on other transactions	53	25	28	112.00
Other noninterest income	–	2	(2)	(100.00)
Total noninterest income	\$ 1,428	\$ 1,327	\$ 101	7.61 %

Noninterest expense for the three months ended September 30, 2020, increased \$326 compared to the same period of 2019, primarily due to increased occupancy and equipment and increased salaries and benefits, offset by a decrease in other operating expenses. The primary reason for the increase occupancy and equipment expense is increased expense on the lease of the new administrative building. The decrease in other operating expenses is primarily due to decreased travel, training and advertising and public relations due to the current conditions with the COVID-19 pandemic. Farm Credit System Insurance Corporation (FCSIC) has set the premium to 11 basis points for the last two quarters of 2020 and 8 basis points for the first two quarters (compared to 9 basis points during 2020) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending September 30, 2020 is shown in the following table:

Noninterest Expense	For the three months ended September 30,			
	2020	2019	\$ change	% change
Salary and employee benefits	\$ 2,170	\$ 1,986	\$ 184	9.26 %
Occupancy and equipment	295	187	108	57.75
Insurance Fund Premium	133	92	41	44.57
(Gains) losses on other property				
owned, net	–	(2)	2	(100.00)
Other operating expenses	655	664	(9)	(1.36)
Total noninterest expense	\$ 3,253	\$ 2,927	\$ 326	11.14 %

For the nine months ended September 30, 2020

Net income for the nine months ended September 30, 2020, totaled \$7,954 as compared to \$7,896 for the same period in 2019. The increase of \$58 for the period is associated with increased interest and non interest income, offset by increased operating expenses as well as a provision in the allowance for loan loss.

Net interest income increased \$530 or 4.85% for the nine months ended September 30, 2020, as compared to the same period in 2019. The primary reason for the increase in net interest income is increases in both rate spread and volume of the loan portfolio.

Net interest income for the nine months ending September 30, 2019 is shown in the following table:

	For the nine months ended September 30,			
	2020	2019	\$ change	% change
Net Interest Income				
Investment Interest Income	\$ 89	\$ 147	\$ (58)	(39.46)%
Loan Interest Income	20,399	21,554	(1,155)	(5.36)
Total Interest Income	20,488	21,701	(1,213)	(5.59)
Total Interest Expense	9,021	10,764	(1,743)	(16.19)
Net Interest Income	\$ 11,467	\$ 10,937	\$ 530	4.85 %

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

Change in Net Interest Income:

	Volume	Rate	Non-accrual	Amortization	Total
	<i>(dollars in thousands)</i>				
Change in NII	\$ 1,114	\$ (323)	\$ (343)	\$ 82	\$ 530

Allowance for loan loss activity consisted of a \$214 provision, as compared to a \$1,104 reversal for the same period last year. The increase in allowance for loan losses compared to December 2019 was a direct result of increased general allowance within our nursery and nonfarm pool.

Provisions for loan losses for the nine months ending September 30, 2020 are shown in the following table:

Provisions for Loan Losses	For the nine months ended September 30,			
	2020	2019	\$ change	% change
General Reserves	\$ 694	\$ (80)	\$ 774	(967.50)%
Specific Reserves	(480)	(1,024)	544	(53.13)
Total Provisions/(Reversals)	\$ 214	\$ (1,104)	\$ 1,318	(119.38)%

Noninterest income for the nine months ended September 30, 2020, totaled \$5,855, as compared to \$4,392 for the same period of 2019, an increase of \$1,463. The increase is primarily a result of increased loan fees, increased fees from financially related services and increased patronage refunds from other Farm Credit institutions, offset by lower gains on sales of rural home loans and a lower refund from the Farm Credit System Insurance Corporation. During the second and third quarter of 2020 the Association recorded a total \$830 of fees from PPP loans. These payments are nonrecurring and were generated from the guaranteed loan program (PPP) that was part of the CARES Act. During the first quarter of 2020, the Association recorded \$107 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the system's debt obligations, as opposed to \$116 during 2019. These payments are 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 nine months ending September 30, 2020 is shown in the following table:

Noninterest Income	For the nine months ended September 30,			
	2020	2019	\$ change	% change
Loan fees	\$ 1,043	\$ 423	\$ 620	146.57 %
Fees for financially related services	871	519	352	67.82
Patronage refunds from other				
Farm Credit institutions	3,675	3,023	652	21.57
Gains (losses) on sales of				
rural home loans, net	161	268	(107)	(39.93)
Gains (losses) on sales of				
premises and equipment, net	(19)	–	(19)	(100.00)
Gains (losses) on other				
Transactions	16	39	(23)	(58.97)
Insurance Fund refund	107	116	(9)	(7.76)
Other noninterest income	1	4	(3)	(75.00)
Total noninterest income	\$ 5,855	\$ 4,392	\$ 1,463	33.31 %

Noninterest expense for the nine months ended September 30, 2020 increased \$617 compared to the same period of 2019. The increase is related to increases in salaries and employee benefits, occupancy and equipment and insurance fund premiums. Salaries and employee benefits increased \$348 or 6.13% during the period due to increased employee head count. The primary reason for the increase occupancy and equipment expense is increased expense on the lease of the new administrative building. The Association Insurance Fund premiums are \$37 more than prior year. This is because the Farm Credit System Insurance Corporation (FCSIC) has set the premium to 8 basis points for the first 6 months of 2020 and 11 basis points for the last six months (as opposed to 9 for all of 2019) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans for the past two years. Noninterest expense for the nine months ending September 30, 2020 is shown in the following table:

Noninterest Expense	For the nine months ended September 30,			
	2020	2019	\$ change	% change
Salary and employee benefits	\$ 6,027	\$ 5,679	\$ 348	6.13 %
Occupancy and equipment	755	545	210	38.53
Insurance Fund Premium	319	282	37	13.12
(Gains) losses on other property				
owned, net	–	(2)	2	(100.00)
Other operating expenses	2,053	2,033	20	0.98
Total noninterest expense	\$ 9,154	\$ 8,537	\$ 617	7.23 %

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 September 30, 2020, was \$503,465 as compared to \$463,711 at December 31, 2019. The increase is attributable to borrowings to fund new loans being greater than paydowns on loans in the normal course of business.

CAPITAL RESOURCES

Total members' equity at September 30, 2020, increased to \$120,299 from the December 31, 2019, total of \$113,447. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were \$1,001 on September 30, 2020, compared to \$942 on December 31, 2019. This increase is attributed to the issuance of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2020
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.50%	7.00%	18.43%
Tier 1 Capital	6.0%	2.50%	8.50%	18.43%
Total Capital	8.0%	2.50%	10.50%	18.96%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.53%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.08%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.53%

* The capital conservation buffers had a 3 year phase-in period which became fully effective January 1, 2020.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

REGULATORY MATTERS

On October 6, 2020, the Farm Credit Administration adopted a final rule that amends its investment regulations to allow associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest. The final rule will be effective 30 days after publication in the Federal Register.

On September 28, 2020, the Farm Credit Administration adopted a final rule governing the amortization limits for associations. This rule repeals regulatory provisions that impose amortization limits on certain loans and requires associations to address loan amortization in their credit underwriting standards and internal controls. The final rule will be effective 30 days after publication in the Federal Register.

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in

nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The final rule became effective on October 21, 2020.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not

be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2019 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

NOTE: Shareholder investment in the Association is materially 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. 2764, or writing Matthew Miller, 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 Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, www.farmcreditfl.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

<i>(dollars in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
Assets		
Cash	\$ 11	\$ 14
Investments in debt securities:		
Held to maturity (fair value of \$4,331 and \$5,205, respectively)	4,384	5,262
Loans	612,049	568,435
Allowance for loan losses	(3,345)	(3,113)
Net loans	608,704	565,322
Accrued interest receivable	2,797	2,394
Equity investments in other Farm Credit institutions	6,776	6,677
Premises and equipment, net	4,493	2,583
Accounts receivable	3,741	6,984
Other assets	5,121	1,188
Total assets	\$ 636,027	\$ 590,424
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 503,465	\$ 463,711
Accrued interest payable	923	1,197
Patronage refunds payable	294	6,691
Accounts payable	645	653
Other liabilities	10,401	4,725
Total liabilities	515,728	476,977
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	1,001	942
Retained earnings		
Allocated	20,380	21,637
Unallocated	99,486	91,532
Accumulated other comprehensive income (loss)	(568)	(664)
Total members' equity	120,299	113,447
Total liabilities and members' equity	\$ 636,027	\$ 590,424

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest Income				
Loans	\$ 6,639	\$ 6,967	\$ 20,399	\$ 21,554
Investments	23	36	89	147
Total interest income	6,662	7,003	20,488	21,701
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	2,813	3,502	9,021	10,764
Net interest income	3,849	3,501	11,467	10,937
Provision for (reversal of allowance for) loan losses	90	(350)	214	(1,104)
Net interest income after provision for (reversal of allowance for) loan losses	3,759	3,851	11,253	12,041
Noninterest Income				
Loan fees	107	145	1,043	423
Fees for financially related services	42	69	871	519
Patronage refunds from other Farm Credit institutions	1,206	990	3,675	3,023
Gains (losses) on sales of rural home loans, net	39	96	161	268
Gains (losses) on sales of premises and equipment, net	(19)	—	(19)	—
Gains (losses) on other transactions	53	25	16	39
Insurance Fund refunds	—	—	107	116
Other noninterest income	—	2	1	4
Total noninterest income	1,428	1,327	5,855	4,392
Noninterest Expense				
Salaries and employee benefits	2,170	1,986	6,027	5,679
Occupancy and equipment	295	187	755	545
Insurance Fund premiums	133	92	319	282
(Gains) losses on other property owned, net	—	(2)	—	(2)
Other operating expenses	655	664	2,053	2,033
Total noninterest expense	3,253	2,927	9,154	8,537
Net income	\$ 1,934	\$ 2,251	\$ 7,954	\$ 7,896
Other comprehensive income net of tax				
Employee benefit plans adjustments	32	17	96	51
Comprehensive income	\$ 1,966	\$ 2,268	\$ 8,050	\$ 7,947

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2018	\$ 882	\$ 22,907	\$ 85,772	\$ (461)	\$ 109,100
Cumulative effect of change in accounting principle			(23)		(23)
Comprehensive income			7,896	51	7,947
Capital stock/participation certificates issued/(retired), net	46				46
Retained earnings retired		(1,270)			(1,270)
Balance at September 30, 2019	\$ 928	\$ 21,637	\$ 93,645	\$ (410)	\$ 115,800
Balance at December 31, 2019	\$ 942	\$ 21,637	\$ 91,532	\$ (664)	\$ 113,447
Comprehensive income			7,954	96	8,050
Capital stock/participation certificates issued/(retired), net	59				59
Retained earnings retired		(1,257)			(1,257)
Balance at September 30, 2020	\$ 1,001	\$ 20,380	\$ 99,486	\$ (568)	\$ 120,299

The accompanying notes are an integral part of these consolidated 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

Organization

The accompanying financial statements include the accounts of Farm Credit of Central Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2019, are contained in the 2019 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

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

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Effective in Future Periods

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the

accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing

the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.
- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

Recent Accounting Policy Elections

The Association made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the FASB, federal banking regulators and SEC.

As provided for in the CARES Act, the Association elected to suspend the requirements under GAAP for (1) loan

modifications related to the COVID–19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of the COVID–19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes. The election is only for loans that were not more than 30 days past due as of December 31, 2019. This applies for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID–19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act is terminated.

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association’s modification program began on March 25, 2020.

The Association elected to account for lease concessions related to the effects of the COVID-19 pandemic, consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for those concessions had previously existed, regardless of whether they explicitly exist in the contract. Consequently, the Association will not analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and will not apply the lease modification guidance in Topic 842 to those contracts. Any deferrals will be accounted for as variable lease payments. This election, from the FASB Staff interpretation of Topic 842, is only available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is

performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit

risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 374,941	\$ 313,117
Production and intermediate-term	117,585	156,828
Loans to cooperatives	9,091	2,488
Processing and marketing	74,999	60,146
Farm-related business	6,447	6,609
Communication	9,838	11,450
Power and water/waste disposal	3,108	3,105
Rural residential real estate	9,603	8,257
International	6,437	6,435
Total loans	\$ 612,049	\$ 568,435

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

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 (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2020							
	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	\$ 23,681	\$ 46,489	\$ 1,996	\$ 34,124	\$ -	\$ -	\$ 25,677	\$ 80,613
Production and intermediate-term	29,017	42,841	252	1,225	-	-	29,269	44,066
Loans to cooperatives	9,130	-	-	-	-	-	9,130	-
Processing and marketing	47,729	25,082	-	13,985	-	-	47,729	39,067
Farm-related business	685	1,182	-	-	-	-	685	1,182
Communication	9,867	-	-	-	-	-	9,867	-
Power and water/waste disposal	3,122	-	-	-	-	-	3,122	-
International	6,446	-	-	-	-	-	6,446	-
Total	\$ 129,677	\$ 115,594	\$ 2,248	\$ 49,334	\$ -	\$ -	\$ 131,925	\$ 164,928

	December 31, 2019							
	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	\$ 22,842	\$ 49,790	\$ -	\$ 33,372	\$ -	\$ -	\$ 22,842	\$ 83,162
Production and intermediate-term	24,626	64,114	-	2,550	-	-	24,626	66,664
Loans to cooperatives	2,499	-	-	-	-	-	2,499	-
Processing and marketing	35,616	20,097	-	15,216	-	-	35,616	35,313
Farm-related business	685	-	-	-	-	-	685	-
Communication	11,486	-	-	-	-	-	11,486	-
Power and water/waste disposal	3,122	-	-	-	-	-	3,122	-
International	6,446	-	-	-	-	-	6,446	-
Total	\$ 107,322	\$ 134,001	\$ -	\$ 51,138	\$ -	\$ -	\$ 107,322	\$ 185,139

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
Real estate mortgage:			Communication:		
Acceptable	99.75%	98.78%	Acceptable	100.00%	100.00%
OAEM	0.12	0.14	OAEM	–	–
Substandard/doubtful/loss	0.13	1.08	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	93.00%	96.49%	Acceptable	–%	–%
OAEM	4.72	0.93	OAEM	–	100.00
Substandard/doubtful/loss	2.28	2.58	Substandard/doubtful/loss	100.00	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	93.58%	93.56%
OAEM	–	–	OAEM	–	0.28
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	6.42	6.16
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			International:		
Acceptable	100.00%	99.78%	Acceptable	100.00%	100.00%
OAEM	–	–	OAEM	–	–
Substandard/doubtful/loss	–	0.22	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Total loans:		
Acceptable	100.00%	100.00%	Acceptable	97.90%	97.70%
OAEM	–	–	OAEM	0.98	0.88
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	1.12	1.42
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	September 30, 2020					
	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	
Real estate mortgage	\$ 26	\$ 504	\$ 530	\$ 376,532	\$ 377,062	
Production and intermediate-term	179	3	182	117,809	117,991	
Loans to cooperatives	–	–	–	9,094	9,094	
Processing and marketing	–	–	–	75,135	75,135	
Farm-related business	–	–	–	6,471	6,471	
Communication	–	–	–	9,839	9,839	
Power and water/waste disposal	–	–	–	3,109	3,109	
Rural residential real estate	89	313	402	9,268	9,670	
International	–	–	–	6,450	6,450	
Total	\$ 294	\$ 820	\$ 1,114	\$ 613,707	\$ 614,821	

	December 31, 2019					
	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	
Real estate mortgage	\$ 1,808	\$ 1,306	\$ 3,114	\$ 311,565	\$ 314,679	
Production and intermediate-term	703	2,009	2,712	154,677	157,389	
Loans to cooperatives	–	–	–	2,490	2,490	
Processing and marketing	136	–	136	60,158	60,294	
Farm-related business	–	–	–	6,625	6,625	
Communication	–	–	–	11,452	11,452	
Power and water/waste disposal	–	–	–	3,108	3,108	
Rural residential real estate	142	335	477	7,810	8,287	
International	–	–	–	6,460	6,460	
Total	\$ 2,789	\$ 3,650	\$ 6,439	\$ 564,345	\$ 570,784	

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 2,707	\$ 3,107
Production and intermediate-term	2,103	3,435
Rural residential real estate	401	425
Total	<u>\$ 5,211</u>	<u>\$ 6,967</u>
Accruing restructured loans:		
Real estate mortgage	\$ 3,858	\$ 4,643
Production and intermediate-term	2,163	3,329
Rural residential real estate	234	246
Total	<u>\$ 6,255</u>	<u>\$ 8,218</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 11,466	\$ 15,185
Other property owned	—	—
Total nonperforming assets	<u>\$ 11,466</u>	<u>\$ 15,185</u>
Nonaccrual loans as a percentage of total loans	0.85%	1.23%
Nonperforming assets as a percentage of total loans and other property owned	1.87%	2.67%
Nonperforming assets as a percentage of capital	<u>9.53%</u>	<u>13.39%</u>

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	September 30, 2020	December 31, 2019
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 4,138	\$ 1,269
Past due	1,073	5,698
Total	<u>\$ 5,211</u>	<u>\$ 6,967</u>
Impaired accrual loans:		
Restructured	\$ 6,255	\$ 8,218
90 days or more past due	—	—
Total	<u>\$ 6,255</u>	<u>\$ 8,218</u>
Total impaired loans	<u>\$ 11,466</u>	<u>\$ 15,185</u>
Additional commitments to lend	<u>\$ —</u>	<u>\$ —</u>

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ 5,629	\$ 5,779	\$ 86	\$ 5,950	\$ 100	\$ 6,366	\$ 314
Production and intermediate-term	3,216	3,246	991	3,400	58	3,637	179
Rural residential real estate	548	688	74	579	10	619	31
Total	<u>\$ 9,393</u>	<u>\$ 9,713</u>	<u>\$ 1,151</u>	<u>\$ 9,929</u>	<u>\$ 168</u>	<u>\$ 10,622</u>	<u>\$ 524</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 936	\$ 1,129	\$ —	\$ 989	\$ 18	\$ 1,057	\$ 52
Production and intermediate-term	1,050	1,255	—	1,109	18	1,186	59
Rural residential real estate	87	157	—	93	1	100	4
Total	<u>\$ 2,073</u>	<u>\$ 2,541</u>	<u>\$ —</u>	<u>\$ 2,191</u>	<u>\$ 37</u>	<u>\$ 2,343</u>	<u>\$ 115</u>
Total impaired loans:							
Real estate mortgage	\$ 6,565	\$ 6,908	\$ 86	\$ 6,939	\$ 118	\$ 7,423	\$ 366
Production and intermediate-term	4,266	4,501	991	4,509	76	4,823	238
Rural residential real estate	635	845	74	672	11	719	35
Total	<u>\$ 11,466</u>	<u>\$ 12,254</u>	<u>\$ 1,151</u>	<u>\$ 12,120</u>	<u>\$ 205</u>	<u>\$ 12,965</u>	<u>\$ 639</u>

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 2,242	\$ 2,458	\$ 725	\$ 2,528	\$ 217
Production and intermediate-term	3,696	3,702	792	4,166	358
Rural residential real estate	495	620	97	558	48
Total	\$ 6,433	\$ 6,780	\$ 1,614	\$ 7,252	\$ 623
With no related allowance for credit losses:					
Real estate mortgage	\$ 5,508	\$ 5,536	\$ –	\$ 6,207	\$ 533
Production and intermediate-term	3,068	3,347	–	3,460	297
Rural residential real estate	176	247	–	199	17
Total	\$ 8,752	\$ 9,130	\$ –	\$ 9,866	\$ 847
Total impaired loans:					
Real estate mortgage	\$ 7,750	\$ 7,994	\$ 725	\$ 8,735	\$ 750
Production and intermediate-term	6,764	7,049	792	7,626	655
Rural residential real estate	671	867	97	757	65
Total	\$ 15,185	\$ 15,910	\$ 1,614	\$ 17,118	\$ 1,470

A summary of changes in the allowance for loan losses and period end recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2020	\$ 1,143	\$ 1,654	\$ 211	\$ 26	\$ 65	\$ 148	\$ 2	\$ 3,249
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	5	–	–	–	–	1	–	6
Provision for loan losses	76	26	17	(9)	1	(21)	–	90
Balance at September 30, 2020	\$ 1,224	\$ 1,680	\$ 228	\$ 17	\$ 66	\$ 128	\$ 2	\$ 3,345
Balance at December 31, 2019	\$ 1,468	\$ 1,390	\$ 107	\$ 19	\$ 17	\$ 110	\$ 2	\$ 3,113
Charge-offs	–	(3)	–	–	–	–	–	(3)
Recoveries	6	–	–	–	–	15	–	21
Provision for loan losses	(250)	293	121	(2)	49	3	–	214
Balance at September 30, 2020	\$ 1,224	\$ 1,680	\$ 228	\$ 17	\$ 66	\$ 128	\$ 2	\$ 3,345
Balance at June 30, 2019	\$ 1,191	\$ 1,166	\$ 89	\$ 17	\$ 5	\$ 104	\$ 2	\$ 2,574
Charge-offs	–	(4)	–	–	–	(1)	–	(5)
Recoveries	49	80	–	–	–	22	–	151
Provision for loan losses	(94)	(275)	15	3	16	(15)	–	(350)
Balance at September 30, 2019	\$ 1,146	\$ 967	\$ 104	\$ 20	\$ 21	\$ 110	\$ 2	\$ 2,370
Balance at December 31, 2018	\$ 1,255	\$ 1,749	\$ 100	\$ 37	\$ 5	\$ 122	\$ 2	\$ 3,270
Charge-offs	(8)	(4)	–	–	–	(11)	–	(23)
Recoveries	77	91	–	–	–	59	–	227
Provision for loan losses	(178)	(869)	4	(17)	16	(60)	–	(1,104)
Balance at September 30, 2019	\$ 1,146	\$ 967	\$ 104	\$ 20	\$ 21	\$ 110	\$ 2	\$ 2,370
Allowance on loans evaluated for impairment:								
Individually	\$ 86	\$ 991	\$ –	\$ –	\$ –	\$ 74	\$ –	\$ 1,151
Collectively	1,138	689	228	17	66	54	2	2,194
Balance at September 30, 2020	\$ 1,224	\$ 1,680	\$ 228	\$ 17	\$ 66	\$ 128	\$ 2	\$ 3,345
Individually	\$ 725	\$ 792	\$ –	\$ –	\$ –	\$ 97	\$ –	\$ 1,614
Collectively	743	598	107	19	17	13	2	1,499
Balance at December 31, 2019	\$ 1,468	\$ 1,390	\$ 107	\$ 19	\$ 17	\$ 110	\$ 2	\$ 3,113
Recorded investment in loans evaluated for impairment:								
Individually	\$ 6,565	\$ 4,324	\$ –	\$ –	\$ –	\$ 635	\$ –	\$ 11,524
Collectively	370,497	113,667	90,700	9,839	3,109	9,035	6,450	603,297
Balance at September 30, 2020	\$ 377,062	\$ 117,991	\$ 90,700	\$ 9,839	\$ 3,109	\$ 9,670	\$ 6,450	\$ 614,821
Individually	\$ 7,749	\$ 6,829	\$ –	\$ –	\$ –	\$ 671	\$ –	\$ 15,249
Collectively	306,930	150,560	69,409	11,452	3,108	7,616	6,460	555,535
Balance at December 31, 2019	\$ 314,679	\$ 157,389	\$ 69,409	\$ 11,452	\$ 3,108	\$ 8,287	\$ 6,460	\$ 570,784

*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three and nine month periods ended September 30, 2020 or September 30, 2019.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 3,858	\$ 4,741	\$ —	\$ 98
Production and intermediate-term	2,276	3,761	113	432
Rural residential real estate	233	245	(1)	(1)
Total loans	\$ 6,367	\$ 8,747	\$ 112	\$ 529
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 30, 2020
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 289

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 4,384	\$ 12	\$ (65)	\$ 4,331	2.95%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 5,262	\$ 15	\$ (72)	\$ 5,205	4.54%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 2	\$ 2	3.17%
After one year through five years	779	775	2.57
After five years through ten years	263	255	2.37
After ten years	3,340	3,299	3.08
Total	\$ 4,384	\$ 4,331	2.95%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 386	\$ (1)	\$ 2,875	\$ (64)

December 31, 2019			
Less Than 12 Months		12 Months or Greater	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
\$ 284	\$ (2)	\$ 3,221	\$ (70)

ABSs

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (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.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type. Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired 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.

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 at period end.

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.16 percent of the issued stock of the Bank as of September 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.8 billion and shareholders' equity totaled \$2.8 billion. The Bank's earnings were \$275 million for the first nine months of 2020. In addition, the Association held investments of \$653 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Employee Benefit Plans:				
Balance at beginning of period	\$ (600)	\$ (427)	\$ (664)	\$ (461)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	32	17	96	51
Net current period other comprehensive income	32	17	96	51
Balance at end of period	\$ (568)	\$ (410)	\$ (568)	\$ (410)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2020	2019	2020	2019	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (32)	\$ (17)	\$ (96)	\$ (51)	See Note 7.
Net amounts reclassified	\$ (32)	\$ (17)	\$ (96)	\$ (51)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined 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.

Accounting guidance establishes a 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 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 hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs 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.

Level 3 inputs 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 also could include instruments whose price has been adjusted based on dealer quoted pricing

that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

		September 30, 2020								
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
Recurring Measurements										
Assets:										
Assets held in trust funds	\$	710	\$	710	\$	–	\$	–	\$	710
Recurring Assets	\$	710	\$	710	\$	–	\$	–	\$	710
Liabilities:										
Recurring Liabilities	\$	–	\$	–	\$	–	\$	–	\$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	\$	8,242	\$	–	\$	–	\$	8,242	\$	8,242
Other property owned		–		–		–		–		–
Nonrecurring Assets	\$	8,242	\$	–	\$	–	\$	8,242	\$	8,242
Other Financial Instruments										
Assets:										
Cash	\$	11	\$	11	\$	–	\$	–	\$	11
Investments in debt securities, held-to-maturity		4,384		–		4,331		–		4,331
Loans		600,462		–		–		604,844		604,844
Other Financial Assets	\$	604,857	\$	11	\$	4,331	\$	604,844	\$	609,186
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	503,465	\$	–	\$	–	\$	508,374	\$	508,374
Other Financial Liabilities	\$	503,465	\$	–	\$	–	\$	508,374	\$	508,374
		December 31, 2019								
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
Recurring Measurements										
Assets:										
Assets held in trust funds	\$	707	\$	707	\$	–	\$	–	\$	707
Recurring Assets	\$	707	\$	707	\$	–	\$	–	\$	707
Liabilities:										
Recurring Liabilities	\$	–	\$	–	\$	–	\$	–	\$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	\$	4,819	\$	–	\$	–	\$	4,819	\$	4,819
Other property owned		–		–		–		–		–
Nonrecurring Assets	\$	4,819	\$	–	\$	–	\$	4,819	\$	4,819
Other Financial Instruments										
Assets:										
Cash	\$	14	\$	14	\$	–	\$	–	\$	14
Investments in debt securities, held-to-maturity		5,262		–		5,205		–		5,205
Loans		560,503		–		–		558,875		558,875
Other Financial Assets	\$	565,779	\$	14	\$	5,205	\$	558,875	\$	564,094
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	463,711	\$	–	\$	–	\$	464,236	\$	464,236
Other Financial Liabilities	\$	463,711	\$	–	\$	–	\$	464,236	\$	464,236

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the

instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented 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.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 8,242	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *

* Ranges for this type of input are not useful because each collateral property is unique.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Pension	\$ 226	\$ 197	\$ 678	\$ 555
401(k)	98	97	355	331
Other postretirement benefits	45	40	108	122
Total	\$ 369	\$ 334	\$ 1,141	\$ 1,008

Expenses in the above table are computed using 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, 2020.

Further details regarding employee benefit plans are contained in the 2019 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its

liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Leases

Lessee

The components of lease costs were as follows:

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Operating lease cost	\$ 522	\$ 406
Variable lease cost (costs excluded from lease payments)	—	—
Sublease income	—	—
Lease costs	<u>\$ 522</u>	<u>\$ 406</u>

Other information related to leases was as follows:

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 318	\$ 412
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 4,286	\$ 787

Lease term and discount rate for the periods ended were as follows:

	September 30, 2020	December 31, 2019
Weighted average remaining lease term in years:		
Operating leases	14.97	1.03
Weighted average discount rate:		
Operating leases	3.10%	3.75%

Maturities of lease liabilities as of period end were as follows:

	Operating Leases September 30, 2020
2020	\$ 106
2021	392
2022	401
2023	411
2024	420
Thereafter	<u>5,373</u>
Total lease payments	7,103
Less: imputed interest	<u>1,510</u>
Total lease liabilities	<u>\$ 5,593</u>

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2020, which was the date the financial statements were issued.

On October 19, 2020, AgFirst's Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution. The Association will receive between approximately \$4,175 and \$4,697 which will be recorded as patronage refunds from other Farm Credit institutions.