



# Farm Credit Services of Western Arkansas, ACA

**Quarterly Report  
September 30, 2009**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2008 annual report should also be read for a description of our organization, operations and significant accounting policies.

AgriBank FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of Western Arkansas, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 3115 W. 2<sup>nd</sup> Court, Russellville, Arkansas 72801, (479) 968-1434 or at [www.myaglender.com](http://www.myaglender.com). You may also contact AgriBank, FCB at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or via electronic mail to [AGRIBANKMN@agribank.com](mailto:AGRIBANKMN@agribank.com). The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's website at [www.agribank.com](http://www.agribank.com).

### Loan Portfolio

Loan volume totaled \$681.2 million at September 30, 2009, a \$32.8 million increase from December 31, 2008. This increase is due to capital markets, which has led to increases in our mortgage volume. Originated loan volume has remained stable as compared to 2008.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of:	September 30 2009	December 31 2008
Loans:		
Accruing restructured	\$ 178	\$ --
Past due 90 days or more still accruing	727	130
Nonaccrual	<u>7,857</u>	<u>8,885</u>
Total risk loans	<u>8,762</u>	<u>9,015</u>
Other property owned	<u>509</u>	<u>222</u>
Total risk assets	<u>\$ 9,271</u>	<u>\$ 9,237</u>
Risk loans as a % of total loans	1.3%	1.4%
Total delinquencies as a % of total loans	1.3%	0.4%

Our risk assets have not changed significantly from December 31, 2008, and remain at acceptable levels.

Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

The decrease in nonaccrual loans was due to our collection efforts. Total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at September 30, 2009, and

represented 1.2% of our total portfolio. At September 30, 2009, 28.8% of our nonaccrual loans were current.

The credit quality of our portfolio has declined from December 31, 2008. Adversely classified assets increased from 5.0% of the portfolio at December 31, 2008, to 6.1% of the portfolio at September 30, 2009. The decline is due to the stress on timber and poultry producers. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At September 30, 2009, \$60.5 million of our loans were, to some level, guaranteed under these governmental programs.

Across most counties in Western Arkansas the summer of 2009 was one of the wettest on record. Also, cooler temperatures prevailed as compared to normal averages experienced between July and September. The summer of 2009 will go down as the sixth wettest summer on record. Currently no counties in Western Arkansas are considered dry according to the U.S. Drought Monitor.

Row crop prices have seen a slight improvement from those earlier this year.

Weaker prices on poultry cuts have been evident thru much of the 3rd quarter, with exports down nearly 5% from same period 2008. Price improvement could be as far away as 2nd quarter 2010.

Fed cattle and feeder cattle prices have been steady to slightly lower throughout 3rd quarter. Demand for beef has been off during the recession, especially in meals out. The 2009 cow inventory was reported to be the lowest since 1959. This bodes well for price improvements into 2010.

Timber and forestry market prices weakened in response to ongoing recession and economic factors, most notably housing starts and continued low product prices. Pulp and paper manufacturing appear to remain steady by comparison. The timber industry outlook remains weak well into the future given the in the current US economy, housing, and other market issues.

Following the financial market upheaval during the second half of 2008, financial markets improved during 2009. Policy actions of the Federal Reserve and US Treasury contributed to increased liquidity and stabilization of financial markets. The treasury yield curve steepened, swap spreads tightened and stabilized, and Farm Credit bond spreads to both treasuries and the swap curve improved. During 2009, AgriBank has been able to issue debt at all desired maturities, including over \$3.7 billion of fixed rate debt with maturities greater than or equal to seven years. This enabled AgriBank to maintain adequate liquidity and a conservative asset/liability risk profile, while continuing to offer a full array of fixed-rate products.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	September 30	December 31
Allowance as a percentage of:	2009	2008
Loans	0.5%	0.7%
Nonaccrual loans	39.9%	52.2%
Total risk loans	35.7%	51.4%

The Allowance for loan losses has decreased due to the charge-off of an ethanol loan. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2009.

### Results of Operations

Net income for the nine months ended September 30, 2009 totaled \$11.8 million compared to \$8.9 million for the same period of 2008. The following table illustrates profitability information:

As of September 30	2009	2008
Return on average assets	2.2%	1.6%
Return on average members' equity	10.4%	8.3%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2009 compared to September 30, 2008 (in thousands):

Increase (decrease) in net income	2009 vs 2008
Net interest income	(\$ 894)
Provision for loan losses	2,272
Patronage income	1,540
Financially related services and miscellaneous income, net	323
Operating expenses	(460)
Provision for income taxes	38
Total change in net income	\$ 2,819

Net interest income was \$16.1 million for the nine months ended September 30, 2009. The following table quantifies changes in net interest income for the nine months ended September 30, 2009 compared to September 30, 2008 (in thousands):

Change in net interest income	2009 vs 2008
Changes in volume	(\$ 1,193)
Changes in rates	393
Changes in nonaccrual income and other	(94)
Net change	(\$ 894)

The change in the provision for loan losses is related to the reduction in required allowance, as prior risk loans have now been charged off. The increase in patronage income is related to the sale of participation loans to AgriBank, FCB. The increase in financially related services and miscellaneous income, net is primarily due to fee income. The operating expense decrease was primarily related to employee benefits expense.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section and

changes in capital discussed in the Funding, Liquidity and Capital section below.

### Funding, Liquidity and Capital

We borrow from AgriBank, FCB in the form of a line of credit. Our promissory note was renewed on June 09, 2009, for \$650.0 million with a maturity date of May 31, 2010. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$7.8 million from December 31, 2008. The increase was due to net income for the period, an increase in capital stock and participation certificates, and was partially offset by patronage distribution accruals.

Farm Credit Administration Regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. The calculation of these ratios according to Farm Credit Administration Regulations is discussed below:

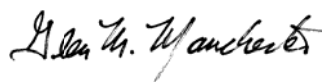
- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At September 30, 2009, our ratio was 18.4%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At September 30, 2009, our ratio was 17.8%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank, FCB divided by average risk-adjusted assets. At September 30, 2009, our ratio was 17.8%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section.

The undersigned certify they have reviewed Farm Credit Services of Western Arkansas, ACA's September 30, 2009 quarterly report and it has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kevin Crumpacker  
Chairperson of the Board of Directors  
Farm Credit Services of Western Arkansas, ACA



Glen Manchester  
President and Chief Executive Officer  
Farm Credit Services of Western Arkansas, ACA



Lori Schumacher  
Chief Financial Officer  
Farm Credit Services of Western Arkansas, ACA

November 9, 2009

**CONSOLIDATED STATEMENT OF CONDITION**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	September 30 2009	December 31 2008
<b>ASSETS</b>		
Loans	\$681,234	\$648,413
Allowance for loan losses	3,132	4,636
Net loans	678,102	643,777
Investment in AgriBank	25,823	26,668
Investment securities	2,738	4,687
Accrued interest receivable	6,570	6,126
Premises and equipment, net	3,415	3,529
Other property owned	509	222
Other assets	4,238	4,203
Total assets	\$721,395	\$689,212
<b>LIABILITIES</b>		
Note payable to AgriBank	\$551,348	\$523,621
Accrued interest payable	3,920	4,936
Net deferred income tax liability	205	226
Patronage distribution payable	4,050	4,300
Other liabilities	6,782	8,836
Total liabilities	566,305	541,919
<b>MEMBERS' EQUITY</b>		
Protected members' equity	--	--
Capital stock and participation certificates	4,066	4,001
Unallocated surplus	151,024	143,292
Total members' equity	155,090	147,293
Total liabilities and members' equity	\$721,395	\$689,212

**CONSOLIDATED STATEMENT OF INCOME**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

Period ended September 30	Three Months		Nine Months	
	2009	2008	2009	2008
Interest income	\$9,403	\$9,756	\$27,956	\$34,896
Interest expense	3,920	4,891	11,891	17,937
Net interest income	5,483	4,865	16,065	16,959
Provision for loan losses	(88)	2,404	72	2,344
Net interest income after provision for loan losses	5,571	2,461	15,993	14,615
<b>Other income</b>				
Patronage income	1,204	353	3,267	1,727
Financially related services and miscellaneous income, net	264	119	792	469
Total other income	1,468	472	4,059	2,196
<b>Operating expense</b>				
Salaries and employees benefits	1,346	1,606	4,107	3,994
Other operating	1,456	1,291	4,049	3,702
Total operating expenses	2,802	2,897	8,156	7,696
Income before income taxes	4,237	36	11,896	9,115
Provision for income taxes	52	(38)	130	168
Net income	\$4,185	\$74	\$11,766	\$8,947

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2007</b>	\$2	\$4,039	\$135,535	\$139,576
Net income	--	--	8,947	8,947
Earnings reserved for patronage	--	--	(3,854)	(3,854)
Capital stock/participation certificates	--	386	--	386
Capital stock/participation certificates	(2)	(44)	--	(46)
<b>Balance at September 30, 2008</b>	--	\$4,011	\$140,628	\$144,639
<b>Balance at December 31, 2008</b>	\$ --	\$4,001	\$143,292	\$147,293
Net income	--	--	11,766	11,766
Earnings reserved for patronage	--	--	(4,034)	(4,034)
Capital stock/participation certificates	--	384	--	384
Capital stock/participation certificates	--	(319)	--	(319)
<b>Balance at September 30, 2009</b>	\$ 0	\$ 4,066	\$ 151,024	\$ 155,090

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

Our 2008 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2008. These unaudited third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 annual report.

The accompanying consolidated financial statements contain all information necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA (the parent) and Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Effective January 1, 2009, we adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures, but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued new guidance on investment fair value measurements and impairments. The new guidance is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. We adopted the guidance during the second quarter of 2009. The impact of adoption resulted in additional investment disclosures, but did not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Under this Standard, subsequent events that arise from conditions that existed at the date of the balance sheet are recognized in the financial statements, while subsequent events that arise from conditions that did not exist as of the balance sheet date are not recognized in the financial statements. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

### NOTE 2: Loans and Investment Securities

The following table presents information concerning risk loans (in thousands):

As of September 30	2009	2008
Volume with specific reserves	\$ 4,120	\$330
Volume without specific reserves	4,642	1,047
Total risk loans	\$ 8,762	\$1,377
Total specific reserves	\$ 1,973	\$75

For the nine months ended September 30	2009	2008
Income on accrual risk loans	\$ 105	\$205
Income on nonaccrual loans	86	101
Total income on risk loans	\$ 191	\$306
Average recorded investment	\$ 8,769	\$2,888

We held investments of \$2.7 million at September 30, 2009, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to maturity. The following table presents the book value, unrealized gain/loss and fair value of the investment securities (in thousands).

As of September 30	2009	2008
Book value	\$ 2,738	\$ --
Gross unrealized gains	4	--
Gross unrealized losses	(5)	--
Estimated fair value	\$ 2,737	\$ --
Weighted Average Yield	2.2%	--

Investment income is recorded in interest income and totaled \$67 thousand for the period ended September 30, 2009.

### NOTE 3: Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Nine months ended September 30	2009	2008
Balance at beginning of year	\$4,636	\$1,441
Provision for loan losses	72	2,344
Loan recoveries	24	71
Loan chargeoffs	(1,600)	(163)
Balance at end of period	\$3,132	\$3,693

The year-over-year increase in our allowance for loan losses reflects the stress on our portfolio due to the challenging economic environment; in particular, the challenges facing the timber and poultry industries.

### NOTE 4: Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which are not reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

### NOTE 5: Fair Value Measurements

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Notes 2 and 13 to the 2008 Annual Report to Stockholders for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following

table provides information on assets measured at fair value on a nonrecurring basis at September 30, 2009 (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans *	\$ --	\$2,254	\$ --	\$2,254	\$980
Other property owned	--	596	--	596	5

(1) Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

(2) Represents the fair value and related losses of foreclosed assets that were measured at fair value.

**NOTE 6: Subsequent Events**

We have evaluated subsequent events through November 9, 2009, which is the date the financial statements were issued.