



# Farm Credit Services of Western Arkansas, ACA

Quarterly Report  
September 30, 2011

## 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 2010 annual report should also be read for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of Western Arkansas, ACA. To request free copies of the AgriBank and 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 at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or by e-mail to [agribankmn@agribank.com](mailto:agribankmn@agribank.com). The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at [www.agribank.com](http://www.agribank.com).

### Loan Portfolio

Loan volume totaled \$807.2 million at September 30, 2011, a \$45.0 million increase from December 31, 2010. This increase is due to mortgage loan growth partially offset by pay downs in our core commercial loans. Our mortgage loan growth is a strong reflection of our continued success in competing for sound mortgage loans in our core market. We have also seen some growth in our capital market loans purchased.

### Risk Assets

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

	September 30 2011	December 31 2010
As of:		
Loans:		
Accruing restructured	\$1,479	\$772
Past due 90 days or more still accruing	--	238
Nonaccrual	31,787	7,232
Total risk loans	33,266	8,242
Other property owned	1,992	995
Total risk assets	\$35,258	\$9,237
Risk loans as a % of total loans	4.1%	1.1%
Total delinquencies as a % of total loans	0.6%	0.8%

Our risk assets have increased from December 31, 2010, and remain at acceptable levels.

Nonaccrual loans have increased from 2010 mainly due to two large credits. At September 30, 2011, these credits contained some uncertainty due to economic factors which we have recognized in our portfolio.

Despite the increase in nonaccrual loans, total risk loans as a percentage of total loans remains within our established risk management guidelines.

The volume of nonaccrual loans at September 30, 2011 represented 3.9% of our total portfolio. At September 30, 2011, 93.3% of our nonaccrual loans were current.

Other property owned has increased due to the effect of general economic conditions.

### Portfolio Credit Quality

The credit quality of our portfolio has improved slightly from December 31, 2010. Adversely classified assets have decreased to 5.3% of the portfolio at September 30, 2011, from 5.9% of the portfolio at December 31, 2010. 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, 2011, \$96.8 million of our loans were, to some level, guaranteed under these governmental programs.

### Agricultural and Economic Conditions

Western Arkansas has experienced a very dry summer with the southern portion experiencing the worst of the drought. Precipitation amounts were 2.5 inches below normal for the Fort Smith area, 4.3 inches below normal for Hot Springs, and 6.9 inches below normal for Texarkana. Temperatures have been higher than normal for most of the third quarter. The U.S. Drought Monitor shows most of western Arkansas in moderate to severe drought conditions.

Overall, most row crop prices are down slightly compared to end of the second quarter. The National Agricultural Statistics Service is forecasting the second largest corn crop on record for Arkansas. The University of Arkansas Division of Agriculture reports that corn yields have varied widely ranging from 227.4 to 132.9 bushels per acre. The soybean harvest is running slightly slower than normal and yields are expected to be about average.

Egg sets and chick placements have been down 5-7% compared to last year; however, bird weights have increased, and liveability has improved so the overall impact has only been about a 1% reduction in meat on the market. Some growers are under financial stress as increased out times between flocks have cut their revenue.

Feed prices have moderated somewhat and are down from their highs in mid-summer. Poultry meat prices are starting to increase slightly, but the most of the industry was unprofitable in the third quarter. The outlook for the remainder of 2011 is poor. Industry experts predict it will be second quarter 2012 before profitability returns for most integrators.

Dry weather has decreased hay availability and hay prices are up significantly over last year. The drought has forced many ranchers to provide hay to cattle that would normally graze on pasture. Severe drought in the south is forcing herd liquidations and increased the number of cattle in feedlots. Beef imports continue to trend lower due to an unfavorable currency exchange rate, while exports are up. Exports

year to date through July are up 27% year over year and are expected to close the third quarter up about 24%.

Local paper mills lost inventory during the month of August, as a result of reduced harvesting production. Typically during a dry August and September quotas are the limiting production factor. That is not the case this year. Larger mills are calling vendors trying to increase inventory with adjusted pricing.

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. Nominal and real (inflation-adjusted) agricultural land values have increased in proportions similar to other asset classes such as stocks and urban residential and commercial land during the last decade, but agricultural land values escaped the valuation declines that other assets suffered during the recession. This is largely because the agricultural sector, particularly crop farming, remained profitable throughout the economic crisis period, and major agricultural lenders such as the Farm Credit System retained the capacity to continue lending for land purchases, unlike lenders to other industrial or consumer sectors.

In order to retain the capacity to lend in poor economic environments as well as good ones, our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration regulations allow real estate mortgage loans of up to 85% of appraised value, our underwriting standards generally limit lending to no more than 65% at origination. Due to very strong land values in much of our territory we have implemented risk management practices that incorporate loan-to-appraised-value thresholds below 65%. Furthermore, we impose a lending limit of fixed dollar amounts per acre based on the land's production capacity. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases they are often structured with additional principal payments in the early years to reduce the risk of lending at higher levels of appraised value.

#### Allowance for Loan Losses

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:	2011	2010
Loans	1.6%	0.6%
Nonaccrual loans	41.1%	66.6%
Total risk loans	39.3%	58.5%

The allowance for loan losses has increased significantly from 2010 primarily due to two large credits. At September 30, 2011, these credits contained some uncertainty due to economic factors which we have recognized in our portfolio. Subsequent to September 30, 2011, the poultry business underlying one of the credits was sold to a third party. In November 2011, as a result of this sale, we will record an additional charge-off, although, in an amount less than our specific reserve. Accordingly, we will reverse any remaining specific reserve after this charge-off as a reduction to provision expense, thus increasing net income. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2011.

#### Results of Operations

Net income for the nine months ended September 30, 2011, totaled \$6.2 million compared to \$15.6 million for the same period of 2010. The following table illustrates profitability information:

As of September 30	2011	2010
Return on average assets	1.0%	2.8%
Return on average members' equity	4.7%	12.8%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$3,000
Provision for loan losses	(11,414)
Patronage income	(57)
Other income, net	(677)
Operating expenses	(872)
Provision for income taxes	658
Total change in net income	(\$9,362)

Net interest income was \$20.9 million for the nine months ended September 30, 2011. The following table quantifies changes in net interest income for the nine months ended September 30, 2011, compared to the same period of 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$1,501
Changes in rates	1,597
Changes in nonaccrual income and other	(98)
Net change	\$3,000

The change in the provision for loan losses is related to increased provision expense primarily due to two large credits. At September 30, 2011, these credits contained some uncertainty due to economic factors which we have recognized in our portfolio. Subsequent to September 30, 2011, the poultry business underlying one of the credits was sold to a third party. In November 2011, as a result of this sale, we will record an additional charge-off, although, in an amount less than our specific reserve. Accordingly, we will reverse any remaining specific reserve after this charge-off as a reduction to provision expense, thus increasing net income.

The change in other income, net is primarily related to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of \$732 thousand received in 2010. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There has been no distribution in 2011.

The changes in operating expenses are primarily related to increased salaries and benefits.

The change in provision for income taxes is related to a decrease in taxable income.

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

## Funding, Liquidity and Capital

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. The 2011 U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the apparent implied link between the credit rating of the System and the U.S. government given the System's status as a government-sponsored enterprise.

Moody's Investors Service and Fitch confirmed the AAA rating of U.S. government bonds and financial institutions directly linked to the U.S. government, including debt issued by the Farm Credit System, following the raising of the statutory debt limit in August 2011. The rating outlook was revised to negative by Moody's and remained stable from Fitch. However, Standard and Poor's Rating Services lowered the U.S. government rating to AA+ in August 2011 with an outlook of negative, followed with a similar change for the System. The impact of current and future downgrades may increase our borrowing costs and may limit Farm Credit System access to the capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve. The impact of the August downgrade did not have a significant impact on our borrowing costs and access to capital markets. The August downgrade also did not impact the individual credit rating of AgriBank, FCB.

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on May 31, 2011, and was renewed for \$750 million with a maturity date of May 31, 2012. The note will be renegotiated at that time. 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 \$2.0 million from December 31, 2010, due primarily to net income for the period partially offset by patronage distribution accruals and an increase in capital stock and participation certificates.

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%. Refer to Note 8 in our 2010 annual report for a more complete description of these ratios. As of September 30, 2011, the ratios were as follows:

- The permanent capital ratio was 19.4%.
- The total surplus ratio was 18.9%.
- The core surplus ratio was 18.9%.

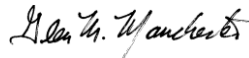
The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section above.

## Certification

The undersigned certify they have reviewed Farm Credit Services of Western Arkansas, ACA's September 30, 2011, quarterly report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. 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 1, 2011

**CONSOLIDATED STATEMENTS OF CONDITION**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	September 30	December 31
	2011	2010
<b>ASSETS</b>		
Loans	\$807,211	\$762,178
Allowance for loan losses	13,074	4,818
<b>Net loans</b>	<b>794,137</b>	<b>757,360</b>
Investment in AgriBank, FCB	24,510	25,131
Investment securities	1,066	2,257
Accrued interest receivable	7,253	6,367
Premises and equipment, net	3,441	3,446
Other property owned	1,992	995
Other assets	4,734	7,654
<b>Total assets</b>	<b>\$837,133</b>	<b>\$803,210</b>
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$651,007	\$616,438
Accrued interest payable	3,927	3,739
Net deferred income tax liability	--	97
Patronage distribution payable	4,350	7,100
Other liabilities	3,056	3,040
<b>Total liabilities</b>	<b>662,340</b>	<b>630,414</b>
Contingencies and commitments	--	--
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	4,387	4,265
Unallocated surplus	170,406	168,531
<b>Total members' equity</b>	<b>174,793</b>	<b>172,796</b>
<b>Total liabilities and members' equity</b>	<b>\$837,133</b>	<b>\$803,210</b>

**CONSOLIDATED STATEMENTS OF INCOME**

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

Period ended September 30	Three Months		Nine Months	
	2011	2010	2011	2010
<b>Interest income</b>	<b>\$11,065</b>	\$10,028	<b>\$32,455</b>	\$29,372
<b>Interest expense</b>	<b>3,927</b>	3,806	<b>11,517</b>	11,434
Net interest income	7,138	6,222	20,938	17,938
<b>Provision for (reversal of) loan losses</b>	<b>7,521</b>	(732)	<b>11,242</b>	(172)
Net interest (loss) income after (reversal of) provision for loan losses	(383)	6,954	9,696	18,110
<b>Other income</b>				
Patronage income	1,301	1,402	4,381	4,438
Financially related services income	26	25	77	80
Fee income	218	188	677	498
Allocated insurance reserve account distribution	--	--	--	732
Miscellaneous (loss) income, net	(112)	(33)	(55)	66
<b>Total other income</b>	<b>1,433</b>	1,582	<b>5,080</b>	5,814
<b>Operating expenses</b>				
Salaries and employee benefits	1,731	1,517	5,215	4,800
Other operating	1,315	1,144	3,708	3,251
<b>Total operating expenses</b>	<b>3,046</b>	2,661	<b>8,923</b>	8,051
(Loss) income before income taxes	(1,996)	5,875	5,853	15,873
<b>(Reversal of) provision for income taxes</b>	<b>(12)</b>	(1)	<b>(371)</b>	287
<b>Net (loss) income</b>	<b>(\$1,984)</b>	\$5,876	<b>\$6,224</b>	\$15,586

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

Farm Credit Services of Western Arkansas, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2009</b>	\$4,118	\$152,630	\$156,748
Net income	--	15,586	15,586
Unallocated surplus designated for patronage	--	(4,111)	(4,111)
Capital stock/participation certificates issued	407	--	407
Capital stock/participation certificates retired	(305)	--	(305)
<b>Balance at September 30, 2010</b>	<b>\$4,220</b>	<b>\$164,105</b>	<b>\$168,325</b>
<b>Balance at December 31, 2010</b>	<b>\$4,265</b>	<b>\$168,531</b>	<b>\$172,796</b>
Net income	--	6,224	6,224
Unallocated surplus designated for patronage	--	(4,349)	(4,349)
Capital stock/participation certificates issued	414	--	414
Capital stock/participation certificates retired	(292)	--	(292)
<b>Balance at September 30, 2011</b>	<b>\$4,387</b>	<b>\$170,406</b>	<b>\$174,793</b>

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 2010 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, 2010. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 annual report.

The accompanying consolidated financial statements contain all adjustments 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, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

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.

#### Recent Accounting Developments

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans that the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring". This guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance is not expected to have an impact on our financial condition or results of operations, but will result in additional disclosures.

### NOTE 2: Investment Securities

We held investment securities of \$1.1 million at September 30, 2011, and \$2.3 million at December 31, 2010, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

	September 30 2011	December 31 2010
As of:		
Amortized cost	\$1,066	\$2,257
Unrealized gains	3	23
Unrealized losses	--	--
Fair value	<u>\$1,069</u>	<u>\$2,280</u>
Weighted average yield	2.2%	2.3%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$23 thousand for the nine month period ended September 30, 2011, and \$45 thousand for the nine month period ended September 30, 2010.

### NOTE 3: Allowance for Loan Losses

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

Nine months ended September 30	2011	2010
Balance at beginning of year	\$4,818	\$4,294
Provision for (reversal of) loan losses	11,242	(172)
Loan recoveries	88	45
Loan charge-offs	(3,074)	(120)
Balance at end of period	<u>\$13,074</u>	<u>\$4,047</u>

The allowance for loan loss has increased significantly from 2010 primarily due to two large credits. At September 30, 2011, these credits contained some uncertainty due to economic factors which we have recognized in our portfolio. Subsequent to September 30, 2011, the poultry business underlying one of the credits was sold to a third party. In November 2011, as a result of this sale, we will record an additional charge-off, although, in an amount less than our specific reserve. Accordingly, we will reverse any remaining specific reserve after this charge-off as a reduction to provision expense, thus increasing net

income. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2011.

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

	September 30	December 31
As of:	2011	2010
Volume with specific reserves	\$32,120	\$4,062
Volume without specific reserves	1,146	4,180
Total risk loans	<u>\$33,266</u>	<u>\$8,242</u>
Total specific reserves	\$11,141	\$2,095
<hr/>		
Nine months ended September 30	2011	2010
Income on accrual risk loans	\$61	\$52
Income on nonaccrual loans	258	355
Total income on risk loans	<u>\$319</u>	<u>\$407</u>
Average recorded investment	\$25,562	\$9,311

Risk loans have increased from December 31, 2010 mainly due to two large credits. At September 30, 2011, these credits contained some uncertainty due to economic factors which we have recognized in our portfolio.

#### **NOTE 4: Contingencies and Commitments**

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be 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 Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2010 annual report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2011, or December 31, 2010. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>September 30, 2011</b>					
Loans	\$ --	\$298	\$21,729	\$22,027	(\$9,046)
Other property owned	--	2,291	--	2,291	(184)
<b>December 31, 2010</b>					
Loans	\$ --	\$1,337	\$729	\$2,066	\$186
Other property owned	--	1,144	--	1,144	(117)

**Loans:** 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 collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

**Other Property Owned:** Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

#### **NOTE 6: Subsequent Events**

We have evaluated subsequent events through November 1, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our quarterly report or disclosure in the Notes to those financial statements except as disclosed in Note 3.