Farm Credit Services of Western Arkansas, ACA

Quarterly Report
March 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA (the Association) and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2020 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

COVID-19 PANDEMIC

First quarter 2021 financial results remain strong for the Association despite the continued impact of the COVID-19 pandemic in our area. COVID-19 manifested in western Arkansas in mid-March 2020 and our Association followed state directives to limit person-to-person contact by closing our lobbies to customers on March 18, 2020.

We are continuing the implementation of our business continuity plan. We are successfully serving customers via phone and electronically. We continue to have a segment of employees working remotely and continue to limit the total number of employees at any one branch location and our central office. We anticipate opportunities to open our lobbies back up during the second quarter of 2021, but this is pending continued improving trends seen in the healthcare environment in Arkansas.

We continue to evaluate our internal controls over financial reporting due to remote work arrangements and are confident our internal controls, as currently established, remain effective.

We have had members affected by the COVID-19 crisis and have prepared for an anticipated increase in loan servicing requests by creating a COVID-19 Special Loan Servicing Program, which includes deferral of principal and interest payments for up to 90 days on monthly pay customers. Additionally, we have recognized a need by some customers for an additional 90 days of deferment and are reviewing these on a case by case basis.

At this time, we anticipate minor financial impact from COVID-19 in 2021. Currently we have not identified any losses in our portfolio as a result. All loans processed through our loan servicing actions remain strongly collateralized and expected to be collected.

At this time we do not anticipate a material impact to our capital and financial resources as a result of COVID-19 economic impact.

AGRICULTURAL AND ECONOMIC CONDITIONS

At the end of March 2021 all counties in the state had some sort of drought conditions. January temperatures were slightly warmer than the mean temperature, 42.9 degrees compared to the normal of 40.8 degrees. January precipitation was 2.49 inches on average in Little Rock which is down 1.06 inches from the normal value. February temperatures were cooler than normal values with a mean temperature of 36.0 degrees, which is 8.8 degrees cooler than the normal. Precipitation in February was 5.02 inches in Little Rock, versus a normal value of 3.66 inches. March temperatures were warmer than normal with the mean temperature at 56.1 degrees compared to the normal 53.4 degrees. Precipitation was 4.58 inches which was fairly close to the normal 4.68 inches for the month of March in Little Rock. Rainfall in the first quarter of 2021 was a total of 12.09 inches at Little Rock.

Specific Production Conditions

In early January 2021 the application deadline for the Paycheck Protection Program (PPP) loans was extended to May 31, 2021. Additionally, three senators have introduced legislation with the intent to allow farmers that operate out of a partnership to use their gross income when applying for PPP loans. This was done to combat a decision made by SBA which stated that net income should be used, which would be significantly less due to depreciation and other business-related deductions. Self-employed individuals that file a schedule F are allowed to use gross income.

Row Crops: US soybean crush and exports have been at record levels through the first five months of the 2020/21 marketing year (September 2020-January 2021), with US soybean exports totaling 1.82 billion bushels. This already exceeded last year's total exports of 1.68 billion bushels for the year. As US soybean supplies decline seasonally, the progress of the South American harvest comes into greater focus, the USDA forecasts a record Brazilian soybean crop at 134 million tons, however due to a slow start due to planting season and harvest delays due to excessive rainfall, soybean exports from Brazil are off to a slow start. The futures price for soybeans averaged near $14.15 per bushel the first week of March, this represents a roughly $0.30 per bushel increase relative to the contract's average price a month prior. US corn market prices continue to rise, driven largely by strong export demand and tight global supplies. The average cash-spot-corn-market prices for central Illinois and the gulf for February 2021 were $5.56 and $6.24 per bushel, respectively. By comparison, the same prices in February 2020 were $3.75 and $4.29 per bushel. The higher cash-market prices have been transmitted to average farm-prices, as well. The current farm price for corn for 2020/21 is projected at $4.30 per bushel, this price is unchanged from the previous month's projection, but a considerable increase from the estimated 2019/20 season average farm price of $3.56. Total US rice supplies remain forecast at 292.4 million hundredweight (cwt), up more than 9% from a year earlier and the highest since 2019/17. Long grain rice exports are projected at 65.0 million cwt, 1.0 million less than the previous forecast, but nearly unchanged from 2020 projections. Sales to several traditional Latin American buyers, especially Mexico and Haiti, remain well behind their year earlier pace although the US has shipped 120,200 tons of long grain rice to Brazil in 2020/21.

Poultry: Due to the mid-February winter storm, disruptions to broiler production were seen at various stages of the supply chain in Texas, Mississippi, Louisiana, and Oklahoma. These disruptions have surfaced in both broiler slaughter data as well as hatchery data. During the height of the winter storm, preliminary broiler slaughter data shows a 43.9% year-over-year decrease in broiler processing volumes. For January, ready-to-cook broiler production is estimated at 3.6 billion pounds, which is down 8.7% year over year, this increase was driven by slightly higher bird weights which averaged 6.3 pounds. January slaughter volumes were nearly level with 2020 at 37.3 million birds per day. Broiler export volumes totaled 620.7 million pounds, up 4.1% from 2020, this increase was driven by higher shipments to China (37 million pounds), Angola (37 million pounds), and Cuba (15 million pounds). These higher shipments were offset by lower shipments to Vietnam (25 million pounds), Taiwan (23 million pounds), Georgia (17 million pounds), and Hong Kong (10 million pounds). Despite the overall increase in January export volumes, demand from Asia, is expected to decrease in 2021 as the Chinese swine industry recovers from African Swine Fever. Based on this information, the broiler export forecast was lowered to 7.305 billion pounds, which is a 1% decrease relative to 2020.

Cattle: Due to the severe winter event in the second half of February, many further-processing facilities and delivery of cattle to plants were disrupted, which ultimately dropped the weekly cattle slaughter by roughly 100,000 head of cattle for that time period. The week of February 20th was the lowest weekly total of federally inspected cattle slaughter for a non-holiday week since the week of May 16, 2020. However, the packing industry responded with 2 weeks with the largest slaughter volumes since the first week of December 2020. Also attributed to the weather disruption, there has been a shift of expected steer and heifer marketing out of the first quarter to be marketed in the second quarter with greater expected cow slaughter in the first half of the year. This has raised first half beef production forecast for 2021 by 40 million to 27.6 billion pounds. Live steer prices in the 5-area marketing region are nearly flat at $114 per hundredweight since the first week of February. The US Cattle import forecast is lowered by 100,000 head to 2.0 million head in 2021, largely due to the expected impacts of bovine tuberculosis restrictions that will be placed on live cattle originating from or transitioning through certain areas of Mexico effective April 17, 2021. January beef exports were up less than 1 million pounds over year at 246 million pounds. This reflects large shipments of US beef to China which was 19.9 million pounds more than the previous year.

Timber: At the end of the first quarter 2021, the State Average on Pine sawtimber was $26.95/ton with pine pulpwood at $4.77/ton, mixed hardwood sawtimber at $35.74/ton, and hardwood Pulpwood $6.75/ton. When compared to last year pine sawtimber for Q1 2021 was up $3.32 a ton, pine pulpwood was down $0.92/ton, mixed hardwood sawtimber was up $2.09/ton, and hardwood pulpwood was down $1.85/ton. There was slight movement between Q1 2021, and Q4 of 2020, with Pine Sawtimber, pine chip-n-saw, and Hardwood sawtimber all increasing less than more than $1.00/ton with pine sawtimber being the highest at $3.20/ton. Both hardwood pulpwood and pine pulpwood has decreased $0.72 a ton between Q1 2021 and Q4 2020. In the first quarter, south-wide average stumpage prices increased in four of the five major products. South-wide average pine sawtimber and pine chip-n-saw prices are up $2.20 and $1.60 per ton from the third quarter 2020 which represents the largest 6-month increase in price for both in over a decade.US residential building construction continued to hold strong overall in early 2021 following a surge in 2020. Improvements and remodeling activity in 2020 was the highest on record and annual housing starts reached the highest level since 2006.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.6 billion at March 31, 2021, an increase of $21.0 million from December 31, 2020. The increase was primarily due to normal growth in our loan portfolio and opportunities to support our customers.

The Paycheck Protection Program (PPP), is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and under limited circumstances, loan forgiveness. As of March 31, 2021, we had successfully processed $9.0 million in PPP loans for customers with production and intermediate-term type loans, of which $8.1 million were processed during the first quarter of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $846 thousand has been forgiven as of March 31, 2021.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2020. Adversely classified loans were 1.1% of the portfolio at March 31, 2021, and December 31, 2020. Adversely classified loans are loans 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 certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At March 31, 2021, $56.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ 6,879**	$ 6,986
Accruing restructured	**3,054**	3,094
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**9,933**	10,080
Other property owned	**--**	573
Total risk assets	**$ 9,933**	$ 10,653
Total risk loans as a percentage of total loans	**0.6%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**40.6%**	30.6%
Total delinquencies as a percentage of total loans	**0.4%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in other property owned is due to the sale of all assets held as other property owned at December 31, 2020, during the first quarter of 2021. Other property owned is recorded in “Other assets” in the Consolidated Statements of Condition.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent 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, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.2%**	0.1%
Nonaccrual loans	**37.2%**	32.2%
Total risk loans	**25.7%**	22.3%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2021. During the 1st quarter 2021, we had two credits become questionable for collectability, increasing the amount of our allowance for loan loss and the subsequent provision. Additionally our allowance grew with the growth seen in our portfolio.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		2021		2020
Net income	$	**7,721**	$	7,158
Return on average assets		**1.8%**		1.9%
Return on average members' equity		**9.4%**		9.3%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31		2021		2020		Increase (decrease) in net income
Net interest income	$	**11,477**	$	10,758	$	**719**
Provision for credit losses		**287**		313		**26**
Non-interest income		**3,284**		2,639		**645**
Non-interest expense		**6,685**		5,880		**(805)**
Provision for income taxes		**68**		46		**(22)**
Net income	$	**7,721**	$	7,158	$	**563**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31		2021 vs 2020
Changes in volume	$	**1,063**
Changes in interest rates		**(341)**
Changes in nonaccrual income and other		**(3)**
Net change	$	**719**

Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income and fee income, which was partially offset by a decrease in Allocated Insurance Reserve Accounts distribution.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands) For the three months ended March 31		2021		2020
Patronage from AgriBank	$	**1,706**	$	1,613
AgDirect partnership distribution		**75**		84
Other patronage		**97**		--
Total patronage income	$	**1,878**	$	1,697

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage distributions from AgriBank are in the form of either cash or AgriBank stock and determined based on actual financial results, projections, and long-term capital goals.

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate for the first three months of 2021 compared to the same period of 2020.

Fee Income: The increase in fee income was primarily due to fees collected from the SBA for originating PPP loans during the first quarter of 2021. No SBA PPP loan fees were collected during the first quarter of 2020.

Allocated Insurance Reserve Accounts Distribution: The change in the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of $282 thousand during the three months ended March 31, 2020, and no distribution during the same period of 2021. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2% of insured debt. Refer to the 2020 Annual Report for additional information about the FCSIC.

Non-Interest Expense

The change in non-interest expense was primarily related to increases in salaries expense and Farm Credit System insurance expense. The increase in salary is mainly due to merit increases and filling open positions.

The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by FCSIC on accrual loans. The premium rate for the first quarter of 2021 was 16 basis points, which increased from 8 basis points compared to the same period in 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2023. We intend to renegotiate the note payable no later than the maturity date. 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. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2021, or December 31, 2020.

Total members' equity increased $4.7 million from December 31, 2020, primarily due to net income for the period, which was partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2020 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.1%**	18.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.1%**	18.5%	6.0%	2.5%	8.5%
Total capital ratio	**18.2%**	18.6%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.1%**	18.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.6%**	18.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.0%**	18.4%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2020 Annual Report.

CERTIFICATION

The undersigned have reviewed the March 31, 2021, Quarterly Report of Farm Credit Services of Western Arkansas, ACA, which 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.

Kenny Brixey
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

May 6, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

As of:		March 31, 2021		December 31, 2020
ASSETS				
Loans	**$**	**1,626,856**	$	1,605,846
Allowance for loan losses		**2,556**		2,251
Net loans		**1,624,300**		1,603,595
Investment in AgriBank, FCB		**37,346**		36,342
Accrued interest receivable		**10,288**		9,823
Other assets		**24,148**		23,758
Total assets	**$**	**1,696,082**	$	1,673,518
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,345,118**	$	1,318,159
Accrued interest payable		**5,446**		5,445
Deferred tax liabilities, net		**342**		355
Patronage distribution payable		**3,143**		6,215
Other liabilities		**12,377**		18,340
Total liabilities		**1,366,426**		1,348,514
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**5,968**		5,950
Unallocated surplus		**323,897**		319,333
Accumulated other comprehensive loss		**(209)**		(279)
Total members' equity		**329,656**		325,004
Total liabilities and members' equity	**$**	**1,696,082**	$	1,673,518

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2021**	2020
Interest income	**$ 16,923**	$ 18,864
Interest expense	**5,446**	8,106
Net interest income	**11,477**	10,758
Provision for credit losses	**287**	313
Net interest income after provision for credit losses	**11,190**	10,445
Non-interest income		
Patronage income	**1,878**	1,697
Financially related services income	**15**	4
Fee income	**1,378**	560
Allocated Insurance Reserve Accounts distribution	**--**	282
Other non-interest income	**13**	96
Total non-interest income	**3,284**	2,639
Non-interest expense		
Salaries and employee benefits	**4,001**	3,819
Other operating expense	**2,644**	2,058
Other non-interest expense	**40**	3
Total non-interest expense	**6,685**	5,880
Income before income taxes	**7,789**	7,204
Provision for income taxes	**68**	46
Net income	**$ 7,721**	$ 7,158
Other comprehensive income		
Employee benefit plans activity	**$ 70**	$ 70
Total other comprehensive income	**70**	70
Comprehensive income	**$ 7,791**	$ 7,228

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Western Arkansas, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2019	$ 5,570	$ 299,884	$ (556)	$ 304,898
Net income	--	7,158	--	7,158
Other comprehensive income	--	--	70	70
Unallocated surplus designated for patronage distributions	--	(2,583)	--	(2,583)
Capital stock and participation certificates issued	161	--	--	161
Capital stock and participation certificates retired	(122)	--	--	(122)
Balance at March 31, 2020	$ 5,609	$ 304,459	$ (486)	$ 309,582
Balance at December 31, 2020	$ 5,950	$ 319,333	$ (279)	$ 325,004
Net income	**--**	**7,721**	**--**	**7,721**
Other comprehensive income	**--**	**--**	**70**	**70**
Unallocated surplus designated for patronage distributions	**--**	**(3,157)**	**--**	**(3,157)**
Capital stock and participation certificates issued	**211**	**--**	**--**	**211**
Capital stock and participation certificates retired	**(193)**	**--**	**--**	**(193)**
Balance at March 31, 2021	**$ 5,968**	**$ 323,897**	**$ (209)**	**$ 329,656**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market related value of assets for the fixed-income pension assets. This change in accounting principle requires retrospective application. However, the financial statement impact was deemed immaterial to historical and current periods. Therefore, the change was recorded through earnings in the first quarter of 2021.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 “Reference Rate Reform, Topic 848.” In January 2021, the FASB issued 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:		**March 31, 2021**			December 31, 2020	
		Amount	%		Amount	%
Real estate mortgage	**$**	**1,088,655**	**66.9%**	$	1,072,737	66.8%
Production and intermediate-term		**212,835**	**13.1%**		202,622	12.6%
Agribusiness		**218,363**	**13.4%**		226,380	14.1%
Other		**107,003**	**6.6%**		104,107	6.5%
Total	**$**	**1,626,856**	**100.0%**	$	1,605,846	100.0%

The other category is primarily composed of rural infrastructure, rural residential real estate, and agricultural export finance related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2021**		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	**$**	**2,529**	**$**	**1,695**	**$**	**4,224**	**$**	**1,091,561**	**$**	**1,095,785**
Production and intermediate-term		**1,543**		**474**		**2,017**		**213,345**		**215,362**
Agribusiness		**--**		**--**		**--**		**218,853**		**218,853**
Other		**--**		**--**		**--**		**107,144**		**107,144**
Total	**$**	**4,072**	**$**	**2,169**	**$**	**6,241**	**$**	**1,630,903**	**$**	**1,637,144**

As of December 31, 2020		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	$	2,442	$	2,106	$	4,548	$	1,075,169	$	1,079,717
Production and intermediate-term		343		1,248		1,591		203,331		204,922
Agribusiness		--		--		--		226,831		226,831
Other		--		--		--		104,199		104,199
Total	$	2,785	$	3,354	$	6,139	$	1,609,530	$	1,615,669

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2021, or December 31, 2020.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		**March 31, 2021**		December 31, 2020
Volume with specific allowance	**$**	**1,065**	$	1,267
Volume without specific allowance		**8,868**		8,813
Total risk loans	**$**	**9,933**	$	10,080
Total specific allowance	**$**	**445**	$	193
For the three months ended March 31		**2021**		2020
Income on accrual risk loans	**$**	**33**	$	46
Income on nonaccrual loans		**97**		100
Total income on risk loans	**$**	**130**	$	146
Average risk loans	**$**	**9,835**	$	13,221

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2021.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral. There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the three months ended March 31, 2021, or 2020. In addition, there were no TDRs that defaulted during the three months ended March 31, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**March 31, 2021**	December 31, 2020
Accrual status:		
Real estate mortgage	**$ 694**	$ 688
Production and intermediate-term	**570**	574
Agribusiness	**1,790**	1,832
Total TDRs in accrual status	**$ 3,054**	$ 3,094
Nonaccrual status:		
Real estate mortgage	**$ 772**	$ 771
Production and intermediate-term	**580**	580
Agribusiness	**--**	--
Total TDRs in nonaccrual status	**$ 1,352**	$ 1,351
Total TDRs:		
Real estate mortgage	**$ 1,466**	$ 1,459
Production and intermediate-term	**1,150**	1,154
Agribusiness	**1,790**	1,832
Total TDRs	**$ 4,406**	$ 4,445

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	**2021**	2020
Balance at beginning of period	**$ 2,251**	$ 2,571
Provision for loan losses	**294**	398
Loan recoveries	**25**	25
Loan charge-offs	**(14)**	(10)
Balance at end of period	**$ 2,556**	$ 2,984

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a reversal of credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

Credit Loss Information on Unfunded Commitments

(in thousands) For the three months ended March 31	**2021**	2020
Reversal of credit losses	**$ (7)**	$ (85)
As of:	**March 31, 2021**	December 31, 2020
Accrued credit losses	**$ 41**	$ 48

NOTE 3: 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 Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

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, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). As of March 31, 2021, our total commitment is $2.0 million of which $830 thousand is unfunded. The original commitment period was through December 2020, with an option to extend the commitment through April 2023.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined 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 in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2020 Annual Report for a more complete description of the three input levels.

We did not have any material assets or liabilities measured at fair value on a recurring basis at March 31, 2021, or December 31, 2020.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of March 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 651**	**$ 651**
Other property owned	**--**	**--**	**--**	**--**

As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,128	$ 1,128
Other property owned	--	--	659	659

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. 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. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. 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, they are classified as Level 3.

Other Property Owned: Represents the fair value of foreclosed assets measured 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. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 6, 2021, which is the date the Consolidated 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 Consolidated Financial Statements.