



SOUTHERN AGCREDIT

Financial Solutions for Agriculture

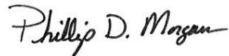
Stockholders' Quarterly Financial Report
For the Quarter Ended September 30, 2020

REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations.

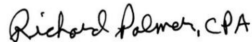
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Phillip D. Morgan
Chief Executive Officer
November 09, 2020



Kevin Rhodes
Chairman, Board of Directors
November 09, 2020



Richard Palmer, CPA
Chief Financial Officer
November 09, 2020

SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In December 2019, the association's board of directors declared a patronage in the amount of \$19,705,067 to stockholders, including \$10,090,899 to be paid in cash, and \$9,614,168 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2020. The 2019 cash patronage represents a record return of earnings to the stockholders of the association.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Current Conditions Related To COVID-19:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). While normal working conditions changed with the implementation of a more remote working environment, Southern AgCredit has continued to fulfill its mission to support agricultural and rural communities by providing access to reliable and consistent credit. As of September 30, 2020, there have been no observable delinquencies or credit metrics impacting the credit quality of our portfolio related to COVID-19. In addition, current high-risk accounting guidelines and troubled debt restructure practices have been relaxed. This allows the opportunity to provide deferral of payment to borrowers affected by COVID-19 to allow for an opportunity for conditions causing the repayment concern to be resolved prior to a recognized deterioration in the quality of the loan. We will continue to monitor our loan portfolio overall and will stay particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. During our analysis of our allowance for loan losses, we did take into consideration the possible negative effects of COVID-19. As a result, management did increase general reserves based on appropriate stress testing methodologies during the first quarter. No material additional adjustment has been deemed necessary during the subsequent months related to COVID-19. Capital levels remain strong and will support further adversity and continued loan demand.

Loan Portfolio:

Total loans outstanding at September 30, 2020, including nonaccrual loans and sales contracts, were \$1,165,208,926 compared to \$1,118,166,820 at December 31, 2019, reflecting an increase of 4.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.35 percent and 0.4 percent at September 30, 2020, and December 31, 2019, respectively.

The association recorded no recoveries or charge-offs for the quarter ended September 30, 2020, or for the same period in 2019. The association's allowance for loan losses was 0.09 percent and 0.1 percent of total loans outstanding as of September 30, 2020, and December 31, 2019, respectively.

Agribusiness Loan Program

The Association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The Association guarantees payment of the borrower’s ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in “Loans” on the consolidated balance sheet with an offsetting liability at “Guaranteed obligations to government entities.” ABE loans totaled \$14,247,183 and \$15,899,082 as of September 30, 2020 and December 31, 2019, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association’s components and trends of high-risk assets.

	September 30, 2020		December 31, 2019	
	Amount	%	Amount	%
Nonaccrual	\$ 4,157,421	49.2%	\$ 3,971,684	45.1%
Formally restructured	392,356	4.7%	408,402	4.6%
Other property owned, net	3,891,932	46.1%	4,435,392	50.3%
Total	\$ 8,441,709	100.0%	\$ 8,815,478	100.0%

The balance of nonaccrual volume as of September 30, 2020 is primarily secured by real estate with a total specific allowance of \$179,438 related to five loans. The increase in nonaccrual volume since the prior year end is made up of a few small loans.

The balance of other property owned as of September 30, 2020 is primarily related to the foreclosure of a large complex of loans to a group of borrowers originated in 2006 and recognized as nonperforming in the first quarter of 2008. Upon completion of the foreclosure, the association recognized an increase in other property owned related to the value of the acquired collateral from these loans of \$11,145,692, and \$8,563,039, as received in years 2010 and 2011, respectively. Subsequent decreases in the value include property liquidations and market value adjustments.

Investments:

During 2010, the association exchanged loans totaling \$35,192,440 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agriculture mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac and the servicing fee adequately compensates the association for the cost to service the loans. These AMBS are included in the association’s Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$3,574,023 at September 30, 2020. The association continues to service the loans included in those transactions.

Results of Operations:

The association had net income of \$5,460,325 and \$16,169,269 for the three and nine months ended September 30, 2020, as compared to net income of \$4,484,750 and \$14,751,551 for the same period in 2019, reflecting an increase of 21.8 percent and 9.6 percent. Net interest income was \$7,072,543 and \$20,891,841 for the three and nine months ended September 30, 2020, compared to \$6,907,407 and \$20,379,365 for the same period in 2019.

	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,140,792,155	\$ 39,410,342	\$ 1,068,429,050	\$ 40,420,550
Investments	4,250,108	143,439	5,701,632	217,298
Total interest-earning assets	1,145,042,263	39,553,781	1,074,130,682	40,637,848
Interest-bearing liabilities	983,219,819	18,661,940	921,923,708	20,258,483
Impact of capital	\$ 161,822,444		\$ 152,206,974	
Net interest income		<u>\$ 20,891,841</u>		<u>\$ 20,379,365</u>

	2020	2019
	Average Yield	Average Yield
Yield on loans	4.61%	5.06%
Yield on investments	4.51%	5.10%
Total yield on interest-earning assets	4.61%	5.06%
Cost of interest-bearing liabilities	2.54%	2.94%
Interest rate spread	2.07%	2.12%
Net interest income as a percentage of average earning assets	2.44%	2.54%

	Nine months ended:		
	September 30, 2020 vs. September 30, 2019		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,740,148	\$ (3,750,356)	\$ (1,010,208)
Interest income - investments	(55,371)	(18,488)	(73,859)
Total interest income	2,684,778	(3,768,845)	(1,084,067)
Interest expense	1,348,154	(2,944,697)	(1,596,543)
Net interest income	<u>\$ 1,336,624</u>	<u>\$ (824,148)</u>	<u>\$ 512,476</u>

Interest income for the three and nine months ended September 30, 2020, decreased by \$1,261,507 and \$1,084,067, or 9.0 percent and 2.7 percent respectively, from the same period of 2019, primarily due to declines in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2020 decreased by \$1,426,643 and \$1,596,543 or 20.1 percent and 7.9 percent, from the same period of 2019 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2020 was \$1,140,792,155, compared to \$1,068,429,550 in the third quarter of 2019. The average net interest rate spread on the loan portfolio for the third quarter of 2020 was 2.07 percent compared to 2.12 percent in the third quarter of 2019.

The association's return on average assets for the nine months ended September 30, 2020, was 1.82 percent compared to 1.76 percent for the same period in 2019. The association's return on average equity for the nine months ended September 30, 2020, was 11.97 percent, compared to 11.60 percent for the same period in 2019.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide debt obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	September 30, 2020	December 31, 2019
Note payable to the bank	\$ 1,003,082,454	\$ 958,141,466
Accrued interest on note payable	1,755,125	2,336,230
Total	<u>\$ 1,004,837,579</u>	<u>\$ 960,477,696</u>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,004,837,579 as of September 30, 2020, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.06 percent at September 30, 2020. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2019, is due to the association's increase in loan volume and increase in the direct loan rate. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$146,703,996 at September 30, 2020. The maximum amount the association may borrow from the bank as of September 30, 2020, was \$1,159,040,093 as defined by the general financing agreement. As noted in Note 9 – Subsequent Events, the association executed a new GFA that became effective October 1, 2020. The existing indebtedness at September 30, 2020 continues in effect under the new GFA until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The association's capital position increased by \$16,320,934 at September 30, 2020, compared to December 31, 2019. The association's debt as a percentage of members' equity was 5.44:1 as of September 30, 2020, compared to 5.78:1 as of December 31, 2019.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2020, the association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the associations consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2019 Annual Report of Association more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at www.farmcreditbank.com.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at www.southernagcredit.com. Copies of the association's quarterly stockholder reports can also be requested by e-mailing dlsouthernagcreditadmin@farmcreditbank.com.

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2020 (unaudited)	December 31, 2019
<u>ASSETS</u>		
Cash	\$ 5,682	\$ 25,095
Investments	3,574,023	5,495,707
Loans	1,165,208,926	1,118,166,820
Less: allowance for loan losses	1,443,793	1,204,690
Net loans	<u>1,163,765,133</u>	<u>1,116,962,130</u>
Accrued interest receivable		
Loans	10,620,084	9,870,265
Investments	35,109	127,313
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	18,533,000	18,533,000
Other	4,212,482	1,974,729
Other property owned, net	3,891,932	4,435,392
Premises and equipment, net	9,111,827	9,233,855
Other assets	1,048,230	1,145,872
Total assets	<u>\$ 1,214,797,501</u>	<u>\$ 1,167,803,358</u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 1,003,082,454	\$ 958,141,466
Guaranteed obligations to government entities	14,247,183	15,899,082
Advance conditional payments	118,137	148,249
Accrued interest payable	1,755,125	2,336,230
Drafts outstanding	203,562	598,395
Patronage distributions payable	-	10,090,899
Other liabilities	6,843,980	8,362,911
Total liabilities	<u>1,026,250,441</u>	<u>995,577,232</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,734,450	4,575,675
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	173,894,599	157,725,330
Accumulated other comprehensive income (loss)	(320,880)	(313,770)
Total members' equity	<u>188,547,060</u>	<u>172,226,126</u>
Total liabilities and members' equity	<u>\$ 1,214,797,501</u>	<u>\$ 1,167,803,358</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<u>INTEREST INCOME</u>				
Loans	\$ 12,699,303	\$ 13,928,620	\$ 39,410,342	\$ 40,420,550
Investments	39,637	71,827	143,439	217,298
Total interest income	<u>12,738,940</u>	<u>14,000,447</u>	<u>39,553,781</u>	<u>40,637,848</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	5,666,396	7,092,926	18,661,848	20,258,367
Advance conditional payments	1	114	92	116
Total interest expense	<u>5,666,397</u>	<u>7,093,040</u>	<u>18,661,940</u>	<u>20,258,483</u>
Net interest income	<u>7,072,543</u>	<u>6,907,407</u>	<u>20,891,841</u>	<u>20,379,365</u>
<u>PROVISION FOR LOAN LOSSES</u>				
	<u>(76,824)</u>	<u>45,508</u>	<u>237,080</u>	<u>145,994</u>
Net interest income after provision for loan losses	<u>7,149,367</u>	<u>6,861,899</u>	<u>20,654,761</u>	<u>20,233,371</u>
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,231,967	1,031,016	3,737,903	3,082,052
Loan fees	151,906	100,080	429,209	286,645
Financially related services income	233	2,072	512	2,401
Gain (loss) on other property owned, net	(37,470)	(644,400)	(56,541)	(687,724)
Gain (loss) on sale of premises and equipment, net	-	-	-	88,323
Other noninterest income	837	715	297,454	256,254
Total noninterest income	<u>1,347,473</u>	<u>489,483</u>	<u>4,408,537</u>	<u>3,027,951</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,507,540	1,484,038	4,508,552	4,255,732
Occupancy and equipment	357,117	241,843	922,780	706,314
Insurance Fund premiums	239,769	183,168	575,058	530,058
Other components of net periodic postretirement benefit cost	41,364	47,784	124,092	143,352
Other noninterest expense	890,725	909,799	2,763,547	2,874,315
Total noninterest expenses	<u>3,036,515</u>	<u>2,866,632</u>	<u>8,894,029</u>	<u>8,509,771</u>
Income before income taxes	<u>5,460,325</u>	<u>4,484,750</u>	<u>16,169,269</u>	<u>14,751,551</u>
NET INCOME	<u>5,460,325</u>	<u>4,484,750</u>	<u>16,169,269</u>	<u>14,751,551</u>
Other comprehensive income:				
Change in postretirement benefit plans	(2,370)	(3,375)	(7,110)	(10,125)
Other comprehensive income, net of tax	<u>(2,370)</u>	<u>(3,375)</u>	<u>(7,110)</u>	<u>(10,125)</u>
COMPREHENSIVE INCOME	<u>\$ 5,457,955</u>	<u>\$ 4,481,375</u>	<u>\$ 16,162,159</u>	<u>\$ 14,741,426</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Additional Paid-in-Capital</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2018	\$ 4,377,950	\$ 10,238,891	\$ 147,710,148	\$ (108,017)	\$ 162,218,972
Comprehensive income	-	-	14,751,551	(10,125)	14,741,426
Capital stock/participation certificates and allocated retained earnings issued	586,730				586,730
Capital stock/participation certificates and allocated retained earnings retired	(442,980)				(442,980)
Balance at September 30, 2019	<u>\$ 4,521,700</u>	<u>\$ 10,238,891</u>	<u>\$ 162,461,699</u>	<u>\$ (118,142)</u>	<u>\$ 177,104,148</u>
Balance at December 31, 2019	\$ 4,575,675	\$ 10,238,891	\$ 157,725,330	\$ (313,770)	\$ 172,226,126
Comprehensive income	-	-	16,169,269	(7,110)	16,162,159
Capital stock/participation certificates and allocated retained earnings issued	769,070				769,070
Capital stock/participation certificates and allocated retained earnings retired	(610,295)				(610,295)
Balance at September 30, 2020	<u>\$ 4,734,450</u>	<u>\$ 10,238,891</u>	<u>\$ 173,894,599</u>	<u>\$ (320,880)</u>	<u>\$ 188,547,060</u>

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

SOUTHERN AGCREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called “the association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships 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 contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The institution is evaluating the impact of adoption on the institution’s financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution’s financial condition or results of operations.

In August 2018, FASB issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns 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 this guidance. This guidance became effective for interim and

annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. In January 2010, \$35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

September 30, 2020				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$3,574,023	\$ 59,993	\$ -	\$3,634,016	3.98 %

December 31, 2019				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$5,495,707	\$ 22,353	\$ -	\$5,518,060	4.89 %

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2020 Amount	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	\$ 974,443,503	\$ 953,325,033
Production and intermediate term	100,290,631	83,545,214
Agribusiness:		
Loans to cooperatives	5,278,995	2,613,188
Processing and marketing	42,560,170	46,371,318
Farm-related business	4,468,809	636,358
Communication	20,985,150	16,205,478
Energy	12,703,200	13,040,412
Water and waste water	1,942,916	-
Rural residential real estate	2,535,552	2,429,819
Total	\$ 1,165,208,926	\$ 1,118,166,820

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 8,836,969	\$ 3,848,431	\$ 153,849	\$ -	\$ 8,990,818	\$ 3,848,431
Production and intermediate term	9,339,008	34,625,176	-	-	9,339,008	34,625,176
Agribusiness	51,745,598	-	-	-	51,745,598	-
Communication	20,985,149	-	-	-	20,985,149	-
Energy	12,703,200	-	-	-	12,703,200	-
Water and waste water	1,942,916	-	-	-	1,942,916	-
Total	<u>\$ 105,552,840</u>	<u>\$ 38,473,607</u>	<u>\$ 153,849</u>	<u>\$ -</u>	<u>\$ 105,706,689</u>	<u>\$ 38,473,607</u>

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$118,137 and \$148,249 at September 30, 2020, and December 31, 2019, respectively.

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	\$ 4,078,030	\$ 3,809,382
Production and intermediate term	79,391	162,302
Total nonaccrual loans	<u>4,157,421</u>	<u>3,971,684</u>
Accruing restructured loans:		
Real estate mortgage	316,142	330,260
Production and intermediate term	76,214	78,142
Total accruing restructured loans	<u>392,356</u>	<u>408,402</u>
Total nonperforming loans	4,549,777	4,380,086
Other property owned	3,891,932	4,435,392
Total nonperforming assets	<u>\$ 8,441,709</u>	<u>\$ 8,815,478</u>

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<u>September 30, 2020</u>		<u>December 31, 2019</u>
Real estate mortgage			
Acceptable	97.76	%	97.49 %
OAEM	1.57		1.78
Substandard/doubtful	0.67		0.73
	100.00		100.00
Production and intermediate term			
Acceptable	97.85		96.59
OAEM	2.07		2.61
Substandard/doubtful	0.08		0.79
	100.00		99.99
Loans to cooperatives			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Processing and marketing			
Acceptable	92.69		93.33
OAEM	2.66		6.67
Substandard/doubtful	4.65		-
	100.00		100.00
Farm-related business			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Communication			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Energy			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Water and waste water			
Acceptable	100.00		-
OAEM	-		-
Substandard/doubtful	-		-
	100.00		-
Rural residential real estate			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Total loans			
Acceptable	97.67		97.33
OAEM	1.59		1.99
Substandard/doubtful	0.74		0.68
	100.00	%	100.00 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

<u>September 30, 2020</u>	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 Loans
Real estate mortgage	\$ 3,276,190	\$ 1,504,537	\$ 4,780,727	\$ 979,069,752	\$ 983,850,479
Production and intermediate term	240,933	-	240,933	101,171,479	101,412,412
Loans to cooperatives	-	-	-	5,281,559	5,281,559
Processing and marketing	-	-	-	42,620,153	42,620,153
Farm-related business	-	-	-	4,478,527	4,478,527
Communication	-	-	-	20,990,012	20,990,012
Energy	-	-	-	12,708,504	12,708,504
Water and waste water	-	-	-	1,943,032	1,943,032
Rural residential real estate	-	-	-	2,544,332	2,544,332
Total	\$ 3,517,123	\$ 1,504,537	\$ 5,021,660	\$ 1,170,807,350	\$ 1,175,829,010

<u>December 31, 2019</u>	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 Loans
Real estate mortgage	\$ 3,229,948	\$ 2,152,663	\$ 5,382,611	\$ 956,692,347	\$ 962,074,958
Production and intermediate term	475,026	-	475,026	84,051,652	84,526,678
Loans to cooperatives	-	-	-	2,613,769	2,613,769
Processing and marketing	-	-	-	46,484,186	46,484,186
Farm-related business	-	-	-	636,986	636,986
Communication	-	-	-	16,217,194	16,217,194
Energy	-	-	-	13,045,865	13,045,865
Rural residential real estate	-	-	-	2,437,449	2,437,449
Total	\$ 3,704,974	\$ 2,152,663	\$ 5,857,637	\$ 1,122,179,448	\$ 1,128,037,085

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

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2020, the total recorded investment of troubled debt restructured loans was \$984,562, including \$592,206 classified as nonaccrual and \$392,356 classified as accrual, with no specific allowance for loan losses. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of September 30, 2020 and December 31, 2019.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended September 30, 2020. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2020, were \$738,396.

<u>For the Three Months Ended September 30, 2020</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Postmodification Outstanding Recorded Investment</u>
Troubled debt restructurings:		
Real estate mortgage	\$ 289,843	\$ 288,862
Total	<u>\$ 289,843</u>	<u>\$ 288,862</u>
<u>For the Three Months Ended September 30, 2019</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Postmodification Outstanding Recorded Investment</u>
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>
<u>For the Nine Months Ended September 30, 2020</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Postmodification Outstanding Recorded Investment</u>
Troubled debt restructurings:		
Real estate mortgage	\$ 289,843	\$ 288,862
Total	<u>\$ 289,843</u>	<u>\$ 288,862</u>
<u>For the Nine Months Ended September 30, 2019</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Postmodification Outstanding Recorded Investment</u>
Troubled debt restructurings:		
Real estate mortgage	\$ -	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded for the quarter ending September 30, 2020.

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Other types of modifications include principal or accrued interest reductions and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	<u>Loans Modified as TDRs</u>		<u>TDRs in Nonaccrual Status*</u>	
	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Real estate mortgage	\$ 908,348	\$ 660,254	\$ 592,206	\$ 329,994
Production and intermediate term	76,214	78,142	-	-
Total	<u>\$ 984,562</u>	<u>\$ 738,396</u>	<u>\$ 592,206</u>	<u>\$ 329,994</u>

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$1,754,334	\$ 1,754,334	\$ 179,438	\$ 856,525	\$ 856,525	\$ 28,912
Production and intermediate term	-	-	-	-	-	-
Total	\$1,754,334	\$ 1,754,334	\$ 179,438	\$ 856,525	\$ 856,525	\$ 28,912
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$2,638,477	\$ 2,641,528	\$ -	\$ 3,283,117	\$3,282,778	\$ -
Production and intermediate term	155,110	155,692	-	240,444	240,457	-
Total	\$2,793,587	\$ 2,797,220	\$ -	\$ 3,523,561	\$3,523,235	\$ -
Total impaired loans:						
Real estate mortgage	\$4,392,811	\$ 4,395,862	\$ 179,438	\$ 4,139,642	\$4,139,303	\$ 28,912
Production and intermediate term	155,110	155,692	-	240,444	240,457	-
Total	\$4,547,921	\$ 4,551,554	\$ 179,438	\$ 4,380,086	\$4,379,760	\$ 28,912

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$1,358,783	\$ -	\$1,277,406	\$ -	\$1,026,330	\$ -	\$ 775,665	\$ -
Rural residential real estate	-	-	16,358	-	-	-	5,513	-
Total	\$1,358,783	\$ -	\$1,293,764	\$ -	\$1,026,330	\$ -	\$ 781,178	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$3,034,585	\$ 14,323	\$3,566,291	\$ 18,178	\$3,058,702	\$ 32,202	\$3,085,493	\$ 35,493
Production and intermediate term	121,668	2,037	248,306	1,574	94,486	16,604	230,386	43,336
Total	\$3,156,253	\$ 16,360	\$3,814,597	\$ 19,752	\$3,153,188	\$ 48,806	\$3,315,879	\$ 78,829
Total impaired loans:								
Real estate mortgage	\$4,393,368	\$ 14,323	\$4,843,697	\$ 18,178	\$4,085,032	\$ 32,202	\$3,861,158	\$ 35,493
Production and intermediate term	121,668	2,037	248,306	1,574	94,486	16,604	230,386	43,336
Rural residential real estate	-	-	16,358	-	-	-	5,513	-
Total	\$4,515,036	\$ 16,360	\$5,108,361	\$ 19,752	\$4,179,518	\$ 48,806	\$4,097,057	\$ 78,829

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2020	\$ 1,181,707	\$ 166,949	\$ 141,993	\$ 15,332	\$ 12,857	\$ 2,961	\$ 1,521,800
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(47,727)	(43,276)	14,899	(125)	(142)	(453)	(76,824)
Other	786	9,263	(11,231)	-	-	-	(1,183)
Balance at September 30, 2020	<u>\$ 1,134,766</u>	<u>\$ 132,936</u>	<u>\$ 145,661</u>	<u>\$ 15,207</u>	<u>\$ 12,715</u>	<u>\$ 2,508</u>	<u>\$ 1,443,793</u>
Balance at December 31, 2019	\$ 917,520	\$ 138,406	\$ 120,734	\$ 13,909	\$ 11,650	\$ 2,471	\$ 1,204,690
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	217,246	(8,148)	28,110	1,287	(1,452)	37	237,079
Adjustment due to merger	-	-	-	-	-	-	-
Other	-	2,678	(3,183)	11	2,518	-	2,023
Balance at September 30, 2020	<u>\$ 1,134,766</u>	<u>\$ 132,936</u>	<u>\$ 145,661</u>	<u>\$ 15,207</u>	<u>\$ 12,715</u>	<u>\$ 2,508</u>	<u>\$ 1,443,793</u>
Ending Balance:							
Individually evaluated for impairment	\$ 179,438	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179,438
Collectively evaluated for impairment	955,328	132,936	145,661	15,207	12,715	2,508	1,264,355
Balance at September 30, 2020	<u>\$ 1,134,766</u>	<u>\$ 132,936</u>	<u>\$ 145,661</u>	<u>\$ 15,207</u>	<u>\$ 12,715</u>	<u>\$ 2,508</u>	<u>\$ 1,443,793</u>
Balance at June 30, 2019	\$ 960,676	\$ 106,289	\$ 89,101	\$ 9,139	\$ 8,900	\$ 2,542	\$ 1,176,647
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	15,293	17,630	8,927	1,786	(28)	1,900	45,508
Other	(1,192)	1,466	(2,714)	3,204	1,198	-	1,962
Balance at September 30, 2019	<u>\$ 974,777</u>	<u>\$ 125,385</u>	<u>\$ 95,314</u>	<u>\$ 14,129</u>	<u>\$ 10,070</u>	<u>\$ 4,442</u>	<u>\$ 1,224,117</u>
Balance at December 31, 2018	\$ 917,475	\$ 96,408	\$ 45,418	\$ 8,140	\$ 9,469	\$ 2,409	\$ 1,079,319
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	58,611	33,048	46,842	6,122	(662)	2,033	145,994
Other	(1,309)	(4,071)	3,054	(133)	1,263	-	(1,196)
Balance at September 30, 2019	<u>\$ 974,777</u>	<u>\$ 125,385</u>	<u>\$ 95,314</u>	<u>\$ 14,129</u>	<u>\$ 10,070</u>	<u>\$ 4,442</u>	<u>\$ 1,224,117</u>
Ending Balance:							
Individually evaluated for impairment	\$ 115,878	\$ -	\$ -	\$ -	\$ -	\$ 1,948	\$ 117,826
Collectively evaluated for impairment	858,899	125,385	95,314	14,129	10,070	2,494	1,106,291
Balance at September 30, 2019	<u>\$ 974,777</u>	<u>\$ 125,385</u>	<u>\$ 95,314</u>	<u>\$ 14,129</u>	<u>\$ 10,070</u>	<u>\$ 4,442</u>	<u>\$ 1,224,117</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at							
September 30, 2020	\$988,400,255	\$ 101,412,412	\$52,380,239	\$ 20,990,012	\$ 14,651,536	\$2,544,332	\$1,180,378,787
Individually evaluated for impairment	\$ 4,394,173	\$ 155,605	\$ -	\$ -	\$ -	\$ -	\$ 4,549,777
Collectively evaluated for impairment	\$984,006,082	\$ 101,256,808	\$52,380,239	\$ 20,990,012	\$ 14,651,536	\$2,544,332	\$1,175,829,010
Ending Balance at							
December 31, 2019	\$962,074,958	\$ 84,526,678	\$49,734,941	\$ 16,217,194	\$ 13,045,865	\$2,437,449	\$1,128,037,085
Individually evaluated for impairment	\$ 4,139,642	\$ 240,444	\$ -	\$ -	\$ -	\$ -	\$ 4,380,086
Collectively evaluated for impairment	\$957,935,316	\$ 84,286,234	\$49,734,941	\$ 16,217,194	\$ 13,045,865	\$2,437,449	\$1,123,656,999

NOTE 4— CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of September 30, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.26%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.26%
Total capital ratio	8.00%	2.50%	10.50%	14.40%
Permanent capital ratio	7.00%	0.00%	7.00%	14.28%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.84%
UREE leverage ratio	1.50%	0.00%	1.50%	10.38%

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	86,994,091	86,994,091	86,994,091	86,994,091
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,712,910	4,712,910	4,712,910	4,712,910
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	52,921,450	52,921,450	52,921,450	52,921,450
Nonqualified allocated equities not subject to retirement	28,798,936	28,798,936	28,798,936	28,798,936
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,591,984	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(18,533,000)	(18,533,000)	(18,533,000)	(18,533,000)
Other regulatory required deductions	-	-	-	-
	165,133,278	165,133,278	166,725,262	165,133,278
Denominator:				
Risk-adjusted assets excluding allowance	1,176,404,235	1,176,404,235	1,176,404,235	1,176,404,235
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(18,533,000)	(18,533,000)	(18,533,000)	(18,533,000)
Allowance for loan losses				(1,520,933)
	1,157,871,235	1,157,871,235	1,157,871,235	1,156,350,302

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	86,994,091	86,994,091
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,712,910	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	52,921,450	-
Nonqualified allocated equities not subject to retirement	28,798,936	28,798,936
Non-cumulative perpetual preferred stock	-	-
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(18,533,000)	(2,148,365)
Other regulatory required deductions	-	-
	165,133,278	123,883,553
Denominator:		
Total Assets	1,215,444,065	1,215,444,065
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(22,478,968)	(22,478,968)
	1,192,965,097	1,192,965,097

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	<u>2020</u>	<u>2019</u>
Accumulated other comprehensive income (loss) at January 1	\$(313,770)	\$(108,017)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<u>(7,110)</u>	<u>(10,125)</u>
Other comprehensive income (loss), net of tax	<u>(7,110)</u>	<u>(10,125)</u>
Accumulated other comprehensive income (loss) at September 30	<u><u>\$(320,880)</u></u>	<u><u>\$(118,142)</u></u>

NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2020 and 2019, the net accrued tax liability/benefit was \$0.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance 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. See Note 14 to the 2019 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>September 30, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	\$261,121	\$ -	\$ -	\$ 261,121
<u>December 31, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	\$262,244	\$ -	\$ -	\$ 262,244

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

<u>September 30, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$1,574,895	\$1,574,895
Other property owned	-	-	3,891,932	3,891,932
<u>December 31, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 827,613	\$ 827,613
Other property owned	-	-	4,380,890	4,380,890

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 14 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30:

Three months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	\$ 10,520	\$ 8,317
Interest cost	30,845	39,466
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	1,003	-
Net periodic benefit cost	<u>\$ 38,993</u>	<u>\$ 44,408</u>

Nine months ended September 30 :

	Other Benefits	
	2020	2019
Service cost	\$ 31,559	\$ 32,010
Interest cost	92,535	112,270
Amortization of prior service (credits) costs	(10,125)	(11,349)
Amortization of net actuarial (gain) loss	3,009	-
Net periodic benefit cost	<u>\$ 116,978</u>	<u>\$ 132,931</u>

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was \$3,669,916 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute \$66,761 to the district's defined benefit pension plan in 2020. As of September 30, 2020, \$50,071 of contributions have been made. The association presently anticipates contributing an additional \$16,690 to fund the defined benefit pension plan in 2020 for a total of \$66,761.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At September 30, 2020, \$90,383,398 of commitments and \$344,869 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for loan loss is determined. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 9— SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 09, 2020, which is the date the financial statements were issued. With the exception of the below noted GFA renewal, there are no other significant events require disclosure as of November 09, 2020.

The Association executed a new General Financing Agreement (GFA) that became effective October 1, 2020. The GFA has been modified to accommodate changes for naming conventions, dates and other typographical updates, recitals, definitions, date changes, representations and warranties, both negative and affirmative covenants, events of default associated with ICFR, along with a template of the borrowing base report. Under the new GFA, the bank's maximum financing commitment was increased to \$1,250,000,000, and the terms extended to September 30, 2023. While lengthy in number, the aforementioned modifications are not out of the ordinary or unusual updates. We do not anticipate any material impact to the association related to the GFA updates.