


THIRD QUARTER 2009

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting.....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
Consolidated Financial Statements	
Consolidated Balance Sheets.....	6
Consolidated Statements of Income.....	7
Consolidated Statements of Changes in Members' Equity.....	8
Notes to the Consolidated Financial Statements.....	9

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2009 quarterly report of AgChoice Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Operating Officer
& Chief Financial Officer



William K. Jackson
Chairman of the Board

October 27, 2009

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2009. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2009.



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Financial Officer &
Chief Operating Officer

October 27, 2009

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgChoice Farm Credit ACA, (Association) for the period ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, and various crops, and also includes part-time farm and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2009, was \$1,369,336, a decrease of \$60,846 as compared to \$1,430,182 at December 31, 2008. Net loans outstanding at September 30, 2009, were \$1,358,531 as compared to \$1,421,741 at December 31, 2008. Net loans accounted for 95.7 percent of total assets at September 30, 2009, as compared to 95.5 percent of total assets at December 31, 2008.

The 4.3 percent decrease in gross and 4.4 percent decrease in net loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume increased from \$36,451 at December 31, 2008, to \$44,516 at September 30, 2009. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was \$10,805 and \$8,441 at September 30, 2009 and December 31, 2008, respectively, and was considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of September 30, 2009, the Association had loans amounting to \$53,589 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended September 30, 2009

Net income for the three months ended September 30, 2009, totaled \$6,028, as compared to \$6,058 for the same period in 2008. Net interest income increased by \$970 for the three months ended September 30, 2009, as compared to the third quarter in 2008.

At September 30, 2009, interest income on accruing loans decreased \$3,898 compared to a year ago. Nonaccrual interest income was \$140 for the three months ended September 30, 2009, as compared to \$100 for the same period in 2008. Interest expense decreased \$4,828 for the three months ended September 30, 2009, as compared to the comparable period of 2008. The decrease in interest income and interest expense is due to the decrease in rates seen in the market place and a decrease in loan volume.

Operating pressure in certain commodities and an increased need for specific loss reserves on certain accounts resulted in a \$1,784 provision for loan losses in the third quarter of 2009.

Noninterest income for the three months ended September 30, 2009, totaled \$4,644, as compared to \$3,415 for the same period in 2008, an increase of \$1,229. Equity in earnings of other Farm Credit institutions increased \$360 as a result of stronger earnings from loans sold to the Bank. The third quarter of 2008 was impacted by a deferral of note modification fee income from prior quarters and a \$192 write down of an owned asset.

Noninterest expense for the three months ended September 30, 2009, increased \$538 or 10.7 percent, compared to the same period of 2008. This increase is due to several items including a \$568 increase in pension expense,

and a \$142 increase in salaries resulting from additional staff hired in 2008 and annual compensation adjustments. Insurance fund premiums increased \$138 compared to the same period in 2008 as the Food, Conservation, and Energy Act of 2008 increased the top allowable premium assessment of the Farm Credit System Insurance Corporation. Other operating expenses decreased by \$317 including areas such as Farmer Mac premiums and Advertising/Public Relations expense.

The provision for income taxes was \$76 for the third quarter of 2009 as compared to an \$11 benefit in the same period last year.

For the nine months ended September 30, 2009

Net income for the nine months ended September 30, 2009, totaled \$16,409, as compared to \$18,905 for the same period in 2008. Net interest income increased \$2,163 for the nine months ended September 30, 2009, as compared to the same period one year ago.

At September 30, 2009, interest income on accruing loans decreased \$11,072 compared to a year ago. Nonaccrual interest income was \$460 for the nine months ended September 30, 2009, as compared to \$183 for the same period in 2008. Interest expense decreased \$12,958 for the nine months ended September 30, 2009, as compared to the comparable period of 2008. The decrease in interest income and interest expense is due to the decrease in rates seen in the market place and a decrease in loan volume.

A large charge-off on a single loan, increased risk in the portfolio relating to growth in nonaccrual accounts, and operating pressure in certain commodities resulted in a \$5,979 provision for loan losses in the first nine months of 2009, compared to a provision for loan losses of \$1,600 for the first nine months of 2008.

Noninterest income for the nine months ended September 30, 2009, totaled \$13,988, as compared to \$11,726 for the same period of 2008, an increase of \$2,262. Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased \$1,566 as a result of higher average borrowing from the Bank and stronger earnings from loans sold to the Bank.

Noninterest expense for the nine months ended September 30, 2009, increased \$2,413, or 16.5 percent, compared to the same period of 2008. This increase is due to several items including a \$1,705 increase in pension expense, and a \$636 increase in salaries resulting from additional staff hired in 2008 and annual compensation adjustments. Insurance fund premiums increased \$370 compared to the same period in 2008 as the Food, Conservation, and Energy Act of 2008 increased the top allowable premium assessment

of the Farm Credit System Insurance Corporation. Other operating expenses decreased by \$503 including areas such as Farmer Mac premiums and Advertising/Public Relations expense.

The provision for income taxes was \$164 for the nine months ended September 30, 2009 as compared to \$35 in the same period last year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2009, was \$1,186,761 as compared to \$1,264,013 at December 31, 2008. The decrease in notes payable is mainly due to the decrease in gross loan volume since the end of 2008 and the current year net income.

CAPITAL RESOURCES

Total members' equity at September 30, 2009, increased to \$211,540 from the December 31, 2008, total of \$202,071. The increase is primarily attributed to year-to-date 2009 earnings reduced by the accrual for 2009 cash patronage and the revolvment of previously allocated surplus.

Total capital stock and participation certificates were \$11,792 on September 30, 2009, compared to \$11,810 on December 31, 2008.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2009, the Association's permanent capital and total surplus ratios were 12.34 percent and 11.49 percent, respectively, and the core surplus ratio was 10.61 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Note: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745 ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
Assets		
Cash	\$ 44	\$ 79
Loans	1,369,336	1,430,182
Less: allowance for loan losses	10,805	8,441
Net loans	1,358,531	1,421,741
Accrued interest receivable	7,392	6,991
Investment in other Farm Credit institutions	34,158	35,350
Premises and equipment, net	3,968	4,255
Other property owned	525	509
Due from AgFirst Farm Credit Bank	10,847	13,046
Other assets	4,816	6,868
Total assets	<u>\$ 1,420,281</u>	<u>\$ 1,488,839</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,186,761	\$ 1,264,013
Accrued interest payable	3,016	4,136
Patronage refund payable	3,957	4,718
Other liabilities	15,007	13,901
Total liabilities	<u>1,208,741</u>	<u>1,286,768</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	11,792	11,810
Surplus		
Allocated	97,018	98,215
Unallocated	102,720	92,035
Accumulated other comprehensive income (loss)	10	11
Total members' equity	<u>211,540</u>	<u>202,071</u>
Total liabilities and members' equity	<u>\$ 1,420,281</u>	<u>\$ 1,488,839</u>

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 18,038	\$ 21,896	\$ 55,698	\$ 66,493
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	9,206	14,034	30,064	43,022
Net interest income	8,832	7,862	25,634	23,471
Provision for (reversal of allowance for) loan losses	1,784	180	5,979	1,600
Net interest income after provision for (reversal of allowance for) loan losses	7,048	7,682	19,655	21,871
Noninterest Income				
Loan fees	619	123	2,087	1,831
Fees for financially related services	301	181	711	529
Equity in earnings of other Farm Credit institutions	3,686	3,326	10,892	9,326
Gains (losses) on other property owned, net	(24)	(209)	(43)	(129)
Gains (losses) on sale of rural home loans, net	(2)	(1)	52	7
Other noninterest income	64	(5)	289	162
Total noninterest income	4,644	3,415	13,988	11,726
Noninterest Expense				
Salaries and employee benefits	3,483	2,774	10,692	8,154
Occupancy and equipment	333	325	899	891
Insurance Fund premium	586	448	1,777	1,407
Other operating expenses	1,186	1,503	3,702	4,205
Total noninterest expense	5,588	5,050	17,070	14,657
Income before income taxes	6,104	6,047	16,573	18,940
Provision (benefit) for income taxes	76	(11)	164	35
Net income	\$ 6,028	\$ 6,058	\$ 16,409	\$ 18,905

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 12,004	\$ 92,116	\$ 84,126	\$ 14	\$ 188,260
Comprehensive income					
Net income			18,905		18,905
Employee benefit plans adjustments			(4)		(4)
Total comprehensive income					18,901
Capital stock/participation certificates issued/(retired), net	(260)				(260)
Dividends declared/paid	96		(96)		
Patronage distribution					
Cash			(4,472)		(4,472)
Surplus retired		(48)			(48)
Patronage distribution adjustment		(389)	107		(282)
Balance at September 30, 2008	\$ 11,840	\$ 91,679	\$ 98,566	\$ 14	\$ 202,099
Balance at December 31, 2008	\$ 11,810	\$ 98,215	\$ 92,035	\$ 11	\$ 202,071
Comprehensive income					
Net income			16,409		16,409
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					16,408
Capital stock/participation certificates issued/(retired), net	(41)				(41)
Dividends declared/paid	23		(23)		-
Patronage distribution					
Cash			(3,593)		(3,593)
Surplus retired		(2,786)			(2,786)
Patronage distribution adjustment		1,589	(2,108)		(519)
Balance at September 30, 2009	\$ 11,792	\$ 97,018	\$ 102,720	\$ 10	\$ 211,540

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of *AgChoice Farm Credit, ACA* (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

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) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2009 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 5), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair

Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 6).

In May 2009, the FASB issued guidance, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 8).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification will become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2009	2008
Balance at beginning of period	\$ 8,441	\$ 4,300
Provision for (reversal of) loan losses	5,979	1,600
Charge-offs	(3,916)	(88)
Recoveries	301	127
Balance at end of period	<u>\$ 10,805</u>	<u>\$ 5,939</u>

The following table presents information concerning impaired loans as of September 30,

	2009	2008
Impaired loans with related allowance	\$ 9,869	\$ 3,807
Impaired loans with no related allowance	39,956	13,088
Total impaired loans	<u>49,825</u>	<u>16,895</u>
Allowance on impaired loans	<u>\$ 2,817</u>	<u>\$ 805</u>

The following table summarizes impaired loan information for the nine months ended September 30,

	2009	2008
Average impaired loans	\$ 40,244	\$ 8,661
Interest income recognized on impaired loans	593	300

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the nine months ended September 30,	
	2009	2008
Pension	\$ 2,178	\$ 474
401(k)	285	263
Other postretirement benefits	396	365
Total	<u>\$ 2,859</u>	<u>\$ 1,102</u>

The following is a table of non-qualified retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ 15	\$ 4	\$ 19
Other postretirement benefits	246	125	371
Total	<u>\$ 261</u>	<u>\$ 129</u>	<u>\$ 390</u>

As of September 30, 2009, no contributions have been made for 2009 by the Association to the qualified District pension plan in which the Association participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of \$52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Association, based upon each institution's pro rata share of ABO service cost. Market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on, fair value measurements". This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for

certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at September 30, 2009 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at September 30, 2009.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at September 30, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. 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, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at September 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at September 30, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 for each of the fair value hierarchy levels:

	September 30, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in trust funds	\$ 384	\$ -	\$ -	\$ 384
Total Assets	\$ 384	\$ -	\$ -	\$ 384
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 362	\$ 362
Total Liabilities	\$ -	\$ -	\$ 362	\$ 362

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 509
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(147)
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 362

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	September 30, 2009			Total Fair Value	YTD Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,052	\$ 7,052	\$ (2,441)
Other property owned	\$ -	\$ -	\$ 526	\$ 526	\$ (21)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association’s financial instruments at September 30, 2009.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association’s financial instruments are as follows:

	September 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 44	\$ 44
Loans, net of allowance	\$ 1,358,531	\$ 1,377,801
Assets held in trust funds	\$ 384	\$ 384
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 1,186,761	\$ 1,200,747

A description of the methods and assumptions used to estimate the fair value of each class of the Association’s financial instruments for which it is practicable to estimate that value follows:

A. **Cash:** The carrying value is a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association’s loans, fair value is estimated by discounting the expected future cash flows using the Association’s current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank’s loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

The carrying value of accrued interest approximates its fair value.

C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association’s investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 8.95 percent of the issued stock of the Bank as of September 30, 2009 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$30.08 billion and shareholders’ equity totaled \$1.60 billion. The Bank’s earnings were \$194.0 million during the first nine months of 2009.

D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.

E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

F. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

NOTE 7– SIGNIFICANT EVENT

In late September 2009, the Board of Directors of Farm Credit of the Virginias, ACA, and the Association signed a Letter of Intent to merge. The Letter of Intent to merge allows both Associations to explore the benefits of a merger. If both Boards of the Associations agree to proceed with a merger, a Plan of Merger will be prepared and submitted to AgFirst Farm Credit Bank and the Farm Credit Administration for their approval. Upon their approval, the Plan of Merger will be submitted to shareholders of both Associations for their review and approval. Farm Credit of the Virginias, ACA has approximately \$1.5 billion in assets and serves 46 counties in Virginia, 48 counties in the state of West Virginia, and 2 counties in the state of Maryland.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 3, 2009, which is the date the financial statements were available to be issued.