

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of Mid-America, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2006 annual report for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of Mid-America, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our annual or quarterly reports, contact:

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## LOAN PORTFOLIO

Loan volume totaled \$11.6 billion as of September 30, 2007. That is a \$1.1 billion increase from December 31, 2006, and is up 10.6% year-to-date. We continue to focus on growing our existing business of commercial and full-time farmers, cultivating new customers, and pursuing a very vital lifestyle farmer/rural resident market. In addition, we continue to maximize opportunities in capital markets.

Growth ending September 30, 2007 reflects the following highlights:

- The Ag Consumer segment (under \$100,000 Gross Farm Income -GFI) increased \$432 million, or 8.9% from year end. Year over year, this segment continues to grow near 13.0%. Small, part-time farming continues to be the driver of this growth. There continues to be high demand in our four-state market for a country living lifestyle and strong off-farm income allows families to pursue these opportunities.
- Year-to-date results show we have been very successful in providing long term fixed rate programs to many landowners and rural residents. The national subprime mortgage problem is affecting many lenders' ability to make loans on properties with acreage, but our strength is in making these types of loans. Additionally, costs for other lenders have generally risen due to the subprime issue while investors in Farm Credit System bonds value our relative safety and soundness, keeping our costs stable and therefore allowing us to remain competitive and consistent in an otherwise struggling market.
- Loan volume to full-time farmers increased \$396 million from year end 2006, or 12%. Commercial farmers (those with over \$250,000 GFI) continue to provide the largest part of that growth. We continue to see larger farms growing, be it in grain production or the livestock sector. As farming has become more expensive, they will continue to require greater amounts of operating capital and make purchases to acquire real estate.
- AgriBusiness volume is now \$2.03 billion outstanding, up \$362 million from year end 2006. This represents 21.7% annual growth. We will continue to see demand through our participation loan programs. We have also added volume through the purchase of loan guarantees and similar investments, and are now intensifying our effort to use the Agricultural and Rural Community Bond program.

Our progress through the first three quarters of 2007 is related to a continued positive outlook for most farm commodities. Although farmers have suffered a drought in many parts of our market, the picture for 2007 income is still fairly optimistic. Drought conditions are spotty although most of western Tennessee and much of Kentucky have suffered significant crop losses. In many cases, those yield losses are mitigated or covered by crop insurance. Yield in other parts of our market run from "record levels" to "average" to "poor". But higher grain prices will help offset some of those losses in many cases.

The following table summarizes risk asset and delinquency information (in thousands):

	September 30 2007	December 31 2006
As of:		
Loans:		
Accruing restructured	\$652	\$593
Past due 90 days or more still accruing	5,189	773
Nonaccrual	49,363	57,776
Total risk loans	55,204	59,142
Other property owned	1,343	1,142
Total risk assets	\$56,547	\$60,284
Risk loans as a % of total loans	0.5%	0.7%
Total delinquencies as a % of total loans	0.8%	0.6%

Past due 90 days or more increased due to \$2 million in scored loan volume that transferred to nonaccrual on the first business day of October, \$1.1 million represents fully guaranteed investments, which will be collected in the fourth quarter, and \$2 million is made up of 11 loans with a collection plan in place.

The reduction in nonaccrual is largely due to the pay off of a \$14 million energy loan.

Our risk assets have decreased significantly from December 31, 2006, and remain at acceptable levels. At September 30, 2007, 53.6% of our nonaccrual loans were current.

The financial turmoil has slowed projected economic growth for both 2007 and 2008, with expected GDP to be just 2% for each year. The half point cut in Fed Funds helped to stabilize the financial markets, but the housing sector is expected to continue to be a major drag on the economy through 2008.

Our home loan portfolio continues to perform well and we expect only a moderate increase in delinquencies and in loan losses. Our delinquency rate remains well below the national delinquency rate for prime loans comparable to our portfolio.

Net farm earnings are projected to be a record \$87 billion in 2007. For our customers, we expect a mixed year for earnings due to the severe drought that affected parts of our territory (especially Tennessee and Kentucky). Overall, we don't expect to see material portfolio challenges due to the financial strength that most of our farmers took into this year, high commodity prices and crop insurance coverage.

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

Comparative allowance coverage of various loan categories follows:

	September 30 2007	December 31 2006
As of:		
Allowance as a percentage of:		
Loans	0.16%	0.16%
Nonaccrual loans	37.5%	29.4%
Total risk loans	33.6%	28.7%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in the loan portfolio at September 30, 2007.

## RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2007 totaled \$115.6 million compared to \$93.8 million for the same period of 2006. The following table illustrates profitability information:

As of September 30:	2007	2006
Return on average assets	1.3%	1.2%
Return on average members' equity	8.5%	7.6%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2007 compared to September 30, 2006 (in thousands):

Increase (decrease) in net income	2007 vs 2006
Net interest income (a)	\$16,610
Provision for loan losses (b)	(1,762)
Patronage income (c)	3,261
Financially related services and miscellaneous income, net (d)	4,429
Operating expenses (e)	(1,676)
Provision for income taxes	980
Total change in net income	\$21,842

(a) Net interest income was \$165.6 million for the nine months ended September 30, 2007. The following table quantifies changes in net interest income for the nine months ended September 30, 2007 compared to September 30, 2006 (in thousands):

Change in net interest income	2007 vs 2006
Changes in accrual volume	\$18,788
Changes in net accrual rates	(982)
Changes in nonaccrual income and other	(1,196)
Net change	\$16,610

(b) The change in the provision for loan losses is related to higher loan volume, partially offset by management's evaluation of the lower risk in the loan portfolio.

(c) The increase in patronage income is related to an increase in our note payable amount to AgriBank, FCB.

(d) The increase in net financially related services and miscellaneous income is primarily due to increases in operating lease income from higher volume, experience refunds, Farm Credit System Captive Insurance income, and the timing of multi-peril crop insurance income, partially offset by a decrease in prepayment fees collected.

(e) Operating expenses increased primarily from additional employees, general salary and incentive increases, higher Farm Credit System Insurance Corporation expense related to more accruing loan volume, and the timing of advertising expenses. These increases were partially offset by lower AgriBank, FCB purchased services expenses and more origination fees.

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

We borrow from AgriBank, FCB in the form of a line of credit. Our promissory note matured on April 30, 2007, and was renewed for \$12.1 billion with a maturity date of April 30, 2008. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$118.9 million from December 31, 2006, due to net income for the period partially offset by an increase in capital stock and participation certificates.

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

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At September 30, 2007, our ratio was 13.51%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At September 30, 2007, our ratio was 12.91%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank, FCB divided by average risk-adjusted assets. At September 30, 2007, our ratio was 12.91%.

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

The undersigned certify that Farm Credit Services of Mid-America, ACA's September 30, 2007 quarterly report has been prepared under the oversight of the audit committee 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.



Robert Barton  
Chairperson of the Board  
Farm Credit Services of Mid-America, ACA



Donald Winters  
Chief Executive Officer  
Farm Credit Services of Mid-America, ACA

October 31, 2007

## FUNDING, LIQUIDITY AND CAPITAL

**CONSOLIDATED STATEMENT OF CONDITION**

Farm Credit Services of Mid-America, ACA  
(Dollars in thousands)  
(Unaudited)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Loans	\$11,554,780	\$10,446,011
Allowance for loan losses	18,527	16,990
Net loans	11,536,253	10,429,021
Investment in AgriBank	257,047	231,524
Investment securities	102,177	13,636
Accrued interest receivable	160,192	117,649
Premises and equipment, net	33,908	32,566
Other earning assets	365,888	376,081
Other property owned	1,343	1,142
Assets held for lease, net	153,322	151,773
Other assets	23,621	32,079
<b>Total assets</b>	<b>\$12,633,751</b>	<b>\$11,385,471</b>
<b>LIABILITIES</b>		
Note payable to AgriBank	\$10,585,739	\$9,463,669
Accrued interest payable	136,299	119,542
Net deferred income tax liability	23,860	23,524
Other liabilities	24,131	33,952
<b>Total liabilities</b>	<b>10,770,029</b>	<b>9,640,687</b>
Contingent liabilities		
<b>MEMBERS' EQUITY</b>		
Protected members' equity	13	14
Capital stock and participation certificates	71,538	68,202
Unallocated surplus	1,792,171	1,676,568
<b>Total members' equity</b>	<b>1,863,722</b>	<b>1,744,784</b>
<b>Total liabilities and members' equity</b>	<b>\$12,633,751</b>	<b>\$11,385,471</b>

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

**CONSOLIDATED STATEMENT OF INCOME**

Farm Credit Services of Mid-America, ACA  
(Dollars in thousands)  
(Unaudited)

Period ended September 30,	Three months		Nine months	
	2007	2006	2007	2006
<b>Interest income</b>	<b>\$192,419</b>	\$163,774	<b>\$551,409</b>	\$461,140
<b>Interest expense</b>	<b>136,334</b>	113,140	<b>385,796</b>	312,137
Net interest income	56,085	50,634	165,613	149,003
<b>Provision for (reversal of) loan losses</b>	<b>735</b>	(115)	<b>2,462</b>	700
Net interest income after provision for loan losses	55,350	50,749	163,151	148,303
<b>Other income</b>				
Patronage income	6,941	5,683	20,010	16,749
Financially related services and miscellaneous income, net	6,478	3,051	13,537	9,108
<b>Total other income</b>	<b>13,419</b>	8,734	<b>33,547</b>	25,857
<b>Operating expense</b>				
Salaries and employees benefits	12,198	13,414	37,263	36,919
Other operating	12,824	12,339	37,857	36,525
<b>Total operating expenses</b>	<b>25,022</b>	25,753	<b>75,120</b>	73,444
Income before income taxes	43,747	33,730	121,578	100,716
<b>Provision for income taxes</b>	<b>1,005</b>	2,559	<b>5,975</b>	6,955
<b>Net income</b>	<b>\$42,742</b>	\$31,171	<b>\$115,603</b>	\$93,761

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

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

Farm Credit Services of Mid-America, ACA  
(Dollars in thousands)  
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
<b>Balance at December 31, 2005</b>				
Net income	--	--	93,761	93,761
Capital stock/participation certificates issued	--	6,784	--	6,784
Capital stock/participation certificates retired	(3)	(3,787)	--	(3,790)
<b>Balance at September 30, 2006</b>	<b>\$15</b>	<b>\$67,158</b>	<b>\$1,626,680</b>	<b>\$1,693,853</b>
<b>Balance at December 31, 2006</b>				
Net income	--	--	115,603	115,603
Capital stock/participation certificates issued	--	7,033	--	7,033
Capital stock/participation certificates retired	(1)	(3,697)	--	(3,698)
<b>Balance at September 30, 2007</b>	<b>\$13</b>	<b>\$71,538</b>	<b>\$1,792,171</b>	<b>\$1,863,722</b>

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

**NOTES TO FINANCIAL STATEMENTS****NOTE 1: Organization and Significant Accounting Policies**

Our 2006 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2006. You should read these unaudited third quarter 2007 consolidated financial statements in conjunction with the 2006 annual report.

The accompanying consolidated financial statements contain all information necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ended December 31, 2007.

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

**Recent Accounting Development**

On September 30, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 158 – *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The Standard requires an employer to recognize the overfunded or underfunded status of a defined benefit pension or other postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The Standard is effective for employers without publicly traded securities for the fiscal year ending after June 15, 2007. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, we use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. It is anticipated that the implementation of this Standard

will have no impact on the Consolidated Statement of Income. Our defined benefit plan and other post-employment benefit plans are multi-employer plans. Accordingly, the underfunded status of the plans will be recorded at the District level only.

**NOTE 2: Allowance for Loan Losses**

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

Nine months ended September 30:	2007	2006
Balance at beginning of year	\$16,990	\$16,243
Provision for loan losses	2,462	700
Loan recoveries	1,136	1,340
Loan chargeoffs	(2,061)	(1,681)
<b>Balance at end of period</b>	<b>\$18,527</b>	<b>\$16,602</b>

**NOTE 3: Contingencies**

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

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

**NOTE 4: Income Taxes**

In June 2006, the Financial Accounting Standards Board released Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. This Interpretation clarifies the accounting for uncertainty in income tax positions recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard No. 109 – *Accounting for Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of an uncertain tax position taken or expected to be taken in a tax return. This Interpretation is effective for the 2007 calendar year. Our election under this Interpretation is to recognize any interest and penalty accruals related to uncertain tax positions in the provision for income taxes. Upon adoption of this Interpretation during the first quarter of 2007, we had no uncertain income tax positions for which a contingency reserve had not already been established in our financial statements. Prior to adoption of this Interpretation we had recognized a \$1.6 million contingency reserve related to uncertainty around cost allocations. Under this new standard, based on our continual analysis of the support for expense allocation processes and methodologies, our estimate is that the \$1.6 million contingent liability is no longer necessary and therefore it was reversed in September of 2007.

**Q** *Quarterly Report*

**September 30, 2007**



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OF MID-AMERICA

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