

## 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. Our 2008 annual report should also be read for a description of our organization, operations and significant accounting policies.

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

Farm Credit Services of Mid-America P.O. Box 34390 Louisville, Kentucky 40232 (800) 444-FARM efcsales@e-farmcredit.com www.e-farmcredit.com	AgriBank, FCB 375 Jackson Street St. Paul, MN 55101 (651) 282-8800 AGRIBANKMN@agribank.com www.agribank.com
--	--

## LOAN PORTFOLIO

Volume including owned and managed loans, leases, and investments totaled \$15.2 billion as of September 30, 2009 a \$695 million increase from December 31, 2008. Managed loans refer to a participation interest in real estate loans sold to AgriBank in 2008. Year-over-year owned and managed loan, lease and investment volume is up over 6%. We continue to make strides in penetrating farm and Agri-Consumer markets, although our business has slowed appreciably in a tightening economy.

Highlights regarding growth for the period ended September 30, 2009:

- In the commercial producer segment, (Gross Farm Income (GFI) over \$250,000), outstanding volume is now \$3.7 billion, up \$369 million from the first of the year. Growth in this segment has continued although livestock producers, especially those in the hog and dairy industries, remain stressed and current trends suggest no quick recovery. Many have already lost a large portion of their net worth. Future growth will depend upon some recovery in prices (which can only happen if production drops). Until then, growth in this segment will be slower than we have experienced in the past.
- Lending to the small, part-time farmers remains a focal point, although the overall trend is slowing. Among those with GFI under \$100,000 annually, we now have \$6.0 billion in loans outstanding. This is an increase of \$92 million from year-end 2008. We continue to focus on providing credit to small farms and to those who want to pursue a rural lifestyle.
- Rural home loan volume has dropped from \$1.1 billion at year-end 2008 to \$989 million at the end of the 3rd quarter, a 5.8% decrease. New residential sales and construction loans have slowed dramatically. These markets will be slow to recover until employment trends are reversed. We have aggressively used loan conversions to preserve loan volume from being refinanced by other lenders, but we do not expect this market to recover soon. Moreover, due to government funding of Fannie Mae and Freddie Mac, we are re-aligning marketing efforts to move away from the conventional home market. Instead we are focusing on rural properties with added acres (those above Fannie Mae targets).

- Growth with mid-sized farms (GFI at \$100,000 – \$250,000) has been relatively soft, increasing only \$31 million since year-end 2008. This group is often among the harder squeezed segments for profitability, and also reflects large numbers of livestock operations.
- Agri-Business volume is now at \$3.5 billion, up by \$279 million from year-end 2008. Demand in this sector has dropped off appreciably and we have been more selective in considering new credits.

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

	September 30 2009	December 31 2008
As of:		
Loans:		
Accruing restructured	\$361	\$441
Past due 90 days or more still accruing	4,516	626
Nonaccrual	227,221	160,709
Total risk loans	232,098	161,776
Other property owned	16,472	4,325
Total risk assets	\$248,570	\$166,101
Total delinquencies as a % of total loans	1.9%	1.2%
Risk loans as a % of total loans	1.8%	1.3%

Risk assets have increased since December 31, 2008 due to the increase in nonaccrual loans. Nonaccrual loans have increased due to the continued economic stress. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

- Total risk assets as a percent of total loans remain well within our established risk management guidelines. The volume of nonaccrual loans that were current on payments on September 30 were 50.4%.
- The credit quality of our portfolio has declined from December 31, 2008. Adversely classified assets increased from 3.1% at December 31, 2008, to 3.6% at September 30, 2009. Credit quality declined 0.19% during the third quarter. Credit quality of large loans has been stable, but economic stress continued to challenge some of our customers.
- There is the possibility that risk assets could decline and credit quality improve in the fourth quarter because of the outcome of a large account in bankruptcy. If this is not resolved by year-end the positive impact of this event would be experienced in the first quarter of 2010.

In April 2009, we took ownership of property that was security for a portion of our non-acrual volume, representing our interest in certain ethanol loans. The acquired properties are held in limited liability corporations formed by the lenders for that purpose. The total amount of our share of the acquired properties was \$23 million, of which \$18 million was sold in the third quarter and an additional \$5 million was sold in October 2009.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At September 30, 2009, \$103 million of our loans were, to some level, guaranteed under these governmental programs.

Although economists have declared the recession over, unemployment remains high and is expected to continue to increase through the balance of the year. In our territory unemployment rates are higher than the national average.

Net farm income for 2009 is expected to decline 38% to \$54 billion. At this level, net farm income will be below the most recent 10 year average of \$64 billion. Grain prices have been volatile, moving significantly lower, and then rebounding some. These prices are 18%-20% lower than last year at this time. Furthermore, the 2009 crop was expensive to plant because of high input costs. Prices for milk and hogs continue to be below cost of production. Farmland values throughout our four states continue to be stable.

The credit quality of our portfolio is down from its record high in 2008. Although delinquent loans did trend up slightly over the past 12 months, our increase in delinquent loans has been slight compared to many other lenders.

Following the financial market upheaval during the second half of 2008, financial markets improved during 2009. Policy actions of the Federal Reserve and US Treasury contributed to increased liquidity and stabilization of financial markets. The Treasury yield curve steepened, swap spreads tightened and stabilized, and Farm Credit bond spreads to both Treasuries and the swap curve improved. During 2009, AgriBank has been able to issue debt at all desired maturities, including over \$3.7 billion of fixed rate debt with maturities greater than or equal to seven years. This enabled our funding bank, AgriBank, to maintain adequate liquidity and a conservative asset/liability risk profile, while continuing to offer a full array of fixed-rate products.

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 2009	December 31 2008
Allowance as a percentage of:		
Loans	0.5%	0.3%
Nonaccrual loans	26.6%	20.3%
Total risk loans	26.1%	20.1%

The year-over-year increase in our allowance is due to an increase of impaired loans with specific reserves, increased adverse volume, and an establishment of an ethanol industry reserve. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2009.

## RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2009 totaled \$99 million compared to \$130 million for the same period of 2008. The following table illustrates profitability information:

As of September 30	2009	2008
Return on average assets	0.9%	1.3%
Return on average members' equity	6.2%	8.8%

The following table summarizes the changes in components of net income for the nine months ended September 30, 2009 compared to September 30, 2008 (in thousands):

Increase (decrease) in net income	2009 vs 2008
Net interest income (a)	9,797
Provision for loan losses (b)	(35,842)
Patronage income (c)	1,892
Financially related services and miscellaneous income, net (d)	(2,586)
Operating expenses (e)	(8,607)
Provision for income taxes (f)	4,204
Total change in net income	<u><u>(\$31,142)</u></u>

<sup>(a)</sup>Net interest income was \$187 million for the nine months ended September 30, 2009. The following table quantifies changes in net interest income for the nine months ended September 30, 2009 compared to September 30, 2008 (in thousands):

Change in net interest income	2009 vs 2008
Changes in volume	\$1,461
Changes in rates	7,858
Changes in nonaccrual income and other	478
Net change	<u><u>\$9,797</u></u>

<sup>(b)</sup> The increase is due to an increase of impaired loans with specific reserves, increased adverse volume and an establishment of an ethanol industry reserve.

<sup>(c)</sup>The increase in patronage income is related to the sale of a participation interest in real estate loans to AgriBank in 2008.

<sup>(d)</sup>When compared to September 2008, there is less insurance experience refund, less crop insurance income and less operating lease income offset by more fee income.

<sup>(e)</sup>The operating expense increases were primarily related to higher Farm Credit System Insurance premiums on loans.

<sup>(f)</sup>The change in provision for income taxes is related to decreased taxable income.

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

## FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on March 31, 2009, and was renewed for \$15 billion with a maturity date of April 30, 2010. 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 \$100 million from December 31, 2008, due to net income for the period and an increase in capital stock and participation certificates. Farm Credit Administration Regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. At September 30, 2009 our regulatory capital ratios were:

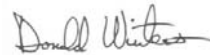
- Permanent capital ratio was 13.2%.
- Total surplus ratio was 12.7%.
- Core surplus ratio was 12.7%.

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 they have reviewed Farm Credit Services of Mid-America, ACA's September 30, 2009 quarterly report and it has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Matthew D. Walther  
Chairperson of the Board  
Farm Credit Services of Mid-America, ACA



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



Paul Bruce  
Chief Financial Officer  
Farm Credit Services of Mid-America, ACA

November 6, 2009

#### CONSOLIDATED STATEMENT OF CONDITION

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

	September 30	December 31
	2009	2008
<b>ASSETS</b>		
Loans	\$12,692,166	\$11,995,738
Allowance for loan losses	60,526	32,571
<b>Net loans</b>	<b>12,631,640</b>	11,963,167
Investment in AgriBank	408,720	405,524
Investment securities	982,551	803,730
Accrued interest receivable	142,346	121,409
Premises and equipment, net	33,730	35,351
Other earning assets	314,029	353,345
Other property owned	16,472	4,325
Assets held for lease, net	230,902	207,165
Other assets	32,638	36,019
<b>Total assets</b>	<b>\$14,793,028</b>	\$13,930,035
<b>LIABILITIES</b>		
Note payable to AgriBank	\$12,415,700	\$11,648,640
Accrued interest payable	115,723	131,407
Net deferred income tax liability	46,151	39,344
Other liabilities	42,370	38,047
<b>Total liabilities</b>	<b>12,619,944</b>	11,857,438
<b>MEMBERS' EQUITY</b>		
Protected members' equity	10	11
Capital stock and participation certificates	77,378	76,035
Unallocated surplus	2,095,696	1,996,551
<b>Total members' equity</b>	<b>2,173,084</b>	2,072,597
<b>Total liabilities and members' equity</b>	<b>\$14,793,028</b>	\$13,930,035

*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	
	2009	2008	2009	2008
<b>Interest income</b>	<b>\$180,819</b>	\$183,556	<b>\$534,948</b>	\$579,914
<b>Interest expense</b>	<b>115,790</b>	128,239	<b>348,287</b>	403,050
Net interest income	65,029	55,317	186,661	176,864
<b>Provision for loan losses</b>	<b>15,479</b>	3,197	<b>39,420</b>	3,578
Net interest income after provision for loan losses	49,550	52,120	147,241	173,286
<b>Other income</b>				
Patronage income	10,564	14,421	33,276	31,384
Financially related services and miscellaneous income, net	4,751	8,462	14,729	17,315
<b>Total other income</b>	<b>15,315</b>	22,883	<b>48,005</b>	48,699
<b>Operating expense</b>				
Salaries and employees benefits*	16,747	14,250	45,429	41,130
Other operating	16,048	14,524	45,851	41,543
<b>Total operating expenses</b>	<b>32,795</b>	28,774	<b>91,280</b>	82,673
Income before income taxes	32,070	46,229	103,966	139,312
<b>Provision for income taxes</b>	<b>831</b>	3,079	<b>4,821</b>	9,025
<b>Net income</b>	<b>\$31,239</b>	\$43,150	<b>\$99,145</b>	\$130,287

\*Shown net of origination fees in accordance with loan origination guidance

*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)

	Capital			Total Members' Equity
	Protected Members' Equity	Participation Certificates	Stock and Unallocated Surplus	
<b>Balance at December 31, 2007</b>	\$12	\$72,778	\$1,834,509	\$1,907,299
Net income	--	--	130,287	130,287
Capital stock/participation certificates issued	--	7,015	--	7,015
Capital stock/participation certificates retired	(1)	(3,985)	--	(3,986)
<b>Balance at September 30, 2008</b>	<b>\$11</b>	<b>\$75,808</b>	<b>\$1,964,796</b>	<b>\$2,040,615</b>
<b>Balance at December 31, 2008</b>	<b>\$11</b>	<b>\$76,035</b>	<b>\$1,996,551</b>	<b>\$2,072,597</b>
Net income	--	--	99,145	99,145
Earnings reserved for patronage distribution	--	--	--	--
Capital stock/participation certificates issued	--	5,905	--	5,905
Capital stock/participation certificates retired	(1)	(4,562)	--	(4,563)
<b>Balance at September 30, 2009</b>	<b>\$10</b>	<b>\$77,378</b>	<b>\$2,095,696</b>	<b>\$2,173,084</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 2008 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, 2008. These unaudited third quarter 2009 consolidated financial statements should be read in conjunction with the 2008 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, 2009 are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

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 Developments

Effective January 1, 2009, we adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures, but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued new guidance on investment fair value measurements and impairments. The new guidance is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. We adopted the guidance during the second quarter of 2009. The impact of adoption resulted in additional investment disclosures, but did not have an impact on our financial condition or results of operations.

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. Under this Standard, subsequent events that arise from conditions that existed at the date of the balance sheet are recognized in the financial statements, while subsequent events that arise from conditions that did not exist as of the balance sheet date are not recognized in the financial statements. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

### NOTE 2: Loans and Investment Securities

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

As of September 30	2009	2008
Volume with specific reserves	\$80,431	\$14,184
Volume without specific reserves	151,667	66,808
Total risk loans	\$232,098	\$80,992
Total specific reserves	\$19,367	\$5,227
<b>For the nine months ended September 30</b>		
Income on accrual risk loans	\$544	\$440
Income on nonaccrual loans	2,503	3,190
Total income on risk loans	\$3,047	\$3,630
Average recorded investment	\$196,003	\$69,299

We held investments of \$983 million at September 30, 2009 and \$724 million at September 30, 2008 consisting of investment securities made up of a portion of loans guaranteed by various federal governmental agencies and investment securities made up of Agricultural Rural Community bonds. The securities have been classified as held-to-maturity. The following table presents the book value, unrealized gain/loss, and fair value of the investment securities (in thousands).

As of September 30	2009	2008
Book value	\$982,551	\$723,804
Gross unrealized gains	12,449	21,957
Gross unrealized losses	(17,429)	(585)
Estimated fair value	\$977,571	\$745,176
Weighted Average Yield	2.4%	4.3%

Investment income is recorded in interest income and totaled \$16 million for the period ended September 30, 2009 and \$19 million for the period ended September 30, 2008.

### NOTE 3: Allowance for Loan Losses

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

Nine months ended September 30	2009	2008
Balance at beginning of year	\$32,571	\$17,775
Provision for loan losses	39,420	3,578
Loan recoveries	1,114	3,222
Loan chargeoffs	(12,579)	(3,972)
Balance at end of period	\$60,526	\$20,603

The increase from September 2008 to September 2009 is due to an increase of impaired loans with specific reserves, increased adverse volume and an establishment of an ethanol industry reserve.

### NOTE 4: 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 5: Fair Value Measurements

The FASB guidance on "Fair Value Measurements and Disclosures" 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. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Notes 2 and 13 to the 2008 Annual Report to Stockholders for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following table provides information on assets measured at fair value on a nonrecurring basis at September 30, 2009 (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans (1)	--	\$55,598	\$8,519	\$64,117	(\$6,424)
Other property owned (2)	--	15,585	5,176	20,761	57

(1) Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

(2) Represents the fair value and related losses of foreclosed assets that were measured at fair value.

### NOTE 6: Subsequent Events

We have evaluated subsequent events through November 6, 2009, which is the date the financial statements were issued.

## Quarterly Report

September 30, 2009



Farm Credit Services of Mid-America, ACA

1-800-444-FARM  
www.e-farmcredit.com  
efcsales@e-farmcredit.com



Farm Credit Services  
OF MID-AMERICA