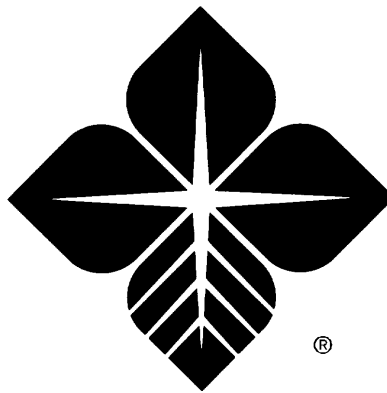


LOUISIANA FLBA, FLCA

2009 Quarterly Report Third Quarter



For the Quarter Ended September 30, 2009

REPORT OF MANAGEMENT

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 his or her knowledge and belief.



Darrel Jans, Chief Executive Officer

November 6, 2009



Edward Patrick, Jr., Chairman, Board of Directors

November 6, 2009



Sandra Robinson, Chief Financial Officer

November 6, 2009

LOUISIANA FLBA, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Louisiana FLBA, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

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 financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

The Association has submitted an application to our regulator, Farm Credit Administration, to reorganize as an Agriculture Credit Association. The application was sent to the Farm Credit Bank of Texas for approval as well. The proposed structure would allow the Association the opportunity to provide short term agriculture lending to customers in addition to the Association's current product mix.

The Association has a contractual relationship with the Farm Credit Bank of Texas from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement which contains certain covenants. The Association became deficient with regard to earnings as defined in the agreement. The deficiency was derived from substantial loan loss reserve expense incurred during the 3rd quarter. A short term waiver of this covenant has been extended to the Association by the Farm Credit Bank of Texas.

The Association, in the normal course of business, participates in loans with other Farm Credit Associations, Farm Credit Banks and commercial lenders. In the past the Association purchased interest in loans with collateral outside of the State of Louisiana. In addition, loans with operations in the rural telecommunications markets were purchased as well. Due to the economic stress impacting the real estate markets in Florida and the stressed operating environment for telecommunications companies, several of these loans have been moved to nonaccrual status during the 3rd quarter.

Furthermore, the Association has recorded specific reserves of \$4,796,731 in relation to these geographic or industry specific loans during the 3rd quarter of 2009. The majority of this increase is related to one collateral dependent loan and the collateral is located in Florida.

Based on the increase in specific allowance, management has further evaluated the participation loan portfolio and recognized additional general reserves of \$1,500,000 for participation loans.

The Association recognized a charge off of \$333,000 in relation to a rural telecommunication related loan. There was no specific reserve for the loan at the time and the charge was taken against general reserves.

Weather has been a significant event for the Association during the 3rd quarter. During September the Association's headquarters in Monroe, LA received over 11 inches of rain while the historic average for the month is only 3.44 inches. From June 30th to October 4th, the USDA reported only 66.8 days suitable for fieldwork. The constant conditions of precipitation has impacted the ability of farmers to get crops out of their fields.

Loan Portfolio:

Total loans outstanding at September 30, 2009, including nonaccrual loans and sales contracts, were \$834,736,057 compared to \$831,803,390 at December 31, 2008, reflecting an increase of 0.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 4.4 percent at September 30, 2009, compared to 0.9 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$333,000 in charge-offs for the quarter ending September 30, 2009, and did not record any recoveries or charge-offs for the same period in 2008. The Association's allowance for loan losses was 1.1 percent and 0.1 percent of total loans outstanding as of September 30, 2009 and December 31, 2008, 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, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 36,695,957	92.5%	\$ 7,731,903	96.8%
90 days past due and still accruing interest	2,571,190	6.5%	32,550	0.4%
Formally restructured	28,189	0.1%	121,717	1.5%
Other property owned, net	367,795	0.9%	104,836	1.3%
Total	<u>\$ 39,663,131</u>	<u>100.0%</u>	<u>\$ 7,991,006</u>	<u>100.0%</u>

The Association, in the normal course of business, participates in loans with other Farm Credit Associations, Farm Credit Banks, and commercial lenders. The Association holds interest in loans with geographic or industry related risk that has warranted risk rating reclassifications to nonaccrual status. Performance of these loans remains uncertain even though management constantly monitors these accounts.

Counterparty risk is continually monitored by management of the Association. When necessary, the Association will attempt to gain control of servicing rights to participation loans that have been downgraded in risk rating. This allows the Association to work directly with high risk borrowers in an effort to collect the outstanding principal balance.

The Association continues to focus on geographic and industry areas of concern within the portfolio. These areas include rural telecommunications, ethanol and transactions with collateral in Florida and Georgia.

The Association is one of 13 associations in the District that participated in a loan to one borrower through the former Capital Markets of the South (CMS). Of the 13 associations that participated in the loan, five were members of CMS (including this Association), and eight were non-CMS members with the FLBA of South Alabama, FLCA, serving as the lead lender. The original funded balance of the loan was \$68,500,000, and the Association retained 6.67 percent of the loan. In 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. Accordingly, the FLBA of South Alabama, FLCA began pursuing collection efforts, including liquidating part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, by the end of 2007 the Association, along with the four other CMS member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants, which resulted in the Association holding a total of 20.22 percent. As part of loan repurchase transactions noted above, the CMS member associations received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

In 2008, collection efforts continued, resulting in legal judgments against the borrowers, allowing the FLBA of South Alabama, FLCA to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan, and is still in process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which is to be liquidated and applied against the loan balance. All sales of remaining real estate collateral and other properties are expected to be completed by the end of 2009, or the end of the first quarter of 2010.

During 2007, charge-offs of \$30,245,000 were recognized; the Association's portion of the 2007 charge-offs was \$5,150,272. No further charge-offs or allowance reserves were required to be recognized in 2008 or year to date in 2009. As of September 30, 2009, the Association's portion of the loan's remaining book balance and allowance reserves were \$381,087, and \$0, respectively. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report.

In May, 2009 the former CMS Associations, except Louisiana Federal Land Bank Association, FLCA, entered into a mutual release and indemnity agreement extinguishing essentially all claims related to CMS, except existing contractual obligations related to loan participations.

Results of Operations:

The Association had a net loss of \$3,216,065 and net income of \$707,387 for the three and nine months ended September 30, 2009, respectively, as compared to net income of \$3,949,526 and \$9,830,150 for the same periods in 2008. Net interest income was \$4,711,055 and \$14,440,331, respectively, for the three and nine months ended September 30, 2009, compared to \$5,155,108 and \$15,182,268 for the same periods in 2008. Interest income for the first nine months of 2009 decreased by \$7,131,605 or 17.6 percent from the same periods of 2008, primarily due to declines in yields on earning assets and a decrease in average loan volume. Interest expense for the first nine months of 2009 decreased by \$6,389,668, or 25.2 percent, from the same periods of 2008 due to a decrease in interest rates and a decrease in average debt volume. Average loan volume for the third quarter of 2009 was \$832,856,623, compared to \$838,163,767 in the third quarter of 2008. The average spread on the loan portfolio for the third quarter 2009 was 1.82 percent, compared to 1.94 percent in the third quarter of 2008.

The Association's return on average assets for the nine months ended September 30, 2009, was 0.11 and 1.52 percent for the same period in 2008. The Association's return on average equity for the nine months ended September 30, 2009, was 0.71 and 10.47 percent for the same period in 2008.

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 Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2009	December 31, 2008
Note payable to the Bank	\$ 726,265,506	\$ 727,337,234
Accrued interest on note payable	1,973,076	2,747,124
Total	<u>\$ 728,238,582</u>	<u>\$ 730,084,358</u>

Capital Resources:

The Association's capital position decreased by \$1,908,326 at September 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.59:1 as of September 30, 2009, compared to 5.53:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital ratio of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2009, was 13.3 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2009, were 12.9 and 12.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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 December 31, 2008 Annual Report of Louisiana FLBA, FLCA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site 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 Louisiana FLBA, FLCA, 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318) 387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Sandra.robinson@farmcreditbank.com.

LOUISIANA FLBA, FLCA

BALANCE SHEET

	September 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 455,370	\$ 5,522,062
Loans	834,736,057	831,803,390
Less: allowance for loan losses	<u>8,891,804</u>	<u>755,584</u>
Net loans	825,844,253	831,047,806
Accrued interest receivable	15,438,161	11,777,736
Investment in and receivable from the Bank:		
Capital stock	14,640,855	14,640,855
Other	1,589,013	220,228
Other property owned, net	367,795	104,836
Premises and equipment	3,138,747	3,261,023
Other assets	<u>805,483</u>	<u>223,652</u>
Total assets	<u><u>\$ 862,279,677</u></u>	<u><u>\$ 866,798,198</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 726,265,506	\$ 727,337,234
Accrued interest payable	1,973,076	2,747,124
Drafts outstanding	-	395,052
Other liabilities	<u>3,253,351</u>	<u>3,622,718</u>
Total liabilities	<u><u>731,491,933</u></u>	<u><u>734,102,128</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,103,910	3,073,375
Unallocated retained earnings	127,396,882	129,289,055
Accumulated other comprehensive income	<u>286,952</u>	<u>333,640</u>
Total members' equity	<u>130,787,744</u>	<u>132,696,070</u>
Total liabilities and members' equity	<u><u>\$ 862,279,677</u></u>	<u><u>\$ 866,798,198</u></u>

LOUISIANA FLBA, FLCA

STATEMENT OF INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 10,670,872	\$ 13,240,743	\$ 33,405,821	\$ 40,537,426
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	5,959,817	8,085,635	18,965,490	25,355,158
Net interest income	4,711,055	5,155,108	14,440,331	15,182,268
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	6,296,731	73,122	8,927,720	116,324
Provision for acquired property losses	-	-	1,843	-
Net interest income after provisions for losses	(1,585,676)	5,081,986	5,510,768	15,065,944
<u>NONINTEREST INCOME</u>				
Income from the Bank:				
Patronage income	649,548	691,581	1,971,687	2,097,200
Loan fees	264,673	417,973	999,703	1,390,105
Financially related services income	997	1,178	3,723	4,302
Gain on sale of premises and equipment, net	-	10,319	79,880	43,222
Other noninterest income	5,736	7,197	222,783	27,051
Total noninterest income	920,954	1,128,248	3,277,776	3,561,880
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,353,089	1,194,201	4,468,744	5,195,997
Directors' expense	45,533	70,458	142,980	186,351
Purchased services	188,529	158,934	633,683	781,668
Travel	97,505	100,048	290,880	313,723
Occupancy and equipment	97,488	105,653	274,604	283,206
Communications	30,269	36,090	94,700	102,469
Advertising	88,636	87,203	259,510	276,088
Public and member relations	46,052	51,823	191,921	181,438
Supervisory and exam expense	157,095	88,287	379,871	296,653
Insurance Fund premiums	346,177	265,765	1,025,555	884,070
Loss on other property owned, net	282	11	2,431	-
Other noninterest expense	100,688	102,235	316,278	296,011
Total noninterest expenses	2,551,343	2,260,708	8,081,157	8,797,674
Net income (loss)	\$ (3,216,065)	\$ 3,949,526	\$ 707,387	\$ 9,830,150

LOUISIANA FLBA, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2007	\$ 2,968,120	\$ 120,947,424	\$ 477,107	\$ 124,392,651
Adjustment to beginning balance due to FAS No. 158 accounting change	-	(13,610)	-	(13,610)
Balance at January 1, 2008	2,968,120	120,933,814	477,107	124,379,041
Comprehensive income				
Net income	-	9,830,150	-	9,830,150
Amortization of costs included in periodic retirement benefit costs	-	-	(51,312)	(51,312)
Total comprehensive income	-	9,830,150	(51,312)	9,778,838
Capital stock/participation certificates issued	427,105	-	-	427,105
Capital stock/participation certificates and allocated retained earnings retired	(349,900)	-	-	(349,900)
Patronage refunds:				
Cash	-	(4,727,599)	-	(4,727,599)
Balance at September 30, 2008	<u>\$ 3,045,325</u>	<u>\$ 126,036,365</u>	<u>\$ 425,795</u>	<u>\$ 129,507,485</u>
Balance at December 31, 2008	\$ 3,073,375	\$ 129,289,055	\$ 333,640	\$ 132,696,070
Comprehensive income				
Net income	-	707,387	-	707,387
Amortization of costs included in periodic retirement benefit costs	-	-	(46,688)	(46,688)
Total comprehensive income	-	707,387	(46,688)	660,699
Capital stock/participation certificates issued	355,690	-	-	355,690
Capital stock/participation certificates and allocated retained earnings retired	(325,155)	-	-	(325,155)
Patronage refunds:				
Cash	-	(2,599,560)	-	(2,599,560)
Balance at September 30, 2009	<u>\$ 3,103,910</u>	<u>\$ 127,396,882</u>	<u>\$ 286,952</u>	<u>\$ 130,787,744</u>

LOUISIANA FLBA, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Louisiana FLBA, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the parishes of of Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana and Winn in the state of Louisiana. 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.

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 but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued guidance, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”. The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the guidance in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued guidance, “Recognition and Presentation of Other-Than-Temporary Impairments”, which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the “ability and intent to hold” provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security’s entire amortized cost basis (even if the entity does not intend to sell). The “probability” standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and

amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

The guidance was effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association held no investments in debt securities during the first nine months of 2009.

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 recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized 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 effective for interim or annual periods ending after June 15, 2009.

The accompanying 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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles 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 financial statements.

The preparation of these financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30, 2009	September 30, 2008
Balance at beginning of quarter	\$ 2,928,073	\$ 461,821
Provision for loan losses	6,296,731	73,122
Charge-offs	(333,000)	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 8,891,804</u>	<u>\$ 534,943</u>

The following table presents information concerning impaired loans:

	September 30, 2009	September 30, 2008
Impaired loans with related allowance	\$ 14,969,916	\$ 2,159,531
Impaired loans with no related allowance	24,325,420	4,132,178
Total impaired loans	<u>\$ 39,295,336</u>	<u>\$ 6,291,709</u>
Allowance on impaired loans	\$ 6,513,173	\$ 295,244
Average impaired loans	\$ 33,139,108	\$ 5,931,858
Interest income on impaired loans for the quarter	\$ 183,907	\$ 52,511

NOTE 3 — 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.

NOTE 4 — FAIR VALUE MEASUREMENTS:

Authoritative 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 2 to the 2008 Annual Report to Stockholders for a more complete description.

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:

	Fair Value Measurement Using			Total Fair Value	Total Book Value	Total Gains (losses)
	Level 1	Level 2	Level 3			
Assets:						
Loans *	\$ -	\$ -	\$22,757,509	\$22,757,509	\$15,520,052	7,237,457
Other property owned	-	-	369,637	369,637	367,795	1,842

* Represents the fair value of certain loans that were evaluated for impairment under 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.

Valuation Techniques

As more fully discussed in Note 2 to the 2008 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 Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were 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 results, these fair value measurements fall within Level 3 of the 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.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

NOTE 5 — LEGAL PROCEEDINGS:

In relation to the loan described in the "Risk Exposure" section of Management's Discussion and Analysis, above, the Association along with the four other CMS member associations was party to one lawsuit. This suit was brought by the FLBA of South Alabama, the lead lender, to foreclose the lien of its mortgage in Muhlenberg County, KY. In February 2009, the FLBA of South Alabama received approval to foreclose the lien of its mortgage on the remaining real estate collateral located in Muhlenberg County, Kentucky and intends to foreclose such lien as soon as possible. However, prior to conducting the foreclosure, is investigating the value of coal reserves on the property in order to properly understand the overall value of the property. A limited test drilling plan has been completed and the FLBA of South Alabama expects the results of a formal assessment of value, prepared by an outside consultant, to be provided shortly. The remaining action is a suit brought by the FLBA of South Alabama in the US Federal District Court in Texas, seeking recovery of a payment in the amount of \$100,000 made by the borrower to attorneys for criminal defense services.

The previous action brought by the FLBA of South Alabama against the parties responsible for defrauding it has been resolved at the trial court level. As was previously reported, on March 19, 2009, the court rendered judgment in favor of the FLBA of South Alabama against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. On April 23, 2009 the Court trebled the judgment to \$124,647,710. Two defendants are pursuing an appeal of this judgment. The FLBA of South Alabama is continuing to pursue the assets of all liable parties in satisfaction of the judgment.

The Association has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30, :

	Other Benefits	
	2009	2008
Service cost	\$ -	\$ -
Interest cost	-	-
Expected return on plan assets	-	-
Amortization of prior service costs	(51,063)	(51,312)
Amortizations of net (gain) loss	4,375	-
Net periodic benefit cost	<u>\$ (46,688)</u>	<u>\$ (51,312)</u>

The Association has made contributions of \$1,043,289 to its defined benefit pension plan as of September 30, 2009. The Association presently anticipates contributing an additional \$347,763 to fund its defined pension plan in 2009 for a total \$1,391,052.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 6, 2009, which is the date the financial statements were issued. The Association has received preliminary approval from our regulator, Farm Credit Administration, to reorganize as an Agriculture Credit Association. This reorganization will require the approval of voting stockholders of the Association and if passed will take effect in early 2010. A Reorganization Disclosure Packet was mailed to all voting stockholders of the Association on October 21, 2009. This packet contains information on proposed transactions that are "designed to enable the Association to reorganize in a manner that would allow it to provide short and intermediate-term production credit, as well as continuing to provide long-term mortgage credit and related services". The territory served by the Association will not change at this time. The stockholders of the Association will meet to vote on this matter on November 10, 2009 in West Monroe, Louisiana.

The Association has a contractual relationship with the Farm Credit Bank of Texas from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement which contains certain covenants. The Association became deficient with regard to assets as defined in the agreement. The deficiency was derived from an increase in adversely classified assets during the 3rd quarter. A corrective plan of action has been submitted to the Farm Credit Bank of Texas. Failure to meet this financial covenant does not result in an event of default if the Farm Credit Bank of Texas finds the corrective plan of action satisfactory.

At the time of the release of this publication the Monroe, LA area has received 16.7 inches of rain month-to-date. The historic average for the month is only 4.26 inches. The Shreveport area has received 3.12 times the area's historic monthly average for month-to-date October.