TEXAS FARM CREDIT SERVICES

2020
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2020

REPORT OF MANAGEMENT

The consolidated financial statements of Texas Farm Credit Services (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the year.

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

Mark Miller, Chief Executive Officer
May 5, 2020

Gregory T. Richbourg, Audit Committee Chairman
May 5, 2020

Keith A. Ibrom, Chief Financial Officer
May 5, 2020

TEXAS FARM CREDIT SERVICES
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Significant Events

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased as borrowers increased their liquidity and cash positions. In response, the Association increased its cash position to accommodate the potential liquidity needs of those borrowers in case of any market disruptions. The Association was able to maintain access to borrowings, fund incremental needs and increase liquidity without significant changes to its funding strategies or interest rate risk profiles. Through March 31, 2020 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association's loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

The Association has implemented a payment deferral program to provide relief to Association borrowers affected by COVID-19. Each borrower is evaluated on an individual basis with payments being deferred for up to 90 days. The Association will continue to monitor the impact of COVID-19 on Association borrowers.

Loan Portfolio

Total loans outstanding at March 31, 2020, including nonaccrual loans and sales contracts, were $1,344,198,978 compared to $1,314,083,263 at December 31, 2019, reflecting an increase of 2.3%. Nonaccrual loans as a percentage of total loans outstanding were 0.5% at March 31, 2020, compared to 0.6% at December 31, 2019.

The Association recorded $28,233 in recoveries and $0 in charge-offs for the quarter ended March 31, 2020, and $4,000 in recoveries and $0 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.4% and 0.3% of total loans outstanding as of March 31, 2020, and December 31, 2019, respectively.

The Association continues to experience strong demand for new loans throughout its 100-county territory. Management's focus is on growing the Association's earning assets while maintaining a high level of acceptable credit quality with adequate capital.

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.

	March 31, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**$ 6,630,952**	**52.5%**	$ 8,349,534	68.1%
90 days past due and still accruing interest	**1,801,624**	**14.3%**	5	0.0%
Formally restructured	**822,787**	**6.5%**	810,911	6.6%
Other property owned, net	**3,370,250**	**26.7%**	3,101,394	25.3%
Total	**$ 12,625,613**	**100.0%**	$ 12,261,844	100.0%

The majority of high-risk assets related to a small number of larger credits within different commodity concentrations.

Results of Operations

The Association had net income of $7,371,061 for the three months ended March 31, 2020, as compared to net income of $6,915,013 for the same period in 2019, reflecting an increase of 6.6%. Net interest income was $9,507,232 for the three months ended March 31, 2020, compared to $9,013,878 for the same period in 2019.

.

	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,328,354,511**	**$ 17,843,975**	$ 1,243,612,179	$ 17,185,761
Investments	**2,574,118**	**37,314**	2,928,192	47,246
Total interest-earning assets	**1,330,928,629**	**17,881,289**	1,246,540,371	17,233,007
Interest-bearing liabilities	**1,155,216,764**	**8,374,057**	1,075,945,239	8,219,129
Impact of capital	**$ 175,711,865**		$ 170,595,132	
Net interest income		**$ 9,507,232**		$ 9,013,878

	2020 Average Yield	2019 Average Yield
Yield on loans	**5.40%**	5.60%
Yield on investments	**5.83%**	6.54%
Total yield on interest-earning assets	**5.41%**	5.61%
Cost of interest-bearing liabilities	**2.92%**	3.10%
Interest rate spread	**2.49%**	2.51%
Net interest income as a percentage of average earning assets	**2.87%**	2.93%

	Three months ended: March 31, 2020 vs. March 31, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,180,858**	**$ (522,644)**	**$ 658,214**
Interest income - investments	**(5,761)**	**(4,171)**	**(9,932)**
Total interest income	**1,175,097**	**(526,815)**	**648,282**
Interest expense	**610,603**	**(455,675)**	**154,928**
Net interest income	**$ 564,494**	**$ (71,140)**	**$ 493,354**

Interest income for the three months ended March 31, 2020, increased by $648,282, or 3.76%, from the same period of 2019, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for the three months ended March 31, 2020, increased by $154,928, or 1.88%, from the same period of 2019 due to an increase average debt volume offset by a decrease in the cost of funding. Average loan volume for the first quarter of 2020 was $1,330,928,629, compared to $1,246,540,371 in the first quarter of 2019. The average net interest rate spread on the loan portfolio for the first quarter of 2020 was 2.49%, compared to 2.51% in the first quarter of 2019.

The Association's return on average assets for the three months ended March 31, 2020, was 2.13% compared to 2.13% for the same period in 2019. The Association's return on average equity for the three months ended March 31, 2020, was 14.18%, compared to 13.89% for the same period in 2019.

Noninterest income for the three months ended March 31, 2020, increased by $782,422, or 18.2 percent, compared to the same period of 2019, primarily due to increases in loan conversion fees. Noninterest expenses for the three months ended March 31, 2020, increased by $287,940, or 4.7 percent, compared to the same period of 2019, due to increases in purchased services, travel, occupancy and public and member relations. Provisions for loan losses for the three months ended March 31, 2020, increased by $675,285, or 211.0 percent, compared to the same period of 2019, due to an increase in valuation related to the uncertainty related to the COVID 19 pandemic.

Liquidity and Funding Sources

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

	March 31, 2020	December 31, 2019
Note payable to the Bank	**$ 1,171,972,355**	$ 1,140,484,754
Accrued interest on note payable	**2,834,341**	2,820,460
Total	**$ 1,174,806,696**	$ 1,143,305,214

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $1,171,972,355 as of March 31, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.92 percent at March 31, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2019, is due to the Association's increase in debt related to its match funding of new loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $176,305,174 at March 31, 2020. The maximum amount the Association may borrow from the Bank as of March 31, 2020, was $1,351,250,375 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued in 2020. As borrower payments are received, they are applied to the Association's note payable to the Bank.

Capital Resources

The Association's capital position increased by $7,412,909 at March 31, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 5.65:1 as of March 31, 2020, compared to 5.71:1 as of December 31, 2019.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2020, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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

Relationship With the Farm Credit Bank of Texas

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

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Texas Farm Credit Services, 545 S. Hwy 77, Robstown, Texas, 78380 or calling (361) 387-8563. The annual and quarterly stockholder reports for the Association are also available on its website at *www.texasfcs.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing kibrom@texasfcs.com.

TEXAS, FCS

CONSOLIDATED BALANCE SHEET

		March 31, 2020 (unaudited)		December 31, 2019
ASSETS				
Cash	$	9,170,841	$	7,188,050
Investments		2,540,557		2,660,691
Loans		1,344,198,978		1,314,083,263
Less: allowance for loan losses		5,377,913		4,323,904
Net loans		1,338,821,065		1,309,759,359
Accrued interest receivable		12,970,718		11,020,248
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		22,573,990		22,652,940
Other		2,393,527		543,605
Deferred taxes, net		906,845		708,499
Other property owned, net		3,370,250		3,101,394
Premises and equipment, net		15,070,422		14,937,777
Other assets		3,433,632		3,340,834
Total assets	$	1,411,251,847	$	1,375,913,397
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	1,171,972,355	$	1,140,484,754
Advance conditional payments		729,981		535,693
Accrued interest payable		2,834,341		2,820,460
Drafts outstanding		157,310		121,374
Patronage distributions payable		12,840,000		12,840,000
Other liabilities		10,396,237		14,202,402
Total liabilities		1,198,930,224		1,171,004,683
MEMBERS' EQUITY				
Capital stock and participation certificates		3,828,470		3,791,365
Additional paid-in capital		47,596,495		47,596,495
Allocated retained earnings		56,437,331		56,437,331
Unallocated retained earnings		105,164,722		97,793,661
Accumulated other comprehensive income (loss)		(705,395)		(710,138)
Total members' equity		212,321,623		204,908,714
Total liabilities and members' equity	$	1,411,251,847	$	1,375,913,397

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

TEXAS, FCS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019
INTEREST INCOME		
Loans	**$ 17,843,975**	$ 17,185,761
Investments	**37,314**	47,246
Total interest income	**17,881,289**	17,233,007
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**8,372,960**	8,217,676
Advance conditional payments	**1,097**	1,453
Total interest expense	**8,374,057**	8,219,129
Net interest income	**9,507,232**	9,013,878
PROVISION FOR LOAN LOSSES	**995,357**	320,072
Net interest income after provision for loan losses	**8,511,875**	8,693,806
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**2,546,779**	2,515,636
Loan fees	**1,131,256**	361,448
Refunds from Farm Credit System Insurance Corporation	**262,284**	293,696
Financially related services income	**983,463**	1,058,630
Gain (loss) on sale of premises and equipment, net	**49,545**	(4,919)
Other noninterest income	**109,875**	76,289
Total noninterest income	**5,083,202**	4,300,780
NONINTEREST EXPENSES		
Salaries and employee benefits	**4,174,401**	4,234,408
Directors' expense	**197,587**	193,872
Purchased services	**286,814**	215,747
Travel	**311,197**	260,654
Occupancy and equipment	**468,789**	369,481
Communications	**58,135**	73,727
Advertising	**54,376**	42,100
Public and member relations	**211,419**	135,710
Supervisory and exam expense	**110,666**	110,929
Insurance Fund premiums	**210,041**	215,723
Loss on other property owned, net	**40,951**	-
Other noninterest expense	**297,986**	282,071
Total noninterest expenses	**6,422,362**	6,134,422
Income before income taxes	**7,172,715**	6,860,164
Benefit from income taxes	**(198,346)**	(54,849)
NET INCOME	**7,371,061**	6,915,013
Other comprehensive income:		
Change in postretirement benefit plans	**4,743**	(5,430)
COMPREHENSIVE INCOME	**$ 7,375,804**	$ 6,909,583

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

TEXAS, FCS

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 4,100,095	$ 47,596,495	$ 54,986,492	$ 89,370,242	$ (198,585)	$ 195,854,739
Comprehensive income	-	-	-	6,915,013	(5,430)	6,909,583
Capital stock/participation certificates and allocated retained earnings issued	90,345	-	-	-	-	90,345
Capital stock/participation certificates and allocated retained earnings retired	(66,150)	-	-	-	-	(66,150)
Balance at March 31, 2019	$ 4,124,290	$ 47,596,495	$ 54,986,492	$ 96,285,255	$ (204,015)	$ 202,788,517
Balance at December 31, 2019	$ 3,791,365	$ 47,596,495	$ 56,437,331	$ 97,793,661	$ (710,138)	$ 204,908,714
Comprehensive income	-	-	-	7,371,061	4,743	7,375,804
Capital stock/participation certificates and allocated retained earnings issued	94,920	-	-	-	-	94,920
Capital stock/participation certificates and allocated retained earnings retired	(57,815)	-	-	-	-	(57,815)
Balance at March 31, 2020	**$ 3,828,470**	**$ 47,596,495**	**$ 56,437,331**	**$ 105,164,722**	**$ (705,395)**	**$ 212,321,623**

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

Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Texas Farm Credit Services (Agricultural 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 counties of Anderson, Angelina, Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Bowie, Brooks, Cameron, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, DeWitt, Dimmitt, Duval, Edwards, Fannin, Fayette, Franklin, Freestone, Frio, Goliad, Gonzales, Grayson, Gregg, Guadalupe, Hardin, Harrison, Henderson, Hidalgo, Hopkins, Houston, Hunt, Jasper, Jefferson, Jim Hogg, Jim Wells, Karnes, Kaufman, Kenedy, Kerr, Kinney, Kleberg, Lamar, LaSalle, Lavaca, Leon, Liberty, Limestone, Live Oak, Marion, Maverick, McMullen, Medina, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Rains, Real, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, San Patricio, Shelby, Smith, Starr, Titus, Trinity, Tyler, Upshur, Uvalde, Val Verde, Van Zandt, Walker, Waller, Washington, Webb, Willacy, Wilson, Wood, Zapata, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

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

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted.

The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Mission-Related and Other Investments Held-to-Maturity

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

	March 31, 2020				
	Amortized Cost	**Gross Unrealized Gains**	**Fair Value**	**Weighted Average Yield**	**Weighted Average Life**
Agricultural mortgage-backed securities	**$ 2,540,557**	**$ 15,365**	**$ 2,555,922**	**5.52 %**	**3.85 Years**

	December 31, 2019				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life
Agricultural mortgage-backed securities	$ 2,660,691	$ (6,243)	$ 2,654,448	5.53 %	3.81 Years

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2020 Amount**	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 991,539,493**	$ 982,110,300
Production and intermediate term	**235,338,617**	223,427,089
Agribusiness:		
Processing and marketing	**79,797,911**	75,272,101
Loans to cooperatives	**17,613,349**	12,955,307
Farm-related business	**3,475,085**	3,021,587
Communication	**10,511,281**	10,543,602
Energy	**2,680,056**	2,803,913
Rural residential real estate	**1,591,753**	2,284,841
Mission-related investments	**1,651,433**	1,664,523
Total	**$ 1,344,198,978**	$ 1,314,083,263

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 20,682,588	$176,766,437	$ 22,922,975	$ -	$ 43,605,563	$176,766,437
Production and intermediate term	27,539,697	1,687,526	-	-	27,539,697	1,687,526
Agribusiness	70,921,899	63,845,941	-	-	70,921,899	63,845,941
Communication	10,511,281	-	-	-	10,511,281	-
Energy	2,680,056	-	-	-	2,680,056	-
Total	$132,335,521	$242,299,904	$ 22,922,975	$ -	$155,258,496	$242,299,904

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $717,261 and $535,693 at March 31, 2020, and December 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 3,362,924**	$ 5,288,762
Production and intermediate term	**3,230,411**	3,023,155
Rural residential real estate	**37,617**	37,617
Total nonaccrual loans	**6,630,952**	8,349,534
Accruing restructured loans:		
Mission-related investments	**822,787**	810,911
Total accruing restructured loans	**822,787**	810,911
Accruing loans 90 days or more past due:		
Real estate mortgage	**1,801,139**	-
Production and intermediate term	**485**	5
Total accruing loans 90 days or more past due	**1,801,624**	5
Total nonperforming loans	**9,255,363**	9,160,450
Other property owned	**3,370,250**	3,101,394
Total nonperforming assets	**$ 12,625,613**	$ 12,261,844

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

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

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

	March 31, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**96.5** %	96.1 %
OAEM	**2.4** %	2.6 %
Substandard/doubtful	**1.1** %	1.3 %
	100.0 %	100.0 %
Production and intermediate term		
Acceptable	**90.6** %	89.6 %
OAEM	**3.7** %	5.6 %
Substandard/doubtful	**5.7** %	4.8 %
	100.0 %	100.0 %
Loans to cooperatives		
Acceptable	**98.0** %	94.9 %
OAEM	**2.0** %	5.1 %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Processing and martketing		
Acceptable	**93.3** %	92.9 %
OAEM	**6.7** %	7.1 %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Farm-related business		
Acceptable	**100.0** %	100.0 %
OAEM	**-** %	- %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Communication		
Acceptable	**100.0** %	100.0 %
OAEM	**-** %	- %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Energy		
Acceptable	**100.0** %	100.0 %
OAEM	**-** %	- %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Rural residential real estate		
Acceptable	**64.0** %	74.6 %
OAEM	**33.6** %	23.8 %
Substandard/doubtful	**2.4** %	1.6 %
	100.0 %	100.0 %
Mission-related investments		
Acceptable	**100.0** %	100.0 %
OAEM	**-** %	- %
Substandard/doubtful	**-** %	- %
	100.0 %	100.0 %
Total loans		
Acceptable	**95.2** %	94.8 %
OAEM	**3.0** %	3.4 %
Substandard/doubtful	**1.8** %	1.8 %
	100.0 %	100.0 %

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

March 31, 2020	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 16,375,395**	**$ 2,369,297**	**$ 18,744,692**	**$ 981,957,045**	**$ 1,000,701,737**	**$ 1,801,139**
Production and intermediate term	**4,323,277**	**910,271**	**5,233,548**	**233,391,704**	**238,625,252**	**485**
Loans to cooperatives	**-**	**-**	**-**	**17,768,491**	**17,768,491**	**-**
Processing and marketing	**-**	**-**	**-**	**80,008,714**	**80,008,714**	**-**
Farm-related business	**-**	**-**	**-**	**3,481,848**	**3,481,848**	**-**
Communication	**-**	**-**	**-**	**10,522,654**	**10,522,654**	**-**
Energy	**-**	**-**	**-**	**2,682,398**	**2,682,398**	**-**
Rural residential real estate	**116,941**	**37,617**	**154,558**	**1,441,960**	**1,596,518**	**-**
Mission-related investments	**-**	**-**	**-**	**1,670,809**	**1,670,809**	**-**
Total	**$ 20,815,613**	**$ 3,317,185**	**$ 24,132,798**	**$ 1,332,925,623**	**$ 1,357,058,421**	**$ 1,801,624**

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 7,750,213	$ 1,889,151	$ 9,639,364	$ 980,688,535	$ 990,327,899	$ -
Production and intermediate term	996,705	702,530	1,699,235	224,103,142	225,802,377	5
Loans to cooperatives	-	-	-	13,054,651	13,054,651	-
Processing and marketing	-	-	-	75,468,841	75,468,841	-
Farm-related business	-	-	-	3,039,972	3,039,972	-
Communication	-	-	-	10,544,242	10,544,242	-
Energy	-	-	-	2,806,945	2,806,945	-
Rural residential real estate	119,183	37,617	156,800	2,135,253	2,292,053	-
Mission-related investments	69,590	-	69,590	1,602,533	1,672,123	-
Total	$ 8,935,691	$ 2,629,298	$ 11,564,989	$ 1,313,444,114	$ 1,325,009,103	$ 5

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2020, the total recorded investment of troubled debt restructured loans was $3,265,103, including $2,442,316 classified as nonaccrual and $822,787 classified as accrual, with specific allowance for loan losses of $16,563. As of March 31, 2020, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $25,818 at period end and $25,818 at December 31, 2019.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2020. Loans formally restructured prior to January 1, 2020, were $3,265,103.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded for the quarter ending March 31, 2020.

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

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Real estate mortgage	$ 212,831	$ 230,237	$ 212,831	$ 230,237
Production and intermediate term	2,229,485	2,229,485	2,229,485	2,229,485
Mission-related investments	822,787	810,911	-	-
Total	$ 3,265,103	$ 3,270,633	$ 2,442,316	$ 2,459,722

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

Additional impaired loan information is as follows:

	March 31, 2020			December 31, 2019		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Mission-related investments	**$ 54,781**	**$ 53,003**	**$ 16,563**	$ 53,715	$ 53,003	$ 16,509
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$5,164,063**	**$ 5,224,133**	**$ -**	$ 5,288,762	$ 5,393,514	$ -
Production and intermediate term	**3,230,896**	**5,677,256**	**-**	3,023,160	5,428,487	-
Rural residential real estate	**37,617**	**72,517**	**-**	37,617	72,517	-
Mission-related investments	**768,006**	**749,046**	**-**	757,196	749,597	-
Total	**$9,200,582**	**$11,722,952**	**$ -**	$ 9,106,735	$11,644,115	$ -
Total impaired loans:						
Real estate mortgage	**$5,164,063**	**$ 5,224,133**	**$ -**	$ 5,288,762	$ 5,393,514	$ -
Production and intermediate term	**3,230,896**	**5,677,256**	**-**	3,023,160	5,428,487	-
Rural residential real estate	**37,617**	**72,517**	**-**	37,617	72,517	-
Mission-related investments	**822,787**	**802,049**	**16,563**	810,911	802,600	16,509
Total	**$9,255,363**	**$11,775,955**	**$ 16,563**	$ 9,160,450	$11,697,118	$ 16,509

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Mission-related investments	**$ 53,003**	**$ 1,067**	$ 54,003	$ 1,087
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$5,093,808**	**$ 76,742**	$ 6,838,863	$ 21,235
Production and intermediate term	**3,547,363**	**7,810**	4,467,675	11,628
Rural residential real estate	**37,617**	**-**	31,158	-
Mission-related investments	**749,239**	**11,431**	776,382	11,846
Total	**$9,428,027**	**$ 95,983**	$12,114,078	$ 44,709
Total impaired loans:				
Real estate mortgage	**$5,093,808**	**$ 76,742**	$ 6,838,863	$ 21,235
Production and intermediate term	**3,547,363**	**7,810**	4,467,675	11,628
Rural residential real estate	**37,617**	**-**	31,158	-
Mission-related investments	**802,242**	**12,498**	830,385	12,933
Total	**$9,481,030**	**$ 97,050**	$12,168,081	$ 45,796

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Mission-Related Investments	Total
Allowance for Credit Losses:								
Balance at December 31, 2019	$ 1,853,403	$ 1,656,635	$ 746,813	$ 9,978	$ 20,898	$ 11,724	$ 24,453	$ 4,323,904
Recoveries	28,233	-	-	-	-	-	-	28,233
Provision for loan losses	(509,801)	2,137,349	(604,830)	4,815	(17,126)	(9,484)	(5,566)	995,357
Other	23,673	6,746	-	-	-	-	-	30,419
Balance at March 31, 2020	$ 1,395,508	$ 3,800,730	$ 141,983	$ 14,793	$ 3,772	$ 2,240	$ 18,887	$ 5,377,913
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,563	$ 16,563
Collectively evaluated for impairment	1,395,508	3,800,730	141,983	14,793	3,772	2,240	2,324	5,361,350
Balance at March 31, 2020	$ 1,395,508	$ 3,800,730	$ 141,983	$ 14,793	$ 3,772	$ 2,240	$ 18,887	$ 5,377,913
Balance at December 31, 2018	$ 1,321,472	$ 860,965	$ 746,813	$ 9,978	$ 20,898	$ 11,724	$ 24,453	$ 2,996,303
Recoveries	-	4,000	-	-	-	-	-	4,000
Provision for loan losses	25,499	294,573	-	-	-	-	-	320,072
Other	4,917	56,385	-	-	-	-	-	61,302
Balance at March 31, 2019	$ 1,351,888	$ 1,215,923	$ 746,813	$ 9,978	$ 20,898	$ 11,724	$ 24,453	$ 3,381,677
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,814	$ 15,814
Collectively evaluated for impairment	1,351,888	1,215,923	746,813	9,978	20,898	11,724	8,639	3,365,863
Balance at March 31, 2019	$ 1,351,888	$ 1,215,923	$ 746,813	$ 9,978	$ 20,898	$ 11,724	$ 24,453	$ 3,381,677

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Mission-Related Investments	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at March 31, 2020	$1,000,701,737	$ 238,625,252	$101,259,053	$ 10,522,654	$ 2,682,398	$1,596,518	$ 1,670,809	$1,357,058,421
Individually evaluated for impairment	$ 5,164,063	$ 3,230,896	$ -	$ -	$ -	$ 37,617	$ 822,787	$ 9,255,363
Collectively evaluated for impairment	$ 995,427,299	$ 235,394,356	$101,259,053	$ 10,522,654	$ 2,682,398	$1,558,901	$ 848,022	$1,347,692,683
Loans acquired with deteriorated credit quality	$ 110,375	$ -	$ -	$ -	$ -	$ -	$ -	$ 110,375
Ending Balance at March 31, 2019	$ 941,626,492	$ 236,693,849	$ 82,265,679	$ 5,086,015	$ 3,187,916	$2,657,143	$ 2,271,821	$1,273,788,915
Individually evaluated for impairment	$ 6,932,488	$ 4,454,947	$ -	$ -	$ -	$ 31,158	$ 830,202	$ 12,248,795
Collectively evaluated for impairment	$ 934,500,523	$ 232,238,902	$ 82,265,679	$ 5,086,015	$ 3,187,916	$2,625,985	$ 1,441,619	$1,261,346,639
Loans acquired with deteriorated credit quality	$ 193,481	$ -	$ -	$ -	$ -	$ -	$ -	$ 193,481

NOTE 4 —LEASES:

The components of lease expense were as follows:

	Classification	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Operating lease cost	Right of use asset	$ 32,157	$ 31,377
Short-term lease cost		5,401	3,300
Finance lease cost:			
Amortization of right-of-use assets		1,628	643
Net lease cost		$ 39,186	$ 35,320

Other information related to leases was as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 33,957	$ 32,020
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	32,157	31,377

Lease term and discount rate are as follows:

	March 31, 2020	December 31, 2019
Weighted average remaining lease term in years		
Operating leases	4.63	3.01
Weighted average discount rate		
Operating leases	2.51%	2.71%

Future minimum lease payments under non-cancellable leases as of March 31, 2020 were as follows:

	Operating Leases
2020 (excluding the three months ended 3/31/20)	$ 82,884
2021	96,696
2022	57,886
2023	55,525
2024	45,751
Thereafter	54,906
Total	$ 393,648

NOTE 5 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of March 31, 2020**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	13.61%
Tier 1 capital ratio	6.00%	2.50%	8.50%	13.61%
Total capital ratio	8.00%	2.50%	10.50%	13.95%
Permanent capital ratio	7.00%	0.00%	7.00%	13.65%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.50%
UREE leverage ratio	1.50%	0.00%	1.50%	9.93%

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 59,190,041	$ 59,190,041	$ 59,190,041	$ 59,190,041
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,798,826	3,798,826	3,798,826	3,798,826
Allocated equities:				
Allocated equities held ≥7	56,437,331	56,437,331	56,437,331	56,437,331
Nonqualified allocated equities not subject to retirement	41,817,342	41,817,342	41,817,342	41,817,342
Allowance for loan losses and reserve for credit losses subject to certain limitations			4,642,178	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(22,652,063)	(22,652,063)	(22,652,063)	(22,652,063)
Other regulatory required deductions	(2,135,855)	(2,135,855)	(2,135,855)	(2,135,855)
	$ 184,052,117	**$ 184,052,117**	**$ 188,694,295**	**$ 184,052,117**
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,377,507,338	$ 1,377,507,338	$ 1,377,507,338	$ 1,377,507,338
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(24,787,917)	(24,787,917)	(24,787,917)	(24,787,917)
Allowance for loan losses				(4,301,468)
	$ 1,352,719,421	**$ 1,352,719,421**	**$ 1,352,719,421**	**$ 1,348,417,953**
Calculated Ratio	**13.61%**	**13.61%**	**13.95%**	**13.65%**

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 59,190,041	$ 59,190,041
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,798,826	-
Allocated equities:		
Allocated equities held ≥7	56,437,331	-
Nonqualified allocated equities not subject to retirement	41,817,342	41,817,342
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(22,652,063)	(11,022,481)
Other regulatory required deductions	(2,135,855)	(2,135,855)
	$ 184,052,117	**$ 135,445,542**
Denominator:		
Total Assets	1,388,862,577	1,388,862,577
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(25,253,917)	(25,253,917)
	$ 1,363,608,660	**$ 1,363,608,660**
Calculated ratio	**13.50%**	**9.93%**

An additional component of equity is accumulated other comprehensive loss, which is reported net of taxes, is as follows:

Accum Other Comp Loss	
March 31, 2020	**Net of Tax**
Nonpension postretirement benefits	**$ (705,395)**
March 31, 2019	Net of Tax
Nonpension postretirement benefits	$ (204,015)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the three months ended March 31:

	2020	2019
Accumulated other comprehensive loss at January 1	**$(710,138)**	$(198,585)
Amortization of prior service credit included in salaries and employee benefits	**(5,429)**	(5,430)
Amortization of actuarial gain included in salaries and employee benefits	**10,172**	-
Other comprehensive income (loss), net of tax	**4,743**	(5,430)
Accumulated other comprehensive loss at March 31	**$ (705,395)**	$ (204,015)

NOTE 6 — INCOME TAXES:

Texas Farm Credit Services conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Texas Farm Credit Services operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Texas Farm Credit Services can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized. The Association has no valuation allowance on its deferred tax assets because management estimates full utilization of these assets.

NOTE 7 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 15 to the 2019 Annual Report to Stockholders for a more complete description.

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

March 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 38,218**	**$ 38,218**
Other property owned	**-**	**-**	**3,370,250**	**3,370,250**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 37,206	$ 37,206
Other property owned	-	-	3,101,394	3,101,394

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

Information About Nonrecurring Level 3 Fair Value Measurements

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

Valuation Techniques

As more fully discussed in Note 2 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders.

Loans Evaluated for Impairment

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

Other Property Owned

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

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

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

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2020	2019
Service cost	**$ 14,302**	$ 13,741
Interest cost	**40,313**	48,329
Amortization of prior service credits	**(5,429)**	(5,430)
Amortization of net actuarial loss	**10,171**	-
Net periodic benefit cost	**$ 59,357**	$ 56,640

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2020, was $4,771,891 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute $238,309 to the district's defined benefit pension plan in 2020. As of March 31, 2020, $59,577 of contributions have been expensed. The Association presently does not anticipate additional contributions will be required in 2020.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 5, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.