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*Farm Credit of Florida, ACA*

**THIRD QUARTER 2020**

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**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2020 quarterly report of Farm Credit of Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Robert W. Teston  
Chief Executive Officer



Laura Craker  
Chief Financial Officer



Howard P. Bateman  
Chairman of the Board

November 6, 2020

# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2020. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2020.



Robert W. Teston  
Chief Executive Officer



Laura Craker  
Chief Financial Officer

November 6, 2020

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Farm Credit of Florida, ACA, (Association) for the period ended September 30, 2020. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2019 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

## ***Impacts of the COVID-19 Global Pandemic***

The novel coronavirus ("COVID-19") pandemic is creating extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans and restrictions, shelter in place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. The scope, duration and full effects of COVID-19 are rapidly evolving and still not fully known, but it is clear that the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, significantly increased unemployment levels and economic and market uncertainty, and disrupted trade and supply chains.

The Association recognizes that the COVID-19 pandemic has created significant stress for agricultural and rural borrowers because of disruptions to employees, markets, transportation, processors, off-farm income and other factors important to their operations. If the effects of the COVID-19 disruptions result in widespread and sustained repayment shortfalls on loans in the Association's portfolio, the Association could incur increased nonperforming assets and credit losses, particularly if conditions cause land and asset values to deteriorate and the available collateral is insufficient to cover the Association's exposure. This could potentially have a material adverse effect on the Association's financial condition, results of operations, liquidity, or capital levels.

The Association's net effective spread and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19, as evidenced by the actions in March 2020 of the Federal Reserve to significantly lower the target range for the federal funds rate based on concerns about the disruption to economic activity. A prolonged period of extremely volatile and unstable market conditions would likely increase costs while negatively affecting market risk mitigation strategies.

One of the Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Funding Corporation. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Association's business, operating results, or financial condition would likely be adversely affected.

The Association relies on business processes that largely depend on people, technology, and the use of complex systems and models to manage its business, including access to information systems and models as well as information, applications, payment systems, and other services provided by third parties. In response to the challenges presented by the COVID-19 pandemic, the Association has modified its business practices to focus on protecting its employees and the public while continuing to fulfill its critical mission and maintaining its regular business operations in support of the farmers, ranchers, and agricultural business of America. On March 16, 2020, the Association activated its business continuity plan and operated uninterrupted with a majority of employees working remotely from their homes. As the state eased the "stay at home" restrictions, the Association has taken steps to re-open offices at 80% capacity, while following standard safety protocols such as mask requirements, social distancing, enhanced cleaning, and appointment-only customer meetings. Some employees have continued work-from-home arrangements which introduce additional operational risk and inefficiencies. These risks include, but are not limited to, greater cybersecurity risks, increased privacy and disclosure hazards, strain on the local technology networks for remote operations and potential impairment of the ability to perform critical functions, all of which could adversely affect the Association's business, results of operations, and financial condition. The Association continues to monitor the attempts by third parties to gain unauthorized access to its network and information systems through cyber-attacks. Despite the increased cybersecurity risks

presented by a workforce that is operating remotely, the Association had not experienced any known cyber-attacks or other known privacy or data security incidents through the date of this report that negatively affected the confidentiality, integrity, or availability of the Association's information resources.

The Association relies on many third parties, including vendors that supply essential services and local and federal government agencies, offices, and courthouses, in the performance of its business operations. In light of the developing measures being undertaken as a result of the COVID-19 pandemic, many of these entities may limit the access and availability of their services. For example, reductions in available staff in recording offices or the closing of courthouses to walk-in traffic in some counties could adversely impact the established process and turnaround times for title work and mortgage and UCC filings in those counties. If limitations in the availability of important services continue for a prolonged period or if additional limitations or potential disruptions in the ability to provide services materialize (which may be caused by a third party's own financial or operational difficulties), it may inhibit or otherwise negatively affect the normal operations and processes for the Association's business, which could have a material adverse impact on its results of operations and financial condition.

The Association's efforts to manage and mitigate the above mentioned risks may be unsuccessful, and the effectiveness of these efforts and the extent to which the COVID-19 pandemic affects the Association's business, results of operations, and financial condition will depend on factors beyond its control, including the duration, severity, and spread of the pandemic, as well as third-party and government actions taken to contain COVID-19 and mitigate public health and economic effects, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic is over, the Association may continue to experience material adverse effects to its business as a result of the disruption in the global economy, the domestic agricultural economy, and any resulting recession. Because there have been no comparable recent global pandemics that resulted in similar global macroeconomic impacts, the Association does not yet know the full extent of the effects on its business, operations, or the global economy as a whole, but they could materially and adversely affect the Association's business, operations, operating results, financial condition, liquidity, or capital levels as discussed above.

### ***COVID-19 Support Programs***

On March 13, 2020, the President of the United States declared the COVID-19 outbreak as a national emergency. In response, the Farm Credit Administration (FCA), other federal banking regulators and the Financial Accounting Standards Board (FASB) issued guidance on restructurings of loans through loan modifications, such as payment deferrals and extensions of repayment terms, which would not be considered as troubled

debt restructurings if made on a good faith basis in response to the national emergency.

The Association has developed and is refining payment deferral programs for borrowers directly affected by market disruptions caused by the COVID-19 pandemic. These actions are designed to help farmers and ranchers preserve liquidity.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster United States Department of Agriculture (USDA) programs. On April 17, 2020, the USDA announced a \$19 billion Coronavirus Food Assistance Program (CFAP), that will provide \$16 billion of direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted. The \$16 billion will include approximately \$10 billion of funding targeted to livestock and dairy producers, \$4 billion for row crop producers, \$2 billion for specialty crop producers, and \$500 million for other specialty crops. Additionally, \$3 billion will be allocated for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits.

The CARES Act also appropriated \$349 billion for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA), which commenced on April 3, 2020. The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Agricultural producers, farmers and ranchers with 500 or fewer employees or that fit within the revenue-based standard are eligible for PPP loans.

Applicants who are otherwise eligible to receive financing under the Farm Credit Act and FCA regulations are able to apply for PPP loans from the Association. At the time it was passed, the CARES Act provided for loan forgiveness if an employer used at least 75% of the loan for payroll costs and would be reduced proportionally by any reduction in full-time equivalent employees compared to the prior year and a 25% or greater reduction in full-time equivalent employee compensation. Loan payments required under the program can be deferred for up to six months.

On April 23, 2020, Congress passed the PPP and Health Care Enhancement Act that provided \$484 billion in additional funding to replenish and supplement key programs under the CARES Act. The Act provided an additional \$310 billion for PPP, \$60 billion for small business disaster loans and grants, \$75 billion for hospital and health care providers and \$25 billion for testing.

On June 5, 2020, the President of the United States signed the Paycheck Protection Program Flexibility Act of 2020, which amends the SBA Act and the CARES Act. Specifically, this Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness. The

bill also extends the “covered period” during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness. The extension is to 24 weeks from the date of origination or December 31, 2020, whichever occurs first. The bill also reduces the payroll cost requirements from 75% to 60% and raises the non-payroll portion of a forgivable loan amount from 25% up to 40%.

On August 8, 2020, the PPP was closed and the SBA ceased to accept applications from participating lenders. The Association was approved as a PPP lender and made \$5.8 million in loans and recorded approximately \$185 thousand in loan-related fee income. At September 30, 2020, the Bank had purchased \$5.8 million of these loans.

On September 21, 2020, the USDA implemented an expansion to the Coronavirus Food Assistance Program, known as CFAP 2. This program will provide \$14 billion of financial support to producers of certain agricultural commodities who face continuing market disruptions and significant marketing costs.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, farm-related businesses, and other agribusiness firms for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association’s loan portfolio is diversified over a range of agricultural commodities in the north and southern regions of Florida. The commodities include cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables.

On March 13, 2020, the United States Government proclaimed a national emergency due to the crisis related to COVID-19. Shortly after, the State of Florida issued a statewide ‘stay at home’ order commencing on April 3, 2020 and ending April 30, 2020. A major component of the order is that all non-essential businesses and all schools were required to remain closed during this period, with most counties and municipalities electing to stay closed longer or reopen at a limited capacity. Some of the most affected non-agriculture businesses include tourism, hospitality and restaurants. The closing of restaurant and food service related businesses, along with school closings statewide, significantly affected many fruit and vegetable growers as well as dairy producers. Cattle producers were also impacted by the extended restaurant closings in addition to the temporary closure and/or reduced capacity at several packing and processing plants as they battled an increase of employee infections. In addition, spring sales for certain nursery growers were affected by shipping limitations to other states and countries as well as order cancellations. While many industries have shown some signs of recovery following the reopening of non-essential businesses, many producers still face challenges within the supply chains in addition to various macroeconomic headwinds. Beginning March 23, 2020, management has offered payment deferral programs and small new money advances to qualified borrowers affected by COVID-19 as part of a COVID-19 Borrower Relief

Plan. The Plan also included the SBA Paycheck Protection Program.

Management will continue monitoring the economic impacts that COVID-19 has on its borrowers and loan portfolio. Some credit quality deterioration and credit losses are expected. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help mitigate the losses associated with COVID-19. In early April 2020, the U.S. Congress passed numerous relief bills that can potentially cushion some of the impact. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Most commodity groups identified within the portfolio have experienced generally favorable operating results over the last two production seasons; however, citrus producers remain impacted by citrus greening disease while the dairy industry continues to be negatively impacted by prolonged commodity price declines. The horticultural or nursery segment remains strong after rebounding from the previous stress resulting from the recession and reduced activity in commercial and residential construction. Several loans in produce and certain nursery segments continue to exhibit stress as a result of past weather events. Overall, cattle prices have shown a declining trend throughout 2019 and most of 2020 prior to posting a slight rebound mid-year. However, the recent price improvement was short-lived as prices have begun to pull back. Milk prices also experienced a recent improvement after a downward trend throughout 2020, though industry expectations reflect the recent price improvement will begin to level-off and reverse. The sustained low milk price experienced for most of 2020 continues to apply significant financial stress in the dairy loan segment with a large portion of the Association’s dairy loan portfolio now criticized.

Management recognizes continuing risk in the citrus industry resulting from the impacts of citrus greening disease. Continued stress in production, profitability, and asset values may adversely impact citrus growers over the near and long term horizon. For the last season ended, all Florida orange production was finalized at 67.3 million boxes, down 6% from the previous crop year’s production. In its October 2020 forecast, the USDA expects a 15% decrease for the 2020-2021 citrus crop at 57 million boxes. To date, the Association’s citrus portfolio has continued to perform satisfactorily with some performance issues observed on a few stressed growers.

Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Florida has experienced typical weather patterns and no weather events have had a material impact on borrowers over the past 12 months. Land values in the north region continue to exhibit stability since their improvement in 2014. Land values in the south region show

stability with values increasing in more urban areas. Overall, land value sale surveys indicate land values are stable with moderate increases in some segments.

The gross loan volume of the Association as of September 30, 2020, was \$1,295,035, an increase of \$24,608 or 1.94 percent as compared to \$1,270,427 at December 31, 2019. Net loans outstanding at September 30, 2020, were \$1,285,538 as compared to \$1,262,106 at December 31, 2019, an increase of \$23,432 or 1.86 percent. Net loans accounted for 96.86 percent of total assets at September 30, 2020, as compared to 96.21 percent of total assets at December 31, 2019. The increase in both gross and net loan volume during the period is primarily attributed to increased demand for credit in the market and a more concerted marketing effort by Association lenders.

Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong. Management has noted loan demand remains stable year to date 2020 in both the originated and the participations purchased loan portfolio. Management anticipates continued draws on lines of credit over the balance of the year related to COVID-19 economic disruptions, although funds from various government assistance programs could have an impact on overall usage.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality declined compared to year end 2019 as a result of an increase in substandard accrual assets. Acceptable and OAEM credit quality, as a percentage of the total loan portfolio, was 96.96 percent as of September 30, 2020 compared to 99.12 percent at December 31, 2019. During the first and second quarters of 2020, the Association experienced deterioration in large accounts within the dairy and timber/organic manufacturing industries. These accounts were ultimately downgraded to substandard and serve as the primary causes for the decline in credit quality.

During the nine months, nonaccrual loans increased by \$2,023 or 29.24 percent to \$8,941 at September 30, 2020 from \$6,918 at December 31, 2019. The increase in nonaccrual loans is primarily attributed to a large nursery loan transferred to nonaccrual during the second quarter. The balance of Other Property Owned at September 30, 2020 was \$0, a decrease of \$31 or 100.00 percent from \$31 at December 31, 2019. Two properties were acquired and three properties were sold during the period.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2020, was \$9,497 compared to \$8,321 at December 31, 2019. This increase is due to reserves required from estimated economic impacts of COVID-19. Recoveries of \$276 recorded during the nine months ended September 30, 2020 were primarily in the non-farm income industry and charge-offs of \$115 were mostly in the nursery industry. Management

considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2020 was 0.73 percent.

The allowance for loan losses at September 30, 2020 does not include \$1.3 million of net purchase discounts related to acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios. At September 30, 2020, the amount of credit risk reduction in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.10 percent of gross loans.

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2020*

The Association recorded net income for the three months ended September 30, 2020 of \$5,684 as compared to \$5,922 for the same period in 2019. This \$238 or 4.02 percent decrease is primarily attributed to an increase in provision for loan losses expense.

Provision for loan losses was \$74 for the three months ended September 30, 2020 as compared to a reversal of allowance for loan losses of \$600 during the same period in 2019, an increase in expense of \$674 or 112.33 percent. This increase in expense is attributed to an increase in reserves required from estimated economic impacts of COVID-19 and a decline in net recoveries compared to the same period in 2019. Net loan recoveries were \$32 during the three months ended September 30, 2020 compared to net loan recoveries of \$185 for the same period in 2019, a decrease in net loan recoveries of \$153.

Net interest income was \$8,337 for the three months ended September 30, 2020 as compared to \$8,392 during the same period in 2019. The change in net interest income represents a \$55 or 0.66 percent decrease when compared to the same period last year and is attributed to lower interest income on variable rate loans resulting from the Federal Reserve lowering of the target range for the federal funds rate by 150 basis points in March 2020 offset by loan volume growth over the last 12 months.

Noninterest income for the three months ended September 30, 2020, totaled \$3,193 as compared to \$2,838 for the same period of 2019, an increase of \$355 or 12.51 percent. This increase is attributed primarily to an increase in patronage refunds from other Farm Credit institutions and fees for financially related services.

Noninterest expense for the three months ended September 30, 2020, totaled \$5,772 as compared to \$5,908 for the same period of 2019, a decrease of \$136 or 2.30 percent. The primary reason for the decrease in noninterest expense is attributed to \$315

decrease in other operating expenses primarily due to lower required operational expenses from teleworking employees and canceled travel and events due to COVID-19 'stay-at-home' orders.

***For the nine months ended September 30, 2020***

Net income for the nine months ended September 30, 2020 totaled \$17,110 compared to \$17,634 for the same period in 2019, a decrease of \$524 or 2.97 percent. The decrease is primarily attributed to an increase in the provision for loan losses expense.

Provision for loan losses was \$1,015 for the nine months ended September 30, 2020 as compared to a reversal of allowance for loan losses of \$825 during the same period in 2019, an increase in expense of \$1,840 or 223.03 percent. This increase in expense is attributed to an increase in reserves required from estimated economic impacts of COVID-19 along with higher reserves required on loan volume growth over the past 12 months.

Net interest income increased \$219 or 0.86 percent for the nine months ended September 30, 2020, as compared to the same period in 2019. This increase is attributed to loan volume growth over the last 12 months offset by lower interest income on variable rate loans resulting from lowering of the target range for the federal funds rate by the Federal Reserve over the past 12 months.

Noninterest income for the nine months ended September 30, 2020, totaled \$9,713 as compared to \$8,660 for the same period of 2019, an increase of \$1,053 or 12.16 percent. This increase is attributed primarily to an increase of \$731 in patronage refunds from other Farm Credit institutions.

In 2020 and 2019, the Association recorded \$234 and \$243, respectively of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the nine months ended September 30, 2020, decreased \$44 or 0.26 percent compared to the same period of 2019. The primary reason for the decrease is attributed to \$123 decrease in occupancy and equipment and \$372 decrease in other operating expenses offset by \$481 increase in salaries and employee benefits. The decrease in occupancy and equipment and other operating expenses is primarily attributable to lower required operational expenses from teleworking employees and canceled travel and events due to COVID-19 'stay-at-home' orders. The increase in salaries and employee benefits is primarily attributable to an increase in the number of employees during the period.

**FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2020 was \$1,012,632 as compared to \$1,005,717 at December 31, 2019. The increase during the period of \$6,915 is primarily attributed to an increase in loan volume during the period offset by an increase in members' equity resulting from net income for the nine months ended September 30, 2020 and receipt of 2019 patronage dividends due from AgFirst Farm Credit Bank during the period.

## CAPITAL RESOURCES

Total members' equity at September 30, 2020, increased to \$296,495 from the December 31, 2019 total of \$279,334. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were \$3,122 on September 30, 2020, compared to \$3,078 on December 31, 2019. The increase is attributed to purchase of capital stock by members.

### Regulatory Capital Ratios

The Association's regulatory capital ratios are shown in the following table:

	<b>Regulatory Minimum, Including Buffer*</b>	<b>9/30/2020</b>	<b>12/31/2019</b>	<b>9/30/2019</b>
Permanent Capital Ratio	7.00%	18.88%	19.32%	19.72%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	18.76%	19.21%	19.59%
Tier 1 Capital Ratio	8.50%	18.76%	19.21%	19.59%
Total Capital Ratio	10.50%	19.44%	19.81%	20.25%
Tier 1 Leverage Ratio	5.00%	21.22%	21.32%	21.89%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	16.93%	16.82%	17.20%

\*Includes fully phased-in capital conservation buffers which are effective January 1, 2020.

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

## REGULATORY MATTERS

On October 6, 2020, the Farm Credit Administration adopted a final rule that amends its investment regulations to allow associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to the timely payment of principal and interest. The final rule will be effective 30 days after publication in the Federal Register.

On September 28, 2020, the Farm Credit Administration adopted a final rule governing the amortization limits for associations. This rule repeals regulatory provisions that impose amortization limits on certain loans and requires associations to address loan amortization in their credit underwriting standards and internal controls. The final rule will be effective 30 days after publication in the Federal Register.

On August 25, 2020, the Farm Credit Administration adopted a final rule that amends the criteria to reinstate nonaccrual loans. This rule clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The final rule became effective on October 21, 2020.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit



loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board’s “Measurement of Credit Losses on Financial Instruments” are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25 percent of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ended on November 22, 2019.

## OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

On October 19, 2020, AgFirst’s Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution. The Association will receive between approximately \$8,854 and \$9,961 which will be recorded as patronage refunds from other Farm Credit institutions.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2019 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> <li>The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>An allowance will be established for estimated credit losses on any debt securities,</li> <li>The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.</li> <li>The guidance is expected to be adopted in first quarter 2023.</li> </ul>

**Note:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2020 <i>(unaudited)</i>	December 31, 2019 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 13	\$ 561
Investments in debt securities:		
Held to maturity (fair value of \$3,357 and \$4,252, respectively)	2,731	3,760
Loans	1,295,035	1,270,427
Allowance for loan losses	(9,497)	(8,321)
Net loans	1,285,538	1,262,106
Loans held for sale	1,028	108
Accrued interest receivable	6,913	6,671
Equity investments in other Farm Credit institutions	15,118	15,119
Premises and equipment, net	8,336	8,397
Other property owned	—	31
Accounts receivable	6,739	14,026
Other assets	742	1,015
Total assets	<b>\$ 1,327,158</b>	<b>\$ 1,311,794</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,012,632	\$ 1,005,717
Accrued interest payable	2,072	2,685
Patronage refunds payable	343	13,278
Accounts payable	3,467	1,876
Advanced conditional payments	3,899	1,635
Other liabilities	8,250	7,269
Total liabilities	<b>1,030,663</b>	<b>1,032,460</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	445	445
Capital stock and participation certificates	2,677	2,633
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	123,018	121,989
Unallocated	162,713	146,634
Accumulated other comprehensive income (loss)	(231)	(240)
Total members' equity	<b>296,495</b>	<b>279,334</b>
Total liabilities and members' equity	<b>\$ 1,327,158</b>	<b>\$ 1,311,794</b>

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

**Farm Credit of Florida, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Interest Income</b>				
Loans	\$ 14,592	\$ 16,279	\$ 46,239	\$ 49,194
Investments	31	54	100	167
Total interest income	<b>14,623</b>	16,333	<b>46,339</b>	49,361
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	6,286	7,941	20,724	23,965
Net interest income	8,337	8,392	25,615	25,396
Provision for (reversal of allowance for) loan losses	74	(600)	1,015	(825)
Net interest income after provision for (reversal of allowance for) loan losses	<b>8,263</b>	8,992	<b>24,600</b>	26,221
<b>Noninterest Income</b>				
Loan fees	312	297	1,096	869
Fees for financially related services	362	209	1,081	849
Lease income	12	15	35	50
Patronage refunds from other Farm Credit institutions	2,192	1,988	6,704	5,973
Gains (losses) on sales of rural home loans, net	167	166	342	380
Gains (losses) on sales of premises and equipment, net	4	1	57	3
Gains (losses) on other transactions	42	61	(136)	—
Insurance Fund refunds	—	—	234	243
Other noninterest income	102	101	300	293
Total noninterest income	<b>3,193</b>	2,838	<b>9,713</b>	8,660
<b>Noninterest Expense</b>				
Salaries and employee benefits	4,214	4,040	12,693	12,212
Occupancy and equipment	298	333	871	994
Insurance Fund premiums	274	205	675	611
(Gains) losses on other property owned, net	(6)	23	(50)	44
Other operating expenses	992	1,307	3,014	3,386
Total noninterest expense	<b>5,772</b>	5,908	<b>17,203</b>	17,247
<b>Net income</b>	<b>\$ 5,684</b>	\$ 5,922	<b>\$ 17,110</b>	\$ 17,634
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	4	2	9	6
<b>Comprehensive income</b>	<b>\$ 5,688</b>	\$ 5,924	<b>\$ 17,119</b>	\$ 17,640

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

**Farm Credit of Florida, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2018	\$ 445	\$ 2,543	\$ 7,873	\$ 118,040	\$ 136,432	\$ (195)	\$ 265,138
Comprehensive income					17,634	6	17,640
Capital stock/participation certificates issued/(retired), net		(4)					(4)
Patronage distribution adjustment				167	(168)		(1)
<b>Balance at September 30, 2019</b>	<b>\$ 445</b>	<b>\$ 2,539</b>	<b>\$ 7,873</b>	<b>\$ 118,207</b>	<b>\$ 153,898</b>	<b>\$ (189)</b>	<b>\$ 282,773</b>
<b>Balance at December 31, 2019</b>	<b>\$ 445</b>	<b>\$ 2,633</b>	<b>\$ 7,873</b>	<b>\$ 121,989</b>	<b>\$ 146,634</b>	<b>\$ (240)</b>	<b>\$ 279,334</b>
<b>Comprehensive income</b>					<b>17,110</b>	<b>9</b>	<b>17,119</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>44</b>					<b>44</b>
<b>Patronage distribution adjustment</b>				<b>1,029</b>	<b>(1,031)</b>		<b>(2)</b>
<b>Balance at September 30, 2020</b>	<b>\$ 445</b>	<b>\$ 2,677</b>	<b>\$ 7,873</b>	<b>\$ 123,018</b>	<b>\$ 162,713</b>	<b>\$ (231)</b>	<b>\$ 296,495</b>

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

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## *Farm Credit of Florida, ACA*

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

### **Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements**

#### **Organization**

The accompanying financial statements include the accounts of Farm Credit of Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2019, are contained in the 2019 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### **Basis of Presentation**

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

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

The results of any interim period are not necessarily indicative of those to be expected for a full year.

#### **Significant Accounting Policies**

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans*

and Allowance for Loan Losses), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

#### **Accounting Standards Updates (ASUs) Issued During the Period and Effective in Future Periods**

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### **ASUs Pending Effective Date**

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting

for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### *Accounting Standards Effective During the Period*

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- In March 2020, the FASB issued ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this Update provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing

the effects of) reference rate reform on financial reporting. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and were effective upon issuance for all entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2020, the FASB issued ASU 2020-03 Codification Improvements to Financial Instruments. The amendments represent changes to clarify or improve the Codification that were not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments addressing issues one through five, related to Topics 320, 470 and 820, are effective for 2020. The adoption of the guidance had no impact on the statements of financial condition and results of operations. The amendments addressing issues six and seven will be adopted and evaluated for impact along with ASU 2016-13 as discussed above.
- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align 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 the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments were applied prospectively to all implementation costs incurred after the date of adoption. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

#### ***Recent Accounting Policy Elections***

The Association made certain accounting policy elections related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and recent guidance and clarifications from the FASB, federal banking regulators and SEC.

As provided for in the CARES Act, the Association elected to suspend the requirements under GAAP for (1) loan

modifications related to the COVID–19 pandemic that would otherwise be categorized as troubled debt restructurings and (2) any determination of loans modified as a result of the effects of the COVID–19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes. The election is only for loans that were not more than 30 days past due as of December 31, 2019. This applies for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID–19 outbreak declared by the President on March 13, 2020 under the National Emergencies Act is terminated.

The Association elected the practical expedients from the Interagency Statement on Loan Modifications and Reporting for Financial Institutions - Working with Customers Affected by the Coronavirus (Revised) issued on April 7, 2020 which provides that a lender can conclude that a borrower is not experiencing financial difficulty if either (1) short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented, or (2) the modification or deferral program is mandated by the federal government or a state government. Accordingly, any loan modification made in response to the COVID-19 pandemic that meets either of these practical expedients would not be considered a TDR because the borrower is not experiencing financial difficulty. The Association’s modification program began on March 23, 2020.

The Association elected to account for lease concessions related to the effects of the COVID-19 pandemic, consistent with how those concessions would be accounted for under Topic 842, as though enforceable rights and obligations for those concessions had previously existed, regardless of whether they explicitly exist in the contract. Consequently, the Association will not analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and will not apply the lease modification guidance in Topic 842 to those contracts. Any deferrals will be accounted for as variable lease payments. This election, from the FASB Staff interpretation of Topic 842, is only available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee.

#### **Note 2 — Loans and Allowance for Loan Losses**

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is

performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit

risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 779,607	\$ 737,276
Production and intermediate-term	199,512	233,972
Loans to cooperatives	41,346	26,406
Processing and marketing	127,353	129,685
Farm-related business	35,379	40,289
Communication	52,741	49,457
Power and water/waste disposal	29,412	26,335
Rural residential real estate	13,015	10,088
International	11,017	11,011
Other (including Mission Related)	5,653	5,908
<b>Total loans</b>	<b>\$ 1,295,035</b>	<b>\$ 1,270,427</b>

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 28,701	\$ 128,095	\$ 693	\$ 23,598	\$ —	\$ —	\$ 29,394	\$ 151,693
Production and intermediate-term	49,196	7,124	5,702	383	3,312	—	58,210	7,507
Loans to cooperatives	39,243	—	2,178	—	—	—	41,421	—
Processing and marketing	110,755	43,945	5,144	84,730	—	—	115,899	128,675
Farm-related business	—	12,827	2,301	1,174	192	—	2,493	14,001
Communication	52,712	—	—	—	—	—	52,712	—
Power and water/waste disposal	29,543	—	—	—	—	—	29,543	—
International	11,035	—	—	—	—	—	11,035	—
Other (including Mission Related)	—	—	—	—	3,336	—	3,336	—
<b>Total</b>	<b>\$ 321,185</b>	<b>\$ 191,991</b>	<b>\$ 16,018</b>	<b>\$ 109,885</b>	<b>\$ 6,840</b>	<b>\$ —</b>	<b>\$ 344,043</b>	<b>\$ 301,876</b>

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 28,171	\$ 137,206	\$ —	\$ 22,186	\$ —	\$ —	\$ 28,171	\$ 159,392
Production and intermediate-term	46,749	4,673	954	80	1,637	—	49,340	4,753
Loans to cooperatives	23,023	—	3,435	—	—	—	26,458	—
Processing and marketing	107,502	46,233	7,159	89,453	—	—	114,661	135,686
Farm-related business	—	22,057	3,497	1,259	588	—	4,085	23,316
Communication	49,462	—	—	—	—	—	49,462	—
Power and water/waste disposal	26,479	—	—	—	—	—	26,479	—
International	11,035	—	—	—	—	—	11,035	—
Other (including Mission Related)	—	—	—	—	3,498	—	3,498	—
<b>Total</b>	<b>\$ 292,421</b>	<b>\$ 210,169</b>	<b>\$ 15,045</b>	<b>\$ 112,978</b>	<b>\$ 5,723</b>	<b>\$ —</b>	<b>\$ 313,189</b>	<b>\$ 323,147</b>



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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	94.17%	94.86%	Acceptable	100.00%	100.00%
OAEM	3.14	4.00	OAEM	—	—
Substandard/doubtful/loss	2.69	1.14	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	94.57%	92.58%	Acceptable	66.26%	62.39%
OAEM	2.78	6.45	OAEM	—	37.61
Substandard/doubtful/loss	2.65	0.97	Substandard/doubtful/loss	33.74	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	98.85%	98.00%
OAEM	—	—	OAEM	0.14	0.11
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	1.01	1.89
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	96.88%	96.72%	Acceptable	100.00%	100.00%
OAEM	3.12	3.28	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Other (including Mission Related)</b>		
Acceptable	83.13%	88.36%	Acceptable	100.00%	100.00%
OAEM	8.10	11.04	OAEM	—	—
Substandard/doubtful/loss	8.77	0.60	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total loans:</b>		
			Acceptable	94.11%	94.15%
			OAEM	2.85	4.97
			Substandard/doubtful/loss	3.04	0.88
				<u>100.00%</u>	<u>100.00%</u>

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	September 30, 2020					
	30 Through 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	
Real estate mortgage	\$ 939	\$ 2,725	\$ 3,664	\$ 781,137	\$ 784,801	
Production and intermediate-term	514	2,066	2,580	197,797	200,377	
Loans to cooperatives	—	—	—	41,398	41,398	
Processing and marketing	—	—	—	127,844	127,844	
Farm-related business	—	—	—	35,501	35,501	
Communication	—	—	—	52,744	52,744	
Power and water/waste disposal	—	—	—	29,427	29,427	
Rural residential real estate	18	26	44	13,033	13,077	
International	—	—	—	11,045	11,045	
Other (including Mission Related)	—	—	—	5,688	5,688	
Total	\$ 1,471	\$ 4,817	\$ 6,288	\$ 1,295,614	\$ 1,301,902	

	December 31, 2019					
	30 Through 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	
Real estate mortgage	\$ 4,141	\$ 2,013	\$ 6,154	\$ 735,577	\$ 741,731	
Production and intermediate-term	493	2,302	2,795	232,322	235,117	
Loans to cooperatives	—	—	—	26,432	26,432	
Processing and marketing	—	—	—	130,309	130,309	
Farm-related business	—	—	—	40,467	40,467	
Communication	—	—	—	49,463	49,463	
Power and water/waste disposal	—	—	—	26,388	26,388	
Rural residential real estate	66	20	86	10,032	10,118	
International	—	—	—	11,064	11,064	
Other (including Mission Related)	—	—	—	5,978	5,978	
Total	\$ 4,700	\$ 4,335	\$ 9,035	\$ 1,268,032	\$ 1,277,067	

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	September 30, 2020	December 31, 2019
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 5,703	\$ 4,195
Production and intermediate-term	2,864	2,306
Farm-related business	242	243
Rural residential real estate	132	174
Total	<u>\$ 8,941</u>	<u>\$ 6,918</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 859	\$ 526
Production and intermediate-term	59	192
Total	<u>\$ 918</u>	<u>\$ 718</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 9,859	\$ 7,636
Other property owned	—	31
Total nonperforming assets	<u>\$ 9,859</u>	<u>\$ 7,667</u>
Nonaccrual loans as a percentage of total loans	0.69%	0.54%
Nonperforming assets as a percentage of total loans and other property owned	0.76%	0.60%
Nonperforming assets as a percentage of capital	<u>3.33%</u>	<u>2.74%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2020	December 31, 2019
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 3,973	\$ 2,431
Past due	4,968	4,487
Total	<u>\$ 8,941</u>	<u>\$ 6,918</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 918	\$ 718
90 days or more past due	—	—
Total	<u>\$ 918</u>	<u>\$ 718</u>
Total impaired loans	<u>\$ 9,859</u>	<u>\$ 7,636</u>
Additional commitments to lend	<u>\$ 95</u>	<u>\$ 14</u>

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	September 30, 2020			Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	1,766	4,461	494	1,837	48	1,576	119
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	<u>\$ 1,766</u>	<u>\$ 4,461</u>	<u>\$ 494</u>	<u>\$ 1,837</u>	<u>\$ 48</u>	<u>\$ 1,576</u>	<u>\$ 119</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,562	\$ 11,017	\$ —	\$ 6,827	\$ 180	\$ 5,855	\$ 443
Production and intermediate-term	1,157	2,271	—	1,204	32	1,032	78
Farm-related business	242	271	—	252	7	216	16
Rural residential real estate	132	361	—	137	3	118	9
Total	<u>\$ 8,093</u>	<u>\$ 13,920</u>	<u>\$ —</u>	<u>\$ 8,420</u>	<u>\$ 222</u>	<u>\$ 7,221</u>	<u>\$ 546</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 6,562	\$ 11,017	\$ —	\$ 6,827	\$ 180	\$ 5,855	\$ 443
Production and intermediate-term	2,923	6,732	494	3,041	80	2,608	197
Farm-related business	242	271	—	252	7	216	16
Rural residential real estate	132	361	—	137	3	118	9
Total	<u>\$ 9,859</u>	<u>\$ 18,381</u>	<u>\$ 494</u>	<u>\$ 10,257</u>	<u>\$ 270</u>	<u>\$ 8,797</u>	<u>\$ 665</u>

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	2,096	4,683	733	2,475	368
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 2,096	\$ 4,683	\$ 733	\$ 2,475	\$ 368
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 4,721	\$ 9,528	\$ —	\$ 5,575	\$ 829
Production and intermediate-term	402	1,515	—	475	71
Farm-related business	243	282	—	287	43
Rural residential real estate	174	403	—	206	30
Total	\$ 5,540	\$ 11,728	\$ —	\$ 6,543	\$ 973
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 4,721	\$ 9,528	\$ —	\$ 5,575	\$ 829
Production and intermediate-term	2,498	6,198	733	2,950	439
Farm-related business	243	282	—	287	43
Rural residential real estate	174	403	—	206	30
Total	\$ 7,636	\$ 16,411	\$ 733	\$ 9,018	\$ 1,341

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at June 30, 2020	\$ 3,786	\$ 3,300	\$ 1,492	\$ 151	\$ 582	\$ 70	\$ 9	\$ 1	\$ 9,391
Charge-offs	—	(49)	—	—	—	—	—	—	(49)
Recoveries	66	14	—	—	—	1	—	—	81
Provision for loan losses	(83)	25	133	(1)	(1)	1	—	—	74
Balance at September 30, 2020	\$ 3,769	\$ 3,290	\$ 1,625	\$ 150	\$ 581	\$ 72	\$ 9	\$ 1	\$ 9,497
Balance at December 31, 2019	\$ 3,307	\$ 3,223	\$ 1,388	\$ 140	\$ 187	\$ 67	\$ 8	\$ 1	\$ 8,321
Charge-offs	—	(115)	—	—	—	—	—	—	(115)
Recoveries	190	70	12	—	—	4	—	—	276
Provision for loan losses	272	112	225	10	394	1	1	—	1,015
Balance at September 30, 2020	\$ 3,769	\$ 3,290	\$ 1,625	\$ 150	\$ 581	\$ 72	\$ 9	\$ 1	\$ 9,497
Balance at June 30, 2019	\$ 4,177	\$ 2,800	\$ 1,123	\$ 113	\$ 70	\$ 66	\$ 7	\$ 1	\$ 8,357
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	76	87	20	—	—	2	—	—	185
Provision for loan losses	(807)	(138)	204	19	120	1	1	—	(600)
Balance at September 30, 2019	\$ 3,446	\$ 2,749	\$ 1,347	\$ 132	\$ 190	\$ 69	\$ 8	\$ 1	\$ 7,942
Balance at December 31, 2018	\$ 3,971	\$ 4,080	\$ 850	\$ 155	\$ 46	\$ 77	\$ 6	\$ 1	\$ 9,186
Charge-offs	—	(1,373)	—	—	—	—	—	—	(1,373)
Recoveries	345	583	20	—	—	6	—	—	954
Provision for loan losses	(870)	(541)	477	(23)	144	(14)	2	—	(825)
Balance at September 30, 2019	\$ 3,446	\$ 2,749	\$ 1,347	\$ 132	\$ 190	\$ 69	\$ 8	\$ 1	\$ 7,942
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ —	\$ 494	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 494
Collectively	3,769	2,796	1,625	150	581	72	9	1	9,003
PCI**	—	—	—	—	—	—	—	—	—
Balance at September 30, 2020	\$ 3,769	\$ 3,290	\$ 1,625	\$ 150	\$ 581	\$ 72	\$ 9	\$ 1	\$ 9,497
Individually	\$ —	\$ 733	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 733
Collectively	3,307	2,490	1,388	140	187	67	8	1	7,588
PCI**	—	—	—	—	—	—	—	—	—
Balance at December 31, 2019	\$ 3,307	\$ 3,223	\$ 1,388	\$ 140	\$ 187	\$ 67	\$ 8	\$ 1	\$ 8,321
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 6,281	\$ 2,923	\$ 242	\$ —	\$ —	\$ 132	\$ —	\$ —	\$ 9,578
Collectively	777,906	197,454	204,501	52,744	29,427	12,945	11,045	5,688	1,291,710
PCI**	614	—	—	—	—	—	—	—	614
Balance at September 30, 2020	\$ 784,801	\$ 200,377	\$ 204,743	\$ 52,744	\$ 29,427	\$ 13,077	\$ 11,045	\$ 5,688	\$ 1,301,902
Individually	\$ 4,370	\$ 2,499	\$ 243	\$ —	\$ —	\$ 174	\$ —	\$ —	\$ 7,286
Collectively	736,719	232,619	196,965	49,463	26,388	9,944	11,064	5,978	1,269,140
PCI**	642	(1)	—	—	—	—	—	—	641
Balance at December 31, 2019	\$ 741,731	\$ 235,117	\$ 197,208	\$ 49,463	\$ 26,388	\$ 10,118	\$ 11,064	\$ 5,978	\$ 1,277,067

\*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

\*\*Purchased credit impaired loans.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Outstanding Recorded Investment	Three Months Ended September 30, 2020				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 2,691	\$ -	\$ 2,691	
Total	\$ -	\$ 2,691	\$ -	\$ 2,691	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 2,691	\$ -	\$ 2,691	\$ -
Total	\$ -	\$ 2,691	\$ -	\$ 2,691	\$ -

Outstanding Recorded Investment	Nine Months Ended September 30, 2020				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ 29	\$ 2,691	\$ -	\$ 2,720	
Total	\$ 29	\$ 2,691	\$ -	\$ 2,720	
<b>Post-modification:</b>					
Real estate mortgage	\$ 30	\$ 2,691	\$ -	\$ 2,721	\$ (65)
Total	\$ 30	\$ 2,691	\$ -	\$ 2,721	\$ (65)

Outstanding Recorded Investment	Three Months Ended September 30, 2019				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 780	\$ -	\$ 780	
Production and intermediate-term	-	90	-	90	
Total	\$ -	\$ 870	\$ -	\$ 870	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 787	\$ -	\$ 787	\$ -
Production and intermediate-term	-	86	-	86	-
Total	\$ -	\$ 873	\$ -	\$ 873	\$ -

Outstanding Recorded Investment	Nine Months Ended September 30, 2019				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 780	\$ -	\$ 780	
Production and intermediate-term	-	90	-	90	
Total	\$ -	\$ 870	\$ -	\$ 870	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 787	\$ -	\$ 787	\$ -
Production and intermediate-term	-	86	-	86	-
Total	\$ -	\$ 873	\$ -	\$ 873	\$ -

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings:	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Real estate mortgage	\$ 2,162	\$ -	\$ 2,162	\$ -
Total	\$ 2,162	\$ -	\$ 2,162	\$ -

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Real estate mortgage	\$ 4,269	\$ 1,974	\$ 3,410	\$ 1,448
Production and intermediate-term	76	184	17	(8)
Farm-related business	242	243	242	243
Rural residential real estate	1	—	1	—
Total loans	\$ 4,588	\$ 2,401	\$ 3,670	\$ 1,683
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 30, 2020
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 20

### Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

The carrying amounts of loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	September 30, 2020
Real estate mortgage	\$ 614
Total loans	\$ 614

There was no allowance for loan losses related to these loans at September 30, 2020 or December 31, 2019. During the three and nine months ended September 30, 2020, provision for loan losses on these loans was an expense reversal of \$17 and \$48, respectively, compared with an expense reversal of \$17 and \$68 for the same periods in 2019. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2020. There were no loans acquired during 2020 or 2019 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield.

### Note 3 — Investments

#### *Investments in Debt Securities*

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2020, the Association held one RAB with a fair value of \$123 whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,598	\$ 665	\$ —	\$ 2,263	5.77%
ABSs	1,133	1	(40)	1,094	0.69
Total	\$ 2,731	\$ 666	\$ (40)	\$ 3,357	3.66%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,423	\$ 533	\$ -	\$ 2,956	6.24%
ABSs	1,337	1	(42)	1,296	2.32
Total	\$ 3,760	\$ 534	\$ (42)	\$ 4,252	4.85%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2020		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	137	129	-1.03
After five years through ten years	427	406	0.31
After ten years	2,167	2,822	4.62
Total	\$ 2,731	\$ 3,357	3.66%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 19	\$ -	\$ 912	\$ (40)

	December 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 21	\$ -	\$ 1,104	\$ (42)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities,

other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

A substantial portion of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

#### **Equity Investments in Other Farm Credit System Institutions**

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment

based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 4.67 percent of the issued stock of the Bank as of September 30, 2020 net of any reciprocal investment. As of that date, the Bank's assets totaled \$35.8 billion and shareholders' equity totaled \$2.8 billion. The Bank's earnings were \$275 million for the first nine months of 2020. In addition, the Association held investments of \$1,915 related to other Farm Credit institutions.

## Note 4 — Debt

### Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (235)	\$ (191)	\$ (240)	\$ (195)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from AOCI	4	2	9	6
Net current period other comprehensive income	4	2	9	6
Balance at end of period	\$ (231)	\$ (189)	\$ (231)	\$ (189)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2020	2019	2020	2019	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (4)	\$ (2)	\$ (9)	\$ (6)	See Note 7.
Net amounts reclassified	\$ (4)	\$ (2)	\$ (9)	\$ (6)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

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

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

		September 30, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	448	\$ 448	\$ -	\$ -	\$ 448
Recurring Assets	\$	448	\$ 448	\$ -	\$ -	\$ 448
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	1,272	\$ -	\$ -	\$ 1,272	\$ 1,272
Other property owned	-	-	-	-	-	-
Nonrecurring Assets	\$	1,272	\$ -	\$ -	\$ 1,272	\$ 1,272
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	13	\$ 13	\$ -	\$ -	\$ 13
RABs	1,598	-	-	2,263	-	2,263
ABSs	1,133	-	1,094	-	-	1,094
Loans	1,285,294	-	-	1,301,588	-	1,301,588
Other Financial Assets	\$	1,288,038	\$ 13	\$ 1,094	\$ 1,303,851	\$ 1,304,958
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	1,012,632	\$ -	\$ -	\$ 1,026,070	\$ 1,026,070
Other Financial Liabilities	\$	1,012,632	\$ -	\$ -	\$ 1,026,070	\$ 1,026,070
		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	791	\$ 791	\$ -	\$ -	\$ 791
Recurring Assets	\$	791	\$ 791	\$ -	\$ -	\$ 791
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	1,363	\$ -	\$ -	\$ 1,363	\$ 1,363
Other property owned	31	-	-	34	-	34
Nonrecurring Assets	\$	1,394	\$ -	\$ -	\$ 1,397	\$ 1,397
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	561	\$ 561	\$ -	\$ -	\$ 561
RABs	2,423	-	-	2,956	-	2,956
ABSs	1,337	-	1,296	-	-	1,296
Loans	1,260,851	-	-	1,266,355	-	1,266,355
Other Financial Assets	\$	1,265,172	\$ 561	\$ 1,296	\$ 1,269,311	\$ 1,271,168
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	1,005,717	\$ -	\$ -	\$ 1,010,367	\$ 1,010,367
Other Financial Liabilities	\$	1,005,717	\$ -	\$ -	\$ 1,010,367	\$ 1,010,367

### **Uncertainty in Measurements of Fair Value**

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and

assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.



Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Investments in Debt Securities**

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

**Inputs to Valuation Techniques**

Management determines the Association’s valuation policies and procedures. The Bank performs the majority of the Association’s valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 1,272	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

\* Ranges for this type of input are not useful because each collateral property is unique.

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
RABs	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

\*\* The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

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## Note 7 — Employee Benefit Plans

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Pension	\$ 528	\$ 472	\$ 1,586	\$ 1,333
401(k)	223	206	657	632
Other postretirement benefits	109	99	304	301
Total	\$ 860	\$ 777	\$ 2,547	\$ 2,266

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2020.

Further details regarding employee benefit plans are contained in the 2019 Annual Report to Shareholders.

## Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for claims that may be pending.

## Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2020, which was the date the financial statements were issued.

On October 19, 2020, AgFirst's Board of Directors indicated an intention to declare, in December 2020, a special patronage distribution. The Association will receive between approximately \$8,854 and \$9,961 which will be recorded as patronage refunds from other Farm Credit institutions.