2019 ANNUAL REPORT

Farm Credit Services of America

Financial Information

$29.7
BILLION in Loans

$5.9
BILLION in Members' Equity

$672
MILLION in Net Income

$262
MILLION in
Cash-Back Dividends (Estimated)

Financial Highlights

	2019	2018	2017
Loans	$29.7 billion	$28.4 billion	$26.7 billion
Members' Equity	$5.9 billion	$5.5 billion	$5.1 billion
Net Income	$672.0 million	$633.0 million	$582.4 million
Cash-Back Dividends	$262.0 million (estimated)	$230 million (estimated)	$200 million

As your financial cooperative, Farm Credit Services of America (FCSAmerica) has a singular mission – to be a reliable source of credit for rural communities and agriculture.

To fulfill our mission, we must continually grow our financial strength, especially today when agriculture needs the certainty of a dependable lender. I am pleased to report that in 2019, FCSAmerica's net income increased 6.2 percent to $672 million, and members' equity increased to $5.9 billion.

While a solid financial performance is important to our mission, it isn't our only measure of success. Just as important is how we use our financial strength for the benefit of agricultural producers and rural communities. Our cash-back dividend is one way we make a difference. In 2019, we returned more than $260 million of our net income to eligible customer-owners. This was equal to 1 percent of an eligible customer-owner's average daily loan balance, a record level of return that reflects our ongoing commitment to share our cooperative's success with you.

At the same time, we continued our investment in tools and technology that make it easy to do business with us. We introduced Rural 1st® to streamline the country home loan process. We began testing a new online channel that enables users to start the application process for real estate loans from anywhere, anytime, and seamlessly connect to the expertise of our financial officers. And our crop insurance agents began using a new tool, Optimum, that equips them with deeper insights to help customers assess their risk management needs with greater confidence.

America's farmers remain the most productive in the world. As agriculture evolves, it will take strong production *and* strong financial management skills to grow and sustain successful operations. Our goal is to provide the financial tools, insights and expertise that will help you thrive.

Just as technology is transforming agriculture, it also is changing how producers prefer to do business with us. We are working hard every day to deliver personalized service through a growing number of channels to meet our customer-owners where and when you need the expertise of a trusted financial partner. The investments we made in 2019 reflect our value proposition to share our success and advance the future of agriculture and rural communities by helping producers build strong and sustainable operations.

On behalf of all of us at FCSAmerica, I thank you for your business. We look forward to serving you for many years to come.

Mark Jensen
President and CEO

As producers, we all understand the risks inherent in agriculture. That doesn't make our industry's current challenges any easier. But as 2019 proved, a financial cooperative that exists solely to serve agriculture can provide the reliability producers need to operate, not only for today but also for the future.

At a time when some lenders pulled back from agriculture, FCSAmerica leaned in, using its financial strength for the benefit of our customer-owners. In the aftermath of volatile spring weather, for example, crop insurance customers benefited from the prevented plant expertise of our agents. Our Disaster Assistance Program offered flexible loan options at a time when flood-impacted producers needed a lender that understood it takes time and capital to rebuild. And throughout the year, financial officers proactively reached out to customers whose loans qualified for a reduced interest rate as a result of 2019's favorable rate environment.

Just as important was the more than $260 million that FCSAmerica put directly into the pockets of eligible customer-owners in January, two months earlier than in the past. The Association has been sharing a portion of its profits for each of the past 16 years. Our cash-back dividend for 2019 was our largest to date, a reflection of the Association's commitment to share its financial success with customers. It is the intention of the Board to return a cash-back dividend equal to 100 basis points for the foreseeable future.

It is difficult to overstate the collective impact of our cash-back dividend program. Since 2004, the Association has returned a total of $2 billion to farmers and ranchers to invest in their operations, families and communities. At the same time, FCSAmerica has invested in the future of agriculture.

This year, the first participants of our Development Fund graduated from the program. Designed specifically for young and beginning producers, the Development Fund has provided capital to both new and growing operations. Many participants also have taken advantage of our annual Side by Side conference to learn more about managing the financial side of their operation. Supporting young and beginning producers is a priority for the Board, and it has been gratifying for all the Directors to follow the evolution of the Development Fund and its participants. It also is a source of hope for the future of our industry.

Even in these difficult times, U.S. agriculture remains a global leader in the production of safe and affordable food. The investments we make today in our operations will help ensure this legacy endures. The investments your financial cooperative is making, including our support for the next generation of producers, will help ensure the industry has a lender it can consistently depend on.

On behalf of your Board of Directors, I thank you for your business and wish you a successful 2020.

Jennifer L. Zessin

Jennifer L. Zessin
2019 Board Chair

FCSAmerica, ACA Directors

Phil Bamesberger / Indianola, Nebraska
Bamesberger owns and operates Bamesberger Farms, a family farming operation that includes a variety of crops and hay, a cow-calf herd, feedlot and hog confinement business. He also is president of Good Shepherd, LLC, an agricultural real estate holding company. He serves as president of the Red Willow County Farm Bureau and sits on the Red Willow Board of Adjustments and Peace Lutheran Church Board of Elders. Bamesberger was elected to the FCSAmerica Board effective April 1, 2019; his current term ends March 31, 2023.

Robert Bruxvoort / New Sharon, Iowa
Bruxvoort is the owner and operator of Bruxvoort Ag, Inc., a family farming operation producing corn and soybeans. Bruxvoort was elected to the FCSAmerica Board effective January 1, 2008; his current term ends March 31, 2022.

Jeff Burg / Wessington Springs, South Dakota
Burg is president of Firesteel Ranch Corporation, which includes calving and beef feedlot operations and raising corn, soybeans, small grains and alfalfa. He serves on the South Dakota Corn Growers Association Board and is the organization's delegate for the U.S. Meat Export Federation. He is also a director on the Wessington Springs Township Board and president of the Springs Country Club Board. Burg was appointed to fill a vacancy on the FCSAmerica Board effective May 1, 2019; his current term ends March 31, 2021.

Tom Farwell / Humboldt, Nebraska
Farwell operates Farwell Farm, a family farm that raises corn, soybeans, wheat and brome hay. An Angus cow-calf herd supplies feeders, and additional feeders are purchased for finishing. He also serves on the Humboldt United Methodist Church Pastor Parish Committee and as treasurer of the Nebraska Gideon's Southeast Camp. Farwell was elected to the FCSAmerica Board effective April 1, 2018; his current term ends March 31, 2022.

Steve Henry / Nevada, Iowa
Henry is an owner and partner in LongView Farms, an owner and manager of Henry Land II, LLC, owner and president of Henry Corp. and an agent for SLV Farms (farming and land ownership businesses). He also serves on the AgriBank District Farm Credit Council. Henry was elected to the FCSAmerica Board effective January 1, 2011; his current term ends March 31, 2023.

Nicholas Hunt / Atlantic, Iowa
Hunt is the managing partner of Hunt Bros., Inc., a family farm corporation; Clan Farms, Inc., a beef cattle feedlot; Hunt Land, LC, a family agricultural land-holding company; Hunt Investment, LC, a holding company for family investments in stocks and bonds; and Horizons Partnership, a family agricultural business. Hunt also serves on the CattleFax Board, the Atlantic Community School District Board of Education, Cass County Endowment Board and Cass County Health System Foundation. Hunt was elected to the FCSAmerica Board effective January 1, 2007; his current term ends March 31, 2021.

Nick Jorgensen / Ideal, South Dakota
An appointed Director, Jorgensen owns and operates Jorgensen Land and Cattle Partnership with his father, cousin and uncle. The family grows multiple crops, has a registered Angus cow herd and commercial Angus bull operation, and provides guided pheasant hunts. Jorgensen was appointed to the FCSAmerica Board effective April 1, 2016; his current term ends March 31, 2020, and the Board has reappointed him to a four-year term beginning April 1, 2020.

Jim Kortan / Brookings, South Dakota
An appointed Director, Kortan is a retired partner with Deloitte and has a background in information technology, strategic planning, risk management, internal control, regulatory compliance and business process improvement. He is president of LJK Investment Group. He was appointed to the FCSAmerica Board effective April 1, 2015; his current term ends March 31, 2023.

Rick Maxfield / Lyman, Wyoming
Maxfield is a general partner in Maxfield Ranch. The multigenerational family business includes a cow-calf and backgrounding operation. The family also grows hay. Maxfield serves on the AgriBank District Farm Credit Council and the Bridger Valley Electric Association Board. He was elected to the FCSAmerica Board effective April 1, 2015; his current term ends March 31, 2023. Maxfield previously served on the FCSAmerica Board from 2004 to 2006.

Cris Miller / Spearfish, South Dakota
Miller is president of Miller's Crow Creek Ranch, LLC, a family ranching business with a commercial cow-calf operation, a backgrounding operation and feed crops. He serves on the AgriBank District Farm Credit Council, the Lawrence County Ag Committee and is chairman of the Butte Electric Cooperative Board. He was elected to the FCSAmerica Board effective January 1, 2012; his current term ends March 31, 2020.

John Reisch / Howard, South Dakota
As president of Reisch Farms, Inc., Reisch raises corn, wheat, soybeans and alfalfa, and has cattle feeding and cow-calf enterprises. He serves as treasurer on the Howard Township and Howard Industries, Inc. Boards. Reisch was elected to the FCSAmerica Board effective January 1, 2008; his current term ends March 31, 2022.

Jon Van Beek / Primghar, Iowa
Van Beek has a family farm operation raising corn and soybean seed and is a partner in D-Nine, Inc., custom feeding hogs. He is an elder for Zion Lutheran Church. Van Beek was elected to the FCSAmerica Board effective January 1, 2009; his current term ends March 31, 2020. Van Beek previously served on the FCSAmerica Board from 1995 to 1997 and from 2001 to 2003.

Susan Voss / North English, Iowa
Voss is secretary and treasurer of BS Farms, Inc., a family corn, soybean and cow-calf operation, and is a certified public accountant at TDT CPAs and Advisors, providing advisory, accounting and tax services. She currently is a senior tax manager and Ag Group leader. She serves on the Farm Credit Foundations Board of Directors and Plan Sponsor Committee. She previously held the following positions: vice president, executive committee member and business unit director with TDT CPAs and Advisors. Voss was elected to the FCSAmerica Board effective April 1, 2014; her current term ends March 31, 2022.

Mark Weiss / Omaha, Nebraska
An appointed Director, Weiss is an executive with Smart Energy Water, a technology company serving the utility industry. His background is in information technology and risk management, and he is a Certified Information Systems Security Professional. Additionally, Weiss completed the National Association of Corporate Directors Cyber Risk Oversight Program and earned the CERT Certificate in Cybersecurity Oversight. He previously served as chief information officer for Solutionary, Inc., and NTT Security (U.S.), Inc. Weiss was appointed to the FCSAmerica Board effective April 1, 2014; his current term ends March 31, 2022.

Jennifer Zessin / Madison, Nebraska
Zessin and her husband have a farm operation raising corn and soybeans, and own Zessin Farms, LLC, a trucking company, and 3Z Equipment, LLC, an agricultural equipment ownership entity. She has past business experience in banking, human resources and internal auditing. Zessin serves on the AgriBank District Farm Credit Council, the Farm Credit Council Board of Directors, the Farm Credit Council Services Board of Directors and the Trinity Lutheran Church Council. She was elected to the FCSAmerica Board effective January 1, 2009; her current term ends March 31, 2020.

Farm Credit Services of America, ACA

Consolidated Five-Year Summary of Selected Financial Data

(Dollars in thousands)

	2019	2018	2017	2016	2015
Balance Sheet Data					
Loans	**$29,748,180**	$28,386,634	$26,652,660	$25,171,427	$23,638,506
Less allowance for loan losses	**163,000**	157,000	130,000	104,000	65,000
Net loans	**29,585,180**	28,229,634	26,522,660	25,067,427	23,573,506
Investment in AgriBank, FCB	**651,643**	569,657	532,576	509,580	487,333
Investment in AgDirect, LLP	**59,710**	54,914	59,164	66,110	73,783
Cash	**56,064**	108,956	94,002	87,090	60,832
Other property owned	**25,677**	33,615	3,776	2,922	–
Other assets	**890,291**	852,494	745,612	639,358	577,212
Total assets	**$31,268,565**	$29,849,270	$27,957,790	$26,372,487	$24,772,666
Obligations with maturities greater than one year	**$24,780,931**	$23,812,109	$22,403,041	$21,296,054	$20,077,076
Other liabilities	**575,455**	539,838	468,323	396,559	370,834
Total liabilities	**25,356,386**	24,351,947	22,871,364	21,692,613	20,447,910
At-risk capital stock	**89,629**	84,672	76,838	52,757	47,780
Retained earnings	**5,822,550**	5,412,651	5,009,588	4,627,117	4,276,976
Total members' equity	**5,912,179**	5,497,323	5,086,426	4,679,874	4,324,756
Total liabilities and members' equity	**$31,268,565**	$29,849,270	$27,957,790	$26,372,487	$24,772,666
Statement of Income Data					
Net interest income	**$770,244**	$741,697	$702,217	$677,054	$628,454
Provision for credit losses	**10,723**	29,865	30,912	49,464	12,194
Noninterest income	**281,849**	268,208	245,175	193,506	189,537
Noninterest expense	**363,410**	340,051	329,068	307,288	286,786
Provision for income taxes	**5,937**	6,951	4,959	3,688	4,964
Net income	**$672,023**	$633,038	$582,453	$510,120	$514,047
Key Financial Ratios					
For the year					
Return on average assets	**2.23%**	2.22%	2.17%	2.02%	2.20%
Return on average total members' equity	**11.60%**	11.83%	11.84%	11.25%	12.28%
Net interest income as a percentage of average earning assets	**2.68%**	2.72%	2.74%	2.80%	2.81%
Net charge-offs as a percentage of average loans	**0.01%**	0.01%	0.02%	0.03%	0.02%
At year-end					
Members' equity as a percentage of total assets	**18.91%**	18.42%	18.19%	17.75%	17.46%
Allowance for loan losses as a percentage of total loans	**0.55%**	0.55%	0.49%	0.41%	0.28%
Capital ratios effective beginning January 1, 2017:					
Permanent capital ratio	**16.81%**	16.21%	15.80%	N/A	N/A
Common equity Tier 1 ratio	**16.70%**	16.10%	15.71%	N/A	N/A
Tier 1 capital ratio	**16.70%**	16.10%	15.71%	N/A	N/A
Total capital ratio	**17.24%**	16.63%	16.21%	N/A	N/A
Tier 1 leverage ratio	**17.90%**	17.29%	16.97%	N/A	N/A
Capital ratios effective prior to January 1, 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	15.59%	15.38%
Total surplus ratio	**N/A**	N/A	N/A	15.40%	15.19%
Core surplus ratio	**N/A**	N/A	N/A	15.40%	15.19%
Other					
Cash patronage distribution payable to members	**$262,000**	$230,000	$200,000	$160,000	$160,000

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

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of America, ACA (FCSAmerica) and its subsidiaries, Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA (the subsidiaries), and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial condition and results of operations.

The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the Farm Credit System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). The Farm Credit System serves all 50 states, Washington, D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the Farm Credit System serves – the American farmer and rancher.

AgriBank, FCB, a Farm Credit System bank, and its District associations are collectively referred to as the AgriBank Farm Credit District. FCSAmerica, ACA is one of the affiliated associations in the AgriBank Farm Credit District.

The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System. The Farm Credit System Insurance Corporation ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

To request a free copy of our annual or quarterly reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905, via email to $sr@fcsamerica.com or view them on our website, fcsamerica.com. The annual report is available on our website no later than 75 days after the end of the calendar year, and shareholders are provided a copy of the report no later than 90 days after the end of the calendar year. The quarterly reports are available on our website no later than 40 days after the end of each calendar quarter.

Forward-Looking Information

This annual report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipate," "believe," "estimate," "may," "expect," "intend," "outlook" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties that may be beyond our control. These risks and uncertainties include, but are not limited to:

- political (including trade policies), legal, regulatory, financial markets, economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, international and farm-related business sectors;
- unfavorable weather, disease and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise (GSE), as well as investor and rating-agency actions relating to events involving the United States government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy;
- credit, interest rate and liquidity risks inherent in our lending activities;
- changes in our assumptions for determining the allowance for loan losses;
- industry outlooks for agricultural conditions.

2019 Highlights

FCSAmerica continued to build its financial strength in the year ended December 31, 2019. A strong balance sheet and favorable earnings provide a solid foundation for 2020. Highlights include:

- In December, the Board declared a cash-back dividend of 1.0 percent of a customer's average daily balance of eligible loans outstanding for an approximate total of $262 million distribution under the 2019 patronage program.
- Loan volume increased 4.8 percent to $29.7 billion.
- Total members' equity increased 7.5 percent to $5.9 billion after recording a liability for the estimated $262 million cash-back dividend payment.
- Net income for the year was $672 million compared to $633 million for 2018, an increase of 6.2 percent.

Farm Credit Services of America, ACA

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

Commodity Review and Outlook

Farm sector profits in the United States were up in 2019. Nationally, cash receipts project to modestly increase with crop receipts growing by 1.0 percent and livestock crop receipts up 0.3 percent. United States net farm income is forecast to increase 10.2 percent to $92.5 billion.

Profits varied widely by commodity and location across FCSAmerica's four-state lending territory. Cash grain and dairy profitability improved while hog, cattle and ethanol margins remained challenging and egg producers experienced more significant negative margins. Wet spring conditions limited planting in several areas and helped push grain prices higher. Protein supplies were abundant, and continued trade barriers limited exports, even in the face of growing global protein shortages caused by African swine fever outbreaks in China and neighboring Asian countries. Soybean producers and, to a lesser extent, hog producers received United States Department of Agriculture Market Facilitation Program (MFP) payments to help offset losses from trade disruptions.

The average December monthly prices received by farmers and ranchers for the past five years are reflected in the table below:

	Averages for the Month of December:				
Commodity	**2019**	2018	2017	2016	2015
Corn	**$3.71**	$3.54	$3.23	$3.33	$3.65
Soybeans	**$8.70**	$8.57	$9.30	$9.64	$8.76
Wheat	**$4.64**	$5.28	$4.51	$3.91	$4.75
Beef cattle (all)	**$118.00**	$117.00	$118.00	$111.00	$122.00
Hogs (all)	**$47.30**	$43.40	$48.60	$43.10	$42.80
Milk (all)	**$20.70**	$16.40	$17.20	$18.80	$17.20
Eggs (all)	**$0.93**	$1.17	$1.34	$1.21	$1.24

We monitor, compile and report real estate sales information for FCSAmerica's four-state territory. We also monitor 64 benchmark farms in the four states, which are updated each January and July.

The following table compiled by our appraisal team reflects average value changes for each state over the past six-month, one-year, five-year and ten-year periods as of January 1, 2020. The current number of benchmark farms is shown in parentheses after each state.

State	Six-Month	One-Year	Five-Year	Ten-Year
Iowa (21)	0.7%	(0.6)%	(9.2)%	68.6%
Nebraska (18)	(2.6)%	(2.9)%	(16.6)%	86.9%
South Dakota (23)	(1.0)%	(1.7)%	(12.2)%	85.9%
Wyoming (2)	2.0%	8.6%	36.8%	53.3%

Farmland prices were relatively steady or down slightly across the Association's territory compared to a year ago. The average quality of land sold remained stable during this time and has not changed substantially over the past few years. The overall level of sales activity for dry cropland decreased in all four states compared to 2018.

Crops: Profit margins improved in 2019 for corn producers as prices were higher and total input costs were relatively flat compared to a year earlier. The Omaha average cash corn price increased $0.20 per bushel to $3.77 per bushel. The trading range also increased as corn prices peaked at $4.62 per bushel in July before falling to a post-harvest low of $3.47 per bushel in November. The corn price increased to $3.82 per bushel at year-end, up $0.25 per bushel versus year-end 2018. Iowa average cash rental rates fell back to 2017 levels at $219 per acre after ticking upward to $222 per acre in 2018.

The 2019 United States corn production was 13.7 billion bushels, down 5.0 percent from 2018 as lower yields more than offset 206,000 additional harvested acres. United States year-end corn stocks were down 5.0 percent at 11.4 billion bushels, with carryover forecast modestly higher at 1.89 billion bushels. National average yields were down 8.4 bushels per acre to 168 bushels per acre. Iowa average yields remained strong at 198 bushels per acre, while Nebraska and South Dakota yields were down 10 and 15 bushels, respectively, to 182 and 145 bushels per acre.

Soybeans were generally profitable in 2019 as a result of prices rebounding from lower production and receipt of U.S. Department of Agriculture MFP payments. Prices ended the year at $9.10 per bushel compared to $8.28 per bushel at year-end 2018, nearly recovering the $0.92 per bushel drop in 2018. The increase was largely driven by a 20.0 percent drop in United States production to 3.56 billion bushels after the record 4.54 billion bushels in 2018. National yields decreased 3.2 bushels per acre to 47.4 bushels per acre and harvested acres decreased 14.4 percent. The reduced production resulted in United States–stored soybeans falling 13.5 percent to 3.25 billion bushels with an estimated carryout of 475 million bushels, down considerably from a year ago.

Nebraska and Iowa yields were relatively unchanged from last year at 58.5 and 55 bushels per acre, while South Dakota yields were lower at 42.5 bushels per acre. Production was down significantly in all four states as fewer soybean acres were planted, mostly due to the wet spring conditions. In South Dakota, planted corn acres were down 18.0 percent and soybean acres were down by 38.0 percent as many farmers accepted preventive plant payments through federal crop insurance.

Beef: All sectors of the beef industry were profitable except for cattle feeders which, on average, lost approximately $30 per head. Profit margins in 2019 narrowed for cow/calf and stocker operators from roughly $100 and $40 per head in 2018 to $75 and $25 per head, respectively. The packing sector continued to capitalize on plentiful beef supply, maintaining a historic margin of nearly $200 per head. Consumer demand for beef was solid with per capita beef consumption the highest since 2012. Globally, reduced lean-beef supply from drought-stricken areas of Australia, along with increased Asian purchases to partially replace African swine fever–driven protein shortages, positively impacted exports. The increased domestic and export demand, along with reduced United States carcass weights due to the severe winter, helped offset increased domestic supply and hold up fed cattle prices.

The beef cow herd is expected to expand by 50,000 head in 2020, continuing a slower growth pace. Forage supply and moisture levels across the United States are currently adequate to support herd additions. It is anticipated that leverage will remain with the packing sector, which is presently running at a historic pace with available processing capacity below slaughter supply. Strong domestic and export demand is helping hold up beef prices, but projected 2020 producer margins remain narrow.

Pork: Swine producers experienced an up-and-down year in 2019 resulting in widely variable profitability across a growing industry with average losses of approximately $5 per head. The United States swine industry has been in growth mode since the second half of 2014, including nearly 5.0 percent this past year. The large supply and thawing but unresolved trade issues loomed over the market as we entered 2019, leading to greater than $20 per head losses in the first quarter. The losses reversed in the second quarter as prices shot higher in anticipation of tightening supply due to the spread of African swine fever in China and neighboring Asian countries. The price rally quickly dissipated as trade barriers continued to limit an expected uptick in exports, leading to a break-even third quarter and heavy losses in the fourth quarter.

Cash hog prices averaged $46 per cwt. for the year, an increase of $1.50 per cwt. over 2018. Input costs were modestly higher as well. While domestic demand remained solid, prices were held back by ample United States supply. The year-end United States Department of Agriculture Quarterly Hog and Pigs report reflected the breeding inventory at 6.46 million head, up 2.0 percent from a year ago; market hog inventory was up 3.0 percent from last year. Sow production, measured by pigs saved per litter, was reported at a record high at 11.09, impacted by continued genetic improvement as well as reduced disease impact.

Producers remain cautiously optimistic that they will see price improvement in 2020 as new trade agreements have been reached, resulting in an increase in exports recently. Current commodity futures prices reflect good profit margins. The African swine fever that continues to ravage China (at least 50.0 percent of the sow herd is impacted) and several other Asian countries is spreading in Europe, potentially further reducing world pork supply. The United States exports nearly 25.0 percent of production, and with continued anticipated growth, it will be necessary to grow existing and tap new export markets to move product and improve prices. The threat of African swine fever breaking into the United States remains, and the industry continues to work with the government to limit potential exposure.

Dairy: The United States Department of Agriculture 2019 All Milk price improved 15.0 percent year over year and is estimated to average $18.60 per cwt. The price rebounded in the second half of the year on increased powder and cheese prices. The revenue improvement resulted in a return to profitability for many producers in the industry.

Dairy producers continue to leverage genetics and efficiency to improve production. While the United States dairy cow herd contracted by 23,000 head to 9.33 million cows this past year, production per cow continued to increase. The 2019 annual milk production increased 0.5 percent to an estimated 218.6 billion pounds as the improved production offset the lower herd size. Production is again expected to grow in 2020 as the United States Department of Agriculture forecasts domestic production to increase to 222.4 billion pounds.

Continued strong cheese prices and demand, along with an improving export outlook, contribute to favorable price expectations for 2020. The United States Department of Agriculture forecasts an annual All Milk price in the low to mid $19s per cwt. for 2020 with an annualized All Milk price forecast of $19.25 per cwt.

Eggs: The United States egg industry has been tumultuous over the past several years, with severe losses in 2016 and 2017, followed by positive margins in 2018. New cage-free legislation has contributed to an expansion in the layer population that continued into 2019; 332 million layers at the start of the year grew to an all-time high of 342 million by April. The rapid increase exacerbated an already over-supplied egg market, driving prices to some of the lowest levels in recent history. From a shell egg perspective, Urner Barry quoted Midwest Large eggs at $1.21 per dozen in January, quickly declining to $0.99 per dozen by March and reaching a historic low of $0.58 per dozen by mid-May. On the liquid side, breaker prices declined from an unprofitable price of $0.45 per dozen in January to just $0.19 per dozen by mid-May. The extreme decline in both shell and liquid egg prices resulted in significant losses for producers selling into the open market.

As a result of the large-scale losses in the first half of the year, many producers took measures to reduce their flocks. The layer reduction coupled with improved national retail features provided a temporary reprieve for egg producers, as the Midwest Large quotation increased to $1.20 per dozen by September. This rally was short-lived, with egg prices quickly falling to $0.78 per dozen. Egg markets remained depressed before a holiday rally the last two months of the year. The seasonal rally was also short-lived with a year-end Midwest Large egg price quoted at $0.93 per dozen (cash

Farm Credit Services of America, ACA

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

price typically $0.25 lower), which is unprofitable for most producers. The Midwest Large quote averaged $0.96 per dozen in 2019, and breaking stock averaged $0.38 per dozen, down 32.0 percent and 47.0 percent, respectively, from 2018. To date, there has been minimal lift from exports as they increased marginally from a year ago, ending the year at approximately 4.0 percent total production.

United States layer population was 340 million at year-end with growth entirely attributed to cage-free expansion. The total cage-free population was approximately 70.8 million at the end of the year, comprising 21.0 percent of the total layer population. Cage-free eggs have remained between $1.58–$1.64 per dozen since January 2017, though evidence suggests prices are hitting a ceiling based on the market available.

Ethanol: Ethanol prices in 2019 rebounded slightly following a downward trend a year earlier. The average price rose $0.05 per gallon compared to 2018. The industry continued to produce an oversupply of ethanol most of the year with production decreasing in the fourth quarter. Industry profits were challenged as corn basis along with ethanol basis impacted crush margins. The impact of the local corn basis forced several plants to temporarily shut down while other plants reduced production due to negative margins.

During 2018, the Trump administration announced its support for a waiver to allow year-round E15 (15.0 percent ethanol blend). Following the president's directive, the United States Environmental Protection Agency signed the final action on May 31, 2019, just prior to the summer driving season. This is leading retailers to install additional E15 pumps, and it is estimated that demand for ethanol will increase over a billion gallons over the next five years. However, the United States Environmental Protection Agency also granted 31 new small-refinery exemptions on August 9, 2019, leading to diminished internal demand and continued oversupply. In addition, ethanol exports fell by 300 million gallons compared to the 2018 record level of 1.8 billion gallons; exports are a critical component to balance domestic supply and demand to support prices.

United States ethanol producers are anticipating challenges in 2020. Total production is predicted to be slightly lower than 2019; however, domestic ethanol usage is anticipated to be lower as well. Efficient plants located in areas of abundant corn supply with the ability to produce low-carbon ethanol mandating a price premium should continue to provide reasonable returns.

Loan Portfolio

Our loan volume experienced another solid year of growth and increased $1.4 billion during 2019, an increase of 4.8 percent. Approximately 42.1 percent of the loan volume increase came from long-term agricultural mortgage loans; approximately 27.2 percent came from the agribusiness loan category; and approximately 15.5 percent from the production and intermediate-term category.

Our loan portfolio consists primarily of agricultural real estate loans, production operating loans, intermediate-term installment loans and credit facilities to agricultural businesses. A high percentage of real estate loan installments are due in the December-to-March period. Most operating loans mature and are refinanced after the fall harvest and before spring planting. Operating loan volume tends to peak late in the fall, decline toward January and trend upward during the remainder of the year. Equipment loans generally have annual installments that correlate to customer commodity sales.

Our chartered territory includes Iowa, Nebraska, South Dakota and Wyoming. The geographic distribution of loan volume follows:

	December 31,		
State	**2019**	2018	2017
Iowa	**36%**	36%	38%
Nebraska	**26**	27	27
South Dakota	**17**	18	18
Wyoming	**2**	2	2
Other states	**19**	17	15
	100%	100%	100%

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

	December 31,		
	2019	2018	2017
Risk loans:			
Nonaccrual	**$239,933**	$162,529	$160,132
Restructured	**41,549**	36,739	47,156
90 days past due still accruing interest*	**1,099**	6,645	7,555
Total risk loans	**282,581**	205,913	214,843
Other property owned, net	**25,677**	33,615	3,776
Total risk assets	**$308,258**	$239,528	$218,619
Risk loans as a percentage of total loans	**0.93%**	0.71%	0.79%
Nonaccrual loans as a percentage of total loans	**0.79%**	0.56%	0.60%
Current nonaccrual loans as a percentage of total nonaccrual loans	**70.2%**	65.1%	50.2%
Total delinquencies as a percentage of total loans	**0.59%**	0.64%	0.62%

Accruing loans include accrued interest receivable.

Total risk loans have increased since the end of 2018 while other property owned decreased. The increase in risk loans primarily results from an increase in nonaccrual and restructured loans. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at manageable levels.

Our adversely classified assets decreased during 2019, ending the year at 8.47 percent of the portfolio compared to 9.27 percent of the portfolio at December 31, 2018. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

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

Comparative allowance coverage of various loan categories follows:

	December 31,		
	2019	2018	2017
Allowance as a percentage of:			
Total loans	**0.55%**	0.55%	0.49%
Nonaccrual loans	**67.94%**	96.60%	81.18%
Total risk loans	**57.68%**	76.25%	60.51%
Net charge-offs as a percentage of average loans	**0.01%**	0.01%	0.02%
Adverse assets to risk funds*	**47.94%**	53.91%	46.76%

Risk funds includes permanent capital and allowance for loan losses.

In our opinion, the allowance for loan losses at December 31, 2019, is adequate to provide for probable and estimable losses in the loan portfolio.

Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in four Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $90 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under specific circumstances. Our investment in the RBICs totaled $19.6 million at December 31, 2019, $13.6 million at December 31, 2018, and $12 million at December 31, 2017.

Results of Operations

The following table provides profitability information:

	December 31,		
	2019	2018	2017
Net income (in thousands)	**$672,023**	$633,038	$582,453
Return on average assets	**2.23%**	2.22%	2.17%
Return on average members' equity	**11.60%**	11.83%	11.84%

Changes to our return on average assets and return on average members' equity are related directly to the changes in income as described below, the changes in assets discussed in the "Loan Portfolio" section and the changes in members' equity discussed in the "Members' Equity" section.

Major components of the changes in net income for 2019, 2018 and 2017 are outlined in the following table (in thousands):

	December 31,		
	2019	2018	2017
Net income prior year	**$633,038**	$582,453	$510,120
Increase (decrease) in net income attributable to changes in:			
Net interest income	**28,547**	39,480	25,163
Provision for credit losses	**19,142**	1,047	18,552
Noninterest income	**13,641**	22,741	51,669
Noninterest expense	**(23,359)**	(10,691)	(21,780)
Provision for income taxes, net	**1,014**	(1,992)	(1,271)
Net income for the year	**$672,023**	$633,038	$582,453

The effects on net interest income from changes in average volumes and rates are presented in the following table (in thousands):

	2019 vs. 2018	2018 vs. 2017
Change in volume	**$42,626**	$45,273
Change in rates	**(13,576)**	(6,461)
Change in nonaccrual income	**(503)**	668
Net change	**$28,547**	$39,480

The average lending rate was 4.91 percent for 2019 compared to 4.77 percent for 2018. The average cost of debt was 2.70 percent for 2019 compared to 2.46 percent for 2018. The net interest margin was 2.68 percent in 2019 compared to 2.72 percent in 2018.

Farm Credit Services of America, ACA

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

Net interest income included income on nonaccrual loans that totaled $4.6 million in 2019, $5.1 million in 2018 and $4.4 million in 2017. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

We recorded a $10.7 million provision for credit losses for 2019 compared to a $29.9 million provision for credit losses for 2018. The provision for credit losses includes the provision for loan losses and the provision for unfunded lending commitments. Provision expense was lower in 2019 compared to 2018 due primarily to the improvement of credit quality by 0.80 percent. The industries contributing to the current year provision expense in allowance were grain, cow/calf, beef feedlot and renewable fuels.

We recorded net charge-offs of $3.7 million in 2019 (0.01 percent of average loans) primarily in the cow/calf industry. We recorded net charge-offs of $3.9 million in 2018 (0.01 percent of average loans) and $4.9 million of net charge-offs in 2017 (0.02 percent of average loans).

The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency. The reserve for unfunded commitments was $11 million at December 31, 2019, compared to $10 million at December 31, 2018, and $11 million at December 31, 2017.

The increase in noninterest income is primarily due to an increase in AgriBank, FCB patronage and AgDirect® program fees, which are more fully described under "AgriBank, FCB Patronage Income" and "AgDirect, LLP" respectively, later in this section of the annual report. The increase in noninterest expense is primarily due to salary, benefits and other expenses for increased staffing levels to support business initiatives.

Patronage Program

Our Board adopted a patronage program for eligible customers in 2019. The patronage program has been in place for more than a decade. The 2019 program is based on each customer's average daily balance of eligible loans outstanding during the year. The patronage program is a qualified (cash) distribution referred to as cash-back dividends. The Board declared a cash-back dividend of 1.0 percent of a customer's average daily balance of eligible loans outstanding to be distributed no later than April 30, 2020. We recorded an estimated patronage liability of $262 million in December 2019.

The 2018 and 2017 patronage programs were also based on each customer's average daily balance of eligible loans outstanding during the year. The Board declared a cash-back dividend of 0.90 percent for an approximate total of $230 million at its December 2018 meeting, and the Board declared a cash-back dividend of $200 million at its December 2017 meeting to be distributed no later than April 30 of the following respective years. We recorded a patronage liability of $230 million in December 2018 and $200 million in December 2017.

Our Board also has adopted a patronage program for 2020. The 2020 patronage program will once again be based on each customer's average daily balance of eligible loans outstanding during 2020.

AgriBank, FCB Patronage Income

We receive three different types of discretionary patronage from AgriBank, FCB. AgriBank, FCB's Board of Directors sets the level of patronage for each of the following:

- wholesale patronage, which includes patronage on our note payable with AgriBank, FCB,
- pool program patronage based on the net earnings of loan participation interests sold to AgriBank, FCB, and
- distributions based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees.

AgriBank may distribute patronage in the form of stock or cash as determined by AgriBank, FCB's capital plan. A portion of the patronage in 2019 was paid in allocated stock and a portion was paid in cash. All patronage paid in 2018 and 2017 was paid in cash. We received patronage income based on the average balance of our note payable to AgriBank, FCB. We recorded patronage income of $72.2 million and $61.9 million in cash and stock patronage respectively in 2019 for a total of $134.1 million in 2019. We received $123.5 million in 2018 and $112.5 million in 2017. The patronage rates paid by AgriBank, FCB were 55.9 basis points in 2019, 54.1 basis points in 2018 and 45 basis points in 2017. Changes in our note payable to AgriBank, FCB and patronage rate changes caused the variances in the patronage income amounts. In addition, the increase in the patronage rate in 2018 and 2017 were primarily due to a change in AgriBank, FCB's capital plan effective July 1, 2017. The capital plan was modified to pay out 100.0 percent of net earnings beginning in 2017; previously, 50.0 percent of net earnings was paid. See the "Relationship with AgriBank, FCB" section for further discussion on patronage income.

We also received patronage income related to our sale of a participation interest in certain real estate loans to AgriBank, FCB. We received patronage income in an amount that approximates the net earnings of those loans less certain expenses. Net earnings represent the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans, as well as adjustments deemed appropriate by AgriBank, FCB related to the credit performance of the loans, as applicable. Similar to the patronage on our note payable described earlier, we also received patronage income based on the estimated note payable of the asset pool loans. Patronage declared on these pools is solely at the discretion of the AgriBank, FCB Board of Directors. We recorded asset pool patronage income of $7.5 million and $0.6 million cash and stock patronage respectively in 2019 for a total of $8.1 million. We received $9.7 million in 2018 and $10.9 million in 2017. All patronage income earned as part of the AgriBank, FCB asset pool in 2018 and 2017 was paid in cash.

The partnership distribution on our share of net earnings of the loans in the AgDirect trade credit financing program is described under "AgDirect, LLP" later in this section of the annual report.

Funding and Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank, FCB. At December 31, 2019, we had a $30 billion revolving line of credit with AgriBank, FCB. We generally apply excess cash to this line of credit.

As described in Note 8 to the consolidated financial statements, "Notes Payable," this line of credit is governed by a General Financing Agreement and is collateralized by a pledge of substantially all our assets and is also subject to regulatory borrowing limits. The line of credit will be renegotiated prior to the maturity date of June 30, 2022. We expect this line of credit to be sufficient to fund our operations. The note payable related to this line of credit reprices monthly.

At December 31, 2019, the direct loan balance was $24.8 billion compared to $23.8 billion at the end of 2018, and $22.4 billion at the end of 2017.

The interest rate risk inherent in our loan portfolio is substantially mitigated through this funding relationship. AgriBank, FCB manages interest rate risk through its direct loan pricing and asset/liability management processes. The direct loan pricing mechanism simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to customers. The primary risks we manage include pipeline risk and basis risk. Pipeline risk occurs when we commit a fixed interest rate to a customer in advance of the loan's closing date and is effectively mitigated through the use of rate-lock agreements. Basis risk occurs when the interest rate on a loan reprices according to one index, while the debt supporting that loan reprices according to another index.

However, we maintain some exposure to interest rates, including London Inter-bank Offered Rate (LIBOR), primarily from loans to customers that may not have a component of our line of credit with an exact repricing attribute. Regulators in the United States and worldwide have expressed their desire to phase out LIBOR and other inter-bank offered rates by the end of 2021. They have indicated that the reliability and stability of LIBOR as a benchmark rate after 2021 cannot be assured. The Farm Credit System has established a LIBOR transition work group to provide leadership in addressing the LIBOR phase out across system entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

We provide financing to eligible customers with various interest rate programs. New loans are priced with consideration given to local competitive conditions, the cost of debt that will be incurred to fund the loan, the individual risk elements of the loan, and profit objectives. Interest on real estate loans is generally paid in full annually, while interest on agricultural production loans is generally paid in full at the annual renewal date of the loan.

We offer variable-rate loan products that include variable-rate loans repriced at our discretion, as dictated by market conditions, and market-indexed variable-rate loans that provide customers with the option of indexing their interest rate to external market indices such as LIBOR or the prime rate.

We also offer fixed-rate operating loans for up to 14.99 months, fixed-rate installment loans for up to 10 years and fixed-rate mortgage loans in yearly increments from five to 35 years.

Additionally, we offer real estate adjustable-rate loans that are indexed to one-, three- or five-year United States Department of the Treasury rates. The loans reprice at one-, three- or five-year intervals at a rate equal to the corresponding United States Department of the Treasury rate plus a contractual spread. The one-, three- or five-year adjustable-rate loans are generally subject to periodic caps ranging from 2.0–2.5 percent with a 6.0 percent life cap. The cost of debt supporting these loans is capped accordingly.

We also offer a prepayment-restricted loan product. This is a fixed-rate product with a prepayment penalty provision if prepayments are made during the initial three, five or seven years of the loan term. For agreeing to restricted prepayments, the customer receives a reduced interest rate that remains in effect for the entire loan term.

A breakdown of the loan portfolio by rate type, as a percentage of total volume at December 31, is shown in the following table:

	December 31,		
	2019	2018	2017
Variable rate	**39.8%**	38.9%	42.9%
Fixed rate	**60.2**	61.0	57.0
Adjustable rate	**0.0**	0.1	0.1
	100.0%	100.0%	100.0%

Our other source of lendable funds is unallocated surplus.

Farm Credit Services of America, ACA

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

Members' Equity

Our equity structure is described in Note 9 to the consolidated financial statements, "Members' Equity."

Members' equity increased to $5.912 billion at December 31, 2019, compared to $5.497 billion at December 31, 2018, and $5.086 billion at December 31, 2017. The increase in 2019 was due to net income recorded in 2019 and net capital stock issued partially offset by patronage payable.

Members' equity as a percentage of total assets increased to 18.91 percent at December 31, 2019, compared to 18.42 percent at December 31, 2018, and 18.19 percent at December 31, 2017. The increase in the members' equity-to-assets ratio was due to the growth rate of members' equity exceeding the growth rate of assets. The increase in members' equity is described in the previous paragraph. The increase in assets is primarily due to the increase in loan volume described in the "Loan Portfolio" section.

Effective January 1, 2017, the Farm Credit Administration regulations require us to maintain minimums for our common equity Tier 1, Tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of Tier 1 leverage and unallocated retained earnings and equivalents (UREE) leverage.

	As of December 31,			Regulatory Minimums	Capital Conservation Buffers	Total
	2019	2018	2017			
Risk-adjusted ratios:						
Common equity Tier 1	**16.70%**	16.10%	15.71%	**4.5%**	**2.5%***	**7.0%**
Tier 1 capital	**16.70%**	16.10%	15.71%	**6.0%**	**2.5%***	**8.5%**
Total capital	**17.24%**	16.63%	16.21%	**8.0%**	**2.5%***	**10.5%**
Permanent capital	**16.81%**	16.21%	15.80%	**7.0%**	**–**	**7.0%**
Non-risk-adjusted ratios:						
Tier 1 leverage	**17.90%**	17.29%	16.97%	**4.0%**	**1.0%**	**5.0%**
UREE leverage	**18.53%**	17.88%	17.52%	**1.5%**	**–**	**1.5%**

**The 2.5 percent capital conservation buffers over risk-adjusted ratio minimums was phased in over three years under the Farm Credit Administration capital requirements. The phase-in period ended December 31, 2019.*

Relationship with AgriBank, FCB

We borrow from AgriBank, FCB to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from AgriBank, FCB is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 8 to the consolidated financial statements, "Notes Payable," governs this lending relationship. Cost of funds under the General Financing Agreement includes:

- a marginal cost-of-debt component,
- a spread component, which includes cost of servicing, cost of liquidity and bank profit, and
- a risk-premium component, if applicable.

In the periods presented, we were not subject to the risk-premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost-of-debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

We are required to invest in AgriBank, FCB capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing AgriBank, FCB surplus. During 2019, we were required by AgriBank, FCB to maintain an investment equal to 2.25 percent of the average quarterly balance of our note payable to AgriBank, FCB, with an additional amount required on Association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50 percent with similar growth rate requirements as 2019.

We are also required to hold AgriBank, FCB stock related to our participation in pool programs. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

At December 31, 2019, $369.4 million of our investment in AgriBank, FCB consisted of stock representing distributed AgriBank, FCB surplus, and $282.2 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Although it is not a direct Association investment in AgriBank, FCB, AgDirect, LLP, which facilitates the AgDirect trade credit financing program, is required to own stock in AgriBank, FCB in the amount of 6.0 percent of the AgDirect program's outstanding participation loan balance at quarter-end, plus 6.0 percent of the expected balance to be originated during the following quarter. AgriBank, FCB's capital plan is intended to provide for adequate capital at AgriBank, FCB under capital regulations as well as to create a path to long-term capital optimization within the AgriBank, FCB District. The plan optimizes capital at AgriBank, FCB, distributing available AgriBank, FCB earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive different types of discretionary patronage from AgriBank, FCB as set by its Board of Directors. Patronage income earned was paid in cash and AgriBank, FCB stock in 2019. Patronage income for 2018 and 2017 was paid in cash.

We receive the following types of discretionary patronage from AgriBank, FCB:

- wholesale patronage, which includes patronage on our note payable with AgriBank, FCB,
- pool program patronage based on the net earnings of loan participation interests sold to AgriBank, FCB, and
- distributions based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital, and servicing and origination fees.

Due to the nature of our financial relationship with AgriBank, FCB, the financial condition and results of operations of AgriBank, FCB materially impact our stockholders' investment in FCSAmerica. To request a free copy of the combined AgriBank, FCB financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@fcsamerica.com. You may also contact AgriBank, FCB at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800 or via email to financialreporting@agribank.com. The reports are also available through AgriBank, FCB's website at agribank.com. Annual reports are available no later than 75 days after the end of the calendar year, and quarterly reports are available no later than 40 days after the end of each calendar quarter.

AgDirect®, LLP

We have entered into agreements with 15 other Farm Credit System associations inside and outside of the AgriBank, FCB District to provide access to our AgDirect trade credit financing program. The AgDirect program includes origination and refinancing of agricultural equipment loans and leases through independent equipment dealers. The Farm Credit Administration has approved requests from these associations to invest in a limited liability partnership (LLP) that facilitates this collaborative AgDirect trade credit financing program and allows us to leverage the AgDirect program for the mutual benefit of our associations, and the farmers and ranchers we collectively serve. Our investment is reflected as "Investment in AgDirect, LLP" on our Consolidated Balance Sheets. The LLP is an unincorporated business entity and purchases participations in AgDirect loans from us that were originated under the agreements described earlier. The LLP subsequently sells a like amount of loan participations to AgriBank, FCB. The LLP pays us a fee for originating these loans. Total outstanding participations sold to the LLP at December 31, 2019, were $3.7 billion compared to $3.3 billion at the end of 2018 and $3.4 billion at the end of 2017. AgriBank, FCB, at the discretion of its Board of Directors, pays patronage on these loan participations to AgDirect, LLP. Any patronage declared is accrued quarterly and paid by AgriBank, FCB in the first month of the subsequent quarter. AgDirect, LLP distributes any patronage paid by AgriBank, FCB as partnership distributions to the AgDirect, LLP partners. At December 31, 2019, our investment in AgDirect, LLP was $59.7 million.

Relationship With Frontier Farm Credit, ACA

A strategic alliance between FCSAmerica and Frontier Farm Credit, ACA (Frontier Farm Credit) was implemented on January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

FCSAmerica and Frontier Farm Credit continue to exist as separate Associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Under the alliance agreement, FCSAmerica and Frontier Farm Credit have agreed to share current-year income and expenses based generally on the average total assets of each entity for the prior calendar year. For the year ending December 31, 2019, pretax net income was shared on fixed percentages of 93.6 and 6.4 percent for FCSAmerica and Frontier Farm Credit, respectively. For the year ending December 31, 2019, FCSAmerica recorded $14.4 million of net operating expense credits under the income- and expense-sharing provisions of the alliance agreement primarily due to the recovery of salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The net operating expense credits recorded by FCSAmerica were $11.4 million for the year ended December 31, 2018, and $12.1 million for the year ended December 31, 2017. The net operating expenses specifically attributable to salaries and employee benefits, and occupancy and equipment expenses are recorded in their respective accounts on our Consolidated Statements of Income. The remainder of the allocation is a net recording to other operating expenses on our Consolidated Statements of Income. Depending on the activity in each Association, this allocation can result in the recording of an operating expense credit.

FCSAmerica has $31.3 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming. Frontier Farm Credit has $2.2 billion in assets and serves multiple counties in eastern Kansas.

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

Purchased Services

We purchase various services from AgriBank, FCB, including SunStream Business Services, a division of AgriBank, FCB. The services include tax-reporting services; technology services; cash management; customer, travel and expense credit card programs; and expense-reporting tools. The total cost of services we purchased from AgriBank, FCB was $1.4 million, $1.1 million and $950 thousand in 2019, 2018 and 2017, respectively.

Farm Credit Foundations

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation when it was formed as a separate service corporation. Our investment was $0.1 million at December 31, 2019, December 31, 2018, and December 31, 2017. The total cost of services purchased from Farm Credit Foundations was $1.5 million in 2019, $1.4 million in 2018 and $1.4 million in 2017.

Rural 1st®

In 2019, we entered into an agreement with Farm Credit Mid-America to offer home lending through Rural 1st. Rural 1st is a division of Farm Credit Mid-America offering a program that delivers specialized products and services to customers looking to make a move to rural living through recreation land and home purchases, and home-equity and construction projects. We receive noninterest income from Farm Credit Mid-America for loan volume originated in our territory via Rural 1st. During 2019, we received $1.2 million in noninterest income for these originations.

Regulatory Matters

On September 19, 2019, the Farm Credit Administration issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non–Farm Credit System institutions originate and sell in the secondary market and that the United States Department of Agriculture unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rule-making ended on November 18, 2019, and the final regulation has not been issued. We currently do not have investment securities on our Consolidated Balance Sheets.

Farm Credit Services of America, ACA

Report of Management

We prepare the consolidated financial statements of Farm Credit Services of America, ACA (Association) and are responsible for their integrity and objectivity, including amounts that must be necessarily based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also consider internal controls to the extent necessary to design audit procedures that comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness, as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consult regularly with us and meet periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

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

Mark Jensen
President and CEO
March 3, 2020

Craig P. Kinnison
Executive Vice President – CFO
March 3, 2020

Jennifer L. Zessin
Chairperson, Board of Directors
March 3, 2020

Farm Credit Services of America, ACA

Report on Internal Control Over Financial Reporting

Farm Credit Services of America, ACA's (Association) 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, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America, and 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 December 31, 2019. In making the assessment, management used the 2013 framework in Internal Control – Integrated Framework, 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 concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

Mark Jensen
President and CEO
March 3, 2020

Craig P. Kinnison
Executive Vice President – CFO
March 3, 2020

Farm Credit Services of America, ACA

Report of Audit Committee

The consolidated financial statements of Farm Credit Services of America, ACA (Association) were prepared under the oversight of the Audit Committee. The Audit Committee is composed of four individuals from the Association Board of Directors. In 2019, the Audit Committee met four times. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue its report based on its audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2019, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statements on Auditing Standards AU-C 260, "The Auditor's Communication With Those Charged With Governance," and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the annual report for the year ended December 31, 2019.

Jim Kortan
Chair, Audit Committee
Farm Credit Services of America, ACA
March 3, 2020

Audit Committee Members:
Nicholas Hunt
Jon Van Beek
Tom Farwell

pwc

Report of Independent Auditors

To the Board of Directors of Farm Credit Services of America, ACA,

We have audited the accompanying consolidated financial statements of Farm Credit Services of America, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2019, 2018 and 2017, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Services of America, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 3, 2020

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com

Farm Credit Services of America, ACA
Consolidated Balance Sheets
(Dollars in thousands)

	December 31,		
	2019	2018	2017
Assets			
Loans	**$29,748,180**	$28,386,634	$26,652,660
Less allowance for loan losses	**163,000**	157,000	130,000
Net loans	**29,585,180**	28,229,634	26,522,660
Cash	**56,064**	108,956	94,002
Accrued interest receivable	**478,564**	467,920	412,230
Investment in AgriBank, FCB	**651,643**	569,657	532,576
Investment in AgDirect, LLP	**59,710**	54,914	59,164
Premises and equipment, net	**227,579**	189,454	163,816
Other property owned	**25,677**	33,615	3,776
Investment in RBIC	**19,614**	13,617	11,973
Deferred tax asset, net	**4,776**	4,120	4,279
Other assets	**159,758**	177,383	153,314
Total assets	**$31,268,565**	$29,849,270	$27,957,790
Liabilities			
Notes payable	**$24,780,931**	$23,812,109	$22,403,041
Accrued interest payable	**154,522**	156,539	112,342
Patronage payable	**262,000**	230,000	200,000
Reserve for unfunded lending commitments	**11,000**	10,000	11,000
Other liabilities	**147,933**	143,299	144,981
Total liabilities	**25,356,386**	24,351,947	22,871,364
Commitments and contingencies (Note 13)			
Members' Equity			
At-risk capital:			
Class D common stock	**85,997**	81,426	74,228
Class E common stock	**3,632**	3,246	2,610
Retained earnings	**5,822,550**	5,412,651	5,009,588
Total members' equity	**5,912,179**	5,497,323	5,086,426
Total liabilities and members' equity	**$31,268,565**	$29,849,270	$27,957,790

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

Farm Credit Services of America, ACA
Consolidated Statements of Income
(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net Interest Income			
Interest income	**$1,419,428**	$1,303,132	$1,125,049
Interest expense	**649,184**	561,435	422,832
Net interest income	**770,244**	741,697	702,217
Provision for credit losses	**10,723**	29,865	30,912
Net interest income after provision for credit losses	**759,521**	711,832	671,305
Noninterest Income			
Patronage income from AgriBank, FCB	**142,239**	133,243	123,431
Loan fees	**20,111**	18,247	19,596
Insurance services	**47,655**	46,985	47,919
AgDirect program fees	**43,782**	34,707	36,456
FCSIC insurance refund	**6,753**	16,215	–
Patronage income from AgDirect, LLP	**9,271**	10,659	10,187
Servicing fee income from AgriBank, FCB	**586**	683	824
Other noninterest income	**11,452**	7,469	7,054
Total noninterest income	**281,849**	268,208	245,467
Noninterest Expense			
Salaries and employee benefits	**230,994**	217,969	203,303
Occupancy and equipment expense	**33,398**	28,014	27,951
Insurance fund premiums	**22,488**	21,483	33,802
Other operating expenses	**72,204**	69,269	63,849
Loss on investment in RBIC	**3,241**	1,704	292
Loss on other property owned	**1,085**	1,612	163
Total noninterest expense	**363,410**	340,051	329,360
Income before income taxes	**677,960**	639,989	587,412
Provision for income taxes	**5,937**	6,951	4,959
Net income	**$ 672,023**	$ 633,038	$ 582,453

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

Farm Credit Services of America, ACA

Consolidated Statements of Changes in Members' Equity

(Dollars in thousands)

	At-Risk Capital		
	Capital Stock	**Retained Earnings**	**Total Members' Equity**
Balance at December 31, 2016	$52,757	$4,627,117	$4,679,874
Net income		582,453	582,453
Patronage declared		(200,000)	(200,000)
Patronage accrual adjustment		18	18
Capital stock:			
Issued	54,692		54,692
Retired	(30,611)		(30,611)
Balance at December 31, 2017	76,838	5,009,588	5,086,426
Net income		633,038	633,038
Patronage distribution accrued		(230,000)	(230,000)
Patronage accrual adjustment		25	25
Capital stock:			
Issued	20,124		20,124
Retired	(12,290)		(12,290)
Balance at December 31, 2018	84,672	5,412,651	5,497,323
Net income		**672,023**	**672,023**
Patronage distribution accrued		**(262,000)**	**(262,000)**
Patronage accrual adjustment		**(124)**	**(124)**
Capital stock:			
Issued	**14,347**		**14,347**
Retired	**(9,390)**		**(9,390)**
Balance at December 31, 2019	**$89,629**	**$5,822,550**	**$5,912,179**

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

Farm Credit Services of America, ACA

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	**$672,023**	$633,038	$582,453
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	**10,723**	29,865	30,912
(Gain) loss on sales of other property owned	**(385)**	1,593	(204)
Gain on sales of premises and equipment	**(736)**	(314)	(371)
Carrying value write-down on premises and equipment	**2,140**	–	366
Depreciation on premises and equipment	**17,874**	15,958	15,377
Increase in accrued interest receivable	**(10,644)**	(55,690)	(50,170)
(Decrease) increase in accrued interest payable	**(2,017)**	44,197	28,161
(Increase) decrease in deferred tax asset	**(656)**	159	1,973
Decrease (increase) in other assets	**10,520**	(24,069)	(50,688)
Income recognized on deferred AgDirect program fees	**7,106**	6,923	6,891
Increase (decrease) in other liabilities	**4,634**	(8,605)	(3,288)
Total adjustments	**38,559**	10,017	(21,041)
Net cash provided by operating activities	**710,582**	643,055	561,412
Cash Flows from Investing Activities:			
Increase in loans, net	**(1,369,888)**	(1,771,830)	(1,489,995)
Purchases of investment in AgriBank, FCB	**(81,986)**	(37,081)	(22,996)
(Increase) decrease in investment in AgDirect, LLP	**(4,796)**	4,250	6,946
Purchases of premises and equipment, net	**(58,990)**	(43,301)	(19,507)
Purchases of investment in RBIC	**(5,998)**	(1,644)	(4,518)
Proceeds from sales of other property owned	**10,802**	2,559	2,834
Proceeds from sales of premises and equipment	**3,727**	2,019	1,650
Net cash used in investing activities	**(1,507,129)**	(1,845,028)	(1,525,586)
Cash Flows from Financing Activities:			
Increase in notes payable, net	**968,822**	1,409,068	1,106,987
Patronage paid in cash	**(230,124)**	(199,975)	(159,982)
At-risk capital stock issued	**14,347**	20,124	54,692
At-risk capital stock retired	**(9,390)**	(12,290)	(30,611)
Net cash provided by financing activities	**743,655**	1,216,927	971,086
Net (decrease) increase in cash	**(52,892)**	14,954	6,912
Cash at beginning of year	**108,956**	94,002	87,090
Cash at end of year	**$ 56,064**	$108,956	$ 94,002
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Loan amounts transferred to other property owned	**$4,619**	$33,991	$3,851
Cash patronage distribution accrued/declared	**$262,000**	$230,000	$200,000
Supplemental Cash Flow Information:			
Interest paid on notes payable	**$651,201**	$517,238 [1]	$394,671 [1]
Income taxes paid (net of refunds)	**$7,344**	$(216)	$5,058

[1] The Association revised "Interest paid on notes payable" within the Supplemental Cash Flow Information section from $292,554 to $517,238 in 2018 and from $226,309 to $394,671 in 2017 to correct an immaterial error in the disclosure as originally presented in the prior years' (2018 and 2017) Supplemental Cash Flow Information section of the Consolidated Statements of Cash Flows.

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

Notes to Consolidated Financial Statements

Note 1 – Organization and Operations

Farm Credit System and District

Farm Credit System Lending Institutions

The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the Farm Credit System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). The Farm Credit System serves all 50 states, Washington, D.C., and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the Farm Credit System serves – the American farmer and rancher.

AgriBank, FCB and its affiliated associations are collectively referred to as the AgriBank Farm Credit District. At January 1, 2020, the AgriBank Farm Credit District consisted of 14 Agricultural Credit Associations that each has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries.

Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and also are authorized to purchase and hold certain types of investments, including mission-related investments. AgriBank, FCB provides funding to all associations chartered within the AgriBank Farm Credit District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. Additionally, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution but have operations that are functionally similar to the activities of eligible borrowers.

Farm Credit System Regulator

The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the Farm Credit Administration, and certain association actions are subject to the prior approval of the Farm Credit Administration and/or AgriBank, FCB.

Farm Credit System Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation to administer the Farm Credit System Insurance Fund. The Farm Credit System Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit System Insurance Fund also is available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank is required to pay premiums into the Farm Credit System Insurance Fund until the assets in the Farm Credit System Insurance Fund equal 2.0 percent of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Farm Credit System Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding, with a surcharge assessed for nonaccrual loans and impaired investment securities, and deductions are made from the premium base for guaranteed loans and investment securities. AgriBank, FCB, in turn, assesses premiums to AgriBank, FCB District associations each year based on similar factors.

Association

Farm Credit Services of America, ACA (ACA) and its subsidiaries, Farm Credit Services of America, FLCA (FLCA) and Farm Credit Services of America, PCA (PCA), collectively referred to as FCSAmerica, are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the states of Iowa, Nebraska, South Dakota and Wyoming. We borrow from AgriBank, FCB and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options in collaboration with Farm Credit Leasing Services Corporation (Farm Credit Leasing Services) and CoBank, ACB. The PCA makes short-term and intermediate-term loans for agricultural production or operating purposes and provides lease financing options in collaboration with Farm Credit Leasing Services and CoBank, ACB. We offer risk management services, including crop insurance and crop-hail insurance, for borrowers and those eligible to borrow.

Relationship With Frontier Farm Credit, ACA

A strategic alliance between FCSAmerica and Frontier Farm Credit, ACA (Frontier Farm Credit) was implemented January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

FCSAmerica and Frontier Farm Credit continue to exist as separate Associations while integrating their day-to-day business

Farm Credit Services of America, ACA

Notes to Consolidated Financial Statements

operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Under the alliance agreement, FCSAmerica and Frontier Farm Credit have agreed to share current-year income and expenses based generally on the average total assets of each entity for the prior calendar year. For the year ending December 31, 2019, pretax net income was shared on fixed percentages of 93.6 and 6.4 percent for FCSAmerica and Frontier Farm Credit, respectively. For the year ending December 31, 2019, FCSAmerica recorded $14.4 million of net operating expense credits under the income- and expense-sharing provisions of the alliance agreement primarily due to the recovery of salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The net operating expense credits recorded by FCSAmerica were $11.4 million for the year ended December 31, 2018, and $12.1 million for the year ended December 31, 2017. The net operating expenses specifically attributable to salaries and employee benefits, and occupancy and equipment expenses are recorded in their respective accounts on our Consolidated Statements of Income. The remainder of the allocation is a net recording to other operating expenses on our Consolidated Statements of Income. Depending on the activity in each Association, this allocation can result in the recording of an operating expense credit.

FCSAmerica has $31.3 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming. Frontier Farm Credit has $2.2 billion in assets and serves multiple counties in eastern Kansas.

Relationship with Rural 1st

In 2019, we entered into an agreement with Farm Credit Mid-America to offer home lending through Rural 1st. Rural 1st is a division of Farm Credit Mid-America offering a program that delivers specialized products and services to customers looking to make a move to rural living through recreation land and home purchases, and home-equity and construction projects. We receive noninterest income from Farm Credit Mid-America for loan volume originated in our territory via Rural 1st. During 2019, we received $1.2 million in noninterest income for these originations.

Note 2 – Summary of Significant Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. We have reclassified certain amounts in prior years' financial statements to conform to current financial statement presentation. The consolidated financial statements present the consolidated financial results of Farm Credit Services of America, ACA (the parent) and Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA (the subsidiaries), collectively referred to as FCSAmerica. All material intercompany transactions and balances have been eliminated in consolidation.

The following are our significant accounting policies:

Loans

Mortgage loan terms range from five to 35 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original terms of 10 years or less.

Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based on the daily principal amount outstanding.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection), or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower, and may include interest rate reductions, term extensions, payment deferrals or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans.

Loans are charged off at the time they are determined to be uncollectible.

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests has been surrendered and that all conditions have been met to be accounted for as a sale.

Allowance for Loan Losses and Reserve for Unfunded Lending Commitments

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations, and
- changes in economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans or are analyzed on a pool basis if they have similar risk characteristics. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing interest.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

Changes in the allowance for loan losses consist of provision activity, recorded as “Provision for credit losses” on the Consolidated Statements of Income, charge-offs and recoveries.

The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency. Changes in the reserve for unfunded commitments consist of provision activity, recorded as “Provision for credit losses” on the Consolidated Statements of Income.

Investment in AgriBank, FCB

Accounting for our investment in AgriBank, FCB is on a cost plus allocated equities basis.

Investment in AgDirect, LLP

Accounting for our investment in AgDirect, LLP is on a cost basis.

Other Property Owned

We record other property owned, consisting of real and personal property acquired through a collection action, at fair value, less estimated selling costs at the time of acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates of the fair value, less estimated selling costs, are reported as adjustments to the carrying amount of the asset, provided that the adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations, carrying value adjustments and realized gains or losses on sales are recorded as “Loss on other property owned” on the Consolidated Statements of Income.

Investment in Rural Business Investment Company

The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold noncontrolling interests, are accounted for under the equity method. The investments are assessed for impairment. If impairment exists, losses are included in other noninterest expense, net in the Consolidated Statements of Income in the year of impairment.

Premises and Equipment

The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets, which are normally five to 40 years for building and improvements and three to 10 years for furniture and equipment. Gains and losses on premises and equipment dispositions are reflected in current-year income. Maintenance and repairs are included in operating expense and improvements are capitalized.

Leases

We operate under an agreement with CoBank, ACB where we purchase a participation in loans made by CoBank, ACB to Farm Credit Leasing Services to fund capital markets leases, agricultural equipment leases and agricultural facilities leases that we originate. Under provisions of this agreement, Farm Credit Leasing Services typically participates 50.0 percent funding for these leases to CoBank, ACB, and CoBank, ACB participates a similar amount to us. Lease participations purchased under this agreement are included in “Loans” on the Consolidated Balance Sheets and totaled $246.3 million at December 31, 2019, $224.1 million at December 31, 2018, and $189.3 million at December 31, 2017.

Farm Credit Services of America, ACA
Notes to Consolidated Financial Statements

Beginning January 1, 2012, we operate under an agreement with CoBank, ACB where we purchase a participation in loans made by CoBank, ACB to Farm Credit Leasing Services to fund agricultural equipment leases that are originated under the AgDirect trade credit financing program. Under provisions of this agreement, Farm Credit Leasing Services participates approximately 50.0 percent funding for these leases to CoBank, ACB, and CoBank, ACB participates a similar amount to us. We participate a similar amount to AgDirect, LLP, and AgDirect, LLP participates a similar amount to AgriBank, FCB. Farm Credit Leasing Services pays us a fee for the portion of the funding it retains, and AgDirect, LLP pays us a fee for the portion of the funding we participate to it. Loans participated to AgDirect, LLP under this program at December 31, 2019, totaled $382.6 million.

Advance Conditional Payments

We are authorized under the Farm Credit Act to accept advance conditional payments from customers. We net the advance conditional payments against the customer's related loan balance to the extent the real estate customer's loan balance exceeds the advance payments. Real estate funds held were $6.4 million at December 31, 2019, $7.8 million at December 31, 2018, and $7.2 million at December 31, 2017. The amount of commercial advance conditional payments accepted cannot exceed the commitment amount of the customer's note. We classify commercial advance conditional payments as "Other liabilities" on the Consolidated Balance Sheets because the limit on commercial advance conditional payments is based on note commitments. Commercial advance conditional payments under the program totaled $3 thousand at December 31, 2019, $3 thousand at December 31, 2018, and $40 thousand at December 31, 2017. We pay interest on advance conditional payments and they are not insured. Advance conditional payments are primarily for customers who are required to maintain them as part of their loan agreement.

Employee Benefit Plans

Our employees participate in a defined contribution plan. Benefit plans are described in Note 10, "Employee Benefit Plans." The costs of the defined contribution plan are funded as accrued. Additionally, we provide a retiree health care benefit to retired employees who met specific hire-date and years-of-service requirements.

Income Taxes

The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program

We accrue patronage distributions as declared by the Board of Directors, normally in December of each year. We pay the accrued patronage during the first quarter of each subsequent year. Cash patronage distributions are referred to as cash-back dividends.

Statement of Cash Flows

For purposes of reporting cash flow, cash includes cash on hand and on deposit at commercial banks.

Fair Value Measurement

The Financial Accounting Standards Board guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Observable inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current or principal market information that is not released publicly;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and
- inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect our own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

We currently have no material financial statement items required to be accounted for within the consolidated financial statements at fair value on a recurring basis.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other Farm Credit System institutions.

Standard and Effective Date	Description	Financial Statement Impact
In August 2018, the Financial Accounting Standards Board issued ASU 2018-15 "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract." This guidance is effective for our first quarter 2020 and early adoption is permitted.	This guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.
In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non–United States Securities and Exchange Commission filers for our first quarter of 2021. In November 2019, the Financial Accounting Standards Board issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit-loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral of the effective date and have not yet determined if we will early adopt the guidance. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of our system, data requirements, guidance interpretation and related accounting policy decisions, and consideration of relevant internal processes and controls. We are currently unable to estimate the impact on our financial statements.

Standard and Effective Date	Description	Financial Statement Impact
In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 "Leases." In July 2018, the Financial Accounting Standards Board issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." This guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Balance Sheets for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations or financial statement disclosures, and had no impact on cash flows.

Note 3 – Loans and Allowance for Loan Losses

Loans, including participations purchased and nonaccruals, consisted of the following (in thousands):

	December 31,					
	2019		2018		2017	
	Amount	**Percentage**	Amount	Percentage	Amount	Percentage
Long-term agricultural mortgage	**$17,022,050**	**57.2%**	$16,450,204	58.0%	$15,635,315	58.7%
Production and intermediate term	**7,101,243**	**23.9**	6,849,333	24.1	6,729,938	25.2
Agribusiness	**3,077,450**	**10.3**	2,705,832	9.5	2,284,660	8.6
Rural residential real estate	**1,377,520**	**4.6**	1,458,512	5.1	1,459,584	5.5
Rural infrastructure	**650,202**	**2.2**	512,843	1.8	379,651	1.4
Mission-related investments	**430,357**	**1.5**	328,405	1.2	107,007	0.4
Agricultural export finance	**89,358**	**0.3**	81,505	0.3	56,505	0.2
Total loans	**$29,748,180**	**100.0%**	$28,386,634	100.0%	$26,652,660	100.0%

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We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with the limitations of the Farm Credit Administration regulations or the General Financing Agreement with AgriBank, FCB. The following table presents information regarding participations purchased and sold (participations purchased do not include syndications; amounts are in thousands):

	AgriBank, FCB		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
As of December 31, 2019								
Long-term agricultural mortgage	**$ –**	**$435,632**	**$ 694,478**	**$ 522,689**	**$ 27,703**	**$ 8,381**	**$ 722,181**	**$ 966,702**
Production and intermediate term	**–**	**136,877**	**1,450,008**	**624,114**	**2,759,877**	**3,714,820**	**4,209,885**	**4,475,811**
Agribusiness	**–**	**65,449**	**1,420,836**	**713,398**	**51,082**	**–**	**1,471,918**	**778,847**
Rural infrastructure	**–**	**–**	**666,077**	**41,334**	**26,760**	**–**	**692,837**	**41,334**
Mission-related investments	**–**	**–**	**–**	**–**	**414,629**	**–**	**414,629**	**–**
Agricultural export finance	**–**	**–**	**94,955**	**5,596**	**–**	**–**	**94,955**	**5,596**
Total	**$ –**	**$637,958**	**$4,326,354**	**$1,907,131**	**$3,280,051**	**$3,723,201**	**$7,606,405**	**$6,268,290**
As of December 31, 2018								
Long-term agricultural mortgage	$ –	$395,364	$ 672,645	$ 507,008	$ 30,098	$ 2,023	$ 702,743	$ 904,395
Production and intermediate term	–	115,657	1,344,324	581,356	2,458,486	3,349,806	3,802,810	4,046,819
Agribusiness	–	61,493	1,246,038	801,907	60,223	26	1,306,261	863,426
Rural infrastructure	–	–	541,959	31,018	–	–	541,959	31,018
Mission-related investments	–	–	–	–	284,642	–	284,642	–
Agricultural export finance	–	–	90,955	9,450	–	–	90,955	9,450
Total	$ –	$572,514	$3,895,921	$1,930,739	$2,833,449	$3,351,855	$6,729,370	$5,855,108
As of December 31, 2017								
Long-term agricultural mortgage	$ –	$463,877	$ 636,575	$ 469,815	$ 26,372	$ 2,511	$ 662,947	$ 936,203
Production and intermediate term	–	69,761	1,188,817	491,753	2,484,698	3,379,604	3,673,515	3,941,118
Agribusiness	–	67,470	1,081,529	989,803	51,814	60	1,133,343	1,057,333
Rural infrastructure	–	19,352	423,228	24,195	–	–	423,228	43,547
Mission-related investments	–	–	–	–	90,568	–	90,568	–
Agricultural export finance	–	–	65,955	9,450	–	–	65,955	9,450
Total	$ –	$620,460	$3,396,104	$1,985,016	$2,653,452	$3,382,175	$6,049,556	$5,987,651

Participations purchased increased $877 million in 2019, and participations sold increased by $413 million. The increases are primarily due to increased purchase activity in production and intermediate term, agribusiness and rural infrastructure portfolios.

On October 1, 2008, we sold a pool of approximately $1.9 billion of real estate loans to AgriBank, FCB. The sale was intended to enhance our regulatory capital ratios and reduce credit risk. AgriBank, FCB has established a separate patronage pool for these assets and intends to pay the net earnings on the pool to us as patronage. We anticipate our net income after patronage from the pool will not be materially affected. Patronage declared on this pool is solely at the discretion of the AgriBank, FCB Board of Directors. We will continue to provide servicing for the loans in the pool, and AgriBank, FCB will pay us a fee for this servicing. As part of this transaction, we purchased additional common stock in AgriBank, FCB equal to 8.0 percent of the pool assets. The volume in this pool of assets at December 31, 2019, was $256.9 million. In 2019, we received $7.5 million of asset pool patronage in cash and $657 thousand in asset pool patronage in stock. In 2018 and 2017, we received cash patronage of $9.7 million and $10.9 million, respectively, related to this participation.

On December 1, 2019, we sold a pool of approximately $104 million of real estate loans to AgriBank, FCB. The sale was intended to enhance our portfolio credit quality. AgriBank, FCB has established a separate patronage pool for these assets and intends to pay the net earnings adjusted for certain costs on the pool to us as patronage. We anticipate our net income after patronage from the pool will not be materially affected. Patronage declared on this pool is solely at the discretion of the AgriBank, FCB Board of Directors. We will continue to provide servicing for the loans in the pool, and AgriBank, FCB will pay us a fee for this servicing. As part of this transaction, we purchased additional common stock in AgriBank, FCB. The volume in this pool of assets at December 31, 2019, was $102 million. We received $50 thousand of asset pool cash patronage in 2019.

We have concentrations with individual borrowers within various agricultural commodities. At December 31, 2019, loans outstanding plus commitments to our 10 largest borrowers, net of participations sold, totaled an amount equal to 16.2 percent of members' equity. No single borrower's loans outstanding plus commitments exceeds 5.0 percent of members' equity.

Our credit risk concentration in various agricultural commodities is shown in the following table. While the amounts represent our maximum potential credit risk related to recorded loan principal, a substantial portion of our lending activities is collateralized, which reduces our exposure to credit loss associated with lending activity. We include an estimate of our credit risk exposure in determining the allowance for loan losses. Agricultural concentrations were as follows:

	December 31,		
	2019	2018	2017
Grain	**39.4%**	41.3%	43.7%
Landlords/investors	**9.9**	9.9	9.9
Beef feedlot	**8.9**	9.1	9.1
Swine	**7.8**	7.6	7.2
Cow-calf	**6.7**	6.8	6.9
Dairy	**4.2**	3.9	3.9
Farm supply	**2.0**	1.8	1.7
Forest products	**1.9**	1.8	1.8
Poultry	**1.9**	1.7	1.8
Meat/proteins processing	**1.7**	1.6	1.3
General livestock	**1.1**	1.3	1.4
Renewable fuels	**0.9**	0.9	0.8
Other	**13.6**	12.3	10.5
Total	**100.0%**	100.0%	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. Collateral held varies by loan type but typically includes agricultural real estate, crop inventory and livestock. Long-term real estate loans are secured by a first lien on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85.0 percent of the property's appraised value (97.0 percent if guaranteed by a government agency). However, internal lending procedures require a more conservative loan-to-value ratio, which results in an average loan-to-value ratio in the real estate portfolio of less than 50.0 percent of current market values.

Risk loans (accruing loans include accrued interest receivable) are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following table presents information concerning the recorded investment in risk loans (in thousands):

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$168,412**	$105,853	$ 80,419
Past due	**71,521**	56,676	79,713
Total nonaccrual loans	**239,933**	162,529	160,132
Impaired accrual loans:			
Restructured	**41,549**	36,739	47,156
90 days or more past due	**1,099**	6,645	7,555
Total risk loans	**$282,581**	$205,913	$214,843

Total risk loans have increased since the end of 2018. The increase in risk loans primarily results from an increase in nonaccrual and restructured loans. The increase in nonaccrual loans is mostly driven by an increase in beef feedlot and grain industries. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at manageable levels.

At December 31, 2019, there were approximately $9.0 million in commitments to lend additional funds to customers whose loans were at risk.

Interest income is recognized and cash payments are applied on nonaccrual loans as described in Note 2, "Summary of Significant Accounting Policies." The following table sets forth interest income recognized on risk loans (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Interest income recognized on nonaccrual loans	**$4,556**	$5,059	$4,391
Interest income recognized on risk accrual loans	**3,197**	2,929	2,451
Interest income recognized on risk loans	**$7,753**	$7,988	$6,842

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Risk assets by loan type are as follows (accruing volume includes accrued interest receivable; amounts are in thousands):

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Long-term agricultural mortgage	**$115,087**	$ 82,231	$ 79,951
Production and intermediate term	**72,728**	39,901	67,743
Agribusiness	**33,409**	21,534	3,554
Rural residential real estate	**11,145**	10,046	8,884
Rural infrastructure	**7,564**	8,817	–
Total nonaccrual loans	**$239,933**	$162,529	$160,132
Accruing restructured loans:			
Long-term agricultural mortgage	**$30,505**	$23,968	$26,296
Production and intermediate term	**10,994**	11,677	19,733
Agribusiness	**–**	913	939
Rural residential real estate	**50**	181	188
Total accruing restructured loans	**$41,549**	$36,739	$47,156
Accruing loans 90 days or more past due:			
Long-term agricultural mortgage	**$ 47**	$ 296	$1,119
Production and intermediate term	**1,052**	1,790	5,873
Rural residential real estate	**–**	242	563
Mission-related investments	**–**	4,317	–
Total accruing loans 90 days or more past due	**$1,099**	$6,645	$7,555
Total risk loans	**282,581**	205,913	214,843
Other property owned	**25,677**	33,615	3,776
Total risk assets	**$308,258**	$239,528	$218,619

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2019			For the Period Ended December 31, 2019	
	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Long-term agricultural mortgage	$ 1,043	$ 1,053	$ 394	$ 952	$–
Production and intermediate term	31,747	33,398	5,723	16,350	(183)
Agribusiness	24,381	25,377	11,082	20,716	42
Rural infrastructure	7,564	8,867	2,404	9,077	–
Total	$64,735	$68,695	$19,603	$47,095	$(141)
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$144,597	$155,187	$ –	$137,901	$4,021
Production and intermediate term	53,027	65,719	–	81,858	2,989
Agribusiness	9,027	9,777	–	7,567	165
Rural residential real estate	11,195	12,556	–	11,985	454
Mission-related investments	–	–	–	4,142	265
Total	$217,846	$243,239	$ –	$243,453	$7,894
Total impaired loans:					
Long-term agricultural mortgage	$145,640	$156,240	$ 394	$138,853	$4,021
Production and intermediate term	84,774	99,117	5,723	98,208	2,806
Agribusiness	33,408	35,154	11,082	28,283	207
Rural residential real estate	11,195	12,556	–	11,985	454
Rural infrastructure	7,564	8,867	2,404	9,077	–
Mission-related investments	–	–	–	4,142	265
Total	$282,581	$311,934	$19,603	$290,548	$7,753

(1) The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous write-down of the investment.
(2) Unpaid principal balance represents the contractual principal balance of the loan.

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	As of December 31, 2018			For the Period Ended December 31, 2018	
	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Long-term agricultural mortgage	$ 120	$ 145	$ 120	$ 1,874	$ –
Production and intermediate term	2,785	2,889 (3)	930	8,767	–
Agribusiness	18,302	18,302 (3)	11,330	7,388	413
Rural infrastructure	8,817	9,160	2,404	5,545	–
Total	$30,024	$30,496 (3)	$14,784	$23,574	$413
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$106,376	$113,733 (3)	$ –	$ 81,689	$ 656
Production and intermediate term	50,582	64,056 (3)	–	44,469	260
Agribusiness	4,145	5,768	–	5,329	499
Rural residential real estate	10,469	11,456	–	7,559	59
Mission-related investments	4,317	3,860	–	840	55
Total	$175,889	$198,873 (3)	$ –	$139,886	$1,529
Total impaired loans:					
Long-term agricultural mortgage	$106,496	$113,878 (3)	$ 120	$ 83,563	$ 656
Production and intermediate term	53,367	66,945 (3)	930	53,236	260
Agribusiness	22,447	24,070 (3)	11,330	12,717	912
Rural residential real estate	10,469	11,456	–	7,559	59
Rural infrastructure	8,817	9,160	2,404	5,545	–
Mission-related investments	4,317	3,860	–	840	55
Total	$205,913	$229,369 (3)	$14,784	$163,460	$1,942

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

(2) Unpaid principal balance represents the contractual principal balance of the loan.

(3) The Association revised the "Unpaid Principal Balance" to correct an immaterial error in the disclosure as originally presented in the prior year (2018) Notes to Consolidated Financial Statements as follows: Impaired loans with a related allowance for loan losses: Production and intermediate term from $2,945 to $2,889, Agribusiness from $19,894 to $18,302 and the Total from $32,144 to $30,496. Impaired loans with no related allowance for loan losses: Long-term agricultural mortgage from $115,999 to $113,733, Production and intermediate term from $118,235 to $64,056 and the Total from $255,318 to $198,873. Total impaired loans: Long-term agricultural mortgage from $116,144 to $113,878, Production and intermediate term from $121,180 to $66,945, Agribusiness from $25,662 to $24,070 and the Total from $287,462 to $229,369.

	As of December 31, 2017			For the Period Ended December 31, 2017	
	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Long-term agricultural mortgage	$ 7,671	$ 8,136	$1,143	$ 8,232	$ –
Production and intermediate term	23,409	24,663	3,563	20,045	76
Agribusiness	51	72	115	494	60
Total	$31,131	$32,871	$4,821	$28,771	$136
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$ 99,695	$105,835 [3]	$ –	$103,289	$ 740
Production and intermediate term	69,940	79,016 [3]	–	75,601	898
Agribusiness	4,442	6,485	–	5,611	49
Rural residential real estate	9,635	10,559	–	9,375	59
Mission-related investments	–	–	–	–	–
Total	$183,712	$201,895 [3]	$ –	$193,876	$1,746
Total impaired loans:					
Long-term agricultural mortgage	$107,366	$113,971 [3]	$1,143	$111,521	$ 740
Production and intermediate term	93,349	103,679 [3]	3,563	95,646	974
Agribusiness	4,493	6,557	115	6,105	109
Rural residential real estate	9,635	10,559	–	9,375	59
Mission-related investments	–	–	–	–	–
Total	$214,843	$234,766 [3]	$4,821	$222,647	$1,882

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

[2] *Unpaid principal balance represents the contractual principal balance of the loan.*

[3] *The Association revised the "Unpaid Principal Balance" to correct an immaterial error in the disclosure as originally presented in the prior year (2017) Notes to Consolidated Financial Statements as follows: Impaired loans with no related allowance for loan losses: Long-term agricultural mortgage from $108,601 to $105,835, Production and intermediate term from $127,906 to $79,016 and the Total from $253,551 to $201,895. Total impaired loans: Long-term agricultural mortgage from $116,737 to $113,971, Production and intermediate term from $152,569 to $103,679 and the Total from $286,422 to $234,766.*

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The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Classification System as a percentage of total loans and related accrued interest receivable by loan type (in thousands):

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
As of December 31, 2019							
Long-term agricultural mortgage	**$14,709,824**	**84.90%**	**$1,120,910**	**6.47%**	**$1,495,698**	**8.63%**	**$17,326,432**
Production and intermediate term	**5,566,496**	**77.31%**	**719,913**	**10.00%**	**913,587**	**12.69%**	**7,199,996**
Agribusiness	**2,964,502**	**95.81%**	**61,768**	**2.00%**	**67,843**	**2.19%**	**3,094,113**
Rural residential real estate	**1,262,182**	**90.97%**	**50,096**	**3.61%**	**75,189**	**5.42%**	**1,387,467**
Rural infrastructure	**618,983**	**94.38%**	**29,295**	**4.47%**	**7,564**	**1.15%**	**655,842**
Mission-related investments	**472,994**	**100.00%**	**–**	**–**	**–**	**–**	**472,994**
Agricultural export finance	**89,900**	**100.00%**	**–**	**–**	**–**	**–**	**89,900**
Total	**$25,684,881**	**84.97%**	**$1,981,982**	**6.56%**	**$2,559,881**	**8.47%**	**$30,226,744**
As of December 31, 2018							
Long-term agricultural mortgage	$14,163,020	84.56%	$1,056,063	6.30%	$1,530,258	9.14%	$16,749,341
Production and intermediate term	5,365,256	76.78%	643,034	9.20%	979,474	14.02%	6,987,764
Agribusiness	2,606,507	95.79%	28,815	1.06%	85,763	3.15%	2,721,085
Rural residential real estate	1,344,315	91.47%	55,431	3.77%	69,948	4.76%	1,469,694
Rural infrastructure	484,879	94.18%	21,129	4.11%	8,817	1.71%	514,825
Mission-related investments	329,771	100.00%	–	–	–	–	329,771
Agricultural export finance	82,074	100.00%	–	–	–	–	82,074
Total	$24,375,822	84.48%	$1,804,472	6.25%	$2,674,260	9.27%	$28,854,554
As of December 31, 2017							
Long-term agricultural mortgage	$13,683,627	86.05%	$1,032,998	6.49%	$1,186,194	7.46%	$15,902,819
Production and intermediate term	5,348,526	78.09%	638,569	9.32%	861,991	12.59%	6,849,086
Agribusiness	2,209,424	96.23%	41,721	1.82%	44,798	1.95%	2,295,943
Rural residential real estate	1,359,829	92.38%	51,325	3.49%	60,835	4.13%	1,471,989
Rural infrastructure	363,455	95.41%	3,844	1.01%	13,646	3.58%	380,945
Mission-related investments	107,489	100.00%	–	–	–	–	107,489
Agricultural export finance	56,620	100.00%	–	–	–	–	56,620
Total	$23,128,970	85.46%	$1,768,457	6.53%	$2,167,464	8.01%	$27,064,891

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

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

We had no loans categorized as loss at December 31, 2019, 2018 or 2017.

The following table provides an aging analysis of past due loans by loan type (accruing volume includes accrued interest receivable; amounts are in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of December 31, 2019						
Long-term agricultural mortgage	**$ 19,169**	**$34,123**	**$ 53,292**	**$17,273,140**	**$17,326,432**	**$ 47**
Production and intermediate term	**29,979**	**25,977**	**55,956**	**7,144,040**	**7,199,996**	**1,052**
Agribusiness	**896**	**6,644**	**7,540**	**3,086,573**	**3,094,113**	**–**
Rural residential real estate	**4,527**	**2,262**	**6,789**	**1,380,678**	**1,387,467**	**–**
Rural infrastructure	**–**	**–**	**–**	**655,842**	**655,842**	**–**
Mission-related investments	**54,577**	**–**	**54,577**	**418,417**	**472,994**	**–**
Agricultural export finance	**–**	**–**	**–**	**89,900**	**89,900**	**–**
Total	**$109,148**	**$69,006**	**$178,154**	**$30,048,590**	**$30,226,744**	**$1,099**
As of December 31, 2018						
Long-term agricultural mortgage	$ 17,199	$19,762	$ 36,961	$16,712,380	$16,749,341	$ 296
Production and intermediate term	92,812	23,948	116,760	6,871,004	6,987,764	1,790
Agribusiness	5,472	2,468	7,940	2,713,145	2,721,085	–
Rural residential real estate	5,790	2,749	8,539	1,461,155	1,469,694	242
Rural infrastructure	–	–	–	514,825	514,825	–
Mission-related investments	4,644	4,317	8,961	320,810	329,771	4,317
Agricultural export finance	–	–	–	82,074	82,074	–
Total	$125,917	$53,244	$179,161	$28,675,393	$28,854,554	$6,645
As of December 31, 2017						
Long-term agricultural mortgage	$30,286	$21,880	$ 52,166	$15,850,653	$15,902,819	$1,119
Production and intermediate term	60,000	43,183	103,183	6,745,903	6,849,086	5,873
Agribusiness	221	2,010	2,231	2,293,712	2,295,943	–
Rural residential real estate	3,864	3,850	7,714	1,464,275	1,471,989	563
Rural infrastructure	–	–	–	380,945	380,945	–
Mission-related investments	1,593	–	1,593	105,896	107,489	–
Agricultural export finance	–	–	–	56,620	56,620	–
Total	$95,964	$70,923	$166,887	$26,898,004	$27,064,891	$7,555

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A restructuring of a loan constitutes a troubled debt restructuring if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and borrower, and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. As a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses.

The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31 (in thousands):

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
2019		
Long-term agricultural mortgage	**$ 8,046**	**$ 8,084**
Production and intermediate term	**2,446**	**1,047**
Agribusiness	**1,240**	**1,240**
Total	**$11,732**	**$10,371**
2018		
Long-term agricultural mortgage	$ 2,295	$ 2,331
Production and intermediate term	6,055	5,160
Agribusiness	18,067	18,007
Total	$26,417	$25,498
2017		
Long-term agricultural mortgage	$ 5,192	$ 5,194
Production and intermediate term	17,886	18,568
Agribusiness	1,726	1,329
Total	$24,804	$25,091

Premodification represents the outstanding recorded investment just prior to restructuring, and postmodification represents the outstanding recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a subsequent payment default during the respective reporting period (in thousands):

	2019	2018	2017
Troubled debt restructurings that subsequently defaulted:			
Long-term agricultural mortgage	**$ –**	$ –	$2,511
Agribusiness	**–**	17,049	–
	$ –	$17,049	$2,511

Troubled debt restructurings outstanding at December 31, 2019, totaled $65.1 million, $23.5 million of which was in nonaccrual status, compared to a December 31, 2018, total of $64.1 million, $27.4 million of which was in nonaccrual status, and a December 31, 2017, total of $52.3 million, $5.2 million of which was in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $6.2 million at December 31, 2019.

The "Provision for credit losses" on the Consolidated Statements of Income includes a provision for loan losses and a provision for unfunded lending commitments.

A summary of changes in the allowance for loan losses and reserve for unfunded lending commitments follows (in thousands):

	December 31,		
Allowance for Loan Losses	**2019**	2018	2017
Balance at beginning of year	**$157,000**	$130,000	$104,000
Provision for loan losses	**9,723**	30,865	30,912
Loans charged off	**(8,018)**	(5,764)	(9,540)
Recoveries	**4,295**	1,899	4,628
Balance at end of year	**$163,000**	$157,000	$130,000

	December 31,		
Reserve for Unfunded Lending Commitments	**2019**	2018	2017
Balance at beginning of year	**$10,000**	$11,000	$11,000
Provision for (reversal of) unfunded lending commitments	**1,000**	(1,000)	–
Balance at end of year	**$11,000**	$10,000	$11,000

A summary of changes in the allowance for loan losses and period-end recorded investments in loans by loan type is as follows (in thousands):

	Balance at December 31, 2018	**Loan Recoveries**	**Loan Charge-Offs**	**Provision for Loan Losses**	**Balance at December 31, 2019**
Long-term agricultural mortgage	$ 99,950	**$ 141**	**$ (397)**	**$2,323**	**$102,017**
Production and intermediate term	27,929	**3,442**	**(7,399)**	**6,129**	**30,101**
Agribusiness	20,815	**681**	**(127)**	**934**	**22,303**
Rural residential real estate	4,010	**31**	**(95)**	**83**	**4,029**
Rural infrastructure	4,067	**–**	**–**	**131**	**4,198**
Mission-related investments	41	**–**	**–**	**23**	**64**
Agricultural export finance	188	**–**	**–**	**100**	**288**
Total	$157,000	**$4,295**	**$(8,018)**	**$9,723**	**$163,000**

	Balance at December 31, 2017	Loan Recoveries	Loan Charge-Offs	Provision for Loan Losses	Balance at December 31, 2018
Long-term agricultural mortgage	$ 86,607	$ 351	$ (331)	$13,323	$ 99,950
Production and intermediate term	28,317	1,404	(5,299)	3,507	27,929
Agribusiness	8,026	104	(69)	12,754	20,815
Rural residential real estate	3,825	40	(65)	210	4,010
Rural infrastructure	3,132	–	–	935	4,067
Mission-related investments	30	–	–	11	41
Agricultural export finance	63	–	–	125	188
Total	$130,000	$1,899	$(5,764)	$30,865	$157,000

	Balance at December 31, 2016	Loan Recoveries	Loan Charge-Offs	Provision for (Reversal of) Loan Losses	Balance at December 31, 2017
Long-term agricultural mortgage	$ 66,482	$ 251	$ (683)	$20,557	$ 86,607
Production and intermediate term	24,995	4,277	(6,835)	5,880	28,317
Agribusiness	6,626	94	(1,977)	3,283	8,026
Rural residential real estate	3,516	6	(45)	348	3,825
Rural infrastructure	2,140	–	–	992	3,132
Mission-related investments	160	–	–	(130)	30
Agricultural export finance	81	–	–	(18)	63
Total	$104,000	$4,628	$(9,540)	$30,912	$130,000

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	Allowance for Credit Losses Ending Balance at December 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2019	
	Individually Evaluated for Impairment	**Collectively Evaluated for Impairment**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**
Long-term agricultural mortgage	**$ 394**	**$101,624**	**$145,639**	**$17,180,793**
Production and intermediate term	**5,723**	**24,378**	**84,774**	**7,115,222**
Agribusiness	**11,082**	**11,220**	**33,409**	**3,060,704**
Rural residential real estate	**–**	**4,029**	**11,195**	**1,376,272**
Rural infrastructure	**2,404**	**1,794**	**7,564**	**648,278**
Mission-related investments	**–**	**64**	**–**	**472,994**
Agricultural export finance	**–**	**288**	**–**	**89,900**
Total	**$19,603**	**$143,397**	**$282,581**	**$29,944,163**

	Allowance for Credit Losses Ending Balance at December 31, 2018		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Long-term agricultural mortgage	$ 120	$ 99,830	$106,494	$16,642,847
Production and intermediate term	930	26,999	53,367	6,934,397
Agribusiness	11,330	9,485	22,447	2,698,638
Rural residential real estate	–	4,010	10,469	1,459,225
Rural infrastructure	2,404	1,663	8,817	506,008
Mission-related investments	–	41	4,318	325,453
Agricultural export finance	–	188	–	82,074
Total	$14,784	$142,216	$205,912	$28,648,642

	Allowance for Credit Losses Ending Balance at December 31, 2017		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2017	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Long-term agricultural mortgage	$1,143	$ 85,464	$107,366	$15,795,452
Production and intermediate term	3,563	24,755	93,342	6,755,628
Agribusiness	115	7,910	4,493	2,291,450
Rural residential real estate	–	3,825	9,635	1,462,355
Rural infrastructure	–	3,132	–	380,945
Mission-related investments	–	30	–	107,489
Agricultural export finance	–	63	–	56,620
Total	$4,821	$125,179	$214,836	$26,849,939

Our adversely classified assets decreased during 2019, ending the year at 8.5 percent of the portfolio compared to 9.3 percent of the portfolio at December 31, 2018. Adversely classified assets are assets that we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

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

Note 4 – Investment in AgriBank, FCB

During 2019, we were required by AgriBank, FCB to maintain an investment equal to 2.25 percent of the average quarterly balance of our note payable to AgriBank, FCB, with an additional amount required on Association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50 percent with similar growth rate requirements as 2019.

We are also required to hold AgriBank, FCB stock related to our participation in pool programs. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank, FCB's capital plan provides for annual retirement of AgriBank, FCB stock and optimizes capital by distributing all available earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

At December 31, 2019, our investment in AgriBank, FCB was $651.6 million of which $369.4 million consisted of stock representing distributed AgriBank, FCB surplus and $282.2 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

The balance of our investment in AgriBank, FCB was $651.6 million, $569.7 million and $532.6 million at December 31, 2019, 2018 and 2017, respectively.

Note 5 – Investment in AgDirect, LLP

We have entered into agreements with 15 other Farm Credit System associations inside and outside the AgriBank, FCB District to provide access to our AgDirect trade credit financing program. The AgDirect program includes origination and refinancing of agricultural equipment loans and leases through independent equipment dealers. The Farm Credit Administration has approved requests from these associations to invest in a limited liability partnership (LLP) that facilitates this collaborative AgDirect trade credit financing program and allows us to leverage the AgDirect program for the mutual benefit of our associations and the farmers and ranchers we collectively serve. Our investment is reflected as "Investment in AgDirect, LLP" on our Consolidated Balance Sheets. The LLP is an unincorporated business entity and purchases participations in AgDirect loans from us that were originated under the agreements described earlier. The LLP subsequently sells a like amount of loan participations to AgriBank, FCB. The LLP pays us a fee for originating these loans. Total outstanding participations sold to the LLP at December 31, 2019, were $3.7 billion compared to $3.3 billion at the end of 2018 and $3.4 billion at the end of 2017. AgriBank, FCB, at the discretion of its Board of Directors, pays patronage on these loan participations to AgDirect, LLP. Any patronage declared is accrued quarterly and paid by AgriBank, FCB in the first month of the subsequent quarter. AgDirect, LLP distributes any patronage paid by AgriBank, FCB as partnership distributions to the AgDirect, LLP partners.

At December 31, 2019, our investment in AgDirect, LLP was $59.7 million.

Note 6 – Premises and Equipment

Premises and equipment consisted of the following (in thousands):

	December 31,		
	2019	2018	2017
Land, buildings and improvements	**$214,836**	$198,798	$182,131
Construction/ improvements in progress	**43,622**	20,377	5,931
Furniture and equipment	**122,804**	108,973	100,532
	381,262	328,148	288,594
Less accumulated depreciation	**153,683**	138,694	124,778
Premises and equipment, net	**$227,579**	$189,454	$163,816

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Note 7 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in four Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $90 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under specific circumstances. Our investment in the RBICs totaled $19.6 million at December 31, 2019, $13.6 million at December 31, 2018, and $12 million at December 31, 2017. The investments were evaluated for impairment. No impairments were recognized on this investment during 2019, 2018 or 2017.

Note 8 – Notes Payable

The notes payable to AgriBank, FCB represents borrowings to fund our loan portfolio. This indebtedness is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement. AgriBank, FCB has established a $30 billion revolving line of credit for us that is renegotiated prior to the maturity date of June 30, 2022. The interest rate is periodically adjusted by AgriBank, FCB, and at December 31, 2019, was 2.46 percent for the ACA, 2.57 percent for the FLCA and 2.09 percent for the PCA. The consolidated notes payable balance is presented in the following table (in thousands):

	December 31,		
	2019	2018	2017
Notes payable to AgriBank, FCB	**$24,780,931**	$23,812,109	$22,403,041

Under the Farm Credit Act, we are obligated to borrow only from AgriBank, FCB unless AgriBank, FCB approves borrowing from other funding sources. AgriBank, FCB, consistent with Farm Credit Administration regulations, has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2019, we were within the specified limitations.

Note 9 – Members' Equity

A description of our capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities follows.

Capital Stock

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. Our capitalization bylaws require a customer to invest in capital stock equal to $1 thousand or 2.0 percent of the amount of the loan, whichever is less. Our Board of Directors may increase the amount of investment, if necessary, to meet capital needs. Under the current Board of Directors approved program, the stock requirement for loan customers is generally $1 thousand, and stock is issued to each loan comaker (includes primary borrower and any co-borrowers; does not include guarantors). Non-loan customers purchasing financially related services from the Association continue to purchase one $5 share of stock. All stock is funded with a noninterest-bearing obligation that will be due only in the unlikely event that the Association does not meet regulatory capital requirements. Loan comakers who do not currently own stock will acquire stock when a new loan is originated or a loan servicing action takes place.

The noninterest-bearing obligation is included in “Other assets” on the Consolidated Balance Sheets.

We retain a first lien on the stock owned by customers. Retirement of equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Each customer purchasing capital stock is entitled to one vote as a stockholder regardless of the number of shares held. The customer acquires ownership of the capital stock at the time the loan is made.

Regulatory Capitalization Requirements and Restrictions

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. These regulations replaced existing core surplus and total surplus ratios with common equity Tier 1, Tier 1 capital and total capital risk-based capital ratios. These regulations also added a Tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

	As of December 31,			Regulatory Minimums	Capital Conservation Buffers	Total
	2019	2018	2017			
Risk-adjusted ratios:						
Common equity Tier 1	**16.70%**	16.10%	15.71%	**4.5%**	**2.5%***	**7.0%**
Tier 1 capital	**16.70%**	16.10%	15.71%	**6.0%**	**2.5%***	**8.5%**
Total capital	**17.24%**	16.63%	16.21%	**8.0%**	**2.5%***	**10.5%**
Permanent capital	**16.81%**	16.21%	15.80%	**7.0%**	**–**	**7.0%**
Non-risk-adjusted ratios:						
Tier 1 leverage	**17.90%**	17.29%	16.97%	**4.0%**	**1.0%**	**5.0%**
UREE leverage	**18.53%**	17.88%	17.52%	**1.5%**	**–**	**1.5%**

**The 2.5 percent capital conservation buffers over risk-adjusted ratio minimums was phased in over three years under the Farm Credit Administration capital requirements. The phase-in period ended December 31, 2019.*

Risk-adjusted assets has been defined by the Farm Credit Administration regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with Farm Credit Administration regulations and are calculated as follows (not all items may be applicable to our Association):

- Common equity Tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory-required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity Tier 1 plus noncumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is Tier 1 capital plus other required member stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by permanent capital ratio risk-adjusted assets.
- Tier 1 leverage ratio is Tier 1 capital, including regulatory deductions, divided by average assets, less regulatory deductions subject to Tier 1 capital.
- Unallocated retained earnings and equivalents (UREE) leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement, less certain regulatory-required deductions including the amount of allocated investments in other System institutions, divided by average assets, less regulatory deductions subject to Tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior Farm Credit Administration approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank, FCB required investment was not included in the common equity Tier 1, Tier 1 capital or leverage ratios. We did not include our investment in AgriBank, FCB as permanent capital at December 31, 2019, 2018 or 2017.

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Description of Equities

The following table presents information regarding the classes and number of shares of stock outstanding as of December 31. All shares are at-risk and have a par or stated value of $5 per share.

	Shares Outstanding as of December 31,		
	2019	2018	2017
Class D common stock	**17,199,379**	16,285,226	14,845,625
Class E common stock	**726,395**	649,131	522,085

Our bylaws authorize us to issue an unlimited number of shares of Class D common stock and Class E common stock with a par or face value of $5 per share.

Class D common stock is voting and is issued solely to a farmer, rancher, or producer or harvester of aquatic products. Class E common stock has no voting rights and is issued to customers to capitalize rural home and farm-related business loans or to become eligible for financial services. Class D common stock and Class E common stock may be retired at the discretion of the Board of Directors, at book value not to exceed par, provided we meet minimum capital adequacy standards under Farm Credit Administration regulations.

Subject to our policies, Class D and Class E common stock are transferable to any person eligible to hold the respective class of stock. Class D common stock and Class E common stock cannot be transferred when we do not meet capital adequacy standards under Farm Credit Administration regulations.

At any time within two years after the loan of a customer is repaid in full, any voting stock held by the customer is converted to nonvoting stock. The nonvoting stock may be converted back to voting stock if the owner of the stock borrows additional funds.

As determined by the Board of Directors, we may declare dividends in stock, cash or any combination, provided we meet capital adequacy standards under Farm Credit Administration regulations and no stock is impaired. In the event we would liquidate or dissolve, any assets remaining after payment or retirement of all liabilities would be distributed to the holders of stock in the following order of priority:

- first, to the holders of common stock and participation certificates, equally and pro rata in proportion to the number of shares or units of common stock and participation certificates issued and outstanding, until an amount equal to the aggregate par value of all common stock and participation certificates has been distributed;
- second, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed; and
- third, any remaining assets would be distributed among current and former stockholders in the proportion which the aggregate patronage of each stockholder bears to the total patronage of all current and former stockholders, to the extent practicable and as determined by the Board unless otherwise provided by law.

Patronage Distributions

Subject to the Farm Credit Act and Farm Credit Administration regulations, and provided that at the time of declaration no class of stock is impaired, patronage distributions may be declared and paid in amounts determined by the Board of Directors. Patronage distributions may be paid in any class of stock that the recipient is eligible to hold, in allocated surplus, in cash, in qualified or nonqualified notices of allocation, or in any combination, and must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors.

The Board of Directors declared cash patronage distributions, referred to as cash-back dividends, of 1.0 percent of a customer's average daily balance of eligible loans outstanding for an approximate total of $262 million in 2019 and 0.90 percent for an approximate total of $230 million in 2018. The Board of Directors declared a cash patronage distribution of $200 million in 2017.

We are prohibited from distributing earnings on a patronage basis to the extent that they would reduce our permanent capital ratio below the Farm Credit Administration's minimum permanent capital adequacy requirements. We do not foresee any events that would result in this prohibition in 2020. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior Farm Credit Administration approval if capital ratios fall below the total requirements. We do not foresee any events that would result in this prohibition in 2020.

Note 10 – Employee Benefit Plans

We participate in the benefits plans administered by Farm Credit Foundations, a service corporation for Farm Credit System entities. The Farm Credit Foundations Plan Sponsor and Trust Committees provide governance and oversight for the benefit plans. The governance committees are either elected or appointed representatives (senior leadership or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administration functions. The Association has a senior officer who serves on each committee and a director who serves on the Plan Sponsor Committee.

Under the alliance agreement described in Note 1, "Organization and Operations," the 2019 benefits expense of $52.8 million was shared between the Association and Frontier Farm Credit on a 93.6 percent and 6.4 percent basis respectively, which excluded any Frontier Farm Credit pension plan expense in excess of the Association's retirement programs. The employee benefits expense is included in "Salaries and employee benefits" on the Consolidated Statements of Income.

Defined Contribution Plan

The Association participates in the Farm Credit Foundations Defined Contribution/401(k) Plan for benefits-eligible employees. The plan is a qualified plan up to the limits provided under the Internal Revenue Code.

The Association matches the employee's contributions dollar for dollar up to a maximum of 6.0 percent of the employee's compensation on both pretax and post-tax contributions. Additionally, the Association contributes a fixed 3.0 percent of the employee's compensation to the plan. For employees hired prior to January 1, 1991, the percentage is based on the employee's years of service and is a fixed contribution that does not change from year to year.

For employees hired prior to January 1, 2007, an additional amount known as the Integrated Employer Non-Elective Contribution is made to the plan for the portion of compensation exceeding the Federal Insurance Contributions Act tax base (Social Security tax limit).

Nonqualified Deferred Compensation Plan

The Farm Credit Foundations Nonqualified Deferred Compensation Plan serves two purposes. The plan provides for employer-matching or fixed contributions that exceed the Internal Revenue Code limits of the Defined Contribution Plan. Additionally, eligible employees may defer a portion of their base salary, variable pay and other compensation into this plan. Under the plan, eligible participants include the Chief Executive Officer and other employees who meet certain compensation thresholds as determined by the Internal Revenue Code.

Pre-409A Frozen Nonqualified Deferred Compensation Plan

We also participate in the Farm Credit Foundations Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purposes as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions are made to the plan.

Retiree Health Care

The Association participates in the Farm Credit Foundations Retiree Medical Plan. The plan benefits are available to retired employees who meet specific age and service requirements. Employees hired January 1, 2002, or later are not eligible for the subsidy. The anticipated costs of these benefits were accrued during the period of the employees' active service. The related expense is not considered material to the Association's financial position.

Defined Benefit Pension Plan

The Association does not have any defined benefit pension plan or supplemental pension plans for the Chief Executive Officer, senior officers or any employees; therefore, there is no current or future liability for such plans.

Note 11 – Income Taxes

The Tax Cuts and Jobs Act (the Act) was enacted in December 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21.0 percent from 35.0 percent, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for (benefit from) income taxes for the year ended December 31, 2017. Our effective tax rate was 0.88 percent, 1.09 percent and 0.84 percent in 2019, 2018 and 2017, respectively.

Our provision for income taxes follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	**$5,203**	$5,617	$2,583
State	**1,390**	1,175	403
Total current	**$6,593**	$6,792	$2,986
Deferred:			
Federal	**$ (521)**	$ 150	$1,992
State	**(135)**	9	(19)
Total deferred	**$ (656)**	$ 159	$1,973
Total provision for income taxes	**$5,937**	$6,951	$4,959

The decrease in provision for income taxes for 2019 is primarily due to the relative prior year adjustments to the estimated tax savings from our patronage program based on actual tax return outcomes.

The following table calculates the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Federal tax at statutory rate	**$142,372**	$134,398	$205,594
State tax, net	**776**	858	26
Tax effect of:			
Exempt FLCA earnings	**(112,676)**	(105,511)	(162,742)
Deferred tax valuation allowance	**1,252**	364	(1,962)
Tax rate change	**–**	–	8,305
Patronage distribution	**(25,495)**	(24,528)	(42,588)
Other	**(292)**	1,370	(1,674)
Provision for income taxes	**$ 5,937**	$ 6,951	$ 4,959

Farm Credit Services of America, ACA

Notes to Consolidated Financial Statements

The following table provides the components of deferred tax assets and liabilities (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Allowance for loan losses	**$9,431**	$8,907	$9,300
Nonaccrual loan interest	**3,105**	2,249	1,640
AgDirect servicing fee	**3,960**	3,520	3,598
Vacation leave liability	**1,355**	1,318	1,267
Post-retirement benefit liability	**59**	99	118
Other	**844**	753	717
Deferred tax asset	**18,754**	16,846	16,640
Deferred tax asset valuation allowance	**(13,978)**	(12,726)	(12,361)
Net deferred tax asset	**$4,776**	$4,120	$4,279

We adopted an annual patronage program beginning in 2004. Since the qualified cash distributions are estimated to substantially reduce our taxable income, a valuation reserve has been established beginning December 31, 2004, for the portion of the net deferred tax asset for which the timing of reversals is uncertain.

Deferred income taxes have not been provided on patronage distributions from AgriBank, FCB prior to January 1, 1993, the adoption date of the Financial Accounting Standards Board guidance on "Income Taxes." Our intent is:

- to permanently invest these and other undistributed earnings in AgriBank, FCB, which indefinitely postpones their conversion to cash, or
- to pass through any distribution related to pre-1993 earnings to our borrowers through qualified patronage allocations.

We also have not recorded deferred income taxes on amounts allocated to us that relate to AgriBank, FCB's post-1992 earnings to the extent that these earnings will be passed through to our borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgriBank, FCB's post-1992 unallocated earnings. AgriBank, FCB currently has no plans to distribute unallocated earnings to us, and we do not contemplate circumstances that, if distributions were made under our current structure, would result in taxes being paid.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2019. Additionally, we believe we are no longer subject to income tax examinations for years prior to 2016.

Note 12 – Related Party Transactions

In the ordinary course of business, we may enter into loan transactions with our directors, senior officers, their immediate family members and other organizations with whom such persons may be associated. These loans may be subject to special approval requirements contained in the Farm Credit Administration regulations and/or our policy, and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons. The related parties can be different each year-end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. In our opinion, loans outstanding to directors and senior officers at December 31, 2019, did not involve more than a normal risk of collectability.

Loan information to related parties for the years ended December 31 is shown below (in thousands):

Related Party Loans and Leases	As of December 31,		
	2019	2018	2017
Total related party loans and leases	**$48,530**	$39,995	$43,744

Related Party Loans and Leases	For the year ended December 31,		
	2019	2018	2017
New and advances on loans and leases	**$38,158**	$20,586	$24,328
Repayments and other	**$29,623**	$24,335	$19,839

We purchase various services from AgriBank, FCB, including SunStream Business Services, a division of AgriBank, FCB. The services include tax-reporting services; technology services; cash management; customer, travel and expense credit card programs; and expense-reporting tools. The total cost of services we purchased from AgriBank, FCB was $1.4 million, $1.1 million and $950 thousand in 2019, 2018 and 2017, respectively.

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation when it was formed as a separate service corporation. Our investment was $0.1 million at December 31, 2019, December 31, 2018, and December 31, 2017. The total cost of services purchased from Farm Credit Foundations was $1.5 million in 2019, $1.4 million in 2018 and $1.4 million in 2017.

Note 13 – Commitments and Contingencies

In the normal course of business, we have various outstanding commitments and contingent liabilities, such as commitments to extend credit, which may not be reflected in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis using the same credit policies as for on-balance-sheet financial instruments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held upon exercise of commitments varies but may include accounts receivable, inventory, property, plant and equipment, and agricultural real estate. We had remaining commitments for additional borrowing at December 31, 2019, of approximately $7.2 billion, approximately $6.9 billion at December 31, 2018, and approximately $6.8 billion at December 31, 2017.

We also participate in standby letters of credit to satisfy the financing needs of customers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, $133.5 million of standby letters of credit were outstanding, $114.6 million at December 31, 2018, and $107.9 million at December 31, 2017. Outstanding standby letters of credit have expiration dates ranging to 2039. The maximum potential amount of future payments we are required to make under the guarantees is equal to the total amount of the letters of credit outstanding.

In the normal course of business, we may be subject to a variety of legal matters that may result in contingencies. Actions are pending against us in which claims for money damages are asserted. In our opinion, based on current information, the ultimate liability, if any, would not have a material impact on our financial position.

Note 14 – Fair Value Measurement

The Financial Accounting Standards Board guidance on "Fair Value Measurements" defines fair value 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. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2, "Summary of Significant Accounting Policies" for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. The following tables provide information on assets measured at fair value on a nonrecurring basis (in thousands):

As of December 31, 2019	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Loans	**–**	**–**	**$68,701**	**$68,701**
Other property owned	**–**	**–**	**$25,677**	**$25,677**

As of December 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	–	–	$17,836	$17,836
Other property owned	–	–	$39,957	$39,957

As of December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	–	–	$37,174	$37,174
Other property owned	–	–	$4,400	$4,400

The amount of loans in the previous tables represents the fair value of certain loans that were evaluated for impairment based on the estimated appraised value of the underlying collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on our knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the carrying value of the loan, a specific reserve is established.

The amount of other property owned represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Note 15 – Subsequent Events

We have evaluated subsequent events through March 3, 2020, which is the date the consolidated financial statements were available to be issued. On January 21, 2020, we received a communication from the Farm Credit Administration that will prospectively exclude at-risk capital stock that is financed with a noninterest-bearing obligation from Tier 1/Tier 2 regulatory capital. The estimated impact of this change on our regulatory capital ratios is expected to be immaterial. Additionally, the balance sheet treatment of the noninterest-bearing receivable will be reclassified to contra equity. These changes will be implemented in the first quarter of 2020 and will not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.

Farm Credit Services of America, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit System institutions required to be disclosed in this section are incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report to stockholders.

The description of significant developments that had, or could have, a material impact on earnings, interest rates to customers, acquisitions or dispositions of material assets, and material changes in the manner of conducting the business, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to stockholders.

Description of Property

Our corporate office is located in Omaha, Nebraska, and is owned. The locations of our retail offices are incorporated herein by reference to the last page of this annual report to stockholders. All retail office locations are owned except for the office in Powell, Wyoming, which is a leased office.

During 2019, excess property in Mitchell, South Dakota, and the previous office in Imperial, Nebraska, were sold.

The construction of an additional office building in Omaha, Nebraska, began in 2017, with completion planned for 2020. The construction of new retail offices in Imperial, Nebraska, and Oskaloosa, Iowa, (relocated from Ottumwa, Iowa) were completed in 2019. Construction also began in 2019 on a new retail office in Kearney, Nebraska, and will be completed in 2020. The Powell, Wyoming, office relocated to remodeled leased space in 2019.

During 2019, retail office additions were completed in Mason City, Iowa, and Harlan, Iowa. In 2018, construction of a building addition began for the 5015 S. 118th Street facility in Omaha, Nebraska, with completion in 2020. A building addition began during 2019 in Manchester, Iowa.

Legal Proceedings

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Additional Regulatory Capital

Pursuant to Farm Credit Administration regulation 620.5, the permanent capital ratio, total surplus ratio and core surplus ratios were 15.20 percent, 14.99 percent and 14.99 percent as of December 31, 2014; 14.81 percent, 14.58 percent and 14.58 percent as of December 31, 2013; and 14.86 percent, 14.60 percent and 14.60 percent as of December 31, 2012. Refer to the "Consolidated Five-Year Summary of Selected Financial Data" for capital ratio calculations for the past five years.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report to stockholders.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 8 to the consolidated financial statements, "Notes Payable," included in this annual report to stockholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Member Privacy

The Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association to our members not normally contained in published reports or press releases.

Customer Privacy

Customer privacy is important to us. We hold customer financial and other personal information in strict confidence. We do not sell or trade customers' personal information to marketing companies or information brokers for their use. By Farm Credit Administration regulations, we are required to provide a list of current stockholders to any stockholder who requests such information for defined purposes. Additional information regarding this Farm Credit Administration rule governing the disclosure of customer information can be obtained by contacting the Farm Credit Administration or our Legal team at PO Box 2409, Omaha, NE 68103-2409.

Farm Credit Services of America, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Financial and Supervisory Relationship with the Association's Funding Bank

Information required to be disclosed in this section is incorporated herein by reference from the "Relationship with AgriBank, FCB" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and from Note 8 to the consolidated financial statements, "Notes Payable."

Selected Financial Data

The selected financial data for the five years ended December 31, 2019, required to be disclosed in this section is incorporated herein by reference from the "Consolidated Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to stockholders and is required to be disclosed in this section, is incorporated herein by reference.

Directors and Compensation of Directors

The listing of directors, term of office, business experience during the past five years, principal occupation and employment during the past five years, and any other business interests, which are required to be disclosed in this section, are incorporated herein by reference from the "FCSAmerica, ACA Directors" section in this annual report to stockholders.

Our bylaws permit compensation of directors for service on the Board. Compensation is provided for attendance at meetings, special assignments, training and development, and travel time associated with these responsibilities. The per diem rate for 2019 was $600. Monthly retainers for January 1, 2019, through April 30, 2019, were $2,717 for the Board Chairperson, $2,475 for the Board Vice-Chairperson and Committee Chairpersons, and $2,225 for all other directors. Beginning May 1, 2019, the monthly retainers were $2,800 for the Board Chairperson, $2,550 for the Board Vice-Chairperson and chairpersons of a Farm Credit Services of America and Frontier Farm Credit subcommittee, and $2,290 for all other directors.

Farm Credit Services of America, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Compensation information for each director who served in 2019 follows:

Director	2019 Committees	Board Days	Other Days	Total 2019 Compensation
Phil Bamesberger [1]	Human Capital	6.0	12.0	**$31,345**
Bob Bruxvoort	Business Risk	7.5	17.5	**$43,220**
Jeff Burg [2]	Business Risk	5.5	16.5	**$31,520**
Tom Farwell	Audit	7.5	18.5	**$42,820**
Steve Henry, Board Vice-Chairperson	Human Capital	7.5	46.0	**$62,400**
Nicholas Hunt	Audit	7.5	16.0	**$41,320**
Nick Jorgensen [3,4]	Business Risk	7.5	36.5	**$55,700**
Jim Kortan [3,4]	Audit	7.5	40.5	**$59,100**
Rick Maxfield	Governance	7.5	34.0	**$52,120**
Cris Miller	Governance	7.0	31.0	**$50,020**
Randy Peters [5]	Audit	1.5	8.5	**$12,675**
John Reisch [3,4]	Governance	7.5	32.0	**$53,000**
Jon Van Beek	Audit	7.5	23.5	**$45,820**
Kim Vanneman [6]	Human Capital	0.0	0.0	**$2,475**
Susan Voss [3]	Human Capital	7.5	30.5	**$50,020**
Mark Weiss	Business Risk	7.5	23.0	**$45,520**
Jennifer Zessin, Board Chairperson		7.5	40.5	**$62,067**
			Total Compensation	**$741,142**

[1] Term began April 1, 2019
[2] Term began May 1, 2019
[3] Board Committee Chairperson
[4] Chairperson of a Farm Credit Services of America and Frontier Farm Credit Subcommittee
[5] Board term ended March 31, 2019
[6] Resigned from Board as of January 31, 2019

Total compensation is rounded to the nearest dollar and includes retainers and all per diems paid in 2019.

Farm Credit Services of America, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Compensation of CEO and Senior Officers

The CEO and senior officers as of December 31, 2019, are shown below. The CEO and senior officers provide joint management for Farm Credit Services of America (Association) and Frontier Farm Credit.

Name	Current Position	Date Started in Current Position	Previous Position(s) During Past Five Years
Mark Jensen	President and CEO	November 2017	Senior Vice President – Chief Risk Officer
Robert Campbell	Senior Vice President	April 1999	–
Scott Coziahr	Senior Vice President – General Counsel	February 2006	–
Ann Finkner	Senior Vice President – Chief Administrative Officer	July 2005	–
Shane Frahm	Senior Vice President – Agribusiness Capital	February 2017	Vice President – Agribusiness Credit
Chad Gent	Senior Vice President – Retail Credit	January 2017	Vice President – Retail Credit
Marshall Hansen	Senior Vice President – Agribusiness Capital	January 2017	Vice President – Agribusiness Finance
Anthony Jesina	Senior Vice President – Related Services	June 2015	Vice President – Country Home Loans
Kenneth Keegan	Executive Vice President – Business Development	August 2013	–
Craig Kinnison	Senior Vice President – Chief Financial Officer	November 2006	–
Dennis Kirlin	Senior Vice President – Chief Applications Officer	January 2017	Vice President – Chief Applications Officer; Vice President – Applications Development
Jim Knuth	Senior Vice President	September 2001	–
Timothy Koch	Senior Vice President – Chief Credit Officer	February 2017	Senior Vice President – Specialized Lending
Brian Legried	Senior Vice President – AgDirect	April 2017	Vice President – Refined Fuels Sales & Energy Services, CHS Inc.
Duane Maciejewski	Senior Vice President – Specialized Lending	March 2017	Senior Vice President – AgDirect; Vice President – AgDirect
David Martin	Senior Vice President – Chief Strategy Officer	December 2008	–
Gary Mazour	Senior Vice President – Agribusiness Capital Credit	February 2017	Vice President – Capital Markets
James Roberge	Senior Vice President – Commercial Lending	March 2012	–
Greg Salton	Senior Vice President – Chief Risk Officer	January 2018	Senior Vice President – Risk Management; Vice President – Business Risk Insights
Fallon Savage	Senior Vice President – Agribusiness Capital Credit	February 2017	Vice President – Agribusiness Finance Operations
Robert Schmidt	Senior Vice President	May 1999	–
Russell Wagner	Senior Vice President – Chief Technology Officer	January 2017	Vice President – Chief Technology Officer
Angie Winegar	Senior Vice President – Centralized Business Solutions	April 2019	Vice President – Consumer Lending; Vice President – Country Home Loans; Director – Innovation & Strategy

Farm Credit Services of America, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Other business interests of senior officers are shown below.

Name	Other Business Interests
Mark Jensen	• Board of Directors, Greater Omaha Chamber. • Advisory Council, University of Nebraska Clayton Yeutter Institute of International Trade and Finance.
Robert Campbell	• Board of Directors, Nebraska Farm Bureau Foundation, a non-profit organization promoting an understanding of the vital importance of agriculture in the state of Nebraska.
Scott Coziahr	• Managing member of JDI Properties, LLC, a residential real estate management company.
Ann Finkner	• Board of Directors and Plan Sponsor Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Institute for Career Advancement Needs, a non-profit organization focusing on professional and personal leadership development. • Board of Directors, NET Foundation, a non-profit organization enhancing the position of public television and radio in the state of Nebraska. • Partner, Jane Doughs Investment Club, a group owning publicly traded investments.
Shane Frahm	• Managing member of Frahm Brothers Partnership, a production farming company. • Co-Manager of Hollertz Farms, LLC, a production farming company.
Chad Gent	• Managing member of Double Summit, LLC, a real estate tax lien investment company.
Marshall Hansen	• Board member, Nebraska Career Education & Innovation Foundation, an advocate for innovative career education opportunities for Nebraskans.
Kenneth Keegan	• Board of Directors, The Durham Museum, a non-profit regional learning and cultural center organization.
Craig Kinnison	• Trust Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Food Bank for the Heartland, a non-profit organization that distributes emergency and supplemental food to people in Nebraska and western Iowa.
David Martin	• Board of Directors, Release Ministries, a non-profit organization supporting youth in the juvenile justice system. • President of DCM Ventures, LLC, a residential real estate company. • President of DCM Properties, LLC, a residential real estate company.
James Roberge	• Board of Directors, Child Saving Institute, a non-profit organization serving children and families in the Omaha area.
Fallon Savage	• Board of Directors, Four Points Federal Credit Union, a financial services cooperative offering banking products and services to members.
Robert Schmidt	• Board of Governors, South Dakota State University Foundation, a non-profit organization supporting private funding for the University.

Compensation Overview: The Association's compensation programs are market-based and designed to provide competitive compensation, including base salary, incentives and benefits that attract, retain, motivate and reward an engaged and talented workforce while achieving business results aligned with the best interests of our shareholders.

The design and governance of our CEO and senior officer compensation program are consistent with prudent risk management standards and provide total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and rural America. The design of the compensation program supports our risk management goals and includes (1) a competitive mix of base salary and variable pay, (2) a pay-for-performance process that allocates individual awards based on individual performance and contributions, (3) a balanced use of variable pay-performance measures that are risk-adjusted where appropriate, and (4) a long-term portion of variable pay to align with the strategic direction of the Association, which provides for competitive market-based compensation and aligns with shareholder interests.

Compensation for the CEO and senior officers includes base salary, short-term incentive plan opportunity and long-term incentive plan opportunity. Compensation for all other employees includes base salary and short-term incentive plan opportunity. The CEO and senior officers participate in benefit plans generally available to all employees. Under the alliance agreement described in Note 1, "Organization and Operations," the 2019 compensation and benefits expense for the CEO, senior officers, and all Association and Frontier Farm Credit employees was shared between the Association and Frontier Farm Credit on a 93.6 percent and 6.4 percent basis respectively, excluding any Frontier Farm Credit pension plan expense in excess of the Association's retirement programs.

The CEO, Mr. Mark Jensen, does not have an employment agreement. Any CEO employment agreement is at the discretion of the Board of Directors.

Base Salaries: Base salaries for all employees, including the CEO and senior officers, are determined based upon position, experience and responsibilities, performance and market-based compensation data. The CEO base salary is reviewed and approved by the Board of Directors. The Board of Directors approves the merit and market-adjustment pools available for senior officers' base salaries. Employer expense for base salaries is included in "Salaries and employee benefits" on the Consolidated Statements of Income, which was shared by the Association and Frontier Farm Credit as part of the overall allocation of salaries and benefits.

Short-Term Incentive: The Board of Directors approves the annual short-term incentive plan, including the performance measures. The 2019 short-term incentive plan performance measures included combined results for the Association and Frontier Farm Credit. The senior officers participate in the annual short-term incentive plan along with the other eligible Association employees. Select employees must sign an assignment, nonsolicitation and nondisclosure agreement to participate in the short-term incentive plan. Payouts under the short-term incentive plan are based on financial and business results, select initiatives and credit performance measures, and are approved by the Board of Directors. Payouts are not provided unless specific levels of performance are achieved.

No more than one-half of the short-term incentive-plan award opportunity may be paid in the fourth quarter of the plan year (first award payout), and the remainder of the award payout (final award payout) is paid no later than March 15 after the end of the plan year. The first award payout is based on the results achieved as of September 30 for select performance measures. The final award payout is based upon the year-end results net of the first award payout. The first payout under the 2019 short-term incentive plan occurred in November 2019. The second and final payout occurred in February 2020 and was net of the November 2019 payout.

The CEO's short-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the short-term incentive plan and has historically and for 2019 used the results from the short-term incentive plan to determine the payout amount.

The expense for the annual short-term incentive plan was $37.9 million for 2019, which was shared by the Association and Frontier Farm Credit as part of the overall allocation of salaries and benefits.

Long-Term Incentive: The CEO and senior officers are eligible for long-term senior-officer incentive plans. The long-term incentive plans were approved by the Board of Directors to align CEO and senior-officer compensation with the strategic business plan and the goals of the Association while providing the opportunity for competitive market-based compensation at a level that will attract, retain and reward key staff for the accomplishment of Association goals. The CEO and senior officers must sign an assignment, nonsolicitation and nondisclosure agreement to participate. The plans are nonqualified performance unit plans that are effective January 1, 2017, through December 31, 2019; January 1, 2018, through December 31, 2020; and January 1, 2019, through December 31, 2021.

The plans have independent performance goals measured over the three-year term of the plans that include core return on assets, customer experience index, employee engagement, adverse assets to risk funds and nonaccrual loans to total classified assets. The results included in the plans were combined results for the Association and Frontier Farm Credit.

The Board of Directors approves the total dollars available for the long-term incentive plans, which are then converted into units. The value of each unit is determined by the results achieved toward the established goals. The CEO has discretion as to the distribution of the units to the senior officers for each three-year plan, which is based on consideration of market compensation and individual contributions and performance. The CEO's long-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the long-term incentive plan and has historically used the results from the long-term senior officer incentive plan to determine the unit value for the payout amount.

Payments are made no later than March 15 after the end of each three-year plan's term. The payout for the 2017–2019 plan occurred in February 2020 and is reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar year 2019. The payouts for the 2015–2017 and 2016–2018 plans were paid in the first quarter of 2018 and the first quarter of 2019 respectively and are reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar years 2017 and 2018.

A liability and salary and benefits expense of $3.5 million was recorded in 2019 for the long-term incentive plans. The expense was shared by the Association and Frontier Farm Credit as part of the overall allocation of salaries and benefits.

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Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

The following Summary Compensation Table includes compensation paid to the CEO and the senior officers during fiscal years 2019, 2018 and 2017.

Name of CEO	Year (2)	Salary (3)	Short-Term Incentive (4)	Long-Term Incentive (5)	Deferred (6)	Other (7)	Total
Mark Jensen, CEO	**2019**	**$650,000**	**$469,235**	**$330,000**	**$182,417**	**$6,064**	**$1,637,716**
Mark Jensen, CEO	2018	$600,000	$415,410	$227,540	$151,733	$5,733	$1,400,416
Mark Jensen, CEO (1)	2017	$100,000	$68,110	$8,731	$26,986	$1,478	$205,305
Douglas Stark, CEO (1)	2017	$566,667	$283,334	$415,574	$159,720	$11,149	$1,436,444

Aggregate No. of Sr. Officers in Year Excluding CEO (8)	Year (2)	Salary (3)	Short-Term Incentive (4)	Long-Term Incentive (5)	Deferred (6)	Other (7)	Total
22	**2019**	**$5,691,726**	**$3,737,203**	**$2,946,240**	**$1,320,750**	**$147,238**	**$13,843,157**
22	2018	$5,416,138	$3,087,248	$2,270,053	$1,306,434	$446,526	$12,526,399
23	2017	$5,363,646	$2,832,368	$1,942,011	$1,177,192	$135,876	$11,451,093

(1) Mr. Jensen was appointed CEO as of November 1, 2017, with Mr. Stark concluding his service as CEO on October 31, 2017.
(2) The Association paid 93.6 percent, 93.1 percent and 92.9 percent of the compensation expense for 2019, 2018 and 2017 respectively. Frontier Farm Credit paid 6.4 percent, 6.9 percent and 7.1 percent of the compensation expense for 2019, 2018 and 2017 respectively.
(3) Salary earned in the fiscal year.
(4) Incentive earned in the fiscal year.
(5) Incentive earned at the end of the respective three-year, long-term incentive plan. For 2018 and 2019, the number includes long-term incentive for Mr. Stark based upon his employment agreement.
(6) Association contributions to the Defined Contribution Plan and Nonqualified Deferred Compensation Plan during the fiscal year.
(7) Executive physicals, sign-on bonus, special recognition bonus, retirement gift, severance, taxable moving expense, vacation leave payout, recognition and referral awards, health and fitness account payouts, health incentives, taxable vehicle use, long-term disability premiums and group life insurance imputed income incurred during the fiscal year.
(8) Employees designated as senior officers during the fiscal year. The 2019 number excludes Mr. Stark who retired in 2018 and includes a new senior leader position. The 2018 number includes Mr. Stark, who served as a senior officer from November 1, 2017, until his retirement on March 1, 2018. The 2017 number includes Mr. Jensen and Mr. Stark when they served as senior officers.

Disclosure of the total compensation paid during 2019 to any senior officer included in the Summary Compensation Table is available to our stockholders upon written request to Farm Credit Services of America, PO Box 2409, Omaha, NE 68103-2409.

Details of the benefit plans are described in Note 10 to the consolidated financial statements, “Employee Benefit Plans.”

Travel, Subsistence and Other Related Expenses

Director and employee reimbursements for travel, subsistence and other related expenses are set forth in the Board’s Governance Guidelines and Human Resources Manual. Each provides authority for and control over reimbursement of travel and subsistence expenses for authorized individuals traveling on official business. Copies of the related Governance Guidelines and Human Resources Manual provisions are available to our stockholders upon written request to Farm Credit Services of America, PO Box 2409, Omaha, NE 68103-2409.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all our directors was $773 thousand in 2019, $499 thousand in 2018 and $804 thousand in 2017.

Transactions with Directors, Senior Officers and Employees

Directors and certain employees may obtain loans from us, provided they meet all eligibility requirements and provided that such loans are made on the same terms available to other customers. Approval of AgriBank, FCB is required for loans to our directors and employees, and for loans to any customer if a director or employee is to receive more than $100 thousand of the loan proceeds, has a significant personal interest in the loan or its security, may exercise control over the customer, or guarantees or cosigns a loan in excess of $100 thousand. Further, directors and employees are required to refrain from taking any part in the consideration or decision on any loan in which they or their relatives have an interest.

Our bylaws and policies require that directors’ loans be maintained at a high level of credit quality. Any director whose loan is classified as “substandard” must prepare and obtain approval of a plan to improve and upgrade the loan within a specified period of time. For directors, failure to comply with our bylaws and policies would result in the director’s position being vacated. Directors whose loans are classified “doubtful” or “loss,” or have any portion of a loan charged off, must resign immediately.

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Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

The Farm Credit Act and Farm Credit Administration regulations require certain disclosures to stockholders concerning loans to directors and employees, their relatives, organizations with which they are affiliated or entities that they may control. Disclosure is required where such loans were made on terms other than those available to other customers, or where such loans are considered to have more than a normal risk of collectability. None of our loans made to directors or employees, their relatives, or affiliated organizations or entities they may control were made on terms other than those available to all customers, nor were any such loans considered to have more than a normal risk of collectability.

Director, senior officer and employee non-loan transactions with us are regulated by our policy.

Concerning property that was mortgaged or pledged as security for Farm Credit System debt within the preceding 12 months, the policy requires that senior officers and employees obtain approval from the Standards of Conduct officer for purchase of the property.

Concerning property acquired within the preceding 12 months in satisfaction of Farm Credit System debt, this policy:

- prohibits lease, purchase or acquisition except through inheritance by senior officers and employees; and
- prohibits lease, purchase or acquisition except through inheritance, public auction or other open competitive bidding process by directors.

The policy does permit directors, senior officers and employees to purchase furniture and equipment owned by us provided that any item having a value of greater than $5 thousand must be purchased through an open, competitive bidding process.

The Farm Credit Act and Farm Credit Administration regulations also require certain disclosures to stockholders concerning non-loan transactions a director or senior officer, or any of his or her relatives, affiliated organizations or entities he or she may control, has with us. Such disclosure is required if such transactions did not involve competitive bidding, involved amounts in excess of $5 thousand or provided a special benefit to the director or senior officer. No such transactions took place during 2019.

Involvement in Certain Legal Proceedings

There were no material legal proceedings or enforcement actions involving FCSAmerica, our directors or senior officers that require disclosure in this section.

Relationship with Qualified Public Accountant

PricewaterhouseCoopers LLP serves as our qualified public accountant. There were no changes in our qualified public accountant since the prior annual report to stockholders, and there were no material disagreements on any matter of accounting principles or financial statement disclosures during this period. Expenses recognized in the 2019 consolidated financial statements for services provided by PricewaterhouseCoopers LLP were approved by the Board Audit Committee and include $217 thousand for audit services, $30 thousand for agreed-upon procedures related to the AgDirect trade credit financing program and $5 thousand for tax-review services.

Financial Statements

The “Consolidated Financial Statements,” “Notes to Consolidated Financial Statements,” “Report of Management,” “Report on Internal Control Over Financial Reporting,” “Report of Audit Committee” and “Report of Independent Auditors” required to be disclosed in this section are incorporated herein by reference from this annual report to stockholders.

Credit and Services to Young, Beginning and Small Producers

We have specific programs in place to serve the credit and related needs of young, beginning and small producers in our territory. Programs focus on providing sound financial services, education and networking opportunities. The definitions of young, beginning and small producers follow:

Definitions

- Young – producers age 35 and under.
- Beginning – producers with 10 years or less of production agriculture as their primary source of income.
- Small – producers who generate less than $250,000 in annual gross sales of agricultural products.

Program Elements

Our program for serving young, beginning and small producers includes the following:

Conventional Loans: Producers age 35 and under, or with 10 years or less of farming or ranching experience, may have sufficient capacity, credit history or financial backing to meet our traditional loan approval standards.

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AgStart Loans: Producers age 35 and under, or with 10 years or less experience, can benefit from modified credit approval standards to help them gain access to debt capital. It is the goal of the program to help facilitate the financial growth of the customer and graduate participating producers from the AgStart program into conventional product offerings over time.

Development Fund: This program assists young, beginning and small producers who are beginning, growing or enhancing an agricultural-based operation by providing them business planning assistance and includes three loan products: Working Capital Loan, Breeding Livestock Loan and Contract Finish Loan. The Association has booked 232 loans in the program as of December 31, 2019, providing $25.6 million in Development Fund loans.

Youth in Agriculture Loans for Breeding Livestock: The Breeding Livestock loan program for youth provides loans for terms of one to five years, up to $10,000, for the purpose of purchasing breeding livestock. These loans require a cosigner of legal age and are approved based on the strength and credit scores of the cosigner.

Education and Finance Sponsorships: We provide donations and sponsor state and local FFA activities and conventions, state 4-H activities and conventions, and agricultural leadership programs.

College Scholarships: In 2019, we offered $2,500 scholarships to 28 qualified students studying agriculture at land-grant universities within our four-state territory. Additionally, we offered $2,000 scholarships to 44 qualified students studying agriculture at selected junior colleges within our four-state territory.

Small Producer Financing: Small producers are served primarily through three loan programs: Rural 1st Home Loans, AgDirect, and the full line of products and services offered through our retail marketplaces. All these programs are designed to meet the needs of small producers, part-time farmers or rural residents with a convenient and efficient delivery of financial services. Small producers who also meet the definition of young or beginning are eligible for the young and beginning program.

Credit Underwriting Standards

Young and beginning producers who do not meet traditional credit standards are considered under an outreach loan program called AgStart. Through this program, applicants' requests are analyzed and assessed based primarily on character and capacity credit factors. Farm Service Agency guarantees are used as deemed necessary, with additional support provided by our payment of the first $2,500 of external fees. As of December 31, 2019, AgStart customers accounted for 5,434 loans to 2,754 customers with a loan commitment of $713 million. AgStart loan volume grew by 1.9 percent in 2019.

Results and Goals

As of December 31, 2019, we had 22,316 unique young, beginning and small customers, with total loan volume of $5.7 billion. These include:

- 4,955 customers who qualify as young, with total loan volume of $1.4 billion.
- 7,206 customers who qualify as beginning, with total loan volume of $1.7 billion.
- 18,772 customers who qualify as small, with total loan volume of $4.6 billion.

Young and Beginning Segment: The 2017 United States Department of Agriculture Census of Agriculture reports operators who meet the criteria for young, beginning and small, as well as farms with any operators meeting the criteria, including farms with debt. A significant change to the 2017 Census of Agriculture is the elimination of the "principal operator," making it difficult to compare numbers to previous Census of Agriculture years. In our territory, there are 13,335 farms with debt with a young operator. There are 19,889 farms with debt with a beginning operator. As of December 31, 2019, we had 4,955 young customers and 7,206 beginning customers, some of whom are counted in both categories. This equates to a young market share of 37.2 percent and a beginning market share of 36.2 percent. Total loan volume to young and beginning customers was $2.24 billion.

Small Producer Segment: According to 2017 United States Department of Agriculture Census of Agriculture data, 128,519 farms representing 73.7 percent of all farms in our four-state territory meet the definition of small (less than $250,000 in annual gross sales of agricultural products). The 2017 Census of Agriculture includes any operation with farm income in its definition of a farm.

	Potential Customers*	FCSAmerica Customers	Market Share***
Young	13,335	4,955	37.2%
Beginning	19,889	7,206	36.2%
Small**	31,466	18,772	59.7%

** 2017 United States Department of Agriculture Census of Agriculture data of farms with debt.*

*** Potential customers in the small category are those who reported annual gross sales between $10,000 and $249,999.*

**** Market share was computed by comparing the number of producers in the young, beginning or small categories maintaining a loan relationship with FCSAmerica to the total number of producers with debt in those categories.*

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

	Young, Beginning and Small Producer New Customer Growth		
	2020 Goals	2021 Goals	2022 Goals
Young	630	650	670
Beginning	910	930	950
Small	1,115	1,140	1,165

Special Program Goal (AgStart): This program goal will positively affect all three young, beginning and small producer categories. Use of this outreach loan program is seen as a critical component of long-term success in the marketplace.

The Association's goal is to increase AgStart loan commitments by 8.0–12.0 percent annually.

Related Services

Young and Beginning Producer Conference: The 11th annual Side by Side Conference was held in Omaha, Nebraska, on July 31–August 2, 2019. Including customers from Frontier Farm Credit, there were 161 young and beginning producers in attendance at this conference, bringing the total number of producers impacted by this program to more than 1,500.

Producers benefited from the opportunity to network with one another, learn from the speakers and learn more about FCSAmerica. The conference provided benefits by creating an opportunity for participants to become better-informed business managers.

Education and Finance Sponsorships: We awarded $114,000 in college scholarships for 72 students in 2019. We donated nearly $260,000 for state and local FFA and 4-H activities, and provided additional funding and resources for young and beginning producer education, leadership development programs and community grants.

Awareness

Young and Beginning Team: The Association will launch a cross-functional team in 2020 to research and recommend an evolution to the program strategy and structure for the future of the Association's young, beginning and small program. This is an enhancement to the ongoing young and beginning producer team that has been in place previously.

Farm Credit Services of America, ACA
Disclosure Information
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Farm Credit Services of America Retail Office Locations

4835 Sixth Avenue SE
Aberdeen, SD 57401

2390 Highway 2
Alliance, NE 69301

4101 N. Sixth Street
Beatrice, NE 68310

2555 South E Street
Broken Bow, NE 68822

919 Bella Vista Drive
Carroll, IA 51401

1401 Wilkins Circle
Casper, WY 82601

7419 Nordic Drive
Cedar Falls, IA 50613

4865 Old Monastery Road
Columbus, NE 68601

2328 Millennium Road
Decorah, IA 52101

1621 11th Street
DeWitt, IA 52742

3675 450th Avenue
Emmetsburg, IA 50536

3333 W. Faidley Avenue
Grand Island, NE 68803

1812 Hawkeye Avenue
Harlan, IA 51537

1525 Boyson Road
Hiawatha, IA 52233

81 33rd Street SW
Huron, SD 57350

686 E 3rd Street
Imperial, NE 69033

4715 Second Avenue
Kearney, NE 68847

855 Fallbrook Blvd.
Lincoln, NE 68521

1301 W. Main Street
Manchester, IA 52057

203 W. Merle Hibbs Blvd.
Marshalltown, IA 50158

4056 Fourth Street SW
Mason City, IA 50401

1700 N. Highway 83
McCook, NE 69001

401 Cabela Drive
Mitchell, SD 57301

322 First Avenue E
Mobridge, SD 57601

2216 James Avenue
Mount Pleasant, IA 52641

2125 W. 20th Street S
Newton, IA 50208

207 N. 34th Street
Norfolk, NE 68701

3021 E. Philip Avenue
North Platte, NE 69101

507 E. Highway 20
O'Neill, NE 68763

1902 D Avenue W
Oskaloosa, IA 52577

105 Theater Circle
Perry, IA 50220

2505 E. 4th Street
Pierre, SD 57501

152 N. Absaroka #D
Powell, WY 82435*

2510 N. Plaza Drive
Rapid City, SD 57702

700 Senate Avenue
Red Oak, IA 51566

411 Valley View Drive
Scottsbluff, NE 69361

3000 E. Park Street
Sheldon, IA 51201

4512 S. Lakeport Street
Sioux City, IA 51106

5011 S. Broadband Lane
Sioux Falls, SD 57108

1015 590th Street
Storm Lake, IA 50588

1114 29th Street SE
Watertown, SD 57201

345 Fairmeadow Drive
Webster City, IA 50595

3808 Broadway Avenue
Yankton, SD 57078

*Open by appointment only.

800-884-FARM // fcsamerica.com

Farm Credit Services of America strives to be environmentally conscious. If you would like to receive an additional copy of our 2019 annual report, please contact us at 1-800-884-FARM (1-800-884-3276).

Farm Credit Services of America

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