Third Quarter Financial Report September 30, 2020

Farm Credit Services of America

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Farm Credit Services of America, ACA

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

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of America, ACA, and its subsidiaries (Farm Credit Services of America). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2019 Annual Report for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of America, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via electronic mail to $sr@fcsamerica.com or view them at our Web site, www.fcsamerica.com. You may also contact AgriBank, FCB at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to: financialreporting@agribank.com. The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's Web site at www.agribank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Commodity Review and Outlook Update

Repayment capacity for our loans is largely dependent upon earnings derived from corn, soybeans, hogs and cattle, of somewhat less significance are wheat, dairy and poultry.

Profit margins for the primary industries we finance improved during the third quarter as the economy began to reopen and processing capacity recovered from the initial impacts from the COVID-19 pandemic. Plant capacities have generally returned to pre-COVID-19 levels and the backlog continues to work through the system. Beef prices have recovered and currently reflect breakeven to slightly positive profit margins. Pork margins are much more favorable, driven by reduced supply and the discovery of African Swine Fever in Germany, driving futures higher on an anticipated increase in export demand. The prolonged reduction in food service demand continues to impact the overall supply and demand dynamics as producers and processors continue to adjust to meet the change in consumer demand.

Price levels for corn and soybeans have improved significantly as the United States Department of Agriculture continues to reduce inventory levels as well as current production forecasts. Dry weather across portions of the upper Midwest continues to provide support for current price levels. In addition to the rebound in commodity price levels, the announcement of a second round of Coronavirus Food Assistance Program payments will further improve net farm income levels for a majority of producers.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2019 Annual Report for further analysis of farmland prices and industry conditions.

Refer to the last section of the Management's Discussion & Analysis in this report for further analysis of Other Matters, COVID-19.

Loan Portfolio

Loan volume increased by $1.7 billion from year-end, an increase of 5.7%. The increase was primarily due to an increase in long-term agricultural mortgage loans.

We recorded a $7.3 million provision for credit losses for the first nine months of 2020, as compared with recording a provision of $8.5 million during the first nine months of 2019. The decrease is due to some improvement in the grain and energy/electric portfolios partially offset by deterioration in the general livestock and renewable fuels portfolios. Net charge-offs for the first nine months of 2020 were $10.3 million compared to net charge offs of $3.5 million in the same period a year ago.

The following table summarizes risk assets and delinquency information (dollars in thousands):

	September 30, 2020	December 31, 2019
Risk loans:		
Nonaccrual	**$ 221,715**	$ 239,933
Restructured	**33,613**	41,549
90 days past due still accruing interest*	**10,661**	1,099
Total risk loans	**265,989**	282,581
Other property owned, net	**21,105**	25,677
Total risk assets	**$ 287,094**	$ 308,258
Risk loans as a percentage of total loans	**0.83%**	0.93%
Nonaccrual loans as a percentage of total loans	**0.69%**	0.79%
Current nonaccrual loans as a percentage of total nonaccrual loans	**63.8%**	70.2%
Total delinquencies as a percentage of total loans	**0.64%**	0.59%

*Accruing loans include accrued interest receivable.

Total risk loans have decreased since year-end due to a decrease in nonaccrual loans slightly offset by an increase in 90 days past due still accruing interest. The decrease in nonaccrual loans is primarily due to accounts in the grain and dairy portfolios partially offset by an increase in swine and renewable fuels. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. 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 acceptable levels.

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

Comparative allowance coverage of various loan categories follows:

	September 30, 2020	December 31, 2019
Allowance as a percentage of:		
Total loans	**0.50%**	0.55%
Nonaccrual loans	**71.26%**	67.94%
Total risk loans	**59.40%**	57.68%
Net charge-offs (recoveries) as a percentage of average loans	**0.05%**	0.01%
Adverse assets to risk funds*	**39.71%**	47.94%

**Risk funds includes permanent capital and allowance for loan losses.*

Our adversely classified assets decreased during the first nine months of 2020 ending the quarter at 7.08 percent of the portfolio, compared to 8.47 percent of the portfolio at December 31, 2019. Adversely classified 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, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2020.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the nine months ended September 30,	
	2020	2019
Net income (in thousands)	**$507,139**	$487,134
Return on average assets	**2.13%**	2.18%
Return on average members' equity	**11.21%**	11.41%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2020 compared to the same period in 2019 are outlined in the following table (dollars in thousands):

Increase (decrease) in net income	**2020 vs. 2019**
Net interest income	**($3,929)**
Provision for credit losses	**1,161**
Noninterest income	**54,376**
Noninterest expense	**(32,336)**
Provision for income taxes, net	**733**
Total change in net income	**$20,005**

Net interest income was $575.7 million for the first nine months of 2020 compared to $579.6 million for the first nine months of 2019. The annualized net interest margin was 2.52 percent for the first nine months of 2020, compared to 2.71 percent for the same period in 2019.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30 (dollars in thousands):

	2020 vs. 2019
Change in volume	**$38,073**
Change in rates	**(37,659)**
Change in nonaccrual income	**(4,343)**
Net change	**($3,929)**

The decrease in net interest income is due to rate conversion activity to lower interest rates and lower cost of funds.

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in AgDirect, LLP program fees due to the high volume of AgDirect loan activity and loan fees due to significant rate conversions due to the lower rate environment.

The increase in noninterest expense is primarily due to salary, benefits and other expenses for increased staffing levels to support business initiatives.

We may receive patronage from AgriBank, FCB and other Farm Credit Institutions. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors (dollars in thousands).

	For the nine months ended September 30,	
	2020	2019
Wholesale patronage		
Cash	**$106,735**	$33,891
Stock	**-**	56,368
Pool program patronage	**5,658**	5,587
AgDirect partnership distribution	**6,922**	7,242
Other patronage	**1,326**	407
Total patronage income	**$120,641**	$103,495

In 2020 we have recorded wholesale cash patronage from AgriBank, FCB totaling $106.7 million compared to $90.3 million wholesale patronage in the form of cash and stock combined, in 2019.

Farm Credit Services of America recorded $10.8 million of operating expense credits under the income and expense sharing provisions of the alliance agreement in the first nine months of 2020 compared to $10.9 million for the first nine months of 2019. Refer to Note 1 in our 2019 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit. Our note payable matures in June 2022 at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Farm Credit Services of America is a stockholder of AgriBank, FCB we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at September 30, 2020 or December 31, 2019.

Our members' equity increased to $6.328 billion at September 30, 2020 compared to $5.912 billion at December 31, 2019. The increase was due to the net income recorded for the first nine months of 2020.

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 leverage. Refer to Note 9 in our 2019 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section.

In January 2020, we implemented the Farm Credit Administration's exclusion of at-risk capital stock that is financed with a noninterest-bearing obligation from Tier 1/Tier 2 regulatory capital; the impact of the change on our regulatory capital ratios was immaterial. Additionally, the balance sheet treatment of the noninterest-bearing receivable was reclassified to contra equity in the amount of $94.6 million as of September 30, 2020. This change did not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.

	As of September 30, 2020	**As of December 31, 2019**	Regulatory Minimums	Capital Conservation Buffers	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.04%**	**16.70%**	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.04%**	**16.70%**	6.0%	2.5%	8.5%
Total capital ratio	**16.57%**	**17.24%**	8.0%	2.5%	10.5%
Permanent capital ratio	**16.12%**	**16.81%**	7.0%	- %	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.26%**	**17.90%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.27%**	**18.53%**	1.5%	- %	1.5%

Other Matters - COVID-19

The Association has not seen a material adverse impact from the COVID-19 pandemic. While various geographic locations continue to see elevated rates of infection and hospitalization rates, the primary recessionary pressures are showing signs of easing and federal aid to both agriculture and the general economy has provided financial support and assistance to partially mitigate the financial impact. Commodity prices for the primary industries financed have recovered with near term forecasts reflecting breakeven to positive profit margins for most producers.

The United States government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the United States Small Business Administration (SBA). We obtained approval from the SBA April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our Association under this program. The PPP provided for loan forgiveness under limited circumstances and loan payments were deferred up to six months. Since beginning the program, we have successfully processed $93.7 million in PPP loans for customers with Production and Intermediate Term type loans. To date, no loans have been forgiven and nearly all payments have been deferred.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and our operations are fully functioning. Our business continuity response has allowed us to continue to serve our customers and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

We do not anticipate additional material deterioration in overall credit quality levels while delinquency and provision expense levels are projected to be stable.

Certification

This report has been prepared under the oversight of the Board's Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

Mark Jensen
President and CEO
October 29, 2020

Steve Henry
Chairperson, ACA Board of Directors
October 29, 2020

Craig P. Kinnison
Executive Vice-President and CFO
October 29, 2020

Farm Credit Services of America, ACA
Consolidated Balance Sheet
(dollars in thousands)

	September 30, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Loans	**$31,446,191**	$29,748,180
Allowance for loan losses	**158,000**	163,000
Net loans	**31,288,191**	29,585,180
Cash	**19,715**	56,064
Accrued interest receivable	**516,733**	478,564
Investment in AgriBank, FCB	**702,911**	651,643
Investment in AgDirect, LLP	**69,508**	59,710
Premises and equipment, net	**241,823**	227,579
Other property owned	**21,105**	25,677
Investment in RBIC	**23,592**	19,614
Deferred tax asset, net	**5,283**	4,776
Other assets	**74,904**	159,758
Total assets	**$32,963,765**	$31,268,565
LIABILITIES		
Notes payable	**$26,391,578**	$24,780,931
Accrued interest payable	**99,016**	154,522
Patronage payable	**-**	262,000
Reserve for unfunded lending commitments	**13,000**	11,000
Other liabilities	**131,976**	147,933
Total liabilities	**26,635,570**	25,356,386
MEMBERS' EQUITY		
At-risk capital:		
Class D common stock	**90,836**	85,997
Class E common stock	**3,735**	3,632
Less: Capital stock receivable	**(94,571)**	-
Retained earnings	**6,328,195**	5,822,550
Total members' equity	**6,328,195**	5,912,179
Total liabilities and members' equity	**$32,963,765**	$31,268,565

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

Farm Credit Services of America, ACA
Consolidated Statement of Income

(dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
NET INTEREST INCOME				
Interest income	**$296,193**	$359,344	**$933,427**	$1,074,189
Interest expense	**99,171**	162,859	**357,763**	494,596
Net interest income	**197,022**	196,485	**575,664**	579,593
Provision for credit losses	**(4,707)**	(77)	**7,325**	8,486
Net interest income after provision for credit losses	**201,729**	196,562	**568,339**	571,107
NONINTEREST INCOME				
Patronage income from AgriBank, FCB	**39,808**	32,198	**112,393**	95,846
FCSIC Insurance Refund	**-**	-	**6,359**	6,753
Loan fees	**5,210**	5,850	**26,206**	14,025
Insurance services	**13,524**	16,804	**18,060**	18,297
AgDirect program fees	**16,106**	10,968	**48,283**	31,287
Patronage income from AgDirect, LLP	**2,025**	1,898	**6,922**	7,242
Servicing fee income from AgriBank, FCB	**163**	138	**515**	430
Rural 1st program fees	**2,109**	352	**4,144**	352
Gain (loss) on other property owned	**(539)**	(91)	**495**	(1,384)
Other noninterest income	**3,793**	2,482	**10,655**	6,808
Total noninterest income	**82,199**	70,599	**234,032**	179,656
NONINTEREST EXPENSE				
Salaries and employee benefits	**62,771**	56,165	**187,623**	168,974
Occupancy and equipment expense	**9,413**	8,087	**30,086**	23,016
Insurance fund premiums	**7,326**	5,603	**17,873**	16,796
Loss on RBIC	**751**	299	**2,119**	1,861
Other operating expenses	**17,210**	15,822	**52,150**	46,868
Total noninterest expense	**97,471**	85,976	**289,851**	257,515
Income before income taxes	**186,457**	181,185	**512,520**	493,248
Provision for income taxes	**1,429**	2,059	**5,381**	6,114
Net income	**$185,028**	$179,126	**$507,139**	$487,134

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

Farm Credit Services of America, ACA
Consolidated Statement of Changes in Members' Equity

(dollars in thousands)
(unaudited)

	At-risk Capital		
	Capital Stock	**Retained Earnings**	**Total Members' Equity**
Balance at December 31, 2018	$84,672	$5,412,651	$5,497,323
Net income		487,134	487,134
Patronage accrual adjustment		(123)	(123)
Capital stock:			-
Issued	10,909		10,909
Retired	(6,900)		(6,900)
Balance at September 30, 2019	$88,681	$5,899,662	$5,988,343
Balance at December 31, 2019	$89,629	$5,822,550	$5,912,179
Net income		**507,139**	**507,139**
Patronage accrual adjustment		**(1,494)**	**(1,494)**
Capital stock:			
Issuance of stock in exchange for customer stock receivable	**12,259**		**12,259**
Release of customer stock receivable associated with retired stock	**(7,317)**		**(7,317)**
Less: Capital stock receivable	**(94,571)**		**(94,571)**
Balance at September 30, 2020	**$0**	**$6,328,195**	**$6,328,195**

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ended December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2019 Annual Report for the year ended December 31, 2019.

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). All material intercompany transactions and balances have been eliminated in consolidation.

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.

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 Exchange Commission filers for the 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 expect to adopt the standard as of January 2, 2023. 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.

Refer to Note 2 in our 2019 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	September 30, 2020		December 31, 2019	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$18,823,804**	**59.9 %**	$17,022,050	57.2 %
Production and intermediate term	**6,609,370**	**21.0**	7,101,243	23.9
Agribusiness	**3,371,635**	**10.7**	3,077,450	10.3
Rural residential real estate	**1,198,181**	**3.8**	1,377,520	4.6
Rural infrastructure	**835,954**	**2.7**	650,202	2.2
Mission-related investments	**481,489**	**1.5**	430,357	1.5
Agricultural export finance	**125,758**	**0.4**	89,358	0.3
Total loans	**$31,446,191**	**100.0 %**	$29,748,180	100.0 %

Credit Quality

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

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans 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 – loans are considered uncollectible.

We had no loans categorized as loss at September 30, 2020 or December 31, 2019.

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

	As of September 30, 2020						
	Acceptable		**OAEM**		**Substandard/Doubtful**		**Total**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Long-term agricultural mortgage	**$16,665,155**	**86.84%**	**$1,131,265**	**5.89%**	**$1,394,717**	**7.27%**	**$19,191,137**
Production and intermediate term	**5,256,889**	**78.75%**	**702,482**	**10.52%**	**716,099**	**10.73%**	**6,675,470**
Agribusiness	**3,157,628**	**93.15%**	**169,953**	**5.01%**	**62,467**	**1.84%**	**3,390,048**
Rural residential real estate	**1,096,989**	**90.76%**	**45,409**	**3.76%**	**66,244**	**5.48%**	**1,208,642**
Rural infrastructure	**808,197**	**95.96%**	**10,703**	**1.27%**	**23,330**	**2.77%**	**842,230**
Mission-related investments	**529,361**	**100.00%**	**-**	**-**	**-**	**-**	**529,361**
Agricultural export finance	**126,036**	**100.00%**	**-**	**-**	**-**	**-**	**126,036**
Total	**$27,640,255**	**86.48%**	**$2,059,812**	**6.44%**	**$2,262,857**	**7.08%**	**$31,962,924**

	As of December 31, 2019						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
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

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (dollars in thousands):

As of September 30, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	**$18,958**	**$42,327**	**$61,285**	**$19,129,852**	**$19,191,137**	**$2,005**
Production and intermediate term	**64,925**	**28,441**	**93,366**	**6,582,104**	**6,675,470**	**5,250**
Agribusiness	**486**	**8,898**	**9,384**	**3,380,664**	**3,390,048**	**-**
Rural residential real estate	**2,880**	**2,217**	**5,097**	**1,203,545**	**1,208,642**	**-**
Rural infrastructure	**5,966**	**186**	**6,152**	**836,078**	**842,230**	**186**
Mission-related investments	**27,523**	**3,220**	**30,743**	**498,618**	**529,361**	**3,220**
Agricultural export finance	**-**	**-**	**-**	**126,036**	**126,036**	**-**
Total	**$120,738**	**$85,289**	**$206,027**	**$31,756,897**	**$31,962,924**	**$10,661**

As of December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
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

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Accruing loans include principal and interest. The following tables present information concerning risk loans (dollars in thousands):

	As of September 30,	
	2020	2019
Risk loans with specific allowance	**$ 41,812**	$ 53,325
Risk loans without specific allowance	**224,177**	222,355
Total risk loans	**$265,989**	$275,680
Total specific allowance	**$13,388**	$16,134

	For the nine months ended September 30,	
	2020	2019
Interest income recognized on nonaccrual loans	**$835**	$5,178
Interest income on risk accrual loans	**1,842**	2,551
Interest income recognized on risk loans	**$2,677**	$7,729
Average risk loans	**$302,036**	$286,533

There were approximately $10.8 million in commitments to lend additional funds to customers whose loans were at risk at September 30, 2020.

Troubled Debt Restructurings

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 restructured loan. 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. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the period ended September 30 (dollars in thousands):

	2020		2019	
	Premodification Outstanding Recorded Investment	**Postmodification Outstanding Recorded Investment**	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Long-term agricultural mortgage	**$ -**	**$ -**	$583	$583
Production and intermediate term	**431**	**354**	1,538	1,049
Total	**$431**	**$354**	$2,121	$1,632

Pre-modification outstanding represents the recorded investment just prior to restructuring, and post-modification outstanding represents the 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 and acquisition costs, and may also reflect a previous direct charge-off of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous twelve months for which there was a subsequent payment default during the period ended September 30 (dollars in thousands):

	2020	2019
	Recorded Investment	Recorded Investment
Long-term agricultural mortgage	**$ 7,410**	$ -

Troubled debt restructurings outstanding at September 30, 2020, totaled $61.1 million, of which $27.5 million were in nonaccrual status. There were $6.1 million in additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at September 30, 2020.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (dollars in thousands):

	September 30,	
Allowance for loan losses	**2020**	2019
Balance at beginning of year	**$163,000**	$157,000
Provision for loan losses	**5,325**	7,486
Charge-offs	**(12,062)**	(6,201)
Recoveries	**1,737**	2,715
Balance at end of quarter	**$158,000**	$161,000

	September 30,	
Reserve for unfunded lending commitments	**2020**	2019
Balance at beginning of year	**$11,000**	$10,000
(Reversal of) provision for unfunded lending commitments	**2,000**	1,000
Balance at end of quarter	**$13,000**	$11,000

We recorded a $7.3 million provision for credit losses for the first nine months of 2020, as compared with recording a provision of $8.5 million during the first nine months of 2019. The decrease is due to some improvement in the grain and energy/electric portfolios partially offset by deterioration in the general livestock and renewable fuels portfolios. Net charge-offs for the first nine months of 2020 were $10.3 million compared to net charge offs of $3.5 million in the same period a year ago.

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

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in six Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our current total 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 $23.6 million at September 30, 2020 as compared to $19.6 million at December 31, 2019.

Note 4 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2020, or December 31, 2019. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

	Fair Value Measurement Using			
As of September 30, 2020	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Loans	-	-	**$37,717**	**$37,717**
Other property owned	-	-	**$21,105**	**$21,105**

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

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value 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. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Note 5- Commitments and Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a Rural Business Investment Company. Refer to Note 3 for additional discussion.

Note 6- Subsequent Events

We have evaluated subsequent events through October 29, 2020 which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.