Strength • Dependability • Service

Quarterly Report
To Stockholders

Quarter Ended March 31, 2011

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (FCB) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditors have direct access to the Audit Committee.

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

Ben R. Novosad,
Chief Executive Officer

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter,
Chief Financial Officer

May 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended March 31, 2011. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2010 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for the remainder of 2011.

Signs of improvement in the economy continue to be evident as commodity prices for many producers improve. However, severe drought conditions threaten most of the state's agricultural production. The Association's loan volume decreased slightly through normal amortization as new business continues to be slow. Despite a decrease in volume, the Association's earnings continue to improve versus the prior year. The Association continues to maintain more restrictive credit underwriting standards and enhanced portfolio and collateral monitoring practices as it works through adverse loans and works toward improvement in its overall credit quality.

Significant Events:

The board of directors approved a $105,723 patronage distribution for 2010. $32,156 of this distribution was paid in cash in April 2011. $73,567 of this distribution was made in the form of nonqualified allocated equity distributions. The owners of these distributions will not pay federal income taxes until the equities are retired since the equities distributed were nonqualified. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated equities which were distributed to stockholders in December 2010. The retirement was a partial distribution of the equities allocated in 2006, 2007, and 2008.

Loan Portfolio:

Total loan volume was $5,031,475 at March 31, 2011. This compares with loan volume owned by the Association at December 31, 2010 of $5,096,642. This represents a decrease of $65,167, or approximately 1.3 percent. This reduction is a result of normal amortization of the loan portfolio as new business continues to be slow.

The following table summarizes the Association's components and trends of high-risk assets:

	March 31, 2011	**%**	December 31, 2010	%
Nonaccrual loans	**$ 202,147**	**91.1**	$ 197,002	91.2
Loans 90 days past due and still accruing interest	**1,996**	**0.9**	1,300	0.6
Formally restructured loans	**3,235**	**1.5**	1,005	0.5
Other property owned, net	**14,627**	**6.5**	16,658	7.7
Total	**$ 222,005**	**100.0**	$ 215,965	100.0

The quality of the Association's loan portfolio has declined slightly with a $6,040 increase in high-risk assets since the previous year's end. The decline in the portfolio continues to be a result of the increase in nonaccrual loans, which increased $5,145 in the first quarter. As customers continue to experience problems in repaying their loans, the

Association is forced to move these loans to a nonaccrual classification. The increase in nonaccrual loans continues to be most affected by customers in the feedyard, the transitional real estate and the dairy industries.

The increase of $696 in loans that are 90 or more days past due and still accruing interest is evidence that loans are moving through the servicing and collection process by either transferring to nonaccrual status or experiencing correction of the past due status through repayment of the amounts owed. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans increased during the first quarter by $2,230. The Association is cooperating with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer.

Other property owned declined $2,031. The Association is making some progress in liquidating properties obtained through foreclosure. The Association is actively working with local realtors to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable. In addition, management has in place processes to evaluate, identify and monitor counter party risk that could have an adverse impact on the loan portfolio.

Results of Operations:

The Association's net income for the three months ended March 31, 2011 was $28,011 as compared to $27,120 for the three months ended March 31, 2010, an increase of $891, or 3.3 percent.

The slight improvement in net income was affected by an increase in net interest income, a decrease in the loss on other property owned, and a decrease in the Farm Credit System Insurance (FCSIC) premium expense. These improvements were somewhat offset by an increase in the provision for loan losses. Losses on other property owned was $205 compared to $3,131 for the same period in 2010. The Farm Credit System insurance premium expense was $661 compared to $1,109 for the same time period in 2010. Offsetting the reduction in the expenses was an increase in provision for loan loss to $4,280 from $1,633 for the same period in 2010. The provision for loan losses during the first three months of 2010 was related to the increase in high-risk assets. For the first quarter of 2011, most of the provision for loan loss expense was related to loans in the dairy and feedlot industries, and in the lands in transition sector.

Net interest income increased by $972 during the first three months of 2011 as compared to the same time period for 2010. The effects of changes in average volume and interest rates on net interest income in the three months ended March 31, 2011, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the three months ended March 31, 2011		For the three months ended March 31, 2010	
	Average Balance	**Interest**	Average Balance	Interest
Accrual Loans	**$ 4,862,341**	**$ 68,929**	$ 5,047,914	$ 74,321
Interest-bearing liabilities	**4,299,069**	**28,453**	4,497,606	34,817
Impact of capital	**$ 563,272**		$ 550,308	
Net interest income		**$ 40,476**		$ 39,504

	Averages	Averages
Yield on loans	**5.75%**	5.97%
Cost of interest-bearing liabilities	**2.68**	3.14
Net interest margin	**3.07%**	2.83%

	2011 vs. 2010		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ (2,732)**	**$ (2,660)**	**$ (5,392)**
Interest expense	**(1,537)**	**(4,827)**	**(6,364)**
Net interest income	**$ (1,195)**	**$ 2,167**	**$ 972**

The Association's noninterest income decreased from $6,344 in the first three months of 2010 to $5,538 in the first three months of 2011. The majority of this decrease is due to the implementation of authoritative accounting guidance for loan origination fee income and the related origination costs. This guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. This guidance resulted in the capitalization of $1,047 in origination fees during the first quarter of 2011. This guidance was not utilized by the Association in the first quarter of 2010.

Noninterest expenses decreased $3,372 in the first three months of 2011 as compared to the same time period in 2010. This decrease is primarily attributable to a decrease in the losses on other property owned of $2,926 and in FCSIC premiums of $448. The Association's losses on other property owned in the first quarter 2010 was a result of the recognition of declining values of real estate acquired through foreclosure, especially in the transitional real estate. The reduction in FCSIC premiums was a result of a reduced premium for first quarter 2011, compared to the first quarter 2010. However the premium for first quarter 2010 was retroactively reduced in the second quarter 2010.

The Association's noninterest expenses also reflects a decrease in salaries and employee benefits of $191 for the first quarter 2011, compared to the first quarter 2010. First quarter 2011 expense was influenced by the aforementioned implementation of the authoritative accounting guidance for loan origination fee income and the costs related to the origination. Absent the amortization of the costs to originate loans, salary and benefits expense would have been $7,922 in the first quarter 2011.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Farm Credit Bank of Texas (FCB). The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the FCB. The Association had an outstanding balance of $4,251,875 at March 31, 2011, as compared to $4,338,554 at December 31, 2010. This decrease in note payable to the Bank and related accrued interest payable since December 2010 is the result of a slight reduction in the Association's loan portfolio. The direct loan carried a weighted average interest rate of 2.68 percent as of March 31, 2011, compared to 2.98 percent as of December 31, 2010. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the FCB and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2011. As borrower payments are received, they are applied to the Association's note payable with the FCB.

The Association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months. See Note 5 to the consolidated financial statements, "Note payable to the Farm Credit Bank of Texas" for a discussion on the Association's borrowing obligations and limitations with FCB.

Capital Resources:

The Association's capital position remains strong, with total capital of $862,038 at March 31, 2011. This represents an increase of $27,584 from the December 31, 2010 total capital level of $834,454. This increase in capital is primarily the result of the Association's net income of $28,011. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2011 was 15.09 percent. The Association's core surplus ratio and total surplus ratio at March 31, 2011 were 14.01 percent and 14.67 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

On July 8, 2010, FCA published in the Federal Register an Advanced Notice of Proposed Rulemaking (ANPRM) on capital adequacy and the potential promulgation of Tier 1 and Tier 2 capital standards for system institutions similar to the capital tiers that other Federal financial regulatory agencies have adopted. The 120 day comment period which was initially scheduled to expire in November 2010 was extended until May 4, 2011. The ANPRM solicits comments on numerous issues that significantly impact all aspects of capital management by system institutions. The Association anticipates that any adoption of the Tier 1/Tier 2 approach will require adjustments by FCA to accommodate the cooperative structure of the system. The Association is unable to determine the significance of this change until this proposal becomes final, but does not anticipate the impact to be adverse to the Association.

Relationship with the Farm Credit Bank of Texas:

The Association's statutory obligation to borrow only from the FCB is discussed in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 5 to the consolidated financial statements, "Note Payable to the Farm Credit Bank of Texas," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly

report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P. O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its Website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Loans	**$ 5,031,475**	$ 5,096,642
Less: Allowance for losses	**(47,907)**	(45,294)
Net loans	**4,983,568**	5,051,348
Cash	**4,499**	5,691
Accrued interest receivable - loans and investments	**48,378**	50,588
Investments – held-to-maturity	**23,773**	24,520
Investment in and receivable from the FCB:		
Capital stock	**88,855**	88,855
Receivable	**6,822**	7,872
Other property owned, net	**14,627**	16,658
Premises and equipment, net	**10,875**	11,128
Other assets	**9,297**	3,754
Total assets	**$ 5,190,694**	$ 5,260,414
LIABILITIES		
Notes payable to the FCB	**$ 4,251,875**	$ 4,338,554
Advanced conditional payments	**6,876**	3,706
Accrued interest payable	**9,727**	10,089
Drafts outstanding	**1,923**	7,163
Patronage distributions payable	**32,158**	32,063
Unfunded post retirement medical obligation	**16,796**	16,562
Other liabilities	**9,301**	17,823
Total liabilities	**4,328,656**	4,425,960
MEMBERS' EQUITY		
Capital stock and participation certificates	**22,172**	22,399
Allocated retained earnings	**243,466**	243,561
Unallocated retained earnings	**594,833**	566,822
Accumulated other comprehensive income	**1,567**	1,672
Total members' equity	**862,038**	834,454
Total liabilities and members' equity	**$ 5,190,694**	$ 5,260,414

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
INTEREST INCOME		
Loans and Investments	**$ 68,929**	$ 74,321
INTEREST EXPENSE		
Note Payable to the FCB	**28,453**	34,817
Net interest income	**40,476**	39,504
PROVISION FOR LOAN LOSSES		
Provision for loan losses	**4,280**	1,633
Net interest income after provision for losses	**36,196**	37,871
NONINTEREST INCOME		
Patronage income from the FCB	**3,774**	3,581
Loan fees	**1,058**	2,071
Other income	**706**	692
Total noninterest income	**5,538**	6,344
NONINTEREST EXPENSES		
Salaries and employee benefits	**7,064**	7,255
Pension plan funding expense	**1,623**	1,536
Purchased services and allocations	**833**	752
Occupancy and equipment	**826**	870
Farm Credit System insurance premium	**661**	1,109
Public and member relations	**456**	438
Travel	**373**	338
FCA supervisory and exam expense	**346**	330
Advertising	**287**	267
Loss on other property owned, net	**205**	3,131
Directors' expense	**187**	259
Communications	**185**	173
Other expenses	**677**	637
Total noninterest expenses	**13,723**	17,095
Income before federal income tax	**28,011**	27,120
Federal income tax	**-**	-
Net income	**$ 28,011**	$ 27,120

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2009	$ 22,910	$ 184,905	$ 566,647	$ 4,353	$ 778,815
Comprehensive Income:					
Net income	-	-	27,120	-	27,120
Change in postretirement benefit plans	-	-	-	(108)	(108)
Total comprehensive income	-	-	27,120	(108)	27,012
Capital stock/participation certificates issued	612	-	-	-	612
Capital stock/participation certificates retired	(799)	-	-	-	(799)
Patronage distributions declared:					
Other	-	(18)	(6)	-	(24)
Balance at March 31, 2010	22,723	184,887	593,761	4,245	805,616
Comprehensive income:					
Net income	-	-	78,785	-	78,785
Change in postretirement benefit plans	-	-	-	(2,573)	(2,573)
Total comprehensive income	-	-	672,546	1,672	76,212
Capital stock/participation certificates issued	2,063	-	-	-	2,063
Capital stock/participation certificates retired	(2,387)	(15,000)	-	-	(17,387)
Patronage distributions declared:					
Cash	-	-	(32,061)	-	(32,061)
Other	-	12	(1)	-	11
Nonqualified allocations	-	73,662	(73,662)	-	-
Balance at December 31, 2010	22,399	243,561	566,822	1,672	834,454
Comprehensive income:					
Net income	-	-	28,011	-	28,011
Change in postretirement benefit plans	-	-	-	(105)	(105)
Total comprehensive income	-	-	28,011	(105)	27,906
Capital stock/participation certificates issued	658	-	-	-	658
Capital stock/participation certificates/ allocated equities retired	(885)	(95)	-	-	(980)
Balance at March 31, 2011	**$ 22,172**	**$ 243,466**	**$ 594,833**	**$ 1,567**	**$ 862,038**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements that reports both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The FCB and its related associations are collectively referred to as the "District." The Association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delays the effective date of the new disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this standard will not

have an impact on the Association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

Effective January 1, 2010, the Bank and related Associations adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

March 31, 2011	Cost	Gains	Unrealized	Fair Value	Average	Average
Agricultural mortgage-backed securities	$ 23,773	$ -	$ (221)	$ 23,552	5.05%	4.31

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years.)

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as current interest income. Nonaccrual loans may be transferred 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."

A summary of loans follows:

Industry	March 31, 2010	%	December 31, 2010	%
Production agriculture:				
Real estate mortgage	**$ 4,042,894**	**80.4**	$ 4,080,935	80.0
Production and term	**505,581**	**10.0**	523,406	10.3
Agribusiness	**348,941**	**6.9**	356,354	7.0
Rural residential real estate	**73,704**	**1.5**	75,097	1.5
Communication	**30,434**	**0.6**	30,869	0.6
Energy	**23,711**	**0.5**	23,549	0.5
Lease receivables	**6,210**	**0.1**	6,417	0.1
Water and waste disposal	**-**	**-**	15	0.0
Total	**$ 5,031,475**	**100.0**	$ 5,096,642	100.0

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans:

	March 31, 2011	%	March 31, 2010	%	December 31, 2010	%
Nonaccrual	**$ 202,147**	**97.5**	$ 159,745	90.1	$ 197,002	98.8
90 days past due and still accruing interest	**1,996**	**1.0**	16,243	9.2	1,300	0.7
Formally restructured	**3,235**	**1.5**	1,208	0.7	1,005	0.5
Total	**$ 207,378**	**100.0**	$ 177,196	100.0	$ 199,307	100.0

The Association has remaining commitments to borrowers whose loans were classified as impaired at March 31, 2011 of $3,180. The average recorded investment in impaired loans for the three months ended March 31, 2011 was $203,343 compared to $166,683 at March 31, 2010. The Association recognized interest income of $422 on impaired loans for the three months ended March 31, 2011 and $667 for the March 31, 2010 period.

A summary of the changes in the allowance for loan losses follows:

	For the three months ended March 31, 2011	For the three months ended March 31, 2010	For the nine months ended December 31, 2010
Beginning Balance	**$ 45,294**	$ 46,732	$ 46,883
Provision for loan losses	**4,280**	1,633	27,540
Charge offs	**(2,072)**	(1,518)	(30,993)
Recoveries	**405**	36	1,864
Ending Balance	**$ 47,907**	$ 46,883	$ 45,294

Impaired loans of $95,190 at March 31, 2011 had related specific allowance for loan losses of $19,289 as compared to impaired loans of $83,484 at March 31, 2010 which had related specific allowances for loan losses of $23,681. The remaining impaired loans carried no specific allowance for loan losses. Impaired loans for which no specific allowance was considered necessary are not included in the determination of the general allowance. However, impaired loans that were not analyzed for a specific allowance are considered in the determination of the general allowance for loan losses. Chargeoffs in the first three months of 2011 were predominantly made against loans to borrowers in the lands in transition sector.

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The Association has some assets that are carried on its books at fair value including: assets held in non-qualified benefits trusts, loans that have been evaluated for impairment and other property owned.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," of the 2010 Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets held in non-qualified benefits trusts related to deferred compensation and supplemental retirement plans are classified with Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace. The assets held in non-qualified benefits trusts are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value March 31, 2011	Total Fair Value December 31, 2010
Beginning Balance	$ 1,702	$ 1,475
Transfers In	-	-
Transfers Out	-	-
Other Market Changes	582	227
Assets held in non-qualified benefits trusts	$ 2,284	$ 1,702

For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since these loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge and judgment about current market conditions, specific issues related to collateral and other matters. These loans are generally classified as Level 3. Level 3 valuation utilizes unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Other property owned is also generally classified as Level 3. The fair value is based upon the value of the property. Cost to sell represents transaction costs and are not included as a component of the asset's fair value.

These assets are measured at fair value on a non-recurring basis and are summarized below:

	Total Fair Value March 31, 2011	Total Fair Value December 31, 2010
Impaired Loans	$ 207,378	$ 199,307
Investments Held-to-Maturity	$ 23,552	$ 24,275
Other property owned	14,627	16,658
Total	$ 245,557	$ 240,240

NOTE 5 — NOTE PAYABLE TO THE FARM CREDIT BANK OF TEXAS:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the FCB, under a general financing agreement between the FCB and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and the weighted average interest rate of the Association's direct loan from the FCB were $4,251,875 at 2.68 percent, and $4,338,554 at 2.98 as of March 31, 2011 and December 31, 2010, respectively. The FCB periodically reprices the rate on portions of the direct loan as the pricing terms expire.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010 and 2009, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of March 31, 2011, was $4,929,350, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

NOTE 6 — MEMBERS EQUITY:

The board of directors approved a $105,723 patronage distribution for 2010. $32,156 of this distribution was paid in cash in April 2011. $73,567 of this distribution was made in the form of nonqualified allocated equity distributions, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with this allocation and future allocations to assign ownership of the earnings of the Association, allow the stockholders to benefit more fully from the earnings of the Association, and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made.

In September 2010, the board of directors approved a resolution to retire $15,000 in allocated equities which was distributed to stockholders in December 2010. The retirement was a partial distribution of the equities allocated in 2006, 2007, and 2008.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its 2010 Annual Report, that it expected to contribute $6,490 to its pension plan in 2011, which will be $346 more than the 2010 contribution. Pension plan funding expense was $1,623 and $1,536 for the three months ended March 31, 2011 and 2010 respectively.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 3, 2010 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.