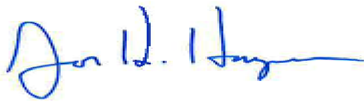
LONE STAR, ACA

2020
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2020

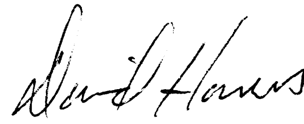
REPORT OF MANAGEMENT

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



Joe H. Hayman, Chief Executive Officer

November 6, 2020



Davis Harris, Chairman, Board of Directors

November 6, 2020

Nicholas Acosta, Chief Financial Officer

November 6, 2020

David Conrad, Chairman, Audit Committee

November 6, 2020

Third Quarter 2020 Financial Report

Table of Contents

Management's Discussion and Analysis……………………………………………………………………………………….4

Consolidated Balance Sheet……………………………………………………………………………………….…..9
Consolidated Statements of Comprehensive Income……………………………………………………………………...10
Consolidated Statement of Changes in Members' Equity……………………………………………………………….....11

Notes to the Consolidated Financial Statements…………………………………………………………………...……12

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the consolidated financial performance of the Lone Star, ACA, (ACA) including its wholly-owned subsidiaries Lone Star, FLCA and Lone Star, PCA, (collectively referred to herein as the Association) for the three and nine months ended September 30, 2020. The discussion should be read in conjunction with the Association's Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2019.

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

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

Significant Events:

In December 2019, the Board of Directors (Board) of Lone Star, ACA declared a cash patronage in the amount of $19,423,559 paid in March of 2020 based on 2019 earnings. The 2019 cash patronage represents on average a 1.5 percent reduction in borrowers loan interest rate. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2019.

In September 2020, the Board declared an advance payment of patronage on expected 2020 full-year patronage paid to eligible borrowers in October 2020. This advance is based on 50 basis points of eligible average outstanding loan balance for the period starting on January 1, 2020 and ending September 30, 2020 and was made in an effort to assist member-owners during this unprecedented and challenging time resulting from COVID-19.

The following table provides information on the patronage received from the Farm Credit Bank of Texas (Bank) for the year ended December 31, 2019:

		2019
Direct loan patronage	$	**5,742,455**
Stock investment in the Bank		**772,220**
AMBS investment patronage		**145,426**
Total Patronage Received	$	**6,660,101**

The direct loan patronage received represents 46 basis points on average daily balance of the Association's direct loan with the Bank.

During the first quarter of 2020, the Board appointed Joe Hayman as President and Chief Executive Officer. Mr. Hayman has served Farm Credit for more than 25 years, most recently as Chief Executive Officer at Southern AgCredit for the previous 12 years.

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 20- to 40- year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2020, including nonaccrual loans and sales contracts, were $1,896,867,393 compared to $1,631,671,416 at December 31, 2019, reflecting an increase of 16.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at September 30, 2020, compared to 0.2 percent at December 31, 2019. Impaired loans as a percentage of total loans outstanding were 0.3 percent at September 30, 2020 compared to 0.3 percent at December 30, 2019.

The Association recorded $82,864 in recoveries and $3,059 in charge-offs for the quarter ended September 30, 2020, and $277,652 in recoveries and $24,265 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.4 percent and 0.4 percent of total loans outstanding as of September 30, 2020, and December 31, 2019, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**$ 5,454,765**	**82.6%**	$ 3,333,895	74.4%
Formally restructured	**1,145,300**	**17.4%**	1,149,573	25.6%
Total	**$ 6,600,065**	**100.0%**	$ 4,483,468	100.0%

At September 30, 2020 and December 31, 2019, the Association held no property classified as other property owned.

Results of Operations

The Association had net income of $8,979,120 and $24,576,817 for the three and nine months ended September 30, 2020, as compared to net income of $7,428,397 and $21,963,524 for the same period in 2019, reflecting an increase of 20.9 percent and 11.9 percent, respectively. Net interest income was $12,195,114 and $35,906,296 for the three and nine months ended September 30, 2020, compared to $11,450,506 and $34,585,331 for the same period in 2019, respectively.

.

	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,748,329,467**	**$ 62,320,999**	$ 1,575,329,861	$ 62,319,550
Total interest-earning assets	**1,748,329,467**	**62,320,999**	1,575,329,861	62,319,550
Interest-bearing liabilities	**1,401,631,616**	**26,414,703**	1,238,304,600	27,734,219
Impact of capital	**$ 346,697,851**		$ 337,025,261	
Net interest income		**$ 35,906,296**		$ 34,585,331

	2020 Average Yield	2019 Average Yield
Yield on loans	**4.76%**	5.29%
Total yield on interest-earning assets	**4.76%**	5.29%
Cost of interest-bearing liabilities	**2.52%**	2.99%
Interest rate spread	**2.24%**	2.29%
Net interest income as a percentage of average earning assets	**2.74%**	2.94%

	Nine months ended: September 30, 2020 vs. September 30, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 6,850,168**	**$ (6,848,719)**	**$ 1,449**
Total interest income	**6,850,168**	**(6,848,719)**	**1,449**
Interest expense	**3,661,439**	**(4,980,955)**	**(1,319,516)**
Net interest income	**$ 3,188,728**	**$ (1,867,763)**	**$ 1,320,965**

Interest income for the three and nine months ended September 30, 2020, decreased by $403,032 and increased by $1,449, or 1.9 percent and 0.0 percent, respectively, from the same period of 2019, primarily due to an increase in average interest-earning assets offset by a decrease in yield on interest-earning assets. Interest expense for the three and nine months ended September 30, 2020, decreased by $1,147,640 and $1,319,516, or 12.1 percent and 4.8 percent, respectively, from the same period of 2019 due to an increase in interest-bearing liabilities offset by a decrease in the cost of interest-bearing liabilities. Average loan volume for the third quarter of 2020 was $1,841,961,435, compared to $1,595,064,292 in the third quarter of 2019. The average net interest rate spread on the loan portfolio for the third quarter of 2020 was 2.21 percent, compared to 2.22 percent in the third quarter of 2019.

The Association's return on average assets for the nine months ended September 30, 2020, was 1.84 percent compared to 1.82 percent for the same period in 2019. The Association's return on average equity for the nine months ended September 30, 2020, was 9.04 percent, compared to 8.31 percent for the same period in 2019.

Noninterest income for the three and nine months ended September 30, 2020, increased by $391,650 and $840,737, or 21.8 percent and 14.6 percent, respectively, from the same period of 2019, primarily due to an increase in patronage income from the Bank and an increase in loan fees resulting from growth in Association loan assets. Noninterest expenses for the three and nine months ended September 30, 2020, decreased by $495,100 and $2,999,620, or 8.2 percent and 14.8 percent, respectively, from the same period of 2019, primarily due to a decrease in salaries and employee benefits due to internal staffing changes and reallocation of resources in 2020. The decrease is also attributed to a decrease in purchased services as a result of a reduction in consulting, legal, and audit expenses and a decrease in advertising and public and members' relations due to cancellation of events resulting from COVID-19.

Provisions for loan losses for the three and nine months ended September 30, 2020, increased by $65,679 and $2,504,594, or 30.7 percent and 135.8 percent, respectively, from the same period of 2019, primarily due to an increase in Association loan assets compared to 2019. Additionally, the provision reversal in 2019, was primarily due to a reduction of outstanding debt and updated collateral analysis in the Association's special asset portfolio.

Liquidity and Funding Sources

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

		September 30, 2020		December 31, 2019
Note payable to the bank	**$**	**1,545,782,861**	$	1,278,483,867
Accrued interest on note payable		**2,665,617**		3,092,379
Total	**$**	**1,548,448,478**	$	1,281,576,246

The outstanding balance of the note payable to the Bank was $1,545,782,861 as of September 30, 2020, and is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.09 percent as of September 30, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and decrease in accrued interest payable since December 31, 2019, correlates directly with the overall increase in the Association accrual loan volume and reduction in average cost for the period. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $352,390,191 as of September 30, 2020. The maximum amount the Association may borrow from the Bank as of September 30, 2020, was $1,901,520,889 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $17,132,486 as of September 30, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 4.25:1 as of September 30, 2020, compared to 3.74:1 as of December 31, 2019.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2020, the Association exceeded all regulatory capital requirements.

Economic Conditions:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow personnel to work remotely and support both their families and their customer base. As it relates to the Association's internal controls over financial reporting and disclosure controls and procedures, the controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

The potential impact of COVID-19 on the global, U.S. and regional economies creates a high degree of economic uncertainty. The Association continues to assess the potential impact as conditions unfold.

On October 2, the U.S. Bureau of Labor Statistics reported that total nonfarm payroll employment rose month-over-month by 661,000 in September, and the national unemployment rate declined from 8.4 to 7.9 percent. The Texas economy showed continued signs of expansion in August, as payrolls increased month- over-month and the unemployment rate fell from 8.0 to 6.8 percent. On October 2, the Bureau of Economic Analysis released second quarter estimates of real gross domestic product (GDP) in each U.S. state. National GDP decreased at an annual rate of 31.4 percent. Although countries around the world continue to be impacted by COVID-19, economists generally believe that the U.S. economy began to recover during the third quarter. According to the Third Quarter 2020 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia, economists expect real GDP to have increased at an annualized rate of about 19.1 percent in the third quarter.

West Texas Intermediate (WTI) crude oil prices decreased year-over-year from approximately $54 per barrel in September 2019 to approximately $40 per barrel by the end of September 2020. On a quarter over-quarter basis, the average price of WTI rose by approximately $1 per barrel in the third quarter. According to Baker Hughes, the U.S. rotary rig count decreased year-over-year from 860 rigs during the week ending on September 27, 2019 to 261 rigs during the week ending September 30, 2020. The rig count, often seen as a leading indicator of activity in the petroleum industry, reached a multi-year low in August of 244 rigs before recovering slightly in September.

According to the most recent USDA farm income projections on September 2, 2020, net farm income, a broad measure of profits, is forecasted to increase by $19 billion (22.7 percent) year-over-year to $102.7 billion in 2020. Net cash farm income is similarly forecasted to increase by $4.9 billion (4.5 percent) year-over-year to $115.2 billion in 2020. If realized, both income measures would be above the 20-year inflation-adjusted historical average. According to the USDA, the anticipated increase in net farm income is driven by higher government payments and lower anticipated expenses. Farm equity is forecasted payments and lower anticipated expenses. Farm equity is forecasted to increase by 0.7 percent, while debt to equity is expected to rise by 0.4 percentage points to 16.2 percent.

The U.S.-Mexico-Canada Agreement (USMCA) became effective on July 1, replacing the North American Free Trade Agreement (NAFTA). The implementation of USMCA provides much-needed certainty for exporters and importers operating across North America, including agricultural producers and agribusinesses. According to the USDA, about 29 percent of all U.S. farm and food exports were shipped to Mexico or Canada in 2019. USMCA includes provisions improving market access for U.S. dairy and poultry products, among other items, per USDA.

In its September 2020 World Agricultural Supply and Demand Estimate (WASDE) report, USDA projected lower season-average prices in the 2020/2021 marketing year for several crops, including corn and cotton. USDA expects soybean prices to rise by about 8 percent season-over-season in the 2020/2021 marketing year. Milk prices have been volatile during 2020, and USDA anticipates that all milk prices will fall by about 5 percent in 2020 compared to the 2019 average. Steer, barrow and gilt and poultry prices are projected to decrease in 2020 before increasing in 2021.

Many producers utilize risk management tools, such as Federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins. The Association's portfolio continues to be supported by strong credit quality, high levels of capital, low advance rates and diversification.

Significant Recent Accounting Pronouncements:

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

Relationship With the Farm Credit Bank of Texas:

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

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at *www.lonestaragcredit.com*. Copies of the Association's annual and quarterly stockholder reports can be requested by e-mailing *ShareHolderRelations@lonestaragcredit.com*.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash	$ 291,869	$ 66,150
Loans	1,896,867,393	1,631,671,416
Less: allowance for loan losses	(7,923,480)	(7,129,083)
Net loans	1,888,943,913	1,624,542,333
Accrued interest receivable	11,536,667	9,223,030
Investment in and receivable from the Bank:		
Capital stock	25,007,120	25,036,060
Other	5,567,043	1,046,155
Premises and equipment, net	2,992,405	3,098,799
Other assets	3,254,340	3,416,805
Total assets	$ 1,937,593,357	$ 1,666,429,332
LIABILITIES		
Note payable to the Bank	$ 1,545,782,861	$ 1,278,483,867
Accrued interest payable	2,665,617	3,092,379
Drafts outstanding	56,372	44,338
Patronage distributions payable	7,424,105	19,423,559
Other liabilities	12,753,432	13,606,705
Total liabilities	1,568,682,387	1,314,650,848
MEMBERS' EQUITY		
Capital stock and participation certificates	5,756,350	5,737,095
Additional paid-in capital	91,343,553	91,343,553
Unallocated retained earnings	272,679,979	255,587,367
Accumulated other comprehensive income (loss)	(868,912)	(889,531)
Total members' equity	368,910,970	351,778,484
Total liabilities and members' equity	$ 1,937,593,357	$ 1,666,429,332

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

LONESTAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
INTEREST INCOME				
Loans	**$ 20,569,646**	$ 20,972,678	**$ 62,320,999**	$ 62,319,550
Total interest income	**20,569,646**	20,972,678	**62,320,999**	62,319,550
INTEREST EXPENSE				
Note payable to the Bank	**8,374,527**	9,519,308	**26,414,568**	27,730,485
Advance conditional payments	**5**	2,864	**135**	3,734
Total interest expense	**8,374,532**	9,522,172	**26,414,703**	27,734,219
Net interest income	**12,195,114**	11,450,506	**35,906,296**	34,585,331
(PROVISION REVERSAL) PROVISION FOR LOAN LOSSES	**(148,047)**	(213,726)	**660,050**	(1,844,544)
Net interest income after provision for loan losses	**12,343,161**	11,664,232	**35,246,246**	36,429,875
NONINTEREST INCOME				
Income from the Bank:				
Patronage income	**1,847,966**	1,650,037	**5,283,724**	4,881,394
Loan fees	**288,201**	160,239	**709,400**	307,158
Refunds from Farm Credit System Insurance Corporation	**-**	-	**293,816**	340,601
Financially related services income	**1,050**	1,302	**4,330**	5,004
Loss on other property owned, net	**-**	(88,458)	**-**	(113,593)
Gain on sale of premises and equipment, net	**16,464**	74,346	**102,944**	226,202
Other noninterest income	**35,435**	-	**225,826**	132,537
Total noninterest income	**2,189,116**	1,797,466	**6,620,040**	5,779,303
NONINTEREST EXPENSES				
Salaries and employee benefits	**3,382,320**	3,543,432	**10,547,549**	12,276,553
Directors' expense	**77,398**	168,096	**264,520**	453,365
Purchased services	**405,135**	647,158	**1,458,681**	1,958,168
Travel	**168,584**	249,993	**544,190**	803,214
Occupancy and equipment	**370,557**	383,141	**1,128,122**	1,177,499
Communications	**131,754**	94,476	**366,507**	283,841
Advertising	**171,362**	142,629	**377,795**	458,307
Public and member relations	**150,045**	157,739	**600,836**	803,605
Supervisory and exam expense	**130,724**	163,969	**444,166**	491,909
Insurance Fund premiums	**374,054**	256,737	**864,693**	761,854
Other components of net periodic postretirement benefit cost	**51,908**	68,611	**155,724**	205,832
Other noninterest expense	**143,144**	176,104	**546,222**	624,478
Total noninterest expenses	**5,556,985**	6,052,085	**17,299,005**	20,298,625
Income before income taxes	**8,975,292**	7,409,613	**24,567,281**	21,910,553
Benefit from income taxes	**(3,828)**	(18,784)	**(9,536)**	(52,971)
NET INCOME	**8,979,120**	7,428,397	**24,576,817**	21,963,524
Other comprehensive income:				
Change in postretirement benefit plans	**6,873**	(2,646)	**20,619**	(7,938)
Other comprehensive income, net of tax	**6,873**	(2,646)	**20,619**	(7,938)
COMPREHENSIVE INCOME	**$ 8,985,993**	$ 7,425,751	**$ 24,597,436**	$ 21,955,586

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 5,911,140	$ 91,343,553	$ -	$ 246,571,786	$ (399,101)	$ 343,427,378
Comprehensive income	-	-	-	21,963,524	(7,938)	21,955,586
Capital stock/participation certificates and allocated retained earnings issued	497,645	-	-	-	-	497,645
Capital stock/participation certificates and allocated retained earnings retired	(629,085)	-	-	-	-	(629,085)
Dividends declared	-	-	-	(98,154)	-	(98,154)
Balance at September 30, 2019	$ 5,779,700	$ 91,343,553	$ -	$ 268,437,156	$ (407,039)	$ 365,153,370
Balance at December 31, 2019	$ 5,737,095	$ 91,343,553	$ -	$ 255,587,367	$ (889,531)	$ 351,778,484
Comprehensive income	-	-	-	24,576,817	20,619	24,597,436
Capital stock/participation certificates and allocated retained earnings issued	916,220	-	-	-	-	916,220
Capital stock/participation certificates and allocated retained earnings retired	(896,965)	-	-	-	-	(896,965)
Dividends declared	-	-	-	(7,484,205)	-	(7,484,205)
Balance at September 30, 2020	**$ 5,756,350**	**$ 91,343,553**	**$ -**	**$ 272,679,979**	**$ (868,912)**	**$ 368,910,970**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA, is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas. The Association is a lending institution of the Farm Credit System, which was established by Acts of Congress to meet the needs of American agriculture.

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

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

Effective June 24, 2020, the Association was released from a Special Supervision letter dated January 30, 2019, issued by the Farm Credit Administration (FCA). This action returned the Association to Normal Supervision status and terminated all remaining supervisory requirements. The Association complied with all requirements of the Special Supervision letter and as a result was not assessed any monetary penalties by the FCA during Special Supervision.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The adoption of this guidance will not impact the Association's financial condition or its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the institution's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in these interim financial statements.

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting

arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association early adopted to be in line with the FCS. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

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

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

NOTE 2 — INVESTMENTS:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling $59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased the Association's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2012 there was no effect to the Association's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2019 was $145,426. However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at September 30, 2020 was $4,756,934.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2020 Amount	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 1,486,001,360**	$ 1,292,173,087
Production and intermediate term	**113,999,243**	90,965,270
Agribusiness:		
Loans to cooperatives	**16,989,415**	8,713,334
Processing and marketing	**153,238,181**	143,710,232
Farm-related business	**36,640,367**	21,554,430
Communication	**36,848,354**	23,407,450
Energy	**31,764,877**	36,294,005
Water and waste water	**9,466,406**	5,574,542
Rural residential real estate	**11,919,190**	9,279,066
Total	**$ 1,896,867,393**	$ 1,631,671,416

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 24,305,964	$ 7,848,109	$ 1,953,161	$ -	$ 26,259,125	$ 7,848,109
Production and intermediate term	31,295,654	1,500,000	-	-	31,295,654	1,500,000
Agribusiness	176,673,806	6,633,554	-	-	176,673,806	6,633,554
Communication	36,848,354	-	-	-	36,848,354	-
Energy	31,764,877	-	-	-	31,764,877	-
Water and waste water	7,869,517	-	1,596,889	-	9,466,406	-
Total	$ 308,758,171	$ 15,981,663	$ 3,550,050	$ -	$ 312,308,221	$ 15,981,663

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $14,265,430 and $12,280,155 at September 30, 2020, and December 31, 2019, respectively.

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 4,706,807**	$ 3,295,585
Production and intermediate term	**746,883**	29,940
Rural residential real estate	**1,075**	8,370
Total nonaccrual loans	**5,454,765**	3,333,895
Accruing restructured loans:		
Real estate mortgage	**113,200**	101,701
Production and intermediate term	**1,032,100**	1,047,872
Total accruing restructured loans	**1,145,300**	1,149,573
Total nonperforming loans	**6,600,065**	4,483,468
Total nonperforming assets	**$ 6,600,065**	$ 4,483,468

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

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

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

	September 30, 2020	December 31, 2,019
Real estate mortgage		
Acceptable	**97%**	96%
OAEM	**2%**	3%
Substandard/doubtful	**1%**	1%
	100%	100%
Production and intermediate term		
Acceptable	**90%**	91%
OAEM	**9%**	8%
Substandard/doubtful	**1%**	1%
	100%	100%
Loans to cooperatives		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Processing and marketing		
Acceptable	**93%**	93%
OAEM	**4%**	7%
Substandard/doubtful	**3%**	0%
	100%	100%
Farm-related business		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy		
Acceptable	**100%**	89%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	11%
	100%	100%
Water and waste water		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**98%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%
Total loans		
Acceptable	**96%**	96%
OAEM	**3%**	3%
Substandard/doubtful	**1%**	1%
	100%	100%

The following tables provide an age analysis of past due loans (including accrued interest) 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**
Real estate mortgage	**$ 11,856,557**	**$ 561,134**	**$ 12,417,691**	**$ 1,483,618,831**	**$ 1,496,036,522**
Production and intermediate term	**61,955**	**670,355**	**732,310**	**113,964,941**	**114,697,251**
Loans to cooperatives	**-**	**-**	**-**	**17,002,067**	**17,002,067**
Processing and marketing	**-**	**-**	**-**	**153,446,789**	**153,446,789**
Farm-related business	**-**	**-**	**-**	**37,071,085**	**37,071,085**
Communication	**-**	**-**	**-**	**36,851,525**	**36,851,525**
Energy	**-**	**-**	**-**	**31,877,540**	**31,877,540**
Water and waste water	**-**	**-**	**-**	**9,467,748**	**9,467,748**
Rural residential real estate	**-**	**127**	**127**	**11,953,406**	**11,953,533**
Total	**$ 11,918,512**	**$ 1,231,616**	**$ 13,150,128**	**$ 1,895,253,932**	**$ 1,908,404,060**

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
Real estate mortgage	$ 6,102,762	$ 993,465	$ 7,096,227	$ 1,293,326,351	$ 1,300,422,578
Production and intermediate term	270,694	29,940	300,634	91,189,762	91,490,396
Loans to cooperatives	-	-	-	8,721,392	8,721,392
Processing and marketing	-	-	-	143,952,511	143,952,511
Farm-related business	-	-	-	21,580,739	21,580,739
Communication	-	-	-	23,409,603	23,409,603
Energy	-	-	-	36,427,019	36,427,019
Water and waste water	-	-	-	5,586,319	5,586,319
Rural residential real estate	19,491	-	19,491	9,284,398	9,303,889
Total	$ 6,392,947	$ 1,023,405	$ 7,416,352	$ 1,633,478,094	$ 1,640,894,446

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

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

As of September 30, 2020, the total recorded investment of troubled debt restructured loans was $2,521,260, including $1,375,960 classified as nonaccrual and $1,145,300 classified as accrual, with specific allowance for loan losses of $187,845. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2020 and December 31, 2019.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2020. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Three Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ -	$ -
Total	$ -	$ -

For the Three Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ -	$ -
Total	$ -	$ -

For the Nine Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,421,186	$ 1,407,303
Total	$ 1,421,186	$ 1,407,303

For the Nine Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 26,000	$ 23,433
Total	$ 26,000	$ 23,433

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructuring where principal was forgiven that required a charge-off, at the modification date, for the three and nine months ended September 30, 2020 and 2019, respectively.

The predominant form of concession granted for troubled debt restructuring includes an extension of the term, principal or accrued interest reduction, interest rate decrease or delayed in repayment of principal, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

As of September 30, 2020, and 2019, respectively, the Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status		TDRs in Accrual Status		Specific Allowance	
	September 30, 2020	December 31, 2019	**September 30, 2020**	December 31, 2019	**September 30, 2020**	December 31, 2019	**September 30, 2020**	December 31, 2019
Real estate mortgage	**$ 1,489,160**	$ 159,540	**$ 1,375,960**	$ 57,839	**$ 113,200**	$ 101,701	**$ -**	$ -
Production and intermediate term	**1,032,100**	1,048,029	**-**	157	**1,032,100**	1,047,872	**187,845**	206,034
Total	**$ 2,521,260**	$ 1,207,569	**$ 1,375,960**	$ 57,996	**$ 1,145,300**	$ 1,149,573	**$ 187,845**	$ 206,034

Additional impaired loan information is as follows:

	September 30, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate term	$ 1,713,943	$ 1,710,093	$ 187,845	$ 1,047,872	$ 1,043,822	$ 206,034
Total	$ 1,713,943	$ 1,710,093	$ 187,845	$ 1,047,872	$ 1,043,822	$ 206,034
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 4,820,007	$ 4,865,858	$ -	$ 3,397,286	$ 3,452,225	$ -
Production and intermediate term	65,040	93,823	-	29,940	235,980	-
Rural residential real estate	1,075	1,271	-	8,370	8,566	-
Total	$ 4,886,122	$ 4,960,952	$ -	$ 3,435,596	$ 3,696,771	$ -
Total impaired loans:						
Real estate mortgage	$ 4,820,007	$ 4,865,858	$ -	$ 3,397,286	$ 3,452,225	$ -
Production and intermediate term	1,778,983	1,803,916	187,845	1,077,812	1,279,802	206,034
Rural residential real estate	1,075	1,271	-	8,370	8,566	-
Total	$ 6,600,065	$ 6,671,045	$ 187,845	$ 4,483,468	$ 4,740,593	$ 206,034

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	$ -	$ -	$ -	$ -	$ 142,002	$ -	$ -	$ -
Production and intermediate term	1,648,126	16,427	-	-	1,241,626	54,386	-	-
Total	$ 1,648,126	$ 16,427	$ -	$ -	$ 1,383,628	$ 54,386	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	$ 4,578,351	$ 12,261	$ 3,103,623	$ 6,095	$ 3,844,436	$ 41,766	$ 3,444,794	$ 16,150
Production and intermediate term	65,070	-	1,103,417	13,726	54,170	122	1,118,940	43,686
Rural residential real estate	2,357	1,613	15,909	-	4,171	3,956	82,349	-
Total	$ 4,645,778	$ 13,874	$ 4,222,949	$ 19,821	$ 3,902,777	$ 45,844	$ 4,646,083	$ 59,836
Total impaired loans:								
Real estate mortgage	$ 4,578,351	$ 12,261	$ 3,103,623	$ 6,095	$ 3,986,438	$ 41,766	$ 3,444,794	$ 16,150
Production and intermediate term	1,713,196	16,427	1,103,417	13,726	1,295,796	54,508	1,118,940	43,686
Rural residential real estate	2,357	1,613	15,909	-	4,171	3,956	82,349	-
Total	$ 6,293,904	$ 30,301	$ 4,222,949	$ 19,821	$ 5,286,405	$ 100,230	$ 4,646,083	$ 59,836

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2020	$ 5,678,011	$ 845,721	$ 1,060,019	$ 148,657	$ 225,268	$ 45,622	$ 8,003,298
Charge-offs	-	(3,059)	-	-	-	-	(3,059)
Recoveries	-	82,264	600	-	-	-	82,864
(Reversal of) Provision for loan losses	(6,714)	(112,483)	62,023	(18,272)	(74,026)	1,425	(148,047)
Other	3,207	(1,210)	(15,849)	(194)	2,470	-	(11,576)
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,712	$ 47,047	$ 7,923,480
Balance at December 31, 2019	$ 4,713,632	$ 969,201	$ 835,460	$ 20,870	$ 451,789	$ 138,131	$ 7,129,083
Charge-offs	-	(45,373)	-	-	-	-	(45,373)
Recoveries	53,860	93,878	600	-	-	-	148,338
(Reversal of) Provision for loan losses	902,731	(222,170)	266,852	109,137	(305,416)	(91,084)	660,050
Other	4,281	15,697	3,881	184	7,339	-	31,382
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,712	$ 47,047	$ 7,923,480
Ending Balance:							
Individually evaluated for impairment	$ -	$ 187,845	$ -	$ -	$ -	$ -	$ 187,845
Collectively evaluated for impairment	5,674,504	623,388	1,106,793	130,191	153,712	47,047	7,735,635
Balance at September 30, 2020	$ 5,674,504	$ 811,233	$ 1,106,793	$ 130,191	$ 153,712	$ 47,047	$ 7,923,480
Balance at June 30, 2019	$ 4,866,078	$ 953,947	$ 565,987	$ 16,093	$ 575,172	$ 55,001	$ 7,032,278
Charge-offs	-	(24,265)	-	-	-	-	(24,265)
Recoveries	-	183,997	7,886	-	-	85,769	277,652
(Reversal of) Provision for loan losses	(104,082)	(175,865)	184,492	4,973	(13,641)	(109,603)	(213,726)
Other	-	23,032	(8,750)	173	2,647	-	17,102
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041
Balance at December 31, 2018	$ 6,497,578	$ 1,457,800	$ 350,450	$ 12,783	$ 224,208	$ 102,611	$ 8,645,430
Charge-offs	(141,299)	(55,953)	-	-	-	(50,249)	(247,501)
Recoveries	57,105	359,647	23,790	-	-	85,769	526,311
(Reversal of) Provision for loan losses	(1,651,280)	(841,161)	412,876	8,828	333,157	(106,964)	(1,844,544)
Other	(108)	40,513	(37,501)	(372)	6,813	-	9,345
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041
Ending Balance:							
Collectively evaluated for impairment	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2020	$ 1,496,036,522	$ 114,697,251	$ 207,519,941	$ 36,851,525	$ 41,345,288	$ 11,953,533	$ 1,908,404,060
Individually evaluated for impairment	$ 4,820,007	$ 1,778,983	$ -	$ -	$ -	$ 1,075	$ 6,600,065
Collectively evaluated for impairment	$ 1,491,216,515	$ 112,918,268	$ 207,519,941	$ 36,851,525	$ 41,345,288	$ 11,952,458	$ 1,901,803,995
Ending Balance at December 31, 2019	$ 1,300,422,578	$ 91,490,396	$ 172,254,642	$ 23,409,603	$ 42,013,338	$ 9,303,889	$ 1,640,894,446
Individually evaluated for impairment	$ 3,397,286	$ 1,077,812	$ -	$ -	$ -	$ 8,370	$ 4,483,468
Collectively evaluated for impairment	$ 1,297,025,292	$ 90,412,584	$ 174,254,642	$ 23,409,603	$ 42,013,338	$ 9,295,519	$ 1,636,410,978

NOTE 4 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating lease cost	$ 154,629	$ 153,075	$ 470,447	$ 429,681
Net lease cost	$ 154,629	$ 153,075	$ 470,447	$ 429,681

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 141,254	$ 145,269	$ 432,758	$ 415,716

Lease term and discount rate are as follows:

	September 30, 2020	December 31, 2019
Weighted average remaining lease term in years		
Operating leases	3.2	3.7
Weighted average discount rate		
Operating leases	2.9%	2.8%

Future minimum lease payments under non-cancellable leases as of September 30, 2020 were as follows:

		Operating Leases
2020 (excluding the nine months ended 9/30/20)	$	139,386
2021		569,760
2022		452,681
2023		398,465
2024		150,104
Total lease payments	$	1,710,396

NOTE 5 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of September 30, 2020**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	17.67%
Tier 1 capital ratio	6.00%	2.50%	8.50%	17.67%
Total capital ratio	8.00%	2.50%	10.50%	18.09%
Permanent capital ratio	7.00%	0.00%	7.00%	17.74%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	18.56%
UREE leverage ratio	1.50%	0.00%	1.50%	19.61%

Risk-adjusted assets have been defined by FCA 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. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, 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 non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR 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.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement 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 minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2020:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 205,929,774	$ 205,929,774	$ 205,929,774	$ 205,929,774
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,669,258	5,669,258	5,669,258	5,669,258
Allocated equities:				
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limitations			8,216,041	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(25,008,559)	(25,008,559)	(25,008,559)	(25,008,559)
	$ 343,667,992	$ 343,667,992	$ 351,884,033	$ 343,667,992
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,970,193,443	$ 1,970,193,443	$ 1,970,193,443	$ 1,970,193,443
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(25,008,559)	(25,008,559)	(25,008,559)	(25,008,559)
Allowance for loan losses				(8,077,083)
	$ 1,945,184,884	$ 1,945,184,884	$ 1,945,184,884	$ 1,937,107,801

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2020:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**$ 205,929,774**	**$ 205,929,774**
Paid-in capital	**91,343,553**	**91,343,553**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**5,669,258**	**-**
Allocated equities:		
Nonqualified allocated equities not subject to retirement	**65,733,966**	**65,733,966**
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(25,008,559)**	**(1,000)**
	$ 343,667,992	**$ 363,006,293**
Denominator:		
Total Assets	**$ 1,880,140,611**	**$ 1,880,140,611**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(28,720,847)**	**(28,720,847)**
	$ 1,851,419,764	**$ 1,851,419,764**

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2020	2019
Accumulated other comprehensive income (loss) at January 1	**$ (889,531)**	$ (399,101)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(19,887)**	(19,887)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**40,506**	11,949
Other comprehensive income (loss), net of tax	**20,619**	(7,938)
Accumulated other comprehensive income (loss) at September 30	**$ (868,912)**	$ (407,039)

NOTE 6 — INCOME TAXES:

Lone Star, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Lone Star, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Lone Star, ACA can exclude from taxable income amounts distributed as qualified patronage in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

As of September 30, 2020, the deferred income tax valuation allowance was $10,505,661.

NOTE 7 — FAIR VALUE MEASUREMENTS:

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

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 203,058**	**-**	**-**	**$ 203,058**
Total assets	**$ 203,058**	**-**	**-**	**$ 203,058**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 254,306	-	-	$ 254,306
Total assets	$ 254,306	-	-	$ 254,306

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

September 30, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 1,525,400**	**$ 1,525,400**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 841,838	$ 841,838

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

Valuation Techniques

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

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

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

Fair Value of Concessions Granted

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income over the contractual life of the related loans.

Other Property Owned

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

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30:

	Other Benefits	
	2020	2019
Service cost	**$ 53,244**	$ 75,157
Interest cost	**163,661**	161,402
Amortization of prior service (credits) costs	**(19,886)**	(19,552)
Amortization of net actuarial (gain) loss	**11,949**	63,982
Net periodic benefit cost	**$ 208,968**	$ 280,989

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2020, was $5,300,155 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expects to contribute $199,549 to the district's DC plan in 2020.

The structure of the district's DB plan, which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed $55,308 to fund the DB plan for 2020. As of September 30, 2020, the Association has expensed and recognized $41,481.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 10 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 6, 2020, which is the date the financial statements were issued or available to be issued.

There are no other significant events requiring disclosure as of November 6, 2020.