



# AG NEW MEXICO

## Farm Credit Services, ACA

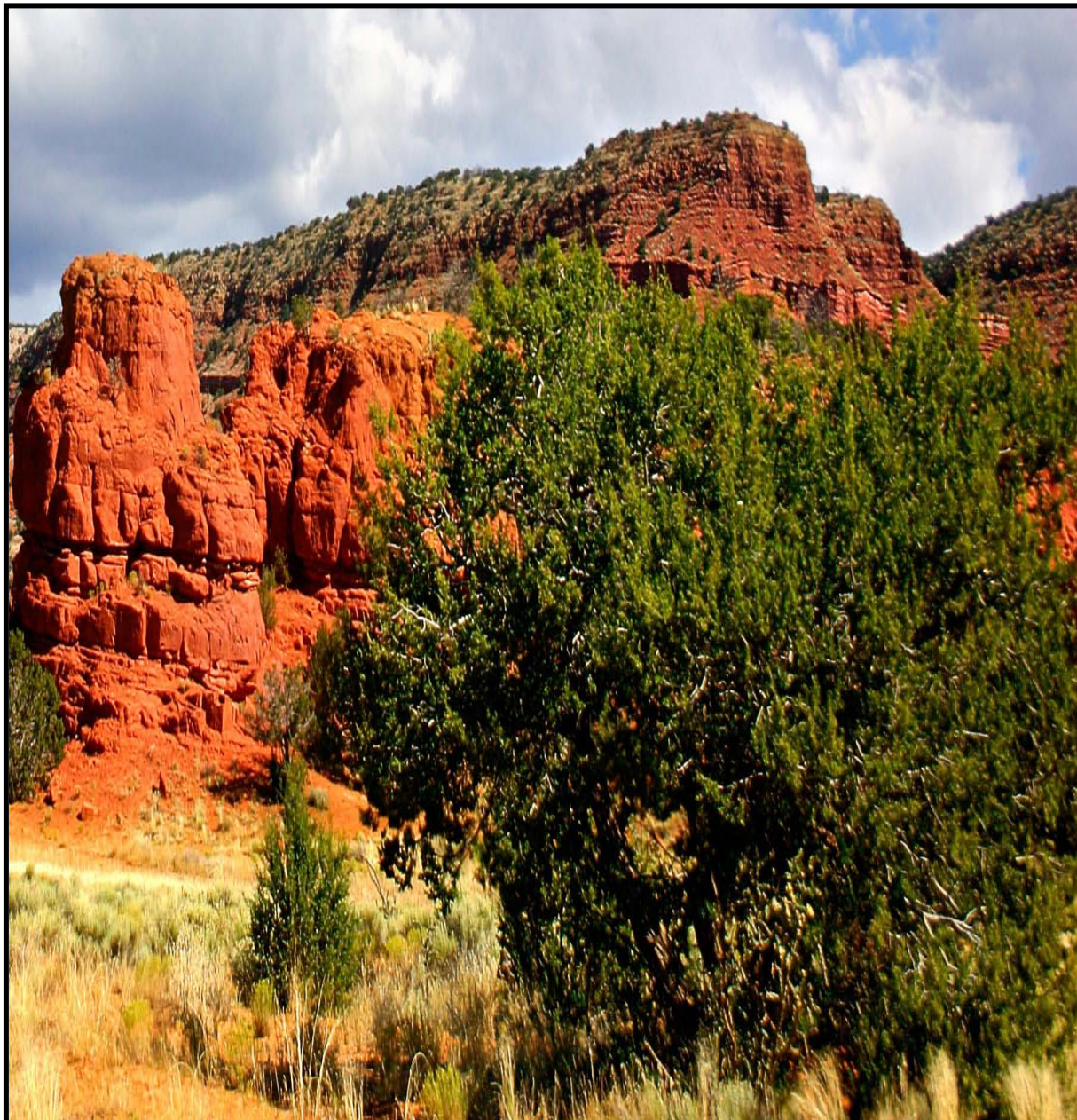
*Serving Agriculture in the Land of Enchantment*

*Part of the Farm Credit System*



## 2010 ANNUAL REPORT

### December 31, 2010



## Table of Contents

Report of Management.....	2
Report of Audit Committee .....	3
Five-Year Summary of Selected Consolidated Financial Data.....	4
Management's Discussion and Analysis of Financial Condition and Results of Operation.....	6
Report of Independent Auditors .....	12
Consolidated Financial Statements .....	13
Notes to Consolidated Financial Statements.....	18
Disclosure Information and Index.....	40

## REPORT OF MANAGEMENT

The consolidated financial statements of Ag New Mexico Farm Credit Services, ACA (association) are prepared by management, who are 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 annual 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' 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 consolidated financial statements are audited by Simonton & Kutac, LLP, independent accountants, 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 board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual 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 or her knowledge or belief.



John Burns, Chief Executive Officer

March 16, 2011



Ronnie Harral, Chairman, Board of Directors

March 16, 2011



Bill Jones, Chief Financial Officer

March 16, 2011

## REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of three members of the board of directors of Ag New Mexico Farm Credit Services, ACA. In 2010, three committee meetings were held. The committee oversees the scope of Ag New Mexico Farm Credit Services, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Ag New Mexico Farm Credit Services, ACA's Web site. The committee approved the appointment of Simonton & Kutac, LLP for 2010.

Management is responsible for Ag New Mexico Farm Credit Services, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. Simonton & Kutac, LLP is responsible for performing an independent audit of Ag New Mexico Farm Credit Services, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed Ag New Mexico Farm Credit Services, ACA's audited consolidated financial statements for the year ended December 31, 2010 (audited consolidated financial statements) with management and Simonton & Kutac, LLP. The committee also reviews with Simonton & Kutac, LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) and both Simonton & Kutac, LLP's and Ag New Mexico Farm Credit Services, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with Simonton & Kutac, LLP its independence from Ag New Mexico Farm Credit Services, ACA. The committee also reviewed the non-audit services provided by Simonton & Kutac, LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and Simonton & Kutac, LLP such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Ag New Mexico Farm Credit Services, ACA's Annual Report to Stockholders for the year ended December 31, 2010.

### Audit Committee Members

Ronny Fouts, Chairman  
Ronnie Harral  
D. L. Kelley

March 16, 2011

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**  
(unaudited)  
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Balance Sheet Data</u></b>					
<b><u>Assets</u></b>					
Cash	\$ 103	\$ 103	\$ 111	\$ 104	\$ 1,752
Investments	24,017	-	-	-	-
Loans	150,518	256,006	287,137	267,283	263,840
Less: allowance for loan losses	2,522	4,976	1,015	258	306
Net loans	147,996	251,030	286,122	267,025	263,534
Investment in and receivable from the bank	4,584	6,088	5,715	5,565	3,816
Other property owned, net	7	3,166	2,203	7	7
Other assets	7,945	8,091	8,131	8,414	8,173
Total assets	<u>\$ 184,652</u>	<u>\$ 268,478</u>	<u>\$ 302,282</u>	<u>\$ 281,115</u>	<u>\$ 277,282</u>
<b><u>Liabilities</u></b>					
Obligations with maturities of one year or less	\$ 1,336	\$ 1,806	\$ 3,529	\$ 4,939	\$ 4,699
Obligations with maturities greater than one year	156,423	236,564	263,203	243,678	243,106
Total liabilities	<u>157,759</u>	<u>238,370</u>	<u>266,732</u>	<u>248,617</u>	<u>247,805</u>
<b><u>Members' Equity</u></b>					
Capital stock and participation certificates	335	358	392	387	374
Unallocated retained earnings	26,700	29,636	35,114	31,994	29,103
Accumulated other comprehensive income (loss)	(142)	114	44	117	-
Total members' equity	<u>26,893</u>	<u>30,108</u>	<u>35,550</u>	<u>32,498</u>	<u>29,477</u>
Total liabilities and members' equity	<u>\$ 184,652</u>	<u>\$ 268,478</u>	<u>\$ 302,282</u>	<u>\$ 281,115</u>	<u>\$ 277,282</u>
<b><u>Statement of Income Data</u></b>					
Net interest income	\$ 4,857	\$ 6,271	\$ 7,448	\$ 7,148	\$ 6,303
(Provision for loan losses) or loan loss reversal	723	(7,779)	(760)	(392)	188
(Provision for loss on acquired property)	-	(920)	-	-	-
Income from the bank	1,026	1,190	1,013	993	759
Other noninterest income	(6,671)	318	638	588	1,068
Noninterest expense	(3,914)	(5,009)	(4,675)	(4,230)	(4,051)
Provision for income taxes	1,043	451	527	85	(129)
Extraordinary items	-	-	-	-	-
Net income (loss)	<u>\$ (2,936)</u>	<u>\$ (5,478)</u>	<u>\$ 4,191</u>	<u>\$ 4,192</u>	<u>\$ 4,138</u>
<b><u>Key Financial Ratios for the Year</u></b>					
Return on average assets	<b>-1.4%</b>	-1.9%	1.5%	1.5%	1.8%
Return on average members' equity	<b>-11.1%</b>	-15.8%	12.2%	13.6%	14.6%
Net interest income as a percentage of average earning assets	<b>2.4%</b>	2.3%	2.7%	2.7%	2.9%
Net charge-offs (recoveries) as a percentage of average loans	<b>0.9%</b>	1.4%	0.0%	0.2%	0.0%

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**

(unaudited)

(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Key Financial Ratios at Year End</u></b>					
Members' equity as a percentage of total assets	<b>14.6%</b>	11.2%	11.8%	11.6%	10.6%
Debt as a percentage of members' equity	<b>586.6%</b>	791.7%	750.3%	765.0%	840.7%
Allowance for loan losses as a percentage of loans	<b>1.7%</b>	1.9%	0.4%	0.1%	0.1%
Permanent capital ratio	<b>11.3%</b>	10.7%	11.1%	10.7%	10.9%
Core surplus ratio	<b>11.1%</b>	10.5%	10.9%	10.6%	10.7%
Total surplus ratio	<b>11.1%</b>	10.5%	10.9%	10.6%	10.7%
<b><u>Net Income Distribution</u></b>					
Patronage refunds:					
Cash	\$ -	\$ 1,071	\$ 1,300	\$ 1,400	\$ -

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Ag New Mexico Farm Credit Services, ACA including its wholly-owned subsidiaries, Ag New Mexico Farm Credit Services, PCA and Ag New Mexico Farm Credit Services, FLCA (association) for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's audit committee.

### **Forward-Looking Information:**

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

### **Significant Events:**

In December 2010, the association received a direct loan patronage of \$930,154 from the bank, representing 50 basis points on the average daily balance of the association's direct loan with the bank. During 2010, the association received \$51,026 in patronage payments from the bank, based on the association's stock investment in the bank. Also, the association received a capital markets patronage of \$44,694 from the bank, representing 65 basis points on the association's average balance of participations in the bank's patronage pool program.

The association sold \$39,801,807 of loans including \$28,288,934 of nonaccrual loans to Farm Credit Bank of Texas (the Bank) in March, 2010. The loans sold to the Bank were discounted to fair market value. The association recorded the discount on the sale of loans amounting to \$7,247,712 as a loss from sale of assets rather than a charge-off of loans against the allowance for loan loss. The association also sold \$3,409,365 of other property owned to the Bank at market value. A loss from sale of other property owned, which included the discount on the sale, was recorded at an amount of \$507,268 as loss on sale of acquired property. Nothing in the agreement to sell the assets can be construed as a waiver by the Bank of any of its rights under the General Financing Agreement (GFA) between the association and the Bank. The parties to the agreement have simultaneously entered into an agreement for the association to continue servicing the loan, acquired property and other assets over their remaining lives subject to cancellation by either party. The Bank reimburses the association for servicing the assets at twenty basis points of the carrying value of the assets. The sale of the assets was a strategic management decision to improve the credit quality of the loan portfolio and reduce risk exposure while acknowledging that the result would be an adverse impact on earnings for the year.

The association is operating under a limited waiver of the return on assets covenant of the General Financing Agreement with the Bank as more fully discussed in Note 7, "Note Payable to the Bank" of the consolidated financial statements. The association is still operating under a supervisory agreement with the Farm Credit Administration as discussed in Note 15, "Regulatory Enforcement Matters". The association remains in material compliance with the requirements of the supervisory agreement.

## 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 and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. 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.

The composition of the association's loan portfolio, including principal less funds held of \$150,517,886, \$256,006,074 and \$287,137,260 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 4 – "Loans and Allowance for Loan Losses."

## Purchase and Sales of Loans:

During 2010, 2009 and 2008, the association was participating in loans with other lenders. As of December 31, 2010, 2009 and 2008, these participations totaled \$29,698,026, \$46,067,544 and \$51,498,691, or 19.7 percent, 18.0 percent and 17.9 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of \$5,092,444, \$8,670,288 and \$40,352,814, or 3.4 percent, 3.4 percent and 14.1 percent of loans, respectively. The association has also sold participations of \$13,287,341, \$30,783,807 and \$36,009,074 as of December 31, 2010, 2009 and 2008, respectively.

During 2010, the association exchanged loans totaling \$26.4 million 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. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$24 million at December 31, 2010. The association continues to service the loans included in those transactions.

## 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, net. The following table illustrates the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 14,330,091	99.7%	\$ 39,479,931	92.6%	\$ 8,195,789	78.8%
90 days past due and still accruing interest	31,927	0.2%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	7,000	0.1%	3,166,364	7.4%	2,203,010	21.2%
Total	<u>\$ 14,369,018</u>	<u>100.0%</u>	<u>\$ 42,646,295</u>	<u>100.0%</u>	<u>\$ 10,398,799</u>	<u>100.0%</u>

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$14,362,018, \$39,479,931 and \$8,195,789, representing 9.5 percent, 15.4 percent and 3.2 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender.

To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees, and engaging in loan participations.

## Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Allowance for loan losses	\$ 2,522,097	\$ 4,976,115	\$ 1,015,226
Allowance for loan losses to total loans	1.7%	1.9%	0.4%
Allowance for loan losses to nonaccrual loans	17.6%	12.6%	12.4%
Allowance for loan losses to impaired loans	17.6%	12.6%	12.4%
Net charge-offs to average loans	0.9%	1.4%	0.0%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$2,522,097, \$4,976,115 and \$1,015,226 at December 31, 2010, 2009 and 2008, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. The allowance is considered adequate due to the sale of adverse loans combined with a decrease in loan volume. The purchase of \$26.4 million in Farmer Mac agriculture mortgage backed securities and the concomitant guarantees is a strategy to further mitigate risk associated with the association's loan portfolio.

## Results of Operations:

The association is organized with Ag New Mexico FCS, ACA being the parent association for the two subsidiaries, Ag New Mexico FCS, FLCA and Ag New Mexico FCS, PCA. The FLCA subsidiary primarily offers loans for a longer term for the purchase of real estate such as farm or ranch land and rural homes. The PCA subsidiary primarily offers short and intermediate term loans to fund operations. Both subsidiaries receive fee income for loan origination, conversion and related services. The PCA also receives income from the sale of credit life and crop insurance

The association's net loss for the year ended December 31, 2010, was \$(2,936,494) as compared to \$(5,477,283) for the year ended December 31, 2009, reflecting a decrease in the net loss of \$2,540,789, or 46.4 percent. The association's net income for the year ended December 31, 2008 was \$4,192,205. Net income decreased \$9,669,488, or 230.7 percent, in 2009 versus 2008. The decrease in the net loss in 2010 from 2009 was due to a substantial decrease in nonaccrual loan volume, an increase in yield on loans with a corresponding reduction in interest paid on funds borrowed, and one time occurrences such as the sale of Financial Assistance Corporation stock and the Farm Credit System Insurance Corporation insurance premium rebate. A significant part of the decrease in net loss in 2010 compared to 2009 was the reversal of specific allowances of \$723,070 back to income in 2010 in contrast to 2009 where the allowance for loan loss had to be increased by \$7,778,544 and allowance for loss on acquired property had to be increased by \$919,646 to offset loan charge offs and to allow for the risk in the loan portfolio as well as acquired property. The increases in the allowance accounts were charged to expense in 2009.

Net interest income for 2010, 2009 and 2008 was \$4,856,572, \$6,271,226 and \$7,448,280, reflecting decreases of \$1,414,654, or 22.6 percent, for 2010 versus 2009 and \$1,177,054, or 15.8 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 183,991,698	\$ 7,918,780	\$ 275,512,273	\$ 13,055,250	\$ 274,358,250	\$ 17,563,202
Investments	19,775,636	947,878	-	-	-	-
Total interest-earning assets	203,767,334	8,866,658	275,512,273	13,055,250	274,358,250	17,563,202
Interest-bearing liabilities	186,053,622	4,010,086	255,010,715	6,784,024	249,862,513	10,114,922
Impact of capital	\$ 17,713,712		\$ 20,501,558		\$ 24,495,737	
Net interest income	\$ 4,856,572		\$ 6,271,226		\$ 7,448,280	

	Average Yield	Average Yield	Average Yield
Yield on loans	4.30%	4.74%	6.40%
Yield on investments	4.79%	0.00%	0.00%
Total yield on interest-earning assets	4.35%	4.74%	6.40%
Cost of interest-bearing liabilities	2.16%	2.66%	4.05%
Interest rate spread	2.20%	2.08%	2.35%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ (4,337,351)	\$ (799,768)	\$ (5,137,119)	\$ 73,876	\$ (4,490,944)	\$ (4,417,068)
Interest income - investments	-	947,878	947,878	-	-	-
Total interest income	(4,337,351)	148,110	(4,189,241)	73,876	(4,490,944)	(4,417,068)
Interest expense	(1,834,470)	(939,472)	(2,773,942)	208,410	(3,539,308)	(3,330,898)
Net interest income	\$ (2,502,881)	\$ 1,087,583	\$ (1,415,298)	\$ (134,534)	\$ (951,636)	\$ (1,086,170)

Interest income decreased by \$4,188,592, or 32.1 percent, compared to 2009, primarily due to a decrease in loan volume. Interest expense for 2010 decreased by \$2,773,938, or 40.9 percent, compared to 2009 due to a decrease in the direct note to the bank as well as a decrease in the interest rate on funds borrowed from the bank. The interest rate spread increased by 12 basis points to 2.20 percent in 2010 from 2.08 percent in 2009, primarily because of the decrease in the interest rate paid on the association's direct note to the bank. The association attempts to make interest rates competitive to other lending institutions. In 2010, the association implemented authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2010 was an increase of \$12,078. The interest rate spread decreased by -28 basis points to 2.08 percent in 2009 from 2.35 percent in 2008, primarily because of a significant increase in nonaccrual loan volume amounting to \$31.8 million on which the association paid interest but did not accrue any interest in return.

Noninterest income for 2010 decreased by \$7,153,228, or 474.3 percent, compared to 2009, due primarily to the discount recorded as a loss on sale of notes and other property owned as reference under the 'Significant Events' caption in the 'Management's Discussion and Analysis' section of the report. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of \$12,078 of origination cost in excess of fees, which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2009 decreased by \$143,034, or 8.7 percent, compared to 2008, due primarily to a reduction in fee income on loans. The \$7,153,228 decrease in noninterest income included \$269,646 in refund distributions of excess reserves from prior years from the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund). The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System Banks. The association also received \$1,025,874 in patronage distributions from Farm Credit Bank which was a substantial increase over prior years.

Provisions for loan losses decreased by \$8,501,614 or 109 percent, compared to 2009, due primarily to reversal of specific allowances of the amount of \$723,070 for nonaccrual loan sold as referenced in the 'Significant Events' section of Management's Discussion and Analysis. No additional provision for loan losses was required during the course of the year since management has determined that the allowance for loan loss is adequate to offset risks inherent in the association's loan portfolio and no additions to the allowance were needed.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Operating expenses decreased by 21.86 percent for 2010 compared to 2009 due primarily to a decrease in employee salaries and benefits, travel, and insurance premiums. Staffing levels were reduced 28.5 percent during 2010 due to a decline in loan volume. Operating expenses increased by 7 percent for 2009 compared to 2008 due to increase in salaries and benefits, occupancy and equipment, and insurance fund premiums. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of \$88,132 in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling \$88,132 related to the origination of loans. The \$1,094,869 decrease in operating expenses included a decrease of \$313,335 in premiums to the Insurance Fund, resulting from a decrease in the premium rates from 20 bases points in 2009 to 5 basis points in 2010.

For the year ended December 31, 2010, the association's return on average assets was -1.4 percent, as compared to -1.9 percent and 1.5 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the association's return on average members' equity was -11.1 percent, as compared to -15.8 percent and 12.2 percent for the years ended December 31, 2009 and 2008, respectively. The net loss incurred in 2010 was the result of a strategic management decision to sell adverse loans and acquired property, discounted to fair market value, to the bank to improve the credit quality of the association's loan portfolio and to reduce the amount of acquired property to more manageable levels and was less than the loss in 2009 due to loan charge offs and a substantial increase in the allowance for loan loss to establish a reserve to offset risk inherent in the loan portfolio.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank would have a similar effect on the operations of the association.

#### **Liquidity and Funding Sources:**

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank 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 bank. The outstanding balance of \$156,152,850, \$236,051,371 and \$262,421,675 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.91 percent, 2.52 percent and 3.37 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. The decrease in note payable to the bank and related accrued interest payable since December 31, 2009, is due to a decrease in the volume of the note payable to the bank resulting from the decrease in loan volume of the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$18,913,696, \$19,584,041 and \$23,838,447 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the association may borrow from the bank as of December 31, 2010, was \$172,481,064 as defined by the general 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 to the bank.

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

#### **Capital Resources:**

The association's capital position has decreased from the prior year by \$3,216,078, with total members' equity of \$26,892,881, \$30,108,959 and \$35,550,055 at December 31, 2010, 2009 and 2008, respectively. Risk funds have been adversely impacted by two years of net operating losses. 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 permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 11.3 percent, 10.7 percent and 11.1 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2010, 2009 and 2008 was 11.1 percent, 10.5 percent and 10.9 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2010, 2009 and 2008 was 11.1 percent, 10.5 percent and 10.9 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2010, 2009 and 2008, the association paid patronage/dividend distributions of \$0, \$1,071,203 and \$1,299,901, respectively. See Note 8 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

#### **Relationship with the Bank:**

The association's statutory obligation to borrow only from the bank is discussed in Note 7 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank's ability to access capital of the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The bank'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 7 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 11 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank allocates district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

#### **Summary:**

Over the past 77 years, regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the bank, has been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

# SIMONTON & KUTAC, L.L.P.

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders  
of Ag New Mexico, Farm Credit Services, ACA

We have audited the accompanying consolidated balance sheet of Ag New Mexico, Farm Credit Services, ACA and its subsidiaries (Association) as of December 31, 2010, 2009 and 2008, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ag New Mexico, Farm Credit Services, ACA and its subsidiaries as of December 31, 2010, 2009 and 2008, and the results of their operations, changes in members' equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Simonton & Kutac, LLP*

March 14, 2011

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED BALANCE SHEET**

	December 31,		
	2010	2009	2008
<b><u>Assets</u></b>			
Cash	\$ 103,451	\$ 103,349	\$ 110,979
Investments	24,016,717	-	-
Loans	150,517,886	256,006,074	287,137,260
Less: allowance for loan losses	2,522,097	4,976,115	1,015,226
Net loans	147,995,789	251,029,959	286,122,034
Accrued interest receivable	2,643,064	3,990,686	5,408,806
Investment in and receivable from the bank:			
Capital stock	3,852,310	5,136,085	4,957,750
Other	731,971	952,353	757,615
Deferred taxes, net	2,114,788	1,278,277	816,143
Other property owned, net	7,000	3,166,364	2,203,010
Premises and equipment	2,759,459	2,718,643	1,788,260
Other assets	427,680	103,125	118,230
Total assets	<b>\$ 184,652,229</b>	<b>\$ 268,478,841</b>	<b>\$ 302,282,827</b>
<b><u>Liabilities</u></b>			
Note payable to the bank	\$ 156,152,850	\$ 236,051,371	\$ 262,421,675
Advance conditional payments	148,567	486,953	882,421
Accrued interest payable	270,585	512,211	781,794
Drafts outstanding	47,071	69,997	381,174
Patronage distributions payable	191	191	1,071,394
Other liabilities	1,140,084	1,249,159	1,194,314
Total liabilities	<b>157,759,348</b>	<b>238,369,882</b>	<b>266,732,772</b>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	334,785	358,075	392,080
Unallocated retained earnings	26,700,182	29,636,676	35,113,959
Accumulated other comprehensive income (loss)	(142,086)	114,208	44,016
Total members' equity	<b>26,892,881</b>	<b>30,108,959</b>	<b>35,550,055</b>
Total liabilities and members' equity	<b>\$ 184,652,229</b>	<b>\$ 268,478,841</b>	<b>\$ 302,282,827</b>

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED STATEMENT OF INCOME**

	Year Ended December 31,		
	2010	2009	2008
<b><u>Interest Income</u></b>			
Loans	\$ 7,918,780	\$ 13,055,250	\$ 17,563,202
Investments	947,878	-	-
Total interest income	<b>8,866,658</b>	13,055,250	17,563,202
<b><u>Interest Expense</u></b>			
Note payable to the bank	4,010,083	6,784,017	10,107,951
Advance conditional payments	3	7	6,971
Total interest expense	<b>4,010,086</b>	6,784,024	10,114,922
Net interest income	<b>4,856,572</b>	6,271,226	7,448,280
<b><u>Provision for Loan Losses</u></b>			
Provision for loan losses or (loan loss reversal)	(723,070)	7,778,544	759,528
Provision for acquired property losses	-	919,646	-
Net interest income after provision for losses	<b>5,579,642</b>	(2,426,964)	6,688,752
<b><u>Noninterest Income</u></b>			
Income from the bank:			
Patronage income	1,025,874	1,190,046	1,012,871
Loan fees	166,393	207,618	536,849
Refunds from Farm Credit System			
Insurance Corporation	269,646	-	-
Financially related services income	62,735	51,951	33,864
(Loss) gain on other property owned, net	(391,346)	840	-
(Loss) gain on sale of loans, net	(7,247,712)	-	-
Gain on sale of premises and equipment, net	37,241	-	50
Other noninterest income	141,009	57,818	67,673
FAC Stock Retirement	291,205	-	-
Total noninterest income	<b>(5,644,955)</b>	1,508,273	1,651,307
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	2,145,175	2,750,779	2,486,426
Directors' expense	173,580	225,208	241,746
Purchased services	169,906	120,942	112,347
Travel	173,374	284,499	289,711
Occupancy and equipment	512,692	516,499	477,896
Communications	26,276	33,936	38,702
Advertising	57,706	54,255	75,840
Public and member relations	57,454	80,545	154,534
Supervisory and exam expense	173,109	127,141	112,495
Insurance Fund premiums	104,016	498,568	398,883
Other noninterest expense	320,961	316,738	286,685
Total noninterest expenses	<b>3,914,249</b>	5,009,110	4,675,265
Income before income taxes	<b>(3,979,562)</b>	(5,927,801)	3,664,794
Benefit from income taxes	<b>(1,043,068)</b>	(450,518)	(527,411)
Net (loss) income	<b>\$ (2,936,494)</b>	\$ (5,477,283)	\$ 4,192,205

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 387,395	\$ -	\$ 31,994,220	\$ 116,609	\$ 32,498,224
Adjustment to beginning balance due to the pension accounting change	-	-	(1,270)	-	(1,270)
Balance at January 1, 2008	387,395	-	31,992,950	116,609	32,496,954
Comprehensive income					
Net income	-	-	4,192,205	-	4,192,205
Amortization of costs in postretirement benefit plans	-	-	-	(72,593)	(72,593)
Total comprehensive income	-	-	4,192,205	(72,593)	4,119,612
Capital stock/participation certificates issued	38,630	-	-	-	38,630
Capital stock/participation certificates and allocated retained earnings retired	(33,945)	-	-	-	(33,945)
Patronage refunds:					
Cash	-	-	(1,071,196)	-	(1,071,196)
Balance at December 31, 2008	392,080	-	35,113,959	44,016	35,550,055
Comprehensive income					
Net income (loss)	-	-	(5,477,283)	-	(5,477,283)
Adjustment to record funded status	-	-	-	89,665	89,665
Amortization of AOCI in expense accrual	-	-	-	(19,473)	(19,473)
Total comprehensive income	-	-	(5,477,283)	70,192	(5,407,091)
Capital stock/participation certificates issued	38,945	-	-	-	38,945
Capital stock/participation certificates and allocated retained earnings retired	(72,950)	-	-	-	(72,950)
Balance at December 31, 2009	358,075	-	29,636,676	114,208	30,108,959
Comprehensive income					
Net income (loss)	-	-	(2,936,494)	-	(2,936,494)
Change in postretirement plan plan assets and benefit obligation	-	-	-	(256,294)	(256,294)
Total comprehensive income	-	-	(2,936,494)	(256,294)	(3,192,788)
Capital stock/participation certificates issued	31,805	-	-	-	31,805
Capital stock/participation certificates and allocated retained earnings retired	(55,095)	-	-	-	(55,095)
<b>Balance at December 31, 2010</b>	<b>\$ 334,785</b>	<b>\$ -</b>	<b>\$ 26,700,182</b>	<b>\$ (142,086)</b>	<b>\$ 26,892,881</b>

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (2,936,494)	\$ (5,477,283)	\$ 4,192,205
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	(723,070)	7,778,544	759,528
Provision for acquired property losses	-	919,646	-
Gain on other property owned, net	391,346	(840)	-
Loss on other property owned, net	390,979	918,806	-
Depreciation	110,859	60,411	94,342
(Gain) loss on sale of loans	7,247,712	-	-
(Gain) loss on sale of premises and equipment, net	(37,241)	-	50
Decrease in accrued interest receivable	1,347,622	1,418,121	1,471,515
Decrease (increase) in other receivables from the bank	220,382	(194,738)	(73,464)
Increase in deferred tax assets	(836,511)	(462,134)	(560,176)
(Increase) decrease in other assets	(324,555)	15,103	(22,641)
Decrease in accrued interest payable	(241,626)	(269,583)	(283,972)
(Decrease) increase in other liabilities	(365,369)	125,038	5,762
Net cash provided by operating activities	<b>3,852,688</b>	<b>3,912,285</b>	<b>5,583,149</b>
<b>Cash flows from investing activities:</b>			
Decrease (increase) in loans, net	69,500,087	25,424,006	(22,050,127)
Cash recoveries of loans previously charged off	285,339	6,526	35,194
Proceeds from redemption (purchase) of investment in the bank	1,283,775	(178,335)	(76,960)
Decrease in investments	2,442,170	-	-
Purchases of premises and equipment	(151,675)	(990,795)	(700,489)
Proceeds from sales of premises and equipment	37,241	-	50
Proceeds from sales of other property owned	3,033,600	840	-
Net cash provided by (used in) investing activities	<b>76,430,537</b>	<b>24,262,242</b>	<b>(22,792,332)</b>

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
<b>Cash flows from financing activities:</b>			
Net (repayment of) draws on note payable to the bank	<b>(79,898,521)</b>	(26,370,304)	19,809,498
(Decrease) increase in drafts outstanding	<b>(22,926)</b>	(311,177)	18,873
Decrease in advance conditional payments	<b>(338,386)</b>	(395,468)	(1,317,317)
Issuance of capital stock and participation certificates	<b>31,805</b>	38,945	38,630
Retirement of capital stock and participation certificates	<b>(55,095)</b>	(72,950)	(33,945)
Patronage distributions paid	-	(1,071,203)	(1,299,901)
Net cash (used in) provided by financing activities	<b>(80,283,123)</b>	(28,182,157)	17,215,838
Net increase (decrease) in cash	<b>102</b>	(7,630)	6,655
Cash at the beginning of the year	<b>103,349</b>	110,979	104,324
Cash at the end of the year	<b>\$ 103,451</b>	\$ 103,349	\$ 110,979

**Supplemental schedule of noncash investing and financing activities:**

Loans exchanged for agricultural mortgage-backed securities	\$ 26,458,887	\$ -	\$ -
Loans transferred to other property owned	265,215	1,883,000	2,196,010
Loans charged off	2,016,287	3,824,181	37,987
Patronage distributions declared	-	-	1,071,196

**Supplemental cash information:**

Cash paid during the year for:			
Interest	\$ 4,251,709	\$ 7,053,600	\$ 20,530,460

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Ag New Mexico, Farm Credit Services, ACA, including its wholly-owned subsidiaries, Ag New Mexico, Farm Credit Services, PCA and Ag New Mexico, Farm Credit Services, FLCA (collectively called “the association”), 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 all counties of the state of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The FLCA and PCA subsidiaries are authorized to operate in Cochran County, Texas. In addition, the association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2010, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the “district.” The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2010, the district consisted of the bank, 1 FLCA and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short-and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System wide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

- B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank.

The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operations of the bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas and District Association's Annual Report to Stockholders, which includes the combined financial statements of the bank 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 bank 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 Insurance Fund.

The lending and financial services offered by the bank are described in Note 1, "Organization and Operations," of the district's annual report to stockholders.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting and reporting policies of the association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Ag New Mexico FCS, PCA and Ag New Mexico FCS, FLCA. All significant intercompany transactions have been eliminated in consolidation.

- A. Recently Issued or Adopted Accounting Pronouncements: In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit 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 roll forward 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, 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.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date, in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the

transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010, was immaterial to the association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoption on January 1, 2010, was immaterial to the association's financial condition and results of operations.

- B. **Cash and Cash Equivalents:** Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- C. **Investment Securities:** The association's investments include mortgage-backed securities issued by Farmer Mac for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings.
- D. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Authoritative accounting 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. Prior to 2010, this guidance was not implemented due to its immaterial effect on the association's financial position or results of operation for any year presented. The guidance was implemented in 2010 for loans closed in 2010, resulting in the capitalization of \$76,054 in origination fees and \$86,418 in origination costs, primarily salaries and benefits related to the origination of loans. The net adjustment to yield on loans for 2010 was a decrease of \$649.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

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).

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the association grants a concession to the debtor that it would not otherwise consider.

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, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

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

In cases where a borrower experiences financial difficulties and the association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

- E. Capital Stock Investment in the Bank: The association's investment in the bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the association's proportional utilization of the bank compared to other district associations. The bank requires a minimum stock investment of 2 percent of the association's average borrowing from the bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the bank to a maximum of 5 percent of the average outstanding balance of borrowings from the bank.

- F. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the Balance Sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying

amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the Statement of Income.

- G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- H. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.
- I. Employee Benefit Plans: Employees of the association participate in either the district defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the district's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The association recognized pension costs for the DC Plan of \$45,667, \$48,646 and \$41,372 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DB Plan, the association recognized pension costs of \$415,231, \$684,003 and \$482,764 for the years ended December 31, 2010, 2009 and 2008, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were \$52,377, \$54,303 and \$55,525 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to the DB Plan, the DC Plan, and the Farm Credit Benefits Alliance 401(k) plans above, the association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities would be included in the association's consolidated balance sheets in other liabilities. There were no employees who participated in the nonqualified 401K plan for the fiscal years 2010, 2009 or 2008.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Medical and dental benefits are available to employees with a percentage of the premium paid by the Association based upon continuous service for employees hired prior to January 1, 2006. Employees hired on or after January 1, 2006 are eligible for medical and dental benefits, but are responsible for paying one hundred percent of their associated medical premiums at retirement.

- J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income

amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is (1) to permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

The association has not provided deferred income taxes on amounts allocated to the association which relate to the bank's post-1992 earnings to the extent that such earnings will be passed through to association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the bank's post-1992 unallocated earnings. The bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the association level.

- K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the bank on an accrual basis.
- L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value, are included in Level 3.

The fair value disclosures are presented in Note 12, "Fair Value Measurements."

### NOTE 3 — INVESTMENT SECURITIES:

Effective March 2010, approximately \$26.4 million of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	December 31, 2010				
	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average Yield
		Gains	Losses		
Agricultural mortgage-backed securities	\$ 24,016,717	-	\$ 434,242	\$ 23,582,475	4.59 %

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of Farmer Mac investments held-to-maturity at December 31, 2010:

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	Agricultural mortgage-backed securities	\$ -	-	\$ 23,582,475	4.59 %	\$ -	-	\$ -	-	\$ 23,582,475
Total fair value	-	-	23,582,475	4.59 %	-	-	-	-	23,582,475	4.59 %
Total amortized cost	\$ -	-	\$ 24,016,717	4.59 %	\$ -	-	\$ -	-	\$ 24,016,717	4.59 %

### NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 69,699,557	46.3%	\$ 129,890,356	50.7%	\$ 147,521,136	51.3%
Production and intermediate term	51,833,947	34.4%	84,605,384	33.0%	97,312,633	33.9%
Agribusiness:						
Processing and marketing	13,818,279	9.2%	18,053,844	7.1%	15,376,671	5.4%
Farm-related business	10,390,968	6.9%	15,550,766	6.1%	15,529,289	5.4%
Communication	1,924,231	1.3%	2,781,399	1.1%	6,247,952	2.2%
Rural residential real estate	1,272,587	0.8%	1,237,906	0.5%	600,984	0.2%
Energy	881,127	0.6%	3,886,419	1.5%	4,173,206	1.5%
Agribusiness:						
Loans to cooperatives	697,190	0.5%	-	0.0%	-	0.0%
Lease receivables	-	0.0%	-	0.0%	375,389	0.1%
Total	\$ 150,517,886	100.0%	\$ 256,006,074	100.0%	\$ 287,137,260	100.0%

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. During the year ended December 31, 2010, \$26,698,026 of participations were purchased and \$13,287,341 of participations were sold.

## Geographic Distribution

County	2010	2009	2008
Roosevelt	8.1%	9.6%	10.1%
Dona Ana	7.8%	5.4%	5.7%
Torrance	6.8%	3.8%	4.0%
Eddy	6.2%	3.2%	4.8%
Lea	4.9%	4.0%	3.5%
Curry	4.7%	6.7%	6.2%
Luna	4.6%	2.6%	2.5%
Chaves	3.3%	3.5%	3.7%
Socorro	2.5%	5.0%	4.4%
Colfax	2.1%	5.0%	7.0%
Valencia	1.4%	5.0%	4.4%
Other counties with less than 3%	15.7%	7.3%	5.5%
Other States	30.1%	34.4%	33.4%
Other	1.8%	4.5%	4.8%
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the determination of the allowance for loan losses.

Operation/Commodity	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 27,153,932	18.0%	\$ 50,490,027	19.7%	\$ 56,004,207	19.5%
Dairy farms	26,992,795	17.9%	41,726,628	16.3%	60,095,488	20.9%
General farms, primarily crops	19,601,617	13.0%	28,977,117	11.3%	30,631,871	10.7%
Cash grains	11,363,374	7.5%	20,133,924	7.9%	17,909,561	6.2%
Vegetables and melons	9,924,948	6.6%	11,339,830	4.4%	11,241,002	3.9%
Field crops except cash grains	9,795,188	6.5%	13,498,707	5.3%	13,497,994	4.7%
Food and kindred products	7,575,941	5.0%	7,385,886	2.9%	8,742,961	3.0%
Real estate	6,108,557	4.2%	26,539,909	10.4%	27,493,751	9.7%
Chemical and allied products	6,018,887	4.0%	9,095,570	3.6%	8,417,212	2.9%
Agricultural services	5,220,502	3.5%	5,769,618	2.3%	5,976,146	2.1%
Wholesale trade - nondurable goods	3,973,596	2.6%	3,530,581	1.4%	2,703,963	0.9%
Fruit and tree nuts	2,682,006	1.9%	3,723,470	1.4%	3,934,443	1.4%
General farms, primarily livestock	2,333,037	1.6%	6,937,133	2.7%	7,900,680	2.8%
Hunting, trapping and game propagation	2,296,186	1.5%	7,672,431	3.0%	8,804,400	3.1%
Communications	1,924,231	1.3%	2,199,834	0.9%	5,768,765	2.0%
Timber	1,711,966	1.1%	1,733,879	0.7%	1,749,593	0.6%
Paper and allied products	1,404,675	0.9%	2,170,053	0.8%	2,983,264	1.0%
Public warehousing and storage	1,127,313	0.7%	312,801	0.1%	334,270	0.1%
Electric services	988,454	0.7%	6,309,571	2.5%	6,608,556	2.3%
Rural home loans	940,803	0.6%	849,605	0.3%	256,652	0.1%
Trucking & courier services, except air	707,126	0.5%	1,078,760	0.4%	-	0.0%
Farm and garden machinery equipment	651,986	0.4%	805,690	0.3%	444,094	0.2%
Building materials hardware and garden supplies	20,766	0.0%	29,887	0.0%	38,245	0.0%
Poultry and eggs	-	0.0%	2,618,275	1.0%	3,810,162	1.3%
Animal specialties	-	0.0%	1,076,888	0.4%	-	0.0%
Other	-	0.0%	-	0.0%	1,789,980	0.6%
<b>Total</b>	<b>\$ 150,517,886</b>	<b>100.0%</b>	<b>\$ 256,006,074</b>	<b>100.0%</b>	<b>\$ 287,137,260</b>	<b>100.0%</b>

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2010, the association had \$24,016,717 in Farmer Mac Agriculture Mortgage Backed Securities and \$2,669,490 in the form of Farmer Mac guaranteed loans. At December 31, 2009 and 2008, loans totaling \$28,777,516 and \$28,281,622, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$135,090, \$134,032 and \$142,572 in 2010, 2009 and 2008, respectively, and are reflected in "other noninterest expense."

Asset Quality:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acceptable	<b>78.3%</b>	69.1%	90.1%
Special mention	<b>12.3%</b>	6.1%	3.3%
Substandard	<b>9.4%</b>	24.8%	6.6%
Doubtful	<b>0.0%</b>	0.0%	0.0%
Loss	<b>0.0%</b>	0.0%	0.0%
Total	<b><u>100.0%</u></b>	<u>100.0%</u>	<u>100.0%</u>

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 as of December 31:

	<u>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual loans						
Current as to principal and interest	<b>\$ 3,302,454</b>	<b>23.0%</b>	\$ 9,035,510	22.9%	\$ 7,882,742	96.2%
Past due	<b>11,027,637</b>	<b>76.8%</b>	30,444,421	77.1%	313,047	3.8%
Total nonaccrual loans	<b><u>\$ 14,330,091</u></b>	<b><u>99.8%</u></b>	<u>\$ 39,479,931</u>	<u>100.0%</u>	<u>\$ 8,195,789</u>	<u>100.0%</u>
Accrual loans						
90 days or more past due	<b>31,927</b>	<b>0.2%</b>	-	0.0%	-	0.0%
Formally restructured	<b>-</b>	<b>0.0%</b>	-	0.0%	-	0.0%
Total impaired accrual loans	<b><u>31,927</u></b>	<b><u>0.2%</u></b>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total impaired loans	<b><u>\$ 14,362,018</u></b>	<b><u>100.0%</u></b>	<u>\$ 39,479,931</u>	<u>100.0%</u>	<u>\$ 8,195,789</u>	<u>100.0%</u>

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2010.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income recognized on nonaccrual loans	<b>\$ 56,009</b>	\$ 97,468	\$ 156,881
Interest income recognized on impaired accrual loans	<b>-</b>	-	-
Interest income recognized on impaired loans	<b><u>\$ 56,009</u></b>	<u>\$ 97,468</u>	<u>\$ 156,881</u>

A summary of the allowance for loan losses as of December 31 follows:

	<b>Year Ended December 31,</b>		
	<b>2010</b>	2009	2008
Balance at beginning of year	\$ 4,976,115	\$ 1,015,226	\$ 258,491
Charge-offs:			
Production agriculture:			
Real estate mortgage	(338,388)	(1,487,691)	-
Production and intermediate term	(15,064)	(2,169,142)	(37,988)
Agribusiness			
Processing and marketing	(11,738)	(124,000)	-
Communication	-	(43,348)	-
Energy	(1,651,097)	-	-
Total charge-offs	<u>(2,016,287)</u>	<u>(3,824,181)</u>	<u>(37,988)</u>
Recoveries:			
Production agriculture:			
Real estate mortgage	270,275	-	-
Production and intermediate term	15,064	6,526	35,194
Total recoveries	<u>285,339</u>	<u>6,526</u>	<u>35,194</u>
Net charge-offs (recoveries)	<u>(1,730,948)</u>	<u>(3,817,655)</u>	<u>(2,794)</u>
Loan loss (reversal) or provision for loan losses	<u>(723,070)</u>	<u>7,778,544</u>	<u>759,528</u>
Balance at end of year	<u>\$ 2,522,097</u>	<u>\$ 4,976,115</u>	<u>\$ 1,015,225</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	-1%	-1%	0%

The following tables present information concerning impaired loans as of December 31:

	<b>2010</b>	2009	2008
Impaired loans with related allowance	\$ 5,236,934	\$ 14,251,238	\$ 3,560,502
Impaired loans with no related allowance	9,125,084	25,228,693	4,635,287
Total impaired loans	<u>\$ 14,362,018</u>	<u>\$ 39,479,931</u>	<u>\$ 8,195,789</u>
Allowance on impaired loans	<u>\$ 1,792,855</u>	<u>\$ 2,283,216</u>	<u>\$ 651,321</u>
Average impaired loans	<u>\$ 10,246,527</u>	<u>\$ 14,686,292</u>	<u>\$ 813,648</u>

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	<b>2010</b>	2009	2008
Interest income which would have been recognized under the original terms	\$ 1,445,440	\$ 2,045,644	\$ 272,421
Less: interest income recognized	(56,009)	(97,468)	(156,881)
Foregone interest income	<u>\$ 1,389,431</u>	<u>\$ 1,948,176</u>	<u>\$ 115,540</u>

**NOTE 5 — PREMISES AND EQUIPMENT:**

Premises and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 599,601	\$ 599,601	\$ 599,601
Building and improvements	2,172,161	855,895	855,895
Furniture and equipment	149,344	137,551	148,106
Computer equipment and software	124,122	120,295	120,707
Automobiles	359,445	357,815	333,338
Construction in progress	-	1,300,368	323,083
	<u>3,404,673</u>	<u>3,371,525</u>	<u>2,380,730</u>
Accumulated depreciation	(645,214)	(652,882)	(592,470)
Total	<u>\$ 2,759,459</u>	<u>\$ 2,718,643</u>	<u>\$ 1,788,260</u>

The association leases office space in Clovis, Roswell and Las Cruces, New Mexico. Lease expense was \$134,825, \$142,140 and \$142,390 for 2010, 2009 and 2008, respectively. Minimum annual lease payments for the next five years are as follows:

	<u>Operating</u>
2011	\$ 26,639
2012	12,720
2013	12,720
2014	12,720
2015	12,720
Total	<u>\$ 77,519</u>

**NOTE 6 – OTHER PROPERTY OWNED, NET:**

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gain (loss) on sale, net	\$ (390,979)	\$ 840	\$ -
Carrying value adjustments	-	(919,646)	-
Operating income (expense), net	<u>(367)</u>	<u>-</u>	<u>-</u>
Net gain (loss) on other property owned	<u>\$ (391,346)</u>	<u>\$ (918,806)</u>	<u>\$ -</u>

**NOTE 7 — NOTE PAYABLE TO THE BANK:**

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets, and is governed by a general financing agreement. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2010, 2009 and 2008, was \$156,152,850 at 1.91 percent, \$236,051,371 at 2.52 percent and \$262,421,675 at 3.37 percent, respectively.

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, 2009 and 2008, the

association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2010, was \$172,481,064, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. The association was not subject to remedies associated with the covenants in the financing agreement for the year ended December 31, 2008. As of and for the year ended December 31, 2009, the association was subject to remedies associated with the covenants in the financing agreement due to not achieving minimum standards for return on assets, liquidity and adversely classified assets to risk funds. As of and for the year ended December 31, 2010, the association achieved compliance with the minimum standards for liquidity and adverse classified assets to risk funds. The limited waiver stipulating requirements or conditions to be met relating to those covenants expired. The association remains in noncompliance with the minimum standard for the return on assets ratio due to the losses incurred with the sale of assets in March 2010 of approximately \$43 million and continues to be subject to remedies set forth in the Bank's extension of a limited waiver for the return on assets covenant. The return on assets ratio is based on a twelve month moving average and is adversely affected by the sale of assets and the related loss incurred in March 2010. The extension of the limited waiver is set to expire March 31, 2011. The limited waiver issued by the Bank is subject to the association meeting other designated conditions. All other conditions and covenants of the financing agreement remain in full force and effect. It is management's opinion that compliance with the limited waiver extension issued for 2011 will be maintained.

#### **NOTE 8 — MEMBERS' EQUITY:**

A description of the association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Protection of certain borrower equity is provided under the Act that requires the association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of ten percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while Class A capital stock and participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of common stock shares is made solely at the discretion of the association's board of directors. The investment in Class A and B stock as well as participation certificates as of December 31, 2010, 2009 and 2008 are shown in the following table:

	2010	2009	2008
Class A Stock	\$ 8,900	\$ 8,595	\$ 8,695
Class B Stock	301,120	320,330	351,445
Participation Certificates	24,765	29,150	31,940
Total	<u>\$ 334,785</u>	<u>\$ 358,075</u>	<u>\$ 392,080</u>

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A, Class B capital stock and participation certificates. In the event of liquidation of the association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the association's obligations to external parties and to the bank would be distributed to the association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. Patronage distributions of \$1,071,196 were declared in December 2008 and paid in February 2009.

The FCA's capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the association's financial statements. The association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2010, the association's board has committed to not distribute earnings in the form of a patronage distribution/dividend without the prior written consent of the Director of the Risk Supervisory Division (RSD) of FCA. Additionally, the association's board has committed not to retire stock without the written consent of the Director, RSD, if the institution falls below any minimum regulatory capital ratio established by FCA regulations. By regulation, the association is required to maintain a minimum adjusted permanent capital ratio of 7.0 percent of risk adjusted assets as defined by the FCA. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010, were 11.3 percent, 11.1 percent and 11.1 percent, respectively, which is in compliance with the minimum established by regulation.

The association has a capital plan in place for 2011 with the objective of supporting the association's lending activity. The plan is to restore the association to profitability in order to generate earnings, retire stock on paid loans and pay patronage refunds. The plan sets forth the conditions for the retirement of stock to include the payoff of loan debt, default of debt, restructuring of debt and all capital ratios are within or greater than the desired range. The association has set targets for the permanent capital, core surplus and total surplus ratios of 10.40 percent, 10.25 percent and 10.17 percent, respectively. The plan specifies a desired level of capital ratios of at least 12 percent with the goal for the ratios to be at least 15 percent.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of \$5 per share:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Class A stock	<b>1,780</b>	1,719	1,739
Class B stock	<b>60,224</b>	64,066	70,289
Participation certificates	<b>4,953</b>	5,830	6,388
Total	<b><u>66,957</u></b>	<u>71,615</u>	<u>78,416</u>

An additional component of equity is accumulated other comprehensive income (loss), which is reported, net of taxes, as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Nonpension post-retirement benefits	<u>\$ (142,086)</u>	<u>\$ 114,208</u>	<u>\$ 44,016</u>

**NOTE 9 — INCOME TAXES:**

The provision for (benefit from) income taxes follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current:			
Federal	\$ -	\$ -	\$ -
State	100	100	100
Total current	<u>100</u>	<u>100</u>	<u>100</u>
Deferred:			
Federal	(884,482)	(382,574)	(447,266)
State	(158,686)	(68,044)	(80,245)
Total deferred	<u>(1,043,168)</u>	<u>(450,618)</u>	<u>(527,511)</u>
Total provision for (benefit from) income taxes	<u>\$ (1,043,068)</u>	<u>\$ (450,518)</u>	<u>\$ (527,411)</u>

Unrealized net operating losses exist as follows:

<u>Year Generated</u>	<u>Amount</u>	<u>Year of Expiration</u>
2006	\$ 249,494	2026
2008	627,812	2028
2009	296,258	2029
2010	1,455,651	2030
Total Net Operating Loss	<u>\$ 2,629,215</u>	

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal tax at statutory rate	\$ (1,353,051)	\$ (2,015,452)	\$ 1,246,019
State tax, net	(242,754)	(361,596)	223,550
Effect of nontaxable FLCA subsidiary	526,893	1,432,700	(1,593,760)
Patronage distributions	-	429,550	(429,550)
Other	25,844	64,280	26,330
Provision for (benefit from) income taxes	<u>\$ (1,043,068)</u>	<u>\$ (450,518)</u>	<u>\$ (527,411)</u>

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 837,524	\$ 372,489	\$ 313,609
Loss carryforwards	1,054,315	735,181	349,420
Postretirement benefits, other	268,860	196,031	204,392
Other	21,172	56,120	30,266
Gross deferred tax assets	<u>2,181,871</u>	<u>1,359,821</u>	<u>897,687</u>
Deferred tax asset valuation allowance	-	-	-
<u>Deferred Tax Liabilities</u>			
Other	<u>(67,083)</u>	<u>(81,544)</u>	<u>(81,544)</u>
Gross deferred tax liabilities	<u>(67,083)</u>	<u>(81,544)</u>	<u>(81,544)</u>
Net deferred tax asset (liability)	<u>\$ 2,114,788</u>	<u>\$ 1,278,277</u>	<u>\$ 816,143</u>

The ACA is required to maintain an investment in the bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, there were no additional amounts of excess investment previously held by the PCA over and above the calculation of the 2 percent requirement of the ACA. As a result, there was no effect on the related deferred tax.

The association has accumulated approximately \$2.6 million in loss carry forwards. Management anticipates taxable earnings to utilize the loss carry forwards prior to expiration; accordingly, no valuation allowance has been established. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

#### **NOTE 10 — EMPLOYEE BENEFIT PLANS:**

**Employee Retirement Plans:** Employees of the association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies."

**Other Postretirement Benefits:** In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Medical and dental benefits are available to employees with a percentage of the premium paid by the association based upon continued service for employees hired prior to January 1, 2006. Employees hired on or after January 1, 2006 are eligible for medical and dental benefits, but are responsible for paying one hundred percent of their associated medical premiums at retirement.

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also required that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings \$1,270, net of taxes and increased the pension and other postretirement benefit liabilities by \$1,270.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:  
**Retiree Welfare Benefit Plans**

<b>Disclosure Information Related to Retirement Benefits</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 610,882	\$ 641,216	\$ 547,287
Service cost	25,559	28,510	31,578
Interest cost	36,739	40,156	44,169
Plan participants' contributions	24,944	21,121	19,134
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	218,368	(89,664)	21,798
Benefits paid	(47,026)	(30,457)	(22,750)
Accumulated postretirement benefit obligation, end of year	\$ 869,466	\$ 610,882	\$ 641,216
<b>Change in Plan Assets</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	22,082	9,336	3,616
Plan participants' contributions	24,944	21,121	19,134
Benefits paid	(47,026)	(30,457)	(22,750)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (869,466)	\$ (610,882)	\$ (641,216)
<b>Amounts Recognized in Statement of Financial Position</b>			
Other liabilities	\$ (869,466)	\$ (610,882)	\$ (641,216)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss (gain)	\$ 390,656	\$ 185,999	\$ 302,442
Prior service cost (credit)	(233,547)	(300,207)	(366,867)
Net transition obligation (asset)	-	-	-
Total	\$ 157,109	\$ (114,208)	\$ (64,425)
<b>Additional Information</b>			
Increase (decrease) in minimum liability included in other comprehensive income	\$ 271,317	\$ (49,782)	\$ (64,425)
<b>Weighted-Average Assumptions Used to Determine Obligations at Year-end</b>			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Health care cost trend rate assumed for next year - Rx	10.00%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2017	2015

<b>Total Cost</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ 25,559	\$ 28,510	\$ 25,262
Interest cost	36,739	40,156	35,335
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(66,660)	(66,660)	(67,017)
Unrecognized net loss (gain)	13,711	26,778	250
Net postretirement benefit cost	\$ 9,349	\$ 28,784	\$ (6,170)

#### **Other Changes in Plan Assets and Projected Benefit Obligation**

##### **Recognized in Other Comprehensive Income**

Net actuarial loss (gain)	\$ 218,368	\$ (89,664)	\$ 21,485
Amortization of net actuarial loss (gain)	(13,711)	(26,778)	-
Prior service cost (credit)	-	-	-
Amortization of prior service cost	66,660	66,660	83,773
Recognition of prior service cost	-	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	\$ 271,317	\$ (49,782)	\$ 105,258

##### **AOCI Amounts Expected to be Amortized into Expense in 2011**

Unrecognized net transition obligation (asset)	\$ -
Unrecognized prior service cost	(65,966)
Unrecognized net loss (gain)	31,311
Total	\$ (34,655)

##### **Weighted-Average Assumptions Used to Determine Benefit Cost**

Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.0%/7.0%	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reaches the ultimate trend rate	2017	2015	2016

#### **Expected Future Cash Flows**

##### **Expected Benefit Payments (net of employee contributions)**

Fiscal 2011	\$ 20,569
Fiscal 2012	23,381
Fiscal 2013	29,038
Fiscal 2014	35,501
Fiscal 2015	43,128
Fiscal 2016–2020	323,788

##### **Expected Contributions**

Fiscal 2011	\$ 20,569
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## NOTE 11 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the association amounted to \$9,723,388, \$12,864,212 and \$9,580,576 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$15,691,025 of new loans were made and repayments and adjustments for leaving the board totaled \$18,831,849. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the bank and passed through to the associations, such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$352,449, \$766,402 and \$619,999 in 2010, 2009 and 2008, respectively.

The association received patronage payments from the bank totaling \$1,025,874, \$1,190,046 and \$1,012,871 during 2010, 2009 and 2008, respectively.

## NOTE 12 — 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies", for additional information.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 for each of the fair value hierarchy values are summarized below:

	<u>Fair Value Measurement Using</u>			<u>Total Fair</u>	<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>	<u>Gains(Losses)</u>
Assets:					
Loans	\$ -	\$ -	\$3,796,059	\$3,796,059	\$ (1,792,855)
Other property owned	-	-	7,000	7,000	-

### Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," 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 bank and associations for assets and liabilities:

#### *Loans*

For certain loans evaluated for impairment under FASB 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, these fair value measurements fall within Level 3 of the 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.

#### *Other Property Owned*

Other property owned is generally classified as Level 3. 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. As a result, these fair value measurements fall within Level 3 of the hierarchy.

## NOTE 13 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the association is involved in various legal proceedings in the ordinary course of business. There are three pending cases of litigation at the end of 2010 involving the association. The three lawsuits filed against the association involve counterclaims in response to collection proceedings initiated by the association or suits filed in anticipation of the association initiating collection proceedings. The association’s legal council estimates that damages could amount to \$1,100,000 should the parties filing the lawsuits against the association prevail. The association’s attorneys and management estimate the probability of the lawsuits being resolved against the association range from remote to less than likely. Accordingly, no liabilities relating to the pending litigation have been accrued by the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$56,564,313 of commitments and \$224,728 of letters of credit from participations purchased that were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower.

## NOTE 14 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying amounts and estimated fair values of the association’s financial instruments at December 31, 2010, 2009 and 2008. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the association’s financial instruments as of December 31 follow:

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 103,451	\$ 103,451	\$ 103,349	\$ 103,349	\$ 110,979	\$ 110,979
Loans, net	147,995,789	145,903,183	251,029,959	243,248,030	286,122,034	294,186,663
Investments	24,016,717	23,582,475	-	-	-	-
Financial liabilities						
Note payable to the bank	156,152,850	153,637,312	236,051,371	228,733,778	262,421,675	268,189,259

A description of the methods and assumptions used to estimate the fair value of each class of the association’s financial instruments for which it is practicable to estimate that value follows:

### A. Cash, Federal Funds Sold and Securities Purchased Under Resale Agreements:

For cash and overnight investments, the carrying amount is a reasonable estimate of fair value.

**B. Investment Securities:**

Investment securities include certain mortgage-backed securities as more fully disclosed in Note 3. Valuation techniques used to determine the fair value of investments include quoted prices available in an active market, pricing models that use observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows.

**C. Loans:**

Because no active market exists for association's loans, fair value is estimated by discounting the expected future cash flows using the association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

**D. Investment in the bank:**

Estimating the fair value of the association's investment in the bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The association owns 1.68 percent of the issued common stock of the bank as of December 31, 2010. As of that date, the bank's assets totaled \$14.1 billion and members' equity totaled \$1.15 billion. The bank's earnings were \$168.5 million during 2010.

**E. Note payable to the bank:**

The note payable to the bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

**F. Commitments to extend credit and standby letters of credit:**

The association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

**NOTE 15 - REGULATORY ENFORCEMENT MATTERS**

The Farm Credit Administration (FCA) issued reports of examination in June and December of 2009 which identified concerns regarding risk management, asset quality, allowance for loan losses and the financial condition and performance of the association. Due to the findings disclosed in those examinations, the association was placed under special supervision of the Office of Examination. On January 20, 2010, the association entered into a supervisory agreement with FCA. The requirements of the supervisory agreement included obtaining an independent financial and strategic study, performing a review of the association's

governance and management systems, take action to reduce the level of loan and acquired property risk, address identified allowance for loan loss related weaknesses, monthly reporting of liquidity and earnings, and implementation of measures to improve earnings and increase capital. The FCA issued a report of examination dated September 30, 2010 which disclosed that the association was in substantial compliance with the requirements of the supervisory agreement with the exception of loan portfolio management. Loan portfolio management was evaluated to be in partial compliance with additional requirement to establish commodity and large loan concentration risk parameters in relation to risk-bearing capacity to appropriately monitor and manage the level of risk exposure relative to capital. Management has made the changes to comply with the additional requirements for loan portfolio management. Management's intention is to accomplish and maintain compliance with all stipulations set forth in the supervisory agreement.

**NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	<b>2010</b>				
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
<b>Net interest income</b>	<b>\$ 1,248</b>	<b>\$ 1,279</b>	<b>\$ 1,183</b>	<b>\$ 1,147</b>	<b>\$ 4,857</b>
<b>(Provision for) reversal of loan losses</b>	<b>723</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>723</b>
<b>Noninterest income (expense), net</b>	<b>(8,121)</b>	<b>(323)</b>	<b>(745)</b>	<b>673</b>	<b>(8,516)</b>
<b>Net income</b>	<b>\$ (6,150)</b>	<b>\$ 956</b>	<b>\$ 438</b>	<b>\$ 1,820</b>	<b>\$ (2,936)</b>
	<b>2009</b>				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,792	\$ 1,916	\$ 1,578	\$ 970	\$ 6,256
(Provision for) reversal of loan losses	(128)	(1,553)	(2,415)	(3,683)	(7,779)
Noninterest income (expense), net	(1,564)	(648)	(1,124)	(618)	(3,954)
Net income	\$ 100	\$ (285)	\$ (1,961)	\$ (3,331)	\$ (5,477)
	<b>2008</b>				
	First	Second	Third	Fourth	Total
Net interest income	\$ 1,804	\$ 1,807	\$ 1,880	\$ 1,957	\$ 7,448
(Provision for) reversal of loan losses	-	(29)	(41)	(690)	(760)
Noninterest income (expense), net	(781)	(798)	(911)	(6)	(2,496)
Net income	\$ 1,023	\$ 980	\$ 928	\$ 1,261	\$ 4,192

**NOTE 17 — SUBSEQUENT EVENTS:**

The association has leased part of the central administrative office located in Clovis, New Mexico for \$114,600 per year. The lease agreement had the option extended to the lessee to purchase the leased part of the building at the expiration of the original ten year term of the lease. The association exercised the purchase option and purchased the leased portion of the building for \$592,036 on February 1, 2011.

The associations have evaluated subsequent events through March 14, 2011, which is the date the financial statements were available to be issued.

## **DISCLOSURE INFORMATION AND INDEX**

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

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

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in patronage policies or practices, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

### **DESCRIPTION OF PROPERTY**

The AG NEW MEXICO, FARM CREDIT SERVICES, ACA (association) serves its state-wide territory through its main administrative and lending office at 233 Fairway Terrace North, Clovis, New Mexico. Additionally, there are three service centers located throughout the territory. The association owns the office buildings in Belen, new Mexico, free of debt. The association leases office buildings in Clovis, New Mexico and Roswell, New Mexico. The association has purchased property in Roswell, New Mexico with the original plan of building an office for a service center at that location. The plans for construction of an office building in Roswell have been cancelled and the property is listed for sale.

### **LEGAL PROCEEDINGS**

In the ordinary course of business, the association is involved in various legal proceedings. The association has three pending cases of litigation regarding the foreclosure on property listed to secure loans. Management and the association's attorneys estimate the probability of these lawsuits being resolved against the association range from remote to less than likely. The three pending cases of litigation to be disclosed in this section is incorporated herein by reference from Note 13 to the consolidated financial statements, "Commitments and Contingencies", included in the annual report.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The information required to be disclosed in this section is incorporated herein by reference from Note 8 to the consolidated financial statements, "Members' Equity," included in this annual report.

### **DESCRIPTION OF LIABILITIES**

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 13 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The Farm Credit Bank of Texas and District Association's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, P.O. Box 1328, Clovis, New Mexico 88102-1328 or calling (575) 762-3828. Copies of the district's annual and quarterly stockholder reports can also be requested by e-mailing [bill.jones@farmcreditbank.com](mailto:bill.jones@farmcreditbank.com). The district's annual and quarterly stockholder reports are also available on its website at [www.agnewmexico.com](http://www.agnewmexico.com).

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, P.O. Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 or calling (575) 762-3828. Copies of the association's quarterly

stockholder reports can also be requested by e-mailing [bill.jones@farmcreditbank.com](mailto:bill.jones@farmcreditbank.com). The association's annual stockholder report is available on its website at [www.agnewmexico.com](http://www.agnewmexico.com) 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested 90 days after the fiscal year end.

### SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

### DIRECTORS AND SENIOR OFFICERS

The association's member-elected and director-elected board of directors and senior officers are as follows:

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
Gregory Burris	Director	1999	2011
Will Crocket	Director	2007	2010
Ronny Fouts	Appointed Director	1991	2012
Mary Alice Garay	Director	2009	2012
Lisa Gardner	Director	2008	2010
Ronnie Harral	Chairman – Board of Directors	2005	2012
D. L. Kelley	Director	1998	2013
Mark McCollum	Vice Chairman – Board of Directors	1998	2012
Dwayne 'Butch' Vidlar	Director	2010	2013

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Gregory Burris was elected to the board in 1999 and his current term will expire in 2011. Mr. Burris is a farmer and rancher. Mr. Burris is Co-Chairman of the Administrative Council at the Methodist Church in Elida, New Mexico. Mr. Burris also serves on the 10<sup>th</sup> District Stockholder Advisory Committee (SAC) and is Chairman of the association's Compensation Committee.

Will Crocket was elected to the board in 2007 and his term expired in 2010. Mr. Crocket is a farmer and also owns a trucking business. Mr. Crocket served on the association's Compensation Committee and the FCA Compliance Committee. Mr. Crocket also serves on the Artesia Vocational Training Board as well as the Hope Water Co-op.

Ronny Fouts was appointed to the board in 1991 and his current term will expire in 2012. Mr. Fouts is a Certified Public Accountant and is the Financial Expert for the board. Mr. Fouts also serves on the Roosevelt County Rural Telephone Board. Mr. Fouts is Chairman of the association's Audit Committee and the Chairman of the association's FCA Compliance Committee.

Mary Alice Garay was elected to the board in 2009 and her current term expires in 2012. Ms. Garay grew up on a farm and owns a family chili farming operation as well as a chili processing / dehydrating and chili freezing business. Ms. Garay is a member of the New Mexico Primary Care Association Board, the Catholic Diocese Foundation Board and is a member of the Lions Club. Ms. Garay serves on the association's Compensation Committee.

Lisa Gardner was elected to the board in 2008 and resigned her position on the board in December, 2010. Lisa and her husband Bill are ranchers. They own Manzano Angus Ranches at Estancia and Yeso. Mrs. Gardner has served on the Audit Committee and FCA Compliance Committee.

Ronnie Harral, Chairman, was elected to the board in 2005 and his current term will expire in 2012. Mr. Harral serves on the association's Audit Committee and FCA Compliance Committee. Mr. Harral and his wife Sharon live near Estancia, New Mexico and are involved in the livestock business with their son-in-law and daughter, Jeff and Alena Brandenberger and their son and

daughter-in-law, Jerrod and Brittani Harral. Mr. Harral holds a Bachelor's Degree in Ag Business, has been in the cattle business since high school and has been an Ag New Mexico stockholder since 1973.

D. L. Kelley was elected to the board in 1998. Mr. Kelley's current term will expire in 2013. Mr. Kelley is a farmer. Mr. Kelley serves on the association's Audit Committee.

Mark McCollum, Vice Chairman, was elected to the board in 1998 and his current term will expire in 2012. Mr. McCollum is a rancher and serves on the boards of DeBaca County NRCS, DeBaca Farm Bureau and the Krause & Managan Lumber Company, Ltd. Mr. McCollum serves as the association's representative on the tenth District Farm Credit Council and the association's FCA Compliance Committee as well as being the Political Action Committee Representative to Washington D. C.

Dwayne 'Butch' Vidlar was elected to the board in 2010 and his term will expire in 2013. Mr. Vidlar grew up on the family farm in Floyd, New Mexico and farms it currently. Mr. Vidlar is a farmer who also feeds stocker cattle on wheat pasture and is involved in preconditioning cattle and growing cattle on silage rations. Mr. Vidlar has two grown sons. Mr. Vidlar has served on the boards of New Mexico Peanut Growers and Eastern New Mexico Natural Gas Co. Mr. Vidlar serves on the association's Compensation Committee.

#### SENIOR OFFICERS:

John Burns, President and Chief Executive Officer, was employed by the association as interim Chief Executive Officer in October, 2009. Mr. Burn's employment status was changed to permanent CEO in May of 2010. Mr. Burns was employed by Farm Credit Bank of Texas for six years as Vice President / Relationship Manager prior to accepting the association's CEO position. Mr. Burns has twenty nine years of experience with the Farm Credit System with an additional five years with the Resolution Trust Corporation. Mr. Burns holds a Bachelor of Science degree in Dairy Science from the University of Missouri as well as a Master of Business Administration degree with a concentration in Finance.

John Logsdon, Sr. Vice President - Credit / Chief Credit Officer, was employed by the association in 1996. Mr. Logsdon has been employed with the Farm Credit System in various capacities at the Production Credit association and Federal Land Bank Association levels since February 13, 1978. Mr. Logsdon holds a Bachelor of Science degree with a major in Agriculture Economics from Oklahoma State University.

Mike Burns, Sr. Vice President – Lending, was employed by the association in 1990. Mr. Burns holds a Bachelors of Science degree in Animal Science from New Mexico State University.

Dale Moorman, Sr. Vice President was employed by the association in 2006. Mr. Moorman has thirty four years of experience in the banking industry with most of that with commercial banks and four years as a loan officer with the Department of Agriculture. Mr. Moorman has a Bachelor of Science degree in Agriculture Business from Abilene Christian University as well as a Master of Business Administration degree with a concentration in Finance.

Lucille Conley, Vice President / Accounting Manager, was employed by the association in 1993.

Bill Jones, Sr. Vice President – Finance / Chief Financial Officer, was employed by the association in December, 2008. Mr. Jones was Vice President for Business Affairs and Dean of Administrative Services at Eastern New Mexico university – Roswell Campus for six years prior to joining Ag New Mexico FCS, ACA. Mr. Jones has a Bachelor of Business Administration degree in Accounting from West Texas A & M University as well as a Master of Business Administration degree.

#### COMPENSATION OF DIRECTORS

Directors were compensated for their service to the association in the form of an honorarium at the rate of \$425 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

<u>Director</u>	<u>Number of Days Served Associated With</u>		<u>Total Compensation in 2010</u>
	<u>Board Meetings</u>	<u>Other Official Activities</u>	
Gregory Burris	11	17	\$ 11,900
Will Crocket	6	17	9,775
Ronny Fouts	9	17	11,050
Mary Alice Garay	9	15	10,200
Lisa Gardner	11	10	8,925
Ronnie Harral	11	22	13,850
D. L. Kelley	11	22	14,025
Mark McCollum	11	31	17,675
Dwayne 'Butch' Vidlar	5	5	4,250
			<u>\$ 101,650</u>

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$101,650, \$120,275 and \$111,775, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

<u>Director</u>	<u>Committee</u>		
	<u>Audit</u>	<u>Compensation</u>	<u>Compliance / Executive</u>
Gregory Burris	\$ -	\$ 1,275	\$ 425
Will Crocket	-	-	850
Ronny Fouts	425	-	1,275
Mary Alice Garay	213	1,275	638
Lisa Gardner	850	-	425
Ronnie Harral	638	-	1,063
D. L. Kelley	638	-	1,063
Mark McCollum	213	-	1,488
Dwayne 'Butch' Vidlar	-	-	425
	<u>\$ 2,977</u>	<u>\$ 3,825</u>	<u>\$ 7,652</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$71,930, \$90,720 and \$129,971 in 2010, 2009 and 2008, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis – Senior Officers

#### Overview

The Board has established a Salary Administration policy for the association with the objective to maintain a salary administration program that recognizes and rewards performance. The policy requires the association to classify all positions into salary ranges and to evaluate jobs based on comparable market data at least annually. The policy calls for salaries to be administered fairly based upon internal and external equity with consideration given to performance and experience. The policy directs the President / CEO to ensure that each position has an accurate job description and that each employee is objectively evaluated at least annually. The Board recognizes that exemplary performance may warrant payment of incentives and/or bonuses to certain or all employees. The Board has established a Compensation Committee to provide oversight for salary administration and to assure policy stipulations are complied with.

## Chief Executive Officer (CEO) Compensation Table and Policy

Name of Individual	Year	Salary	Bonus	Change in Pension Value	Deferred/Perquisite	Other	Total
John Burns, President & CEO	2010	\$ 116,671	\$ 20,000	\$ 193,762	\$ 2,505	\$ -	\$ 332,938

The Board reserves the right to establish the salary and compensation of the association's President and CEO. The President had constructive receipt during the course of the year of salary, bonus and perquisite, in the form of personal use of an association vehicle that is discussed in the following paragraphs, which totals to \$139,176. The change in pension value of \$193,762 is the increase in value of the defined benefit pension which is paid out to the CEO during the period of his retirement.

### Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2010:

Name	Plan Name	Number of Years Credited Credited Service	Present Value of Accumulated Benefit	Payments During 2010
John Burns, President & CEO	Farm Credit Bank of Texas Pension Plan	29.564	\$ 969,390	\$ -

### Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the association participates in the Farm Credit of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly 2 years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

### Compensation of Other Senior Officers

The following table summarizes the compensation paid to the five highest paid officers of the association during 2010, 2009, and 2008 excluding the Chief Executive Officer. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group	Year	Salary	Bonus	Deferred/Perquisite	Other	Total
Aggregate No. of 5 Highest Paid Officers in Year						
5	2010	\$ 402,926	\$ -	\$ 11,316	\$ -	\$ 414,242
5	2009	\$ 398,788	\$ -	\$ 27,290	\$ -	\$ 426,078
5	2008	\$ 367,391	\$ 53,261	\$ 6,814	\$ -	\$ 427,466

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

Employees assigned association automobiles that use those vehicles for personal use are subject to a formula calculated amount that is added to their compensation reported to the Internal Revenue Service as taxable income adjusted for the 16 cents a mile for personal miles driven which the employee reimburses the association. Employees who use their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate of 50 cents per mile.

The compensation plan includes an incentive payment available for loan officers. Thirty five percent of the net loan origination fee is paid to the loan officer who shares the incentive with supporting staff for new loans successfully closed. The loan must have a 25 percent down payment, meet all underwriting standards and must be classed as fully acceptable. The incentives paid to loan officers and supporting staff during 2010 totaled \$1,965. The incentives for new loans are paid quarterly. A second incentive or bonus plan is available to all employees if the association meets certain goals and criteria as related to return on assets and credit quality. The specific requirements include nonaccrual loans of not more than 2.5 percent of total loans, acceptable credit quality of the loan portfolio equal to or greater than 85 percent, return on assets equal to or greater than one percent employing annualized earnings before taxes and each eligible employee must at least 'meet standards' on their performance evaluation. Such bonuses are paid annually at the end of the year. In addition, a percentage of insurance fees are set aside in a pool for incentives and was paid at year-end as a Christmas bonus of \$300 per employee.

Neither the CEO nor any other senior officer received non-cash compensation exceeding \$5,000 in 2010.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

#### **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 11 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

#### **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the association's officers or directors have been involved in legal proceedings, such as bankruptcy, conviction in criminal proceedings, or under order, or decree, that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer on January 1, 2010 or any time during the fiscal year just ended.

#### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred. The Audit Committee approved Simonton & Kutac, L.L.P. for the 2010 audit. Audit fees paid to Simonton & Kutac, L.L.P. were \$59,820. The Audit Committee also approved Simonton & Kutac, L.L.P. to prepare the tax returns for the association. The association paid Simonton & Kutac, L.L.P. \$11,470 for the preparation of tax returns and review of quarterly tax accruals.

#### **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of Simonton & Kutac, LLP dated March 14, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

**CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS**

Consistent with FCA regulations, Ag NM tracks data on loans and members who meet the definition of Young, Beginning, and Small Farmers. Furthermore, our business plan sets out goals for loan volume and activities ascribed to said members. The definition of those groups is as follows:

- **Young Borrowers**—are those who are not over the age of 35.
- **Small Borrowers**—are those with gross agricultural sales of less than \$250,000.
- **Beginning Borrowers**—are those who have been farming for not more than 10 years.

In order to quantify the amount of these customers that we are servicing, data from the 2007 USDA Agricultural Census (most recent information available) was obtained and the percentage of total operators in the state of New Mexico who meet those definitions was calculated.

The USDA Ag Census, though, has two areas in which the data doesn't exactly match our criteria:

1. The census categorizes operators who have been farming for 5-9 years and 10 years or more (in addition to many other categories). This isn't consistent with our methodology since the definition of a beginning farmer is one who has been in business for 10 years or less.
2. The census captures data for operators who are age 25 to 34 and 35 to 44 (again, in addition to many other segments of age). Our methodology is to monitor operators who are age 35 and less.

Although these slight variations exist, the USDA census data has been the most reliable and sound data to compare to. It is the custom of many, if not all, Farm Credit institutions to utilize this data.

The following chart demonstrates the number of farms in New Mexico who fall in the Young, Beginning, and Small demographic groups, along with a comparison to Ag New Mexico's market share:

Young, Beginning, and Small Farmer Data

	2007 USDA Census		Ag NM 12/31/10		Ag New Mexico % Served**
	# of Farms	% of Total Farms	# of Loans	% of Total Loan #'s	
Young Farmers	818	3.91%	51	11.77%	6.23%
Beginning Farmers	5096	24.35%	78	18.01%	1.53%
Small Farmers *	2884	13.78%	171	39.49%	5.92%

- According to the 2007 Ag Census, there were 19,970 farms with total agricultural sales less than \$250,000. Of those, only 2884 had total agricultural sales in excess of \$25,000. The farms with less than \$25,000 in gross sales were excluded from this comparison for the following reasons:
- Even with gross profit margins approaching 100%, farms with less than \$25,000 in sales don't represent an operation that can be viable above a "hobby" or supplementary role.
- It is not typical for operators in this category of sales to access traditional credit sources.

\*\*This calculation is the percentage of operators within the respective categories that Ag New Mexico is financing. The territory in which Ag New Mexico operates is shared by another FCS institution. In order to fully quantify the penetration that the Farm Credit System has in providing service to YBS borrowers in our trade area, the data from both of the respective institutions would have to be considered together.

As previously stated, Ag New Mexico sets goals in our annual business plan relative to YBS volume and growth. Illustrated in the chart below is our loan volume for 2010 as well as our goals for 2011 and 2012.

### YBS Loan Goals

	12/31/10 Volume in 000's	2011 Goal Volume in 000's	2012 Goal Volume in 000's	2013 Goal Volume in 000's
Young	\$ 25,076	\$ 27,114	\$ 28,470	\$ 29,893
Beginning	\$ 40,140	\$ 44,140	\$ 46,347	\$ 48,664
Small	\$ 27,683	\$ 35,350	\$ 37,118	\$ 38,974
Total	\$ 92,899	\$ 106,604	\$ 111,935	\$ 117,531

The asset sale that this institution underwent in 2010 (as described elsewhere in this report) had an impact on this Association in many ways. One such area was YBS loan volume. The association's volume in YBS loans decreased by 43% for 2010 compared to 2009. Obviously, the asset sale wasn't projectable at the time the 2010 budget was developed, and its corresponding affect on YBS volume wasn't fully quantifiable until after it was consummated. Looking forward to 2011 and beyond, events such as the sale of assets should not reoccur, and our ability to track our progress in the area of YBS with like data from year to year should return.

In addition to volume goals related to YBS borrowers, our business plan also provides for many activities that enable us to meet our goal of providing for the financing needs of creditworthy Young, Beginning, and Small farmers. Some of those activities include (but are not limited to): Young Leadership Program (in conjunction with FCBT), NM Ag Leadership Program Sponsor, attending and participating in county fair junior livestock shows and sales, providing various awards and sponsorships to young producers via 4-H and FFA, and scholarships for agricultural college students.

**AG NEW MEXICO, FCS, ACA**

**BOARD OF DIRECTORS**

**RONNIE HARRAL**  
Chairman

**MARK McCOLLUM**  
Vice Chairman

**RONNIE FOUTS**  
Appt. Director

**D. L. KELLEY**  
Director

**GREGORY BURRIS**  
Director

**DEWAYNE 'BUTCH'  
VIDLAR**  
Director

**MARY ALICE GARAY**  
Director

**EMPLOYEES**

**JOHN BURNS**  
President & CEO

**MICHAEL R. BURNS**  
Sr. V. P. - Lending

**BILL JONES**  
Sr. Vice President – Finance / CFO

**BRANDON BEAVERS**  
Vice President

**REITA WAHE**  
Sr. Administrator of Credit / Note  
Custodian

**DARRYL BALDWIN**  
Relationship Officer

**JIMMY PARRISH**  
Credit Officer

**COOPER GLOVER**  
V. P. – Lending Officer

**LAURIE BARTLETT**  
Loan Administrator

**JODY RIGONI**  
Loan Administrator

**JOHN LOGSDON**  
Sr. Vice President – Credit /  
CCO

**DARYL SPRABERRY**  
V. P. – Lending Officer

**BILL FINCH**  
Relationship Officer

**DALE MOORMAN**  
Sr. Vice President

**LUCILLE CONLEY**  
V. P. / Accounting Manager

**MYRA JENKINSON**  
Administrative Assistant &  
Corporate Secretary

**RONDA RAGLAND**  
Senior Accountant

**BRAD HODGES**  
Credit Officer

**KERRIE ROMERO**  
Sr. Credit Officer

**CONNIE EICHEM**  
Loan Closer

# AG NEW MEXICO, FCS, ACA

## DEPARTMENTS

### ADMINISTRATIVE

### SERVICE CENTERS

#### ADMINISTRATIVE STAFF

JOHN BURNS, PRESIDENT & CEO  
JOHN LOGSDON, SR. V.P./CCO  
DALE MOORMAN, SR. V.P.  
BRANDON BEAVERS, V.P.  
BILL JONES, SR. V. P. /CFO  
LUCILLE CONLEY, V.P./ACCOUNTING  
MANAGER  
MYRA JENKINSON, ADMINISTRATIVE  
ASST. & CORPORATE SECRETARY  
RONDA RAGLAND, SR. ACCOUNTANT  
REITA WAHE, SR. ADMINISTRATOR OF  
CREDIT / NOTE CUSTODIAN

#### CLOVIS SERVICE CENTER STAFF

MIKE BURNS, SR. V. P. - LENDING  
DARRYL BALDWIN, RELATIONSHIP OFFICER  
COOPER GLOVER, V. P. - LENDING OFFICER  
JIMMY PARRISH, CREDIT OFFICER  
BRAD HODGES, CREDIT OFFICER  
CONNIE EICHEM, LOAN CLOSER  
LAURIE BARTLETT, LOAN ADMINISTRATOR

#### BELEN SERVICE CENTER STAFF

DARYL SPRABERRY, VP – LENDING  
OFFICER  
BILL FINCH, RELATIONSHIP OFFICER  
KERRIE ROMERO, SR. CREDIT OFFICER  
JODY RIGONI, LOAN ADMINISTRATOR

#### LAS CRUCES SERVICE CENTER STAFF

WARREN RUSSELL  
VICE PRESIDENT-FCBT

# AG NEW MEXICO, FCS, ACA

## **COMMITTEES**

### **EXECUTIVE COMMITTEE LOAN COMMITTEE ALCO COMMITTEE AUDIT COMMITTEE COMPENSATION COMMITTEE FCA COMPLIANCE COMMITTEE**

#### **EXECUTIVE COMMITTEE**

##### **DIRECTORS**

RONNIE HARRAL, CHAIRMAN  
MARK McCOLLUM, VICE CHAIRMAN  
All other Directors rotate (groups of 3)  
quarterly

##### **STAFF**

JOHN BURNS, PRESIDENT & CEO  
JOHN LOGSDON, SR. VP / CCO

#### **LOAN COMMITTEE**

##### **STAFF ONLY**

JOHN BURNS  
JOHN LOGSDON  
MIKE BURNS  
DALE MOORMAN

ALL OTHER RELATIONSHIP  
MANAGERS / CREDIT OFFICERS ARE  
ALTERNATES

#### **AUDIT COMMITTEE**

RONNY FOUTS, CHAIRMAN  
RONNIE HARRAL, DIRECTOR  
D.L. KELLEY, DIRECTOR

#### **ALCO COMMITTEE**

##### **STAFF ONLY**

JOHN BURNS  
JOHN LOGSDON  
BILL JONES  
LUCILLE CONLEY

#### **COMPENSATION COMMITTEE**

GREG BURRIS, CHAIRMAN  
MARY ALICE GARAY, DIRECTOR  
DEWAYNE 'BUTCH' VIDLAR, DIRECTOR

#### **FCA COMPLIANCE COMMITTEE**

RONNY FOUTS, CHAIRMAN  
MARK McCOLLUM, DIRECTOR  
D. L. KELLEY, DIRECTOR  
RONNIE HARRAL, DIRECTOR

**STOCKHOLDER ADVISORY COMMITTEE REP:** GREG BURRIS, (MARK McCOLLUM, ALTERNATE).

**FCBT NOMINATING COMMITTEE REP:** MARK McCOLLUM, (GREG BURRIS, ALTERNATE)

**TENTH DISTRICT FARM CREDIT COUNCIL REP:** MARK McCOLLUM

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