

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

**2009
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2009

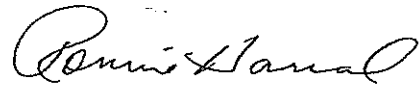
REPORT OF MANAGEMENT

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



John Burns, Acting Chief Executive Officer

November 9, 2009



Ronnie Harral, Chairman, Board of Directors

November 9, 2009



Bill Jones, Chief Financial Officer

November 9, 2009

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

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

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

Significant Events: The Association was placed under Special Supervision by the Farm Credit Administration during the third quarter. The areas of concern that require corrective action by the Association include the need to increase capital, to improve credit quality, to improve management's direction and control of the Association's business and operational affairs, continued analysis to determine the adequacy of the allowance for loan loss, and concentrated effort to increase earnings in order to pay all expenses and adequately provide for risk in the loan portfolio.

The Association had risk exposure in outstanding loans to distressed dairy and ethanol industries, loans made for investment in ranch land for rural development as well as a substantial degree of deterioration in the general economy. The significant amount of transfers to nonaccrual and significant amounts of charge-offs and related increases in allowance for loan loss has resulted in a net loss of \$2.145 million for the current year which has resulted in violation of covenants in the General Financing Agreement (GFA) between the Association and the Farm Credit Bank of Texas (The Bank) effective October 1, 2009. The Bank agreed to waive the Events of Default and refrain from exercising any remedies it has under the GFA based on continued compliance with the correction plan submitted by the Association.

Loan Portfolio:

Total loans outstanding at September 30, 2009, including nonaccrual loans and sales contracts, were \$275,778,108 compared to \$287,074,630 at December 31, 2008, reflecting a decrease of 3.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 13.6 percent at September 30, 2009, compared to 2.7 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$1,248,252 in charge-offs for the quarter ending September 30, 2009, and \$2,075 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.6 percent and 0.1 percent of total loans outstanding as of September 30, 2009, and December 31, 2008, respectively.

The decrease in loan volume since December 31, 2008 is the result of loan charge-offs for distressed loans in the dairy, ethanol, and ranch land acquisition for rural development areas as well as reduced demand for loans due to deteriorating economic conditions. The significant increase in nonaccrual loans resulted from loans in distressed industries as mentioned previously and a weak economy which has adversely impacted the repayment capacity of several of the Association's producers.

Risk Exposure:

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

	September 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 37,715,488	73.8%	\$ 7,882,742	78.2%
90 days past due and still accruing interest	11,242,541	22.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	2,144,735	4.2%	2,203,010	21.8%
Total	\$ 51,102,764	100.0%	\$ 10,085,752	100.0%

Results of Operations:

The Association had net loss of \$676,280 and \$2,145,029 for the three and nine months ended September 30, 2009, as compared to net income of \$927,639 and \$2,931,178 for the same periods in 2008 reflecting a decrease of 172.9 and 173.2 percent, respectively. Net interest income was \$1,687,698 and \$5,286,119, respectively, for the three and nine months ended September 30, 2009, compared to \$1,880,014 and \$5,486,500 for the same periods in 2008. Interest income for the first nine months of 2009 decreased by \$2,630,081 or 20.1 percent from the same periods of 2008, primarily due to declines in yields on earning assets and a decrease in loan volume. Interest expense for the first nine months of 2009 decreased by \$2,429,700, or 31.9 percent, from the same periods of 2008 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2009 was \$277,303,381; compared to \$284,426,514 in the third quarter of 2008. The average spread on the loan portfolio for the third quarter 2009 was 2.24 percent, compared to 2.30 percent in the third quarter of 2008.

The Association's return on average assets for the nine months ended September 30, 2009, was -0.97 and 1.38 percent for the same period in 2008. The Association's return on average equity for the nine months ended September 30, 2009, was -8.14 and 11.55 percent for the same period in 2008.

Loans made to distressed industries as mentioned previously and the high degree of loan charge-offs and significant increases in the allowance for loan loss resulted in the current year's net loss of \$2,145,029.

Liquidity and Funding Sources:

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

	September 30, 2009	December 31, 2008
Note payable to the Bank	\$ 255,146,021	\$ 262,421,675
Accrued interest on note payable	551,772	781,614
Total	\$ 255,697,793	\$ 263,203,289

The Association's liquidity margin required by the General Financing Agreement between the Association and the Bank are below minimum requirements. The Bank has granted the Association a waiver of compliance with the GFA's liquidity requirement.

Capital Resources:

The Association's capital position decreased by \$2,181,953 at September 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 7.72:1 as of September 30, 2009, compared to 7.50:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2009, was 10.6 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2009, were 10.4 and 10.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of Ag New Mexico, Farm Credit Services, ACA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at

fcc@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also 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 Association's quarterly stockholder reports can also be requested by e-mailing *bill.jones@farmcreditbank.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Cash	\$ 103,913	\$ 110,979
Loans	275,778,108	287,074,630
Less: allowance for loan losses	<u>1,680,469</u>	<u>1,015,226</u>
Net loans	274,097,639	286,059,404
Accrued interest receivable	5,048,666	5,403,344
Investment in and receivable from the Bank:		
Capital stock	4,957,750	4,957,750
Other	589,312	757,615
Deferred taxes, net	1,029,338	816,143
Other property owned, net	2,144,735	2,203,010
Premises and equipment	2,558,865	1,788,260
Other assets	<u>305,487</u>	<u>118,230</u>
Total assets	<u><u>\$ 290,835,705</u></u>	<u><u>\$ 302,214,735</u></u>
LIABILITIES		
Note payable to the Bank	\$ 255,146,021	\$ 262,421,675
Advance conditional payments	384,108	814,509
Accrued interest payable	551,994	781,614
Drafts outstanding	20,530	381,174
Patronage distributions payable	191	1,071,394
Other liabilities	<u>1,364,759</u>	<u>1,194,314</u>
Total liabilities	<u><u>257,467,603</u></u>	<u><u>266,664,680</u></u>
MEMBERS' EQUITY		
Capital stock and participation certificates	376,430	392,080
Unallocated retained earnings	32,968,932	35,113,959
Accumulated other comprehensive income (loss)	<u>22,740</u>	<u>44,016</u>
Total members' equity	<u><u>33,368,102</u></u>	<u><u>35,550,055</u></u>
Total liabilities and members' equity	<u><u>\$ 290,835,705</u></u>	<u><u>\$ 302,214,735</u></u>

The accompanying notes are an integral part of these consolidated financial statements
 Ag New Mexico FCS, ACA – Quarterly Report for the Quarter Ended September 30, 2009

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 3,387,383	\$ 4,355,010	\$ 10,486,137	\$ 13,116,218
Other	-	-	-	-
Total interest income	3,387,383	4,355,010	10,486,137	13,116,218
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	1,699,682	2,474,018	5,200,011	7,623,020
Advance conditional payments	3	978	7	6,698
Total interest expense	1,699,685	2,474,996	5,200,018	7,629,718
Net interest income	1,687,698	1,880,014	5,286,119	5,486,500
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	1,239,934	41,125	4,037,361	69,698
Provision for acquired property losses	-	-	58,275	-
Net interest income after provision for loan losses	447,764	1,838,889	1,190,483	5,416,802
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	17,823	36,476	55,060	482,318
Loan fees	48,530	145,029	112,770	452,906
Financially related services income	4,039	4,906	48,911	28,826
Gain (loss) on sale of premises and equipment, net	-	-	-	50
Other noninterest income	13,500	14,868	44,318	54,173
Total noninterest income	83,892	201,279	261,059	1,018,273
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	688,345	603,666	2,138,082	1,875,272
Directors' expense	29,694	34,240	158,263	172,140
Purchased services	14,389	19,945	74,205	63,446
Travel	96,340	94,979	221,593	211,472
Occupancy and equipment	116,658	103,117	377,189	338,444
Communications	8,075	7,532	26,439	28,462
Advertising	15,840	13,807	40,775	48,809
Public and member relations	45,708	64,924	67,466	113,934
Supervisory and exam expense	30,536	24,408	88,273	79,397
Insurance Fund premiums	125,022	93,482	373,892	288,207
Other noninterest expense	59,890	52,329	234,852	223,504
Total noninterest expenses	1,230,497	1,112,429	3,801,029	3,443,087
Income before income taxes	(698,841)	927,739	(2,349,487)	2,991,988
Provision for (benefit from) income taxes	(22,561)	100	(204,458)	60,810
Net income	\$ (676,280)	\$ 927,639	\$ (2,145,029)	\$ 2,931,178

The accompanying notes are an integral part of these consolidated financial statements
Ag New Mexico FCS, ACA – Quarterly Report for the Quarter Ended September 30, 2009

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 387,395	\$ -	\$ 31,941,146	\$ 116,609	\$ 32,445,150
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	-
Balance at January 1, 2008	387,395	-	31,941,146	116,609	32,445,150
Comprehensive income					
Net income	-	-	2,931,177	-	2,931,177
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(22,940)	(22,940)
Total comprehensive income	-	-	2,931,177	(22,940)	2,908,237
Capital stock/participation certificates issued	49,530	-	-	-	49,530
Capital stock/participation certificates and allocated retained earnings retired	(43,045)	-	-	-	(43,045)
Patronage refunds:					
Cash	-	-	(339)	-	(339)
Capital stock/participation certificates and allocated retained earnings	-	-	52,143	-	52,143
Balance at September 30, 2008	<u>\$ 393,880</u>	<u>\$ -</u>	<u>\$ 34,924,127</u>	<u>\$ 93,669</u>	<u>\$ 35,411,676</u>
Balance at December 31, 2008	\$ 392,080	\$ -	\$ 36,277,736	\$ 64,425	\$ 36,734,241
Comprehensive income					
Net income	-	-	(2,145,028)	-	(2,145,028)
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(41,685)	(41,685)
Total comprehensive income	-	-	(2,145,028)	(41,685)	(2,186,713)
Capital stock/participation certificates issued	49,195	-	-	-	49,195
Capital stock/participation certificates and allocated retained earnings retired	(64,845)	-	-	-	(64,845)
Patronage refunds:					
Cash	-	-	(1,085,638)	-	(1,085,638)
Capital stock/participation certificates and allocated retained earnings	-	-	(78,138)	-	(78,138)
Balance at September 30, 2009	<u>\$ 376,430</u>	<u>\$ -</u>	<u>\$ 32,968,932</u>	<u>\$ 22,740</u>	<u>\$ 33,368,102</u>

The accompanying notes are an integral part of these consolidated financial statements
Ag New Mexico FCS, ACA – Quarterly Report for the Quarter Ended September 30, 2009

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves all counties of New Mexico with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The Association is also authorized to operate in Cochran County, Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued guidance, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the guidance in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued guidance, "Recognition and Presentation of Other-Than-Temporary Impairments", which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now 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 more likely than not will 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, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

The guidance was effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association adopted the guidance for other-than-temporary-impairment in the third quarter of 2009 and did not recognize an adjustment to beginning retained earnings or accumulated other comprehensive income since no impairment losses were previously recognized. The Association held no investments in debt securities during the first nine months of 2009.

In May 2009, the FASB issued guidance, "Subsequent Events", which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — Investments:

The Association did not hold any investments requiring disclosure as of September 30, 2009.

NOTE 3 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated 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 and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30. 2009	September 30. 2008
Balance at beginning of quarter	\$ 688,740	\$ 287,065
Provision for loan losses	1,239,934	41,125
Charge-offs	(248,206)	-
Recoveries	-	2,075
Balance at end of quarter	<u>\$ 1,680,468</u>	<u>\$ 330,265</u>

The following table presents information concerning impaired loans:

	September 30. 2009	September 30. 2008
Impaired loans with related allowance	\$ 2,803,901	\$ -
Impaired loans with no related allowance	33,037,718	2,242,036
Total impaired loans	<u>\$ 35,841,619</u>	<u>\$ 2,242,036</u>
Allowance on impaired loans	\$ 310,041	\$ -
Average impaired loans	\$ 24,674,732	\$ 2,241,758
Interest income on impaired loans for the quarter	\$ 217,688	\$ 3,450

NOTE 4 — CAPITAL:

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

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2009, the Association did not participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2009, and 2008 net income for tax purposes has decreased substantially. The net operating loss for tax purposes resulted in an addition to the deferred tax asset of the amount of \$22,561. The addition was due to a taxable net operating loss due to loan charge-offs and increases in the provision for loan loss.

The subsidiary, Ag New Mexico FCS, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 12 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans *	\$ -	\$ -	\$ 2,710,497	\$ 2,710,497
Other property owned	-	-	2,144,735	2,144,735

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

Valuation Techniques

As more fully discussed in Note 12 to the 2008 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

Assets Held in Non-Qualified Benefits Trusts

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

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge 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 fair value is based upon the collateral value. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30:

	<u>Other Benefits²</u>	
	<u>2009</u>	<u>2008</u>
Service cost	\$ 21,383	\$ 18,947
Interest cost	30,117	26,501
Expected return on plan assets	-	-
Amortization of prior service costs	(49,995)	(50,263)
Amortizations of net (gain) loss	<u>20,083</u>	<u>188</u>
Net periodic benefit cost	<u>\$ 21,588</u>	<u>\$ (4,627)</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$684,003 to its defined pension plan in 2009. As of September 30, 2009, \$513,002.25 of contributions has been made. The Association presently anticipates contributing an additional \$171,000.75 to fund its defined pension plan in 2009 for a total \$684,003.

NOTE 8 — Subsequent Events:

The Association has evaluated subsequent events through November 9, 2009, which is the date the financial statements were available to be issued. An adjustment transferring \$11,922,107 in accrual loans and \$1,080,686 in accrued interest to nonaccrual loans in the amount of \$13,002,792 was reflected in the financial statements as of September 30th as a subsequent event since the transactions were actually booked in October. The transactions booked in October actually showed conditions that were in development at quarter-end.