AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2020
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2020

REPORT OF MANAGEMENT

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

Brett Valentine, Chief Executive Officer

May 8, 2020

Dwayne "Butch" Vidlar, Chairman, Board of Directors

May 8, 2020

Will Fisher, Chief Financial Officer

May 8, 2020

First Quarter 2020 Financial Report

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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 ended March 31, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 Annual Report to Stockholders.

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

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

Significant Events:

In December 2019, the board of directors declared a patronage distribution in the amount of $620,000 to be distributed to the Association’s borrowers. The amount declared was based on the Association’s 2019 operating results.

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Through March 31, 2020 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association’s loan portfolio related to COVID-19. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as food processing, dairy and beef cattle. The Association has maintained its strong portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained adequate to support any adversity or continuing loan demand.

Operationally, the Association continues to function as normal during these challenging times. The Association has utilized technology which has allowed personnel to work remotely and support both their families and their customer base. The Association has facilitated technology and operational changes to ensure its ability to meet borrowers needs during the uncertainty created by COVID-19, including extension to the terms of loan repayments.

The overall impact of COVID-19 is evolving rapidly, and future events are uncertain. Challenging economic conditions are likely ahead, however, as COVID-19 has caused many countries, including the U.S., to impose restrictions on travel and public gatherings. It is too early to accurately assess the potential impact of COVID-19 on the global, U.S. and New Mexico economies. The Association will continue to closely monitor the situation in the coming quarters.

Given the loan portfolio of the Association is connected to the performance of the general economy, the Association has evaluated these indicators for the first quarter and will continue to keep abreast of information that may impact future performance. The U.S. Bureau of Labor Statistics reported on April 3, 2020, that total nonfarm payroll employment fell by 701,000 in March 2020, and the unemployment rate rose to 4.4% in March 2020 from 3.5% in February 2020. Most of the employment loss was attributable to the leisure and hospitality industries, which have been negatively impacted by COVID-19. The most recent unemployment rates in New Mexico, reported as of February 2020, was 4.8 percent. In terms of economic activity, U.S. real GDP increased at an annual rate of 2.3% during 2019.

West Texas Intermediate oil prices closed March 2020 at about $20 per barrel, down from about $62 per barrel in December 2019. Oil prices were negatively impacted during the first quarter of 2020 by reductions in global demand due to COVID-19 and increasing supply, as a production-limiting agreement between OPEC and other global oil exporters, including Russia, collapsed in March 2020. According to the March 2020 Short Term Energy Outlook released by the U.S. Energy Information Administration, the West Texas Intermediate oil price is projected to average about $38 per barrel during 2020. Respondents to the Federal Reserve Bank of Dallas Energy Survey indicated in March 2020 that they could profitably drill a new well in the Permian Basin with oil prices at about $49 per barrel, on average. Consequently, activity in the oil and gas sector is likely to decline substantially if oil prices remain under significant pressure.

The U.S. Secretary of Agriculture announced in March 2020 that China has continued its progress toward meeting its agriculture-related commitments under the U.S.-China Phase One Trade Agreement. During the first quarter of 2020, the U.S.-Mexico-Canada Agreement (USMCA) was signed into law by the U.S. government and approved by the Canadian Parliament. According to the U.S. Secretary of Agriculture, Canada and Mexico are the two largest export markets for U.S. food and agricultural products.

In its March 2020 World Agricultural Supply and Demand Estimate (WASDE) report, the U.S. Department of Agriculture (USDA) lowered the 2019/20 expected season-average prices for several crops, including corn, soybeans, and cotton. Similarly, near-term price expectations for other commodities, such as hogs and pork, were adjusted downward. USDA expects live cattle prices to average slightly lower in 2020 than reported in 2019. Milk prices are also anticipated to decline in 2020 after rising by more than 10% during the previous year. While consumer demand for food products has generally been high during the early weeks of the COVID-19 outbreak in the U.S. and abroad, stay-at-home orders and other macroeconomic forces are disrupting typical purchasing patterns. This has caused volatility in agricultural commodity markets and could lead to challenges for food processing companies and material revisions in USDA forecasts in the coming months.

Loan Portfolio:

Total loans outstanding at March 31, 2020, including nonaccrual loans and sales contracts, were $259,334,662 compared to $265,801,658 at December 31, 2019, reflecting a decrease of 2.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 3.5 percent at March 31, 2020, compared to 0.1 percent at December 31, 2019.

The Association recorded no recoveries and $12,030 in charge-offs for the quarter ended March 31, 2020. The Association did not record any recoveries or charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of March 31, 2020, and December 31, 2019.

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.

	March 31, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**$ 9,113,037**	**76.7%**	$ 176,102	55.1%
90 days past due and still accruing interest	**2,662,264**	**22.4%**	37,880	11.8%
Other property owned, net	**105,850**	**0.9%**	105,850	33.1%
Total	**$ 11,881,151**	**100.0%**	$ 319,832	100.0%

Results of Operations:

The Association had net income of $1,361,195 for the three months ended March 31, 2020, as compared to net income of $759,734 for the same period in 2019, reflecting an increase of 79.2 percent. Net interest income was $2,039,988 for the three months ended March 31, 2020, compared to $1,556,581 for the same period in 2019.

	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 257,875,870**	**$ 3,556,963**	$ 249,576,537	$ 3,208,875
Interest-bearing liabilities	**226,946,432**	**1,516,975**	218,001,993	1,652,294
Impact of capital	**$ 30,929,438**		$ 31,574,544	
Net interest income		**$ 2,039,988**		$ 1,556,581

	2020 Average Yield	2019 Average Yield
Yield on loans	**5.55%**	5.21%
Cost of interest-bearing liabilities	**2.69%**	3.07%
Interest rate spread	**2.86%**	2.14%
Net interest income as a percentage of average earning assets	**3.18%**	2.53%

	Three months ended: March 31, 2020 vs. March 31, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 107,597**	**$ 240,491**	**$ 348,088**
Interest expense	**68,358**	**(203,677)**	**(135,319)**
Net interest income	**$ 39,239**	**$ 444,168**	**$ 483,407**

Interest income for the three months ended March 31, 2020, increased by $348,088, or 10.8 percent, from the same period of 2019, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2020, decreased by $135,319 or 8.2 percent, from the same period of 2019 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2020 was $257,875,870, compared to $249,576,537 in the first quarter of 2019. The average net interest rate spread on the loan portfolio for the first quarter of 2020 was 2.86 percent, compared to 2.14 percent in the first quarter of 2019.

The Association's return on average assets for the three months ended March 31, 2020, was 1.99 percent compared to 1.17 percent for the same period in 2019. The Association's return on average equity for the three months ended March 31, 2020, was 12.33 percent compared to 7.43 percent for the same period in 2019.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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.

		March 31, 2020		December 31, 2019
Note payable to the Bank	$	220,922,459	$	232,170,886
Accrued interest on note payable		497,150		542,633
Total	$	221,419,609	$	232,713,519

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $220,922,459 as of March 31, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.47 percent at March 31, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2019, is due to the Association's decrease in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $35,388,464 at March 31, 2020. The maximum amount the Association may borrow from the Bank as of March 31, 2020, was $256,961,374 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $1,360,165 at March 31, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 5.06:1 as of March 31, 2020, compared to 5.42:1 as of December 31, 2019.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2020, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted the new standard on January 1, 2020. No cumulative-effect adjustments will be recorded to retained earnings or current year results of operations. The adoption of this guidance will not impact the Association's financial condition or its results of operations; nor will the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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

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

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

Relationship With the Farm Credit Bank of Texas:

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

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website 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, 4501 N. Prince St., Clovis, New Mexico, 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at *www.agnewmexico.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *will.fisher@farmcreditbank.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

		March 31, 2020 (unaudited)		December 31, 2019
ASSETS				
Loans	**$**	**259,334,662**	$	265,801,658
Less: allowance for loan losses		**729,577**		676,426
Net loans		**258,605,085**		265,125,232
Accrued interest receivable		**2,427,238**		3,748,894
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		**6,814,075**		6,485,875
Other		**636,794**		997,088
Deferred taxes, net		**346,380**		346,380
Other property owned, net		**105,850**		105,850
Premises and equipment, net		**3,074,661**		3,091,389
Other assets		**738,276**		556,646
Total assets	**$**	**272,748,359**	$	280,457,354
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	**$**	**220,922,459**	$	232,170,886
Advance conditional payments		**3,269,984**		223,877
Accrued interest payable		**497,150**		542,633
Drafts outstanding		**56,960**		157,808
Patronage distributions payable		**620,000**		620,000
Other liabilities		**2,346,028**		3,066,537
Total liabilities		**227,712,581**		236,781,741
MEMBERS' EQUITY				
Capital stock and participation certificates		**444,460**		449,660
Unallocated retained earnings		**44,913,488**		43,552,293
Accumulated other comprehensive loss		**(322,170)**		(326,340)
Total members' equity		**45,035,778**		43,675,613
Total liabilities and members' equity	**$**	**272,748,359**	$	280,457,354

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31,	
	2020	2019
INTEREST INCOME		
Loans	**$ 3,556,963**	$ 3,208,875
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**1,516,975**	1,652,294
Net interest income	**2,039,988**	1,556,581
PROVISION FOR LOAN LOSSES	**65,211**	59,589
Net interest income after provision for loan losses	**1,974,777**	1,496,992
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**631,210**	479,150
Loan fees	**55,937**	37,481
Financially related services income	**6,879**	983
Gain on sale of premises and equipment, net	**-**	37,692
Other noninterest income	**118,321**	91,646
Total noninterest income	**812,347**	646,952
NONINTEREST EXPENSES		
Salaries and employee benefits	**924,259**	817,914
Directors' expense	**37,745**	65,608
Purchased services	**137,286**	128,039
Travel	**48,389**	76,417
Occupancy and equipment	**96,012**	104,164
Communications	**19,065**	16,647
Advertising	**10,184**	6,700
Public and member relations	**10,281**	9,515
Supervisory and exam expense	**27,455**	24,095
Insurance Fund premiums	**54,480**	42,083
Loss on other property owned, net	**3,721**	3,481
Other noninterest expense	**57,052**	89,547
Total noninterest expenses	**1,425,929**	1,384,210
NET INCOME	**1,361,195**	759,734
Other comprehensive income:		
Change in postretirement benefit plans	**4,170**	1,926
COMPREHENSIVE INCOME	**$ 1,365,365**	$ 761,660

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

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2018	$ 472,355	$ 40,649,490	$ (191,720)	$ 40,930,125
Comprehensive income	-	759,734	1,926	761,660
Capital stock/participation certificates and allocated retained earnings issued	15,620	-	-	15,620
Capital stock/participation certificates and allocated retained earnings retired	(18,640)	-	-	(18,640)
Balance at March 31, 2019	$ 469,335	$ 41,409,224	$ (189,794)	$ 41,688,765
Balance at December 31, 2019	$ 449,660	$ 43,552,293	$ (326,340)	$ 43,675,613
Comprehensive income	-	1,361,195	4,170	1,365,365
Capital stock/participation certificates and allocated retained earnings issued	13,400	-	-	13,400
Capital stock/participation certificates and allocated retained earnings retired	(18,600)	-	-	(18,600)
Balance at March 31, 2020	**$ 444,460**	**$ 44,913,488**	**$ (322,170)**	**$ 45,035,778**

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

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 in the state of New Mexico with the exception of San Juan County and the portion of Rio Arriba County lying west of the Continental Divide. The PCA and FLCA subsidiaries are also 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 (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted the new standard on January 1, 2020. No cumulative-effect adjustments will be recorded to retained earnings or current year results of operations. The adoption of this guidance will not impact the Association's financial condition or its results of operations; nor will the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

In August 2018, FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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

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

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

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 ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2020**	December 31, 2019
Production agriculture:		
Real estate mortgage	**$ 111,047,891**	$ 114,009,592
Production and intermediate term	**61,122,656**	68,952,935
Agribusiness:		
Processing and marketing	**43,652,259**	43,938,011
Farm-related business	**11,502,464**	9,953,739
Loans to cooperatives	**8,601,963**	3,480,833
Energy	**7,003,057**	6,488,208
Communication	**6,617,644**	6,628,636
Rural residential real estate	**5,637,215**	8,168,087
Lease receivables	**2,153,212**	2,185,527
Water and waste water	**1,996,301**	1,996,090
Total	**$ 259,334,662**	$ 265,801,658

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 45,425,747	$ 24,388,157	$ -	$ -	$ 45,425,747	$ 24,388,157
Real estate mortgage	14,117,171	29,154,211	-	2,162,827	14,117,171	31,317,038
Production and intermediate term	12,673,407	17,475,220	-	-	12,673,407	17,475,220
Energy	7,003,057	-	-	-	7,003,057	-
Communication	6,617,644	-	-	-	6,617,644	-
Water and waste water	1,996,301	-	-	-	1,996,301	-
Lease receivables	1,714,469	-	-	-	1,714,469	-
Rural residential real estate	-	6,377,885	-	-	-	6,377,885
Total	$ 89,547,796	$ 77,395,473	$ -	$ 2,162,827	$ 89,547,796	$ 79,558,300

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest may be paid by the Association on such balances. Balances of ACPs were $3,269,984 and $223,877 at March 31, 2020, and December 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 8,700,459**	$ 176,102
Production and intermediate term	**412,578**	-
Total nonaccrual loans	**9,113,037**	176,102
Accruing loans 90 days or more past due:		
Real estate mortgage	**-**	37,880
Production and intermediate term	**2,423,724**	-
Rural residential real estate	**238,540**	-
Total accruing loans 90 days or more past due	**2,662,264**	37,880
Total nonperforming loans	**11,775,301**	213,982
Other property owned	**105,850**	105,850
Total nonperforming assets	**$ 11,881,151**	$ 319,832

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

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

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

	March 31, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**90** %	90 %
OAEM	**1**	1
Substandard/doubtful	**9**	9
	100	100
Production and intermediate term		
Acceptable	**90**	95
OAEM	**5**	1
Substandard/doubtful	**5**	4
	100	100
Process and marketing		
Acceptable	**94**	94
OAEM	**6**	6
Substandard/doubtful	**-**	-
	100	100
Farm-related business		
Acceptable	**100**	100
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100	100
Loans to cooperatives		
Acceptable	**100**	100
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100	100
Energy		
Acceptable	**89**	87
OAEM	**-**	-
Substandard/doubtful	**11**	13
	100	100
Communication		
Acceptable	**100**	100
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100	100
Rural residential real estate		
Acceptable	**96**	100
OAEM	**4**	-
Substandard/doubtful	**-**	-
	100	100
Lease receivables		
Acceptable	**100**	100
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100	100
Water and waste water		
Acceptable	**100**	100
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100	100
Total loans		
Acceptable	**92**	93
OAEM	**2**	1
Substandard/doubtful	**6**	6
	100 %	100 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

March 31, 2020	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 8,642,084**	**$ 204,302**	**$ 8,846,386**	**$ 103,550,032**	**$ 112,396,418**	**$ -**
Production and intermediate term	**484,027**	**2,423,724**	**2,907,751**	**58,967,863**	**61,875,614**	**2,423,724**
Processing and marketing	**-**	**-**	**-**	**43,781,402**	**43,781,402**	**-**
Farm-related business	**-**	**-**	**-**	**11,598,492**	**11,598,492**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,621,271**	**8,621,271**	**-**
Communication	**-**	**-**	**-**	**6,624,731**	**6,624,731**	**-**
Energy	**-**	**-**	**-**	**7,014,604**	**7,014,604**	**-**
Rural residential real estate	**-**	**238,540**	**238,540**	**5,423,745**	**5,662,285**	**238,540**
Lease receivables	**-**	**-**	**-**	**2,180,559**	**2,180,559**	**-**
Water and waste water	**-**	**-**	**-**	**2,006,524**	**2,006,524**	**-**
Total	**$ 9,126,111**	**$ 2,866,566**	**$ 11,992,677**	**$ 249,769,223**	**$ 261,761,900**	**$ 2,662,264**

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,087,125	$ 213,982	$ 1,301,107	$ 115,217,224	$ 116,518,331	$ 37,880
Production and intermediate term	804,057	-	804,057	68,938,008	69,742,065	-
Processing and marketing	-	-	-	44,206,330	44,206,330	-
Farm-related business	-	-	-	10,030,240	10,030,240	-
Loans to cooperatives	-	-	-	3,496,429	3,496,429	-
Communication	-	-	-	6,628,988	6,628,988	-
Energy	-	-	-	6,499,561	6,499,561	-
Rural residential real estate	-	-	-	8,195,842	8,195,842	-
Lease receivables	-	-	-	2,206,453	2,206,453	-
Water and waste water	-	-	-	2,026,313	2,026,313	-
Total	$ 1,891,182	$ 213,982	$ 2,105,164	$ 267,445,388	$ 269,550,552	$ 37,880

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

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

As of March 31, 2020, the total recorded investment of troubled debt restructured loans was $172,102, all of which was classified as nonaccrual with no specific allowance. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $442,016 as of March 31, 2020 and as of December 31, 2019.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2020	December 31, 2019	**March 31, 2020**	December 31, 2019
Real estate mortgage	**$ 172,102**	$ 176,102	**$ 172,102**	$ 176,102
Total	**$ 172,102**	$ 176,102	**$ 172,102**	$ 176,102

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	March 31, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 8,700,459	$ 8,712,489	$ -	$ 213,982	$ 200,731	$ -
Production and intermediate term	2,836,302	2,807,141	-	-	21,724	-
Rural residential real estate	238,540	235,746	-	-	-	-
Total	$11,775,301	$11,755,376	$ -	$ 213,982	$ 222,455	$ -
Total impaired loans:						
Real estate mortgage	$ 8,700,459	$ 8,712,489	$ -	$ 213,982	$ 200,731	$ -
Production and intermediate term	2,836,302	2,807,141	-	-	21,724	-
Rural residential real estate	238,540	235,746	-	-	-	-
Total	$11,775,301	$11,755,376	$ -	$ 213,982	$ 222,455	$ -

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

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 2,710,923	$ 72,540	$ 311,613	$ -
Production and intermediate term	2,482,344	48,216	8,993	-
Rural residential real estate	236,107	2,794	-	-
Total	$ 5,429,374	$ 123,550	$ 320,606	$ -
Total impaired loans:				
Real estate mortgage	$ 2,710,923	$ 72,540	$ 311,613	$ -
Production and intermediate term	2,482,344	48,216	8,993	-
Rural residential real estate	236,107	2,794	-	-
Total	$ 5,429,374	$ 123,550	$ 320,606	$ -

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses:									
Balance at December 31, 2019	$ 106,416	$ 271,389	$ 226,982	$ 6,278	$ 40,050	$ 2,786	$ 21,253	$ 1,272	$ 676,426
Charge-offs	(12,030)	-	-	-	-	-	-	-	(12,030)
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	37,543	2,736	20,933	755	4,529	(1,256)	(188)	159	65,211
Other	(5)	(11)	(11)	-	(2)	-	(1)	-	(30)
Balance at March 31, 2020	$ 131,924	$ 274,114	$ 247,904	$ 7,033	$ 44,577	$ 1,530	$ 21,064	$ 1,431	$ 729,577
Ending Balance:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	131,924	274,114	247,904	7,033	44,577	1,530	21,064	1,431	729,577
Balance at March 31, 2020	$ 131,924	$ 274,114	$ 247,904	$ 7,033	$ 44,577	$ 1,530	$ 21,064	$ 1,431	$ 729,577
Balance at December 31, 2018	$ 132,526	$ 257,012	$ 87,951	$ 6,508	$ 20,189	$ 8,064	$ 8,868	$ -	$ 521,118
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	15,154	29,389	10,057	744	2,309	922	1,014	-	59,589
Other	-	412	-	-	-	-	-	-	412
Balance at March 31, 2019	$ 147,680	$ 286,813	$ 98,008	$ 7,252	$ 22,498	$ 8,986	$ 9,882	$ -	$ 581,119
Ending Balance:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	147,680	286,813	98,008	7,252	22,498	8,986	9,882	-	581,119
Balance at March 31, 2019	$ 147,680	$ 286,813	$ 98,008	$ 7,252	$ 22,498	$ 8,986	$ 9,882	$ -	$ 581,119

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Recorded Investments in Loans Outstanding:									
Ending Balance at March 31, 2020	$ 112,396,418	$ 61,875,614	$ 64,001,165	$ 6,624,731	$ 7,014,604	$ 2,006,524	$ 5,662,285	$ 2,180,559	$ 261,761,900
Individually evaluated for impairment	$ 8,938,999	$ 2,836,302	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,775,301
Collectively evaluated for impairment	$ 103,457,419	$ 59,039,312	$ 64,001,165	$ 6,624,731	$ 7,014,604	$ 2,006,524	$ 5,662,285	$ 2,180,559	$ 249,986,599
Ending Balance at March 31, 2019	$ 114,390,477	$ 70,367,740	$ 58,289,365	$ 2,531,150	$ 6,376,422	$ 2,005,675	$ 9,171,390	$ 2,371,071	$ 265,503,290
Individually evaluated for impairment	$ 300,081	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 300,081
Collectively evaluated for impairment	$ 114,090,396	$ 70,367,740	$ 58,289,365	$ 2,531,150	$ 6,376,422	$ 2,005,675	$ 9,171,390	$ 2,371,071	$ 265,203,209

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Operating lease cost	$ 28,561	$ 28,312
Net lease cost	$ 28,561	$ 28,312

Other information related to leases was as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 28,561	$ 28,312
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	26,889	24,847

Lease term and discount rate are as follows:

	March 31, 2020	December 31, 2019
Weighted average remaining lease term in years		
Operating leases	2.5	2.7
Weighted average discount rate		
Operating leases	3.78%	4.06%

Future minimum lease payments under non-cancellable leases as of March 31, 2020 were as follows:

	Operating Leases
2020 (excluding the three months ended 3/31/20)	$ 85,939
2021	99,160
2022	57,125
2023	42,802
Thereafter	-
Total lease payments	285,026

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.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of March 31, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.13%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.13%
Total capital ratio	8.00%	2.50%	10.50%	14.40%
Permanent capital ratio	7.00%	0.00%	7.00%	14.16%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	14.09%
UREE leverage ratio	1.50%	0.00%	1.50%	15.58%

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	44,107,036	44,107,036	44,107,036	44,107,036
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	448,498	448,498	448,498	448,498
Allowance for loan losses and reserve for credit losses subject to certain limitations			727,739	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(6,814,751)	(6,814,751)	(6,814,751)	(6,814,751)
	37,740,783	37,740,783	38,468,522	37,740,783
Denominator:				
Risk-adjusted assets excluding allowance	274,002,104	274,002,104	274,002,104	274,002,104
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,814,751)	(6,814,751)	(6,814,751)	(6,814,751)
Allowance for loan losses				(670,600)
	267,187,353	267,187,353	267,187,353	266,516,753

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**44,107,036**	**44,107,036**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**448,498**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(6,814,751)**	**(2,379,200)**
	37,740,783	**41,727,836**
Denominator:		
Total Assets	**274,843,759**	**274,843,759**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(7,003,996)**	**(7,003,996)**
	267,839,763	**267,839,763**

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

March 31, 2020	**Net of Tax**
Nonpension postretirement benefits	**$ (322,170)**
Total	**$ (322,170)**

March 31, 2019	Net of Tax
Nonpension postretirement benefits	$ (189,794)
Total	$ (189,794)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive loss for the three months ended March 31:

	2020	**2019**
Accumulated other comprehensive loss at January 1	**$(326,340)**	$(191,720)
Amortization of prior service credit included in salaries and employee benefits	**(1,120)**	(1,120)
Amortization of actuarial loss included in salaries and employee benefits	**5,290**	3,046
Other comprehensive income, net of tax	**4,170**	1,926
Accumulated other comprehensive loss at March 31	**$ (322,170)**	$ (189,794)

NOTE 5 — INCOME TAXES:

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

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2019 Annual Report to Stockholders for a more complete description.

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

March 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Other property owned	**-**	**-**	**105,850**	**105,850**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Other property owned	-	-	105,850	105,850

Valuation Techniques

As more fully discussed in Note 14 to the 2019 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2019 Annual Report to Stockholders.

Loans Evaluated for Impairment

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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and 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 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

Three months ended March 31 :	Other Benefits	
	2020	2019
Service cost	**$ 3,250**	$ 1,555
Interest cost	**12,243**	14,813
Amortization of prior service credits	**(1,120)**	(1,120)
Amortization of net actuarial loss	**5,290**	3,046
Net periodic benefit cost	**$ 19,663**	$ 18,294

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2020, was $1,444,329 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District’s defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute $58,293 to the District’s defined benefit pension plan in 2020. As of March 31, 2020, the full annual contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2020.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 8, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 8, 2020.