

# **American AgCredit, ACA**

## **2009 Second Quarter Report to Shareholders**

Effective October 1991, the Farm Credit Administration issued regulatory changes which no longer require the distribution of the district Bank's quarterly report to shareholders of the associations under certain circumstances. The shareholders' investment in Farm Credit of American AgCredit, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2008 AgBank Annual Report to Shareholders, the 2008 AgBank District Annual Report to Shareholders, the AgBank quarterly shareholders' reports and the AgBank District quarterly shareholders' reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by calling American AgCredit at (800) 800-4865 or visiting the office at 200 Concourse Blvd. Santa Rosa, CA 95403.

## Message to Stockholders

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Dear Stockholder:

Your Association continues to weather the national and regional economic downturn with strong credit quality, a healthy capital base, increasing interest earnings and a diversified loan portfolio that mitigates risk. While 53 banks nationwide have been closed thus far in 2009, American AgCredit is not only surviving, but thriving. Our customers have largely been conservative in their operations and have maintained profitability despite a lackluster economy. Our primary concern is for the dairy industry, which continues to suffer from depressed prices and high input costs. The industry has responded with a new herd reduction program that is anticipated to remove the equivalent of 2 billion pounds of milk from an already saturated market. Other commodities financed by the Association, including wine grapes, vegetables, livestock, tree nuts and field crops are experiencing solid returns and steady to increasing product demand.

**Director Election:** We congratulate Patrick Garvey, Mary Borba Parente, Rob Scattini and Frank Stonebarger on their recent re-elections to the Association's Board of Directors. The board is currently comprised of 15 members who have been either elected or appointed to represent your interests as a stockholder. Board members welcome input from their constituents. A list of board members can be found in the Association's Annual Report or on the Association's web site at [www.agloan.com](http://www.agloan.com).

**Financial Condition and Results of Operations:** Second quarter income totaled \$12.2 million. Net interest income increased from \$20.5 million in 2008 to \$25.9 million in 2009 as a result of an additional \$380 million in loan volume compared to last year and higher interest rate spreads. Return on average assets for the quarter was 1.39%. Operating costs rose to \$14.6 million from \$12.7 million a year earlier due primarily to increased employee costs.

Second quarter income for 2008 includes an \$8.7 million adjustment to the loan loss provision in recognition of the settlement of litigation of a previously charged-off loan. The Association received a favorable judgment in a legal dispute over a borrower's loan default. The loan had previously been charged-off as uncollectible. In the second quarter of 2009, the Association recognized a \$1.9 million loan loss provision. This increased provision was primarily related to a small number of large loans that experienced difficulties that were not indicative of the larger portfolio.

Year to date earnings for 2009 have been adversely affected by the absence of a patronage dividend from U. S. AgBank, which through June 30, 2008 had contributed \$5.5 million to the Association's 2008 earnings. AgBank discontinued the dividend in 2009 as a result of depressed earnings and capital constraints.

Accrual loan volume reached \$3.7 billion at June 30, 2009, up 10% from the same period in 2008. Non-accrual loans stand at \$53.3 million, an increase of \$42.4 million from the second quarter of last year. Nonaccrual loans represent 1.4% of total loan volume. At June 30, 2008, accrual and nonaccrual volume stood at \$3.37 billion and \$10.9 million respectively.

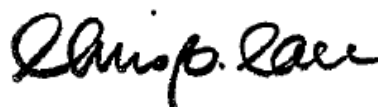
The undersigned certify that the 2009 2<sup>nd</sup> Quarter Shareholder Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Tom Teixeira  
Chairman



Ron Carli  
Chief Executive Officer



Chris B. Call  
Chief Financial Officer

July 30, 2009

**FINANCIAL STATEMENTS**

(\$000s)

STATEMENT OF CONDITION	June 30		Dec. 31	
	2009	2008	2008	2007
	Unaudited	Unaudited	Audited	Audited
<b>ASSETS</b>				
Loans	<b>\$3,756,236</b>	\$3,379,057	\$3,783,018	\$3,240,167
Less: allowance for loan losses	<b>(15,383)</b>	(9,629)	(8,843)	(9,447)
Net Loans	<b>3,740,853</b>	3,369,428	3,774,175	3,230,720
Investment in the U.S. AgBank	<b>99,143</b>	99,143	99,143	99,143
Investment in CoBank	<b>11,526</b>	10,005	10,005	9,580
Accrued interest receivable	<b>33,059</b>	35,358	31,303	36,164
Premises and equipment	<b>23,430</b>	20,166	22,150	18,686
Other Assets	<b>15,266</b>	13,178	13,749	17,885
Total Assets	<b>\$3,923,277</b>	\$3,547,278	\$3,950,525	\$3,412,178
<b>LIABILITIES</b>				
Note payable to U.S. AgBank	<b>\$3,155,288</b>	\$2,758,114	\$3,158,343	\$2,684,154
Funds Held Accounts	<b>8,912</b>	14,829	5,000	12,476
Accrued interest payable	<b>6,769</b>	8,726	8,461	10,990
Other liabilities	<b>21,284</b>	19,468	37,538	42,564
Total Liabilities	<b>\$3,192,253</b>	\$2,801,137	\$3,209,342	\$2,750,184
<b>MEMBERS' EQUITY</b>				
Common stock and participation certificates	<b>\$3,215</b>	\$3,219	\$3,234	\$3,173
Preferred stock	<b>96,865</b>	137,848	125,422	87,758
Unallocated retained earnings	<b>630,944</b>	605,074	612,527	571,063
Total Members' Equity	<b>731,024</b>	746,141	741,183	661,994
Total Liabilities and Members' Equity	<b>\$3,923,277</b>	\$3,547,278	\$3,950,525	\$3,412,178
<b>STATEMENT OF INCOME</b>				
Unaudited				
	For the three months ended June 30		For the six months ended June 30	
	2009	2008	2009	2008
Interest income	<b>\$46,503</b>	\$46,969	<b>\$92,113</b>	\$98,562
Interest expense	<b>(20,652)</b>	(26,478)	<b>(42,026)</b>	(57,266)
Net interest income	<b>25,851</b>	20,491	<b>50,087</b>	41,296
Other income	<b>2,175</b>	5,454	<b>8,065</b>	12,635
Loan Loss (Provision)/Benefit	<b>(1,879)</b>	9,668	<b>(11,009)</b>	8,388
Operating and other expenses	<b>(14,520)</b>	(12,679)	<b>(29,924)</b>	(26,444)
Income before taxes	<b>11,627</b>	22,934	<b>17,219</b>	35,875
Benefit /(Provision) for income taxes	<b>555</b>	(304)	<b>1,453</b>	4
Net income	<b>\$12,182</b>	\$22,630	<b>\$18,672</b>	\$35,871

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

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

Unaudited

	Capital Stock	Preferred Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Members' Equity
Six months ended June 30, 2008 and 2009					
Balance at December 31, 2007	\$3,173	\$87,758	\$571,351	\$(288)	\$661,994
Comprehensive Income					
Net income			35,871		
Amortization of costs included in net periodic benefit cost				35	
Total Comprehensive Income					35,906
Effect of changing defined benefit plan measurement date			(105)		(105)
Stock issued	173	167,699			167,872
Stock retired	(127)	(119,517)			(119,644)
Preferred stock dividends paid		1,908	(1,908)		
Adjustment to patronage declared			118		118
<b>Balance at June 30, 2008</b>	<b>\$3,219</b>	<b>\$137,848</b>	<b>\$605,327</b>	<b>\$(253)</b>	<b>\$746,141</b>
Balance at December 31, 2008	\$3,234	\$125,422	\$613,451	\$(924)	\$741,183
Comprehensive Income					
Net income			18,671		
Amortization of costs included in net periodic benefit cost				52	
Total Comprehensive Income					18,723
Stock issued	118	102,568			102,686
Stock retired	(137)	(131,519)			(131,656)
Preferred stock dividends paid		394	(394)		
Adjustment to patronage declared			88		88
<b>Balance at June 30, 2009</b>	<b>\$3,215</b>	<b>\$96,865</b>	<b>\$631,816</b>	<b>\$(872)</b>	<b>\$731,024</b>

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

## Notes to the Financial Statements

*(Unaudited)*

### NOTE 1 - Organization and Significant Accounting Policies

A description of the organization and operations of the American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008 are contained in the 2008 Annual Report to Stockholders (2008 Annual Report) for American AgCredit, ACA. These unaudited second quarter 2009 financial statements of the Association should be read in conjunction with the 2008 Annual Report. The financial statements were prepared under the oversight of the audit committee of the board of directors. The 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 and prevailing practices within the banking industry. The results of operations for the three-month and six-month periods ended June 30, 2009 are not necessarily indicative of results to be expected for the full year.

In March, the Board of Directors signed a Letter of Intent to merge with Farm Credit of the Heartland, ACA (Heartland) headquartered in Wichita, Kansas. Under the terms of the Letter, Heartland would be merged into American AgCredit and the new association would be headquartered in Santa Rosa, California and be called

American AgCredit. A comprehensive disclosure package will be sent to stockholders of both organizations prior to a stockholder vote. The tentative date for the merger is November 30, 2009.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. The Association incorporated the required disclosures into the notes to the financial statements.

In May 2009, the FASB issued SFAS No. 165, "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. 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 Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

#### **NOTE 2 - Capital**

At June 30, 2009, the Association's regulatory capital ratio was 15.76%, which exceeds the minimum of 7.0% required by our regulators, the Farm Credit Administration.

Association shareholders have approved a class of preferred stock known as H Stock. At June 30, 2009 200 million shares of the stock are authorized at \$1.00 par value. H stock ownership is limited to existing common stockholders of the Association and is considered "at-risk". The stock bears a dividend rate that is set by the Board of Directors. Retirement of the stock is at the discretion of the Board. At June 30, 2009 there were 96,865,306 shares of H stock issued and outstanding. The dividend rate at June 30, 2009 was 0.50%.

#### **NOTE 3 - Allowance for Loan Losses**

A summary of activity in the allowance for loan losses follows (in 000s):

##### **For the six months ended June 30:**

	<u>2009</u>	<u>2008</u>
Beginning balance - Jan. 1	\$8,843	\$9,447
Recoveries	70	8,881
Loss provision adjustment	11,009	(8,388)
Loans charged off	<u>(4,539)</u>	<u>(311)</u>
Ending balance – June 30	<u>\$15,383</u>	<u>\$9,629</u>

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of June 30, 2009, the allowance for loan losses is adequate based on information currently available.

The following table presents information concerning impaired loans as of June 30, (in 000s)

	<u>2009</u>	2008
Impaired loans with related allowance	\$14,811	\$5,698
Impaired loans with no related allowance	<u>39,984</u>	5,196
Total impaired loans	\$54,795	\$10,894
Allowance on impaired loans	\$5,927	\$2,849

Impaired loan information for the quarter ended June 30, is summarized as follows, (in 000s):

	<u>2009</u>	<u>2008</u>
Average impaired loans	<b>\$53,465</b>	\$11,035
Interest income recognized on impaired loans	<b>\$56</b>	\$765

#### **NOTE 4 - Purchased and Sold Loans**

The Association, in the normal course of business, regularly purchases and sells loans in whole or in part. All loans sold to others are sold without recourse. The following table summarizes these loans (in millions):

	<u>June 30, 2009</u>	June 30, 2008	Dec. 31, 2008
Loans purchased from others	<b>\$235.6</b>	\$214.8	\$315.5
Loans sold to others	<b>\$2,688.7</b>	\$2,270.5	\$2,704.2
Retained interest in sold loans	<b>\$690.0</b>	\$579.6	\$686.2
Syndications serviced for others	<b>\$1,674.3</b>	\$1,733.1	\$1,736.0
Loans sold to and serviced for Farmer Mac	<b>\$0.5</b>	\$0.5	\$0.5

#### **NOTE 5 – Fair Value Measurements**

SFAS No. 157 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 2 to the 2008 Annual Report to Stockholders.

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2009 for each of the fair value hierarchy values are summarized below, (in 000s):

	<u>Level 3</u>	<u>Fair Value Measurement Using Total Fair Value</u>
<b>Assets:</b>		
Loans	\$10,953	\$10,953
Other property owned	\$541	\$541

#### **Valuation Techniques**

SFAS No. 157 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.

##### *Loans*

For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

##### *Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral less estimated costs to sell.

#### **NOTE 6 - Subsequent Events**

The Association has evaluated subsequent events through July 30, which is the date the financial statements were issued.