Farm Credit Midsouth, ACA

Quarterly Report
March 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.FCMidsouth.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2019 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Northeast Arkansas experienced excess rain during the first quarter which delayed fieldwork and planting in some areas. United States Department of Agriculture (USDA) Crop Conditions reports for March 22, 2020 and April 5, 2020 indicate that Northeast Arkansas had average rainfall about 1 inch greater than the 5 year average. For the week ending April 5, 2020, topsoil moisture supplies were 30% adequate and 70% surplus according to the USDA report. This report also shows that corn is 3% planted compared to the 5-year average of 32%. On March 28, 2020 an EF3 Tornado hit the city of Jonesboro causing devastation to much of the city's infrastructure. Devastation to some customer facilities have also been reported.

The University of Arkansas Planted Acres projection as of March 2020 shows a projected increase in corn planting over 2019 of about 4%; cotton acreage projections are down from 2019 by 5%; peanut acreage projections are up 3% from 2019; rice projections are up 21% from 2019 and soybean projections are up 9% from 2019. The majority of price projections currently show a decrease over 2019 levels.

Consumer consumption patterns have changed dramatically with stay-at-home orders enacted in nearly every state, and many agricultural markets are facing pressure from outside markets. Additionally, the U.S. agricultural industry is facing stress from labor shortages and COVID-19 outbreaks at food processing plants, while exports could be challenged by logistics and the volatility of the U.S. dollar. For row crops, corn is experiencing the most pressure from the COVID-19 outbreak. Roughly forty percent of U.S. corn production is processed into ethanol and distiller's dried grain with soluables, the feed byproduct of ethanol production. The lockdown has rapidly reduced automobile traffic and fuel consumption and, in turn, ethanol and corn demand. The drop in fuel demand has resulted in reduced ethanol plant runtimes and plant shutdowns, which have pressured corn prices lower and reduced basis levels in the Corn Belt. Demand for soybeans remains highly questionable. The phase one trade deal between the U.S. and China would theoretically have been very supportive for U.S. soybeans, but the COVID-19 outbreak and reduced Chinese hog herd due to African Swine Fever have called into question if China will reach committed levels.

To assist with deteriorating agricultural conditions, nearly $24 billion of aid has already been approved via federal stimulus packages and more aid could be on the way in the future if poor conditions persist; however, at this point, the timing, the level of aid, and the distribution to various agriculture commodities is unknown. Because of all these factors, the outlooks for many commodities have been downgraded on the assumption of unknown government assistance at a level that will likely only partially mitigate losses relative to COVID-19.

In recent years, producers have been adjusting to the normalization of crop prices near the long-run price trends. Optimal input usage, adoption of cost-saving technologies, and effective utilization of hedging and other price risk management strategies are all critical in yielding positive net income for producers. Those who have been most effectively able to realize cost and marketing efficiencies are most likely to weather the current economic environment, but many may still require flexibility from lenders through payment deferrals and other measures to preserve working capital.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $884.4 million at March 31, 2020, a decrease of $52.3 million from December 31, 2019. The decrease was primarily due to our commercial portfolio, which had normal repayments offset by approximately $45.1 million of new loan money for a net decrease of $47.0 million from December 31, 2019. Our mortgage portfolio also had normal repayments offset by approximately $16.9 million in new loans resulting in a decrease of $5.3 million.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2019. Adversely classified loans increased to 2.3% of the portfolio at March 31, 2020, from 0.6% of the portfolio at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

While overall credit quality remains strong, the impact of the global pandemic disruption to many agriculture industries, and with commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020. These conditions may result in increases to adverse credit quality and related provision for credit losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At March 31, 2020, $7.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 12,037**	$ 600
Accruing restructured	**3**	24
Accruing loans 90 days or more past due	**649**	395
Total risk loans	**12,689**	1,019
Other property owned	**--**	--
Total risk assets	**$ 12,689**	$ 1,019
Total risk loans as a percentage of total loans	**1.4%**	0.1%
Nonaccrual loans as a percentage of total loans	**1.3%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**31.1%**	16.8%
Total delinquencies as a percentage of total loans	**1.3%**	0.1%

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans was primarily due to one relationship totaling $11.6 million. Nonaccrual loans remained at an acceptable level at March 31, 2020, and December 31, 2019.

In April 2020, we implemented a borrower relief program related to the COVID-19 global pandemic. The program is generally for borrowers with acceptable credit quality and who have experienced COVID-19 related financial difficulty. The relief comes in a variety of ways, but most predominantly payment deferral for up to six months on loans with monthly payments. Any remaining balances will be due with the final payment at maturity. To date, there have not been significant actions taken under this program. However, our program may continue to evolve and is dependent on the prolonged nature of the economic disruption. Lastly, we continue to work with each borrower on a case-by-case basis, which may involve loan restructurings outside the COVID-19 relief program.

The increase in accruing loans 90 days or more past due was primarily due to one customer that was in the process of being refinanced. The new lender has provided documentation of the refinance. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in total delinquencies as a percentage of total loans was primarily due to the relationship that was moved to nonaccrual. Additionally, the majority of our payments are due during the first quarter of the year.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.6%**	0.3%
Nonaccrual loans	**43.0%**	447.0%
Total risk loans	**40.8%**	263.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2020. The allowance increased $2.5 million since December 31, 2019. The majority of this increase was due to a $3.5 million specific reserve for the relationship that was moved to nonaccrual.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the three months ended March 31,	**2020**	2019
Net income	**$ 1,802**	$ 3,979
Return on average assets	**0.8%**	1.8%
Return on average members' equity	**3.1%**	7.2%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands)

For the three months ended March 31,	**2020**	2019	**Decrease in net income**
Net interest income	**$ 6,242**	$ 6,259	**$ (17)**
Provision for (reversal of) loan losses	**2,880**	(874)	**(3,754)**
Non-interest income	**1,955**	1,091	**864**
Non-interest expense	**4,066**	3,858	**(208)**
(Benefit from) provision for income taxes	**(551)**	387	**938**
Net income	**$ 1,802**	$ 3,979	**$ (2,177)**

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the three months ended March 31,	**2020 vs 2019**
Changes in volume	**$ 360**
Changes in interest rates	**(213)**
Changes in nonaccrual income and other	**(164)**
Net change	**$ (17)**

Provision for (reversal of) Loan Losses

The change in the provision for (reversal of) loan losses was related to our estimate of losses in our portfolio for the applicable years.

After the first quarter allowance calculation was complete, a $2.9 million provision was required to reasonably reflect the estimated credit loss in our current loan portfolio. The majority of this provision requirement was due to a single relationship being moved to nonaccrual and requiring a $3.5 million specific reserve.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and financially related services income.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the three months ended March 31,	**2020**	2019
Wholesale patronage	**$ 879**	$ 564
Pool program patronage	**71**	88
Total patronage income	**$ 950**	$ 652
Form of patronage distributions:		
Cash	**$ 950**	$ 652
Total patronage income	**$ 950**	$ 652

Financially Related Services Income: The increase in financially related services income was primarily due to increased conversion fees during this low rate environment. During the first quarter, 608 loans were converted to a new rate which reduced our customers' interest expense approximately $2.1 million on an annualized basis. The Association added a net increase of $556 in conversion fee income during this process.

Non-Interest Expense

The change in non-interest expense was primarily from salary and benefits expense. The increase is related to succession planning and bench strength. The Association has added 7 additional positions in the past year in order to better serve our customers.

(Benefit from) Provision for Income Taxes

The change in (benefit from) provision for income taxes was primarily related to the large provision expense in the first quarter.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on April 30, 2022. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2020, or December 31, 2019.

Total members' equity increased $1.8 million from December 31, 2019, primarily due to net income for the period. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 8 in our 2019 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2019 Annual Report for a more complete description of these ratios.

Historically the Consolidated Statement of Changes in Members Equity has shown a reduction in member equity identified as unallocated surplus designated for patronage distributions. In December 2019, your board approved a Patronage Obligating Resolution stating that they intend to pay patronage on the 2020 earnings. Due to the large provision requirement during the first quarter, earnings annualized would not have been sufficient to meet the requirements of the patronage obligation, therefore no funds were set aside for patronage distributions. We believe this is temporary and should see sufficient earnings growth for patronage in the remaining quarters of the year, however, this is not guaranteed.

We continue to maintain our primary source of liquidity through our AgriBank line of credit. During recent market volatility certain adjustments to cost of our funding of longer term loans was impacted.

Regulatory Capital Requirements and Ratios

As of:	**March 31, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**21.2%**	19.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**21.2%**	19.9%	6.0%	2.5%	8.5%
Total capital ratio	**21.5%**	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**21.2%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**23.6%**	21.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**23.7%**	21.7%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments.

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation and we will be a partial owner and continue to purchase services from SunStream. We purchase various services from SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. As of April 1, 2020, our investment in SunStream was $225 thousand. The entire investment was called on April 1, 2020, at which time $125 thousand was paid in cash and the remainder is due in January 2021.

Arkansas and COVID-19

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain. In a press release by Governor Asa Hutchinson (the Governor) on March 11, 2020, he confirmed that the State had its first presumptive positive COVID-19. The Governor also declared an emergency and ordered the Arkansas Department of Health to take action to prevent the spread of COVID-19. The Governor stated that Arkansas was in a good position to handle COVID-19 as he has had over 70 employees working exclusively on COVID-19 for the past two months.

The Association's CEO, James McJunkins, addressed the staff leading up to these announcements to make them aware that the association is taking this pandemic serious. Our primary focus is to keep employees, our customers and our offices as safe as possible from spread of this virus. On March 19, 2020, the Association notified its regulator, FCA, that their Business Continuity Plan (BCP) had been activated. On that same day, the Association closed all offices to foot traffic. Customers were urged to utilize phone calls, texts and emails to communicate with staff. Online banking services were also available for customers needing to transact business. Lending staff worked with customers to provide loan documents and other needed information in the safest manner possible while still meeting and serving their needs. Staff in our branch offices divided up with half of the individuals working remotely and the other half staying in the office. This rotation was alternated every other week. Central office staff in Jonesboro and Paragould primarily moved to an off-site work environment. Daily calls with the leadership team kept everyone involved apprised of how the staff, customers and the state were doing in dealing with COVID-19.

On March 27, 2020, President Trump signed into law the CARES Act (the Act), a law to address the economic impact from the 2020 Coronavirus pandemic. The Act includes the Paycheck Protection Program which created loans for small businesses which could be forgiven. This program was administered through the SBA. The Association applied and was approved to be an SBA lender on April 14, 2020. Shortly thereafter the announcement was made that the available funds had been depleted. We are expecting to be able to participate in this program if additional funds are made available.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly "normal" daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and operations of our Association are fully functioning. Our business continuity response has allowed us to continue to serve our mission and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. During the month of March 2020 alone, the Association staff processed over 460 conversion documents for our customers which reduced their interest expense by approximately $1.5 million dollars on an annualized basis. The Association made 123 new loans resulting in approximately $29.0 million in loan funds disbursed and also renewed 73 operating loans making approximately $50.0 million in loan funds available. The Association continues to work with our customers to determine the best approach to assist them during this COVID-19 time of uncertainty. We have successfully been able to efficiently serve our customers, conduct our daily operations and successfully maintain our internal controls during this time.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an "essential service" to the U.S. and global consumer.

CERTIFICATION

The undersigned have reviewed the March 31, 2020, Quarterly Report of Farm Credit Midsouth, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dane Coomer
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

May 8, 2020

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA

(in thousands)

(Unaudited)

As of:		March 31, 2020		December 31, 2019
ASSETS				
Loans	**$**	**884,391**	$	936,733
Allowance for loan losses		**5,179**		2,682
Net loans		**879,212**		934,051
Investment in AgriBank, FCB		**20,696**		20,696
Accrued interest receivable		**11,774**		22,412
Deferred tax assets, net		**471**		--
Other assets		**13,503**		13,730
Total assets	**$**	**925,656**	$	990,889
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**684,085**	$	742,342
Accrued interest payable		**4,499**		5,365
Deferred tax liabilities, net		**--**		46
Patronage distribution payable		**--**		6,600
Other liabilities		**2,257**		3,522
Total liabilities		**690,841**		757,875
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,890**		1,896
Unallocated surplus		**233,042**		231,240
Accumulated other comprehensive loss		**(117)**		(122)
Total members' equity		**234,815**		233,014
Total liabilities and members' equity	**$**	**925,656**	$	990,889

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31,	**2020**	2019
Interest income	**$ 10,741**	$ 10,975
Interest expense	**4,499**	4,716
Net interest income	**6,242**	6,259
Provision for (reversal of) loan losses	**2,880**	(874)
Net interest income after provision for (reversal of) loan losses	**3,362**	7,133
Non-interest income		
Patronage income	**950**	652
Financially related services income	**12**	39
Fee income	**612**	116
Allocated Insurance Reserve Accounts distribution	**194**	210
Other non-interest income	**187**	74
Total non-interest income	**1,955**	1,091
Non-interest expense		
Salaries and employee benefits	**2,662**	2,399
Other operating expense	**1,393**	1,250
Other non-interest expense	**11**	209
Total non-interest expense	**4,066**	3,858
Income before income taxes	**1,251**	4,366
(Benefit from) provision for income taxes	**(551)**	387
Net income	**$ 1,802**	$ 3,979
Other comprehensive income		
Employee benefit plans activity	**$ 5**	$ 7
Total other comprehensive income	**5**	7
Comprehensive income	**$ 1,807**	$ 3,986

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2018	$ 1,895	$ 218,714	$ (187)	$ 220,422
Net income	--	3,979	--	3,979
Other comprehensive income	--	--	7	7
Unallocated surplus designated for patronage distributions	--	(1,649)	--	(1,649)
Capital stock and participation certificates issued	35	--	--	35
Capital stock and participation certificates retired	(63)	--	--	(63)
Balance at March 31, 2019	$ 1,867	$ 221,044	$ (180)	$ 222,731
Balance at December 31, 2019	$ 1,896	$ 231,240	$ (122)	$ 233,014
Net income	**--**	**1,802**	**--**	**1,802**
Other comprehensive income	**--**	**--**	**5**	**5**
Capital stock and participation certificates issued	**57**	**--**	**--**	**57**
Capital stock and participation certificates retired	**(63)**	**--**	**--**	**(63)**
Balance at March 31, 2020	**$ 1,890**	**$ 233,042**	**$ (117)**	**$ 234,815**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2019 (2019 Annual Report).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Midsouth, ACA and its subsidiaries Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	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.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2020**		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 504,663**	**57.1%**	$ 508,522	54.3%
Production and intermediate-term	**312,917**	**35.4%**	367,809	39.3%
Agribusiness	**64,753**	**7.3%**	58,107	6.2%
Other	**2,058**	**0.2%**	2,295	0.2%
Total	**$ 884,391**	**100.0%**	$ 936,733	100.0%

The other category is primarily composed of rural residential real estate.

Delinquency

Aging Analysis of Loans

(in thousands) **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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 869**	**$ --**	**$ 869**	**$ 510,648**	**$ 511,517**	**$ --**
Production and intermediate-term	**10,216**	**844**	**11,060**	**306,055**	**317,115**	**649**
Agribusiness	**--**	**--**	**--**	**65,469**	**65,469**	**--**
Other	**--**	**--**	**--**	**2,064**	**2,064**	**--**
Total	**$ 11,085**	**$ 844**	**$ 11,929**	**$ 884,236**	**$ 896,165**	**$ 649**

As of 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ --	$ --	$ --	$ 519,734	$ 519,734	$ --
Production and intermediate-term	52	447	499	377,503	378,002	--
Agribusiness	--	395	395	58,712	59,107	395
Other	--	--	--	2,302	2,302	--
Total	$ 52	$ 842	$ 894	$ 958,251	$ 959,145	$ 395

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**March 31, 2020**	December 31, 2019
Volume with specific allowance	**$ 9,416**	$ 452
Volume without specific allowance	**3,273**	567
Total risk loans	**$ 12,689**	$ 1,019
Total specific allowance	**$ 3,567**	$ 210
For the three months ended March 31,	**2020**	2019
Income on accrual risk loans	**$ 4**	$ 36
(Reversal) income on nonaccrual loans	**$ (33)**	131
Total income on risk loans	**$ (29)**	$ 167
Average risk loans	**$ 1,407**	$ 12,482

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 2020.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the three months ended March 31, 2020, or 2019.

There were no TDRs that defaulted during the three months ended March 31, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of:		**March 31, 2020**		December 31, 2019
TDRs in accrual status	**$**	**3**	$	24
TDRs in nonaccrual status		**35**		37
Total TDRs	**$**	**38**	$	61

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31,		**2020**		2019
Balance at beginning of period	**$**	**2,682**	$	3,682
Provision for (reversal of) loan losses		**2,880**		(874)
Loan recoveries		**3**		23
Loan charge-offs		**(386)**		(2)
Balance at end of period	**$**	**5,179**	$	2,829

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. In 2009, we were named as a counter-defendant based on various lender liability type of theories in an on-going foreclosure lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was rendered against the Association. We appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals substantially reversed all of the verdict. The decision of the Arkansas Court of Appeals was subsequently upheld by the Arkansas Supreme Court on June 21, 2018, when the Court denied the defendants' Petition for Review. This decision effectively ends the lender liability portion of the litigation. We had previously recorded a $2.3 million liability for this lawsuit, of which $2.0 million has been overturned and therefore reversed. The difference is included in other liabilities in the Consolidated Statements of Condition. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2019 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2020, or December 31, 2019.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands) **As of March 31, 2020**	Fair Value Measurement Using						
		Level 1		Level 2		Level 3	Total Fair Value
Impaired loans	**$**	**--**	**$**	**--**	**$**	**6,141**	**$ 6,141**

As of December 31, 2019	Fair Value Measurement Using						
		Level 1		Level 2		Level 3	Total Fair Value
Impaired loans	$	--	$	--	$	255	$ 255

Valuation Techniques

Impaired loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 8, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.