Farm Credit Midsouth, ACA

Quarterly Report
September 30, 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

Harvest is well under way in our territory and most of the crops are progressing well. According to the United States Department of Agriculture (USDA) Crop Progress and Condition Report for the week of October 5, 2020, some areas are having excellent peanut and cotton crops. The report indicated 86% of the corn is harvested compared to the 5-year average of 96% and rice harvested was 70% compared to the 5-year average of 86%. Cotton harvested was at 13% compared to 29% for the 5-year average and soybeans dropping leaves were 74% compared to the 5-year average of 80%.

Weather conditions have been very good for harvesting with high temperatures in the 80's. A dry fall season would help producers.

Crop prices have been stable for most area crops with rice and soybeans recently seeing slight increases.

On May 19, 2020, the USDA announced a $16 billion package in direct payments for relief for America's farmers and ranchers impacted by the coronavirus pandemic. Additional funds were announced September 18, 2020, in the amount of $14 billion for agricultural producers. These additional subsidies will greatly assist our farmers during this unprecedented time.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.1 billion at September 30, 2020, an increase of $193.3 million from December 31, 2019. The increase was primarily due to growth in our mortgage and commercial portfolios. Our mortgage portfolio had normal repayments offset by approximately $143.1 million of new loan volume for a net increase of $50.4 million from December 31, 2019. Our commercial portfolio also had normal repayments offset by approximately $128.0 million in new loans for a net increase of $142.9 million.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the SBA. We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our association under this program. The PPP provides for loan forgiveness under limited circumstances and loan payments can be deferred up to six months. Since beginning the program, we have successfully processed $682 thousand in PPP loans for customers with production and intermediate-term and agribusiness type loans. To date, no loans have been forgiven and nearly all payments have been deferred.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2019. Adversely classified loans increased to 1.1% of the portfolio at September 30, 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 September 30, 2020, $12.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 9,356**	$ 600
Accruing restructured	**3**	24
Accruing loans 90 days or more past due	**--**	395
Total risk loans	**9,359**	1,019
Other property owned	**--**	--
Total risk assets	**$ 9,359**	$ 1,019
Total risk loans as a percentage of total loans	**0.8%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**6.9%**	16.8%
Total delinquencies as a percentage of total loans	**0.8%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to one relationship that was moved to nonaccrual during the first quarter of 2020. We are currently in process of collection on this relationship. Nonaccrual loans remained at an acceptable level at September 30, 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 total delinquencies as a percentage of total loans was primarily due to the relationship that was moved to nonaccrual during the first quarter of 2020.

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:	**September 30, 2020**	December 31, 2019
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**43.2%**	447.0%
Total risk loans	**43.2%**	263.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2020. The allowance for loan losses increased $1.4 million since December 31, 2019. The majority of this increase is due to a specific reserve related to the relationship that was moved to nonaccrual.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2020**	2019
Net income	**$ 10,429**	$ 13,317
Return on average assets	**1.4%**	1.9%
Return on average members' equity	**5.9%**	7.9%

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 nine months ended September 30	**2020**	2019	**(Decrease) increase in net income**
Net interest income	**$ 19,942**	$ 20,082	**$ (140)**
Provision for (reversal of) loan losses	**4,342**	(913)	**(5,255)**
Non-interest income	**6,065**	3,799	**2,266**
Non-interest expense	**11,488**	11,118	**(370)**
(Benefit from) provisoin for income taxes	**(252)**	359	**611**
Net income	**$ 10,429**	$ 13,317	**$ (2,888)**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	**2020 vs 2019**
Changes in volume	**$ 1,534**
Changes in interest rates	**(1,364)**
Changes in nonaccrual income and other	**(310)**
Net change	**$ (140)**

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.

A provision for loan losses of $4.3 million has been required this year to reflect the estimated credit loss in the loan portfolio. The majority of the provision requirement was due to a single relationship being moved to nonaccrual and requiring a $2.9 million charge-off and an additional net $1.6 million specific reserve.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and fee 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 nine months ended September 30	2020	2019
Wholesale patronage	$ 3,229	$ 2,712
Pool program patronage	186	217
Other patronage	139	--
Total patronage income	$ 3,554	$ 2,929
Form of patronage distributions:		
Cash	$ 3,554	$ 1,258
Stock	--	1,671
Total patronage income	$ 3,554	$ 2,929

Fee Income: The Association has increased origination fee income and conversion fee income over last year. Loan origination fee income has increased due to the amount of new loans that have been disbursed in 2020. Conversion fees increased significantly over the previous two years due to the decreasing rate environment. We converted approximately one thousand loans to a new rate in 2020, which benefitted our customers and the Association.

Non-Interest Expense

The change in non-interest expense was primarily related to increases in salaries and benefits, purchased services, and cost of space which were partially offset by decreased travel and training expenses.

The Association has added six new positions in 2020 to accommodate for succession planning as well as increased bench strength. These additions allow us to serve our customers more effectively. Purchased services have increased as we continue to develop our systems and related security infrastructure. Decreases in training and travel expense are partially attributable to COVID-19.

(Benefit from) Provision for Income Taxes

The change in (benefit from) provision for income taxes was primarily related to the large provision for loan loss expense during 2020.

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 September 30, 2020, or December 31, 2019.

Total members' equity increased $5.5 million from December 31, 2019, primarily due to net income for the period partially offset by amounts set aside for the 2020 patronage distribution. 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 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.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.7%**	19.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**18.7%**	19.9%	6.0%	2.5%	8.5%
Total capital ratio	**19.0%**	20.2%	8.0%	2.5%	10.5%
Permanent capital ratio	**18.7%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.9%**	21.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.1%**	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, as discussed in Note 10 in our 2019 Annual Report.

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

In August 2020, the FCA Board approved a final rule to revise how high-risk loans for Farm Credit System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of “reasonable doubt” used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan’s status
- Update existing terminology and make other grammatical changes

The final rule became effective October 21, 2020. We have updated our policies, procedures, and other documentation to ensure compliance with the amended regulation. The impact of the revisions has not been material to our financial statements.

Investment Securities Eligibility

In August 2020, the FCA Board approved a final rule to amend the investment eligibility regulation. The final rule allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the USDA. The final rule is not yet effective, but will take effect 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register. We are updating our policies, procedures, and other documentation to ensure compliance with the amended regulation. We currently do not have investment securities on our Consolidated Statements of Condition.

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 Farm Credit System service corporation and we are 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. Our entire investment in SunStream was called on April 1, 2020, at which time $125 thousand was paid in cash and the remainder is due in January 2021. As of September 30, 2020, our investment in SunStream was $225 thousand.

Arkansas and COVID-19

Arkansas has seen increased COVID-19 counts over the last quarter primarily attributed to increased testing and the reopening of schools. The Association is in phase 2 of their recovery plan. At this point, our office locations are open to customers while maintaining social distancing and mask protocols and remain committed to maintain the precautions identified in our plan.

CERTIFICATION

The undersigned have reviewed the September 30, 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

November 9, 2020

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		September 30, 2020		December 31, 2019
ASSETS				
Loans	**$**	**1,129,965**	$	936,733
Allowance for loan losses		**4,042**		2,682
Net loans		**1,125,923**		934,051
Investment in AgriBank, FCB		**23,211**		20,696
Accrued interest receivable		**22,547**		22,412
Deferred tax assets, net		**199**		--
Other assets		**14,714**		13,730
Total assets	**$**	**1,186,594**	$	990,889
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**936,591**	$	742,342
Accrued interest payable		**3,496**		5,365
Deferred tax liabilities, net		**--**		46
Patronage distribution payable		**5,000**		6,600
Other liabilities		**3,012**		3,522
Total liabilities		**948,099**		757,875
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,933**		1,896
Unallocated surplus		**236,670**		231,240
Accumulated other comprehensive loss		**(108)**		(122)
Total members' equity		**238,495**		233,014
Total liabilities and members' equity	**$**	**1,186,594**	$	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		Nine Months Ended	
For the period ended September 30	**2020**	2019	**2020**	2019
Interest income	**$ 11,002**	$ 12,950	**$ 31,660**	$ 35,381
Interest expense	**3,496**	5,633	**11,718**	15,299
Net interest income	**7,506**	7,317	**19,942**	20,082
Provision for (reversal of) loan losses	**415**	(39)	**4,342**	(913)
Net interest income after provision for (reversal of) loan losses	**7,091**	7,356	**15,600**	20,995
Non-interest income				
Patronage income	**1,467**	1,082	**3,554**	2,929
Financially related services income	**229**	252	**264**	329
Fee income	**421**	7	**1,793**	433
Allocated Insurance Reserve Accounts distribution	**--**	--	**194**	210
Other non-interest income (loss), net	**3**	16	**260**	(102)
Total non-interest income	**2,120**	1,357	**6,065**	3,799
Non-interest expense				
Salaries and employee benefits	**2,528**	2,406	**7,523**	7,211
Other operating expense	**1,315**	1,369	**3,954**	3,907
Other non-interest expense	**--**	--	**11**	--
Total non-interest expense	**3,843**	3,775	**11,488**	11,118
Income before income taxes	**5,368**	4,938	**10,177**	13,676
Provision for (benefit from) income taxes	**390**	131	**(252)**	359
Net income	**$ 4,978**	$ 4,807	**$ 10,429**	$ 13,317
Other comprehensive income				
Employee benefit plans activity	**$ 4**	$ 7	**$ 14**	$ 21
Total other comprehensive income	**4**	7	**14**	21
Comprehensive income	**$ 4,982**	$ 4,814	**$ 10,443**	$ 13,338

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	--	13,317	--	13,317
Other comprehensive income	--	--	21	21
Unallocated surplus designated for patronage distributions	--	(4,950)	--	(4,950)
Capital stock and participation certificates issued	99	--	--	99
Capital stock and participation certificates retired	(108)	--	--	(108)
Balance at September 30, 2019	$ 1,886	$ 227,081	$ (166)	$ 228,801
Balance at December 31, 2019	$ 1,896	$ 231,240	$ (122)	$ 233,014
Net income	**--**	**10,429**	**--**	**10,429**
Other comprehensive income	**--**	**--**	**14**	**14**
Unallocated surplus designated for patronage distributions	**--**	**(4,999)**	**--**	**(4,999)**
Capital stock and participation certificates issued	**168**	**--**	**--**	**168**
Capital stock and participation certificates retired	**(131)**	**--**	**--**	**(131)**
Balance at September 30, 2020	**$ 1,933**	**$ 236,670**	**$ (108)**	**$ 238,495**

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 nine months ended September 30, 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).

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 March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law.	Section 4013 of the CARES act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs.	We have adopted this relief for qualifying loan modifications. However, modifications of this nature have not been material.
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 determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. 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:	**September 30, 2020**		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 553,851**	**49.0%**	$ 508,522	54.3%
Production and intermediate-term	**502,213**	**44.4%**	367,809	39.3%
Agribusiness	**71,878**	**6.4%**	58,107	6.2%
Other	**2,023**	**0.2%**	2,295	0.2%
Total	**$ 1,129,965**	**100.0%**	$ 936,733	100.0%

The other category is composed of rural residential real estate related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 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	**$ --**	**$ 1,949**	**$ 1,949**	**$ 563,603**	**$ 565,552**	**$ --**
Production and intermediate-term	**252**	**6,764**	**7,016**	**504,875**	**511,891**	**--**
Agribusiness	**--**	**--**	**--**	**73,042**	**73,042**	**--**
Other	**--**	**--**	**--**	**2,027**	**2,027**	**--**
Total	**$ 252**	**$ 8,713**	**$ 8,965**	**$ 1,143,547**	**$ 1,152,512**	**$ --**

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:	**September 30, 2020**	December 31, 2019
Volume with specific allowance	**$ 6,734**	$ 452
Volume without specific allowance	**2,625**	567
Total risk loans	**$ 9,359**	$ 1,019
Total specific allowance	**$ 1,674**	$ 210
For the nine months ended September 30	**2020**	2019
Income on accrual risk loans	**$ 5**	$ 49
(Reversal) Income on nonaccrual loans	**$ (21)**	289
Total income on risk loans	**$ (16)**	$ 338
Average risk loans	**$ 7,512**	$ 9,701

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 September 30, 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 may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the nine months ended September 30, 2020, or 2019. There were no TDRs that defaulted during the nine months ended September 30, 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:		**September 30, 2020**		December 31, 2019
TDRs in accrual status	**$**	**3**	$	24
TDRs in nonaccrual status		**31**		37
Total TDRs	**$**	**34**	$	61

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30		**2020**		2019
Balance at beginning of period	**$**	**2,682**	$	3,682
Provision for (reversal of) loan losses		**4,342**		(913)
Loan recoveries		**69**		27
Loan charge-offs		**(3,051)**		(2)
Balance at end of period	**$**	**4,042**	$	2,794

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 September 30, 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 September 30, 2020**	Fair Value Measurement Using						Total Fair
		Level 1		Level 2		Level 3	Value
Impaired loans	**$**	**--**	**$**	**--**	**$**	**5,313**	**$ 5,313**
As of December 31, 2019	Fair Value Measurement Using						Total Fair
		Level 1		Level 2		Level 3	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 November 9, 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.