



2009 1st Quarter Report

Farm Credit of the Heartland, ACA

FARM CREDIT OF THE HEARTLAND, ACA

2009 First 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 the Heartland, 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, or may be obtained at no charge by calling Farm Credit of the Heartland, ACA at (316) 721-1100 or (800) 466-1146 or visiting the office at 7940 W. Kellogg Dr., Wichita, Kansas 67209.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except as Noted)
(Unaudited)

The following commentary summarizes the principal aspects of the financial position and results of operations of Farm Credit of the Heartland, ACA (the Association) for the quarter ended March 31, 2009 with comparisons to the prior year and prior quarter. You should read these comments with the accompanying financial statements and footnotes, along with other disclosures contained in this report and the 2008 Annual Report to Shareholders. The accompanying financial statements were prepared within the oversight of our Audit Committee.

Global and local economic conditions continued to impact our customers throughout the first quarter of 2009 not only through their cost of living and ability to continue off-farm employment, but also through commodity prices and the uncertainty surrounding the financial markets. Furthermore, our new national leadership is bringing pressure to bear for economic change, some of which likely will impact agriculture.

After substantial declines in commodity prices in our territory during the last few months of 2008, most commodity prices stabilized somewhat during the first quarter of 2009, albeit at lower levels more congruent with those seen 18 months to two years ago. This had a negative impact on those holding grains for sale in 2009. Demand for soybeans is still somewhat increased, mainly for bio-fuel production. However, it will be difficult for bio-fuels to be competitive and in demand if fossil-fuel prices stay at the levels of the last six months. Overall, feed grass prices were the exception, remaining relatively stable. Drier winter conditions and later planting than normal may have a slight negative impact on crops, but late winter moisture should be helpful. It is still too early to tell how detrimental a late season freeze will be to the wheat crop in our territory. High input costs have moderated somewhat but continue to be of concern.

As a result of high feed and feeder-cattle prices last fall and the softening fat cattle prices during the first quarter of 2009, the majority of beef producers selling since the beginning of the year are seeing losses or very minimal profits. Further, additional beef is coming into the marketplace as dairies are downsizing in an attempt to boost milk prices by lowering supply, which will further drive down beef prices. This will impact our customers in both the beef and dairy industries.

Real estate prices in our territory, which have steadily increased over the past three years, have leveled off and even softened in a few areas. We attribute this to general economic conditions, including lower grain and commodity prices and fewer non-farmers with the ability to purchase land for recreational purposes. Declining land prices present a collateral risk to the Association.

Recently, the Association's Board of Directors began discussions with the Board of Directors and management of American AgCredit, ACA, headquartered in Santa Rosa, California, to determine possible benefits from consolidating the two organizations. On March 26, 2009, having determined there were potential benefits, the Boards agreed to proceed and signed a letter of intent to merge. Both associations are now in the process of obtaining the necessary approvals from their funding bank (U.S. AgBank), regulator (the Farm Credit Administration), and stockholders, to allow completion of the merger as of December 1, 2009.

LOAN PORTFOLIO

Loans outstanding at March 31, 2009 totaled \$932,555, a decrease of \$21,993, or 2.30%, from loans of \$954,548 at December 31, 2008. The majority of the decrease was in production agriculture short- and intermediate-term volume. In addition to the typical large seasonal pay downs, which tend to occur early in the year, the amount of loan volume paid off during the first quarter exceeded the amount of new loan volume booked for the quarter and several large loans paid off. Additionally, significant charge-offs were taken on a small group of loans.

Credit quality declined during the first quarter of 2009 and impaired loan volume (loans for which it is probable that all principal and interest will not be collected according to the contractual terms) has increased substantially since December 31, 2008. This is primarily the result of a small number of large loans and loan complexes being reclassified to nonaccrual. Most of these loans are in cattle or ethanol-related businesses and have been adversely impacted by declining prices, reduced profit margins and/or diminished demand.

The allowance for loan losses increased \$3,865, or 46.74%, from December 31, 2008 to March 31, 2009. This was primarily the result of an additional \$7,229 in provision for loan losses booked during the first quarter of 2009, offset by \$3,378 in charge-offs taken in conjunction with moving the large loans and loan complexes noted above to nonaccrual. The additional provision was deemed necessary given the increased risk in the portfolio and anticipated losses.

RESULTS OF OPERATIONS

Net interest income for the three months ended March 31, 2009 was \$5,227, a decrease of \$1,380, or 20.89%, from the same period ended one year ago. Interest income decreased primarily as the result of decreased interest margins, offset slightly by increased loan volume.

The Association had a net loss of \$3,221 for the three months ended March 31, 2009, compared to net income of \$5,010 for the same period ended one year ago. This is primarily due to the \$7,229 provision for loan losses in 2009, an increase of \$6,580 from the same period in 2008. The increase in provision for loan losses was primarily the result of increased risk in the portfolio.

Noninterest income decreased \$122 during the first quarter 2009, compared to first quarter 2008, primarily attributable to the decrease of \$572 in patronage distribution from U.S. AgBank. US AgBank modified its patronage program to change its payment frequency from quarterly to annual. Payments under the program will also be less due to reduced interest margins experienced by US AgBank. As a result, our quarterly earnings compared to the previous period will be negatively impacted during 2009. This decrease was somewhat offset by the increase in financially related services income of \$439, the result of growth in our crop insurance sales and continued strong commodity prices which are a factor used when calculating the premium rates.

The Farm Credit Insurance Fund premium increased \$100, when compared to the same period in 2008, due to a change in the method of calculation mid-2008.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2009 was \$211,201, a decrease of \$3,215 from \$214,416 at December 31, 2008. This decrease is primarily due to the net loss for the quarter.

OTHER MATTERS

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

[Signature on File]
John Engelland
Chairman of the Board

5/7/09
Date

[Signature on File]
Alan Jaax
Chief Executive Officer

5/7/09
Date

[Signature on File]
Roger Bastow
Chief Financial Officer

5/7/09
Date

FARM CREDIT OF THE HEARTLAND, ACA
CONSOLIDATED STATEMENT OF CONDITION
(Dollars in Thousands)

	March 31	December 31
	2009	2008
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 944,690	\$ 962,818
Less allowance for loan losses	12,135	8,270
Net loans	932,555	954,548
Cash	1,903	9,131
Accrued interest receivable	13,898	16,979
Investment in U.S. AgBank, FCB	20,174	20,172
Premises and equipment, net	2,662	2,744
Prepaid benefit expense	1,196	1,328
Deferred tax asset	64	64
Other assets	3,980	3,970
Total assets	\$ 976,432	\$ 1,008,936
LIABILITIES		
Note payable to U.S. AgBank, FCB	\$ 730,374	\$ 751,196
Note payable to CoBank, ACB	15,685	14,751
Advance conditional payments	2,381	2,228
Accrued interest payable	8,400	13,942
Cash patronage distributions payable	-	2,800
Accrued benefits liability	345	350
Other liabilities	8,046	9,253
Total liabilities	765,231	794,520
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Protected borrower stock	93	98
Capital stock	3,501	3,549
Unallocated retained earnings	208,340	211,539
Accumulated other comprehensive loss	(733)	(770)
Total shareholders' equity	211,201	214,416
Total liabilities and shareholders' equity	\$ 976,432	\$ 1,008,936

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

FARM CREDIT OF THE HEARTLAND, ACA
CONSOLIDATED STATEMENT OF OPERATIONS

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2009	2008
INTEREST INCOME		
Loans	\$ 13,399	\$ 15,153
Total interest income	13,399	15,153
INTEREST EXPENSE		
Note payable to U.S. AgBank, FCB	8,048	8,404
Note payable to CoBank, ACB	118	113
Other	6	29
Total interest expense	8,172	8,546
Net interest income	5,227	6,607
Provision for loan losses	7,229	649
Net interest (loss)/ income after provision for loan losses	(2,002)	5,958
NONINTEREST INCOME		
Financially related services income	1,521	1,082
Loan fees	37	50
Patronage distribution from U.S. AgBank, FCB	380	952
Other noninterest income	150	126
Total noninterest income	2,088	2,210
NONINTEREST EXPENSE		
Salaries and employee benefits	1,828	1,777
Occupancy and equipment	160	176
Purchased services from AgVantis, Inc.	213	212
Farm Credit Insurance Fund premium	434	334
Supervisory and examination costs	77	71
Other noninterest expense	594	585
Total noninterest expense	3,306	3,155
(Loss)/Income before income taxes	(3,220)	5,013
Provision for income taxes	1	3
Net (loss)/income	\$ (3,221)	\$ 5,010

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

FARM CREDIT OF THE HEARTLAND, ACA
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands)

UNAUDITED

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2007	\$ 124	\$ 3,656	\$ 206,093	\$ (600)	\$ 209,273
Comprehensive income					
Net income			5,010		5,010
Amortization of gains included in net periodic benefit cost				30	30
Total comprehensive income			5,010	30	5,040
Effect of changing defined benefit plan measurement date			(70)		(70)
Stock issued	-	118			118
Stock retired	(4)	(153)			(157)
Patronage distributions: Cash			(563)		(563)
Balance at March 31, 2008	\$ 120	\$ 3,621	\$ 210,470	\$ (570)	\$ 213,641
Balance at December 31, 2008	\$ 98	\$ 3,549	\$ 211,539	\$ (770)	\$ 214,416
Comprehensive income:					
Net loss			(3,221)		(3,221)
Change in retirement obligation				37	37
Total comprehensive (loss)/income			(3,221)	37	(3,184)
Effect of changing defined benefit plan measurement date					-
Stock converted					
Stock issued	-	54			54
Stock retired	(5)	(102)			(107)
Patronage distributions: Cash			22		22
Balance at March 31, 2009	\$ 93	\$ 3,501	\$ 208,340	\$ (733)	\$ 211,201

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

FARM CREDIT OF THE HEARTLAND, ACA
CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Thousands)

UNAUDITED

	For the three months ended March 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (3,221)	\$ 5,010
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	84	93
Provision for loan losses	7,229	649
Gains on sales of premises and equipment	(8)	(4)
Change in assets and liabilities:		
Decrease in accrued interest receivable	3,081	1,756
Decrease in prepaid benefit expense	132	115
Increase in other assets	(10)	(377)
Decrease in accrued interest payable	(5,542)	(5,447)
Increase in accrued benefits liability	32	23
Decrease in other liabilities	(1,207)	(1,463)
Total adjustments	3,791	(4,655)
Net cash provided by operating activities	570	355
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease/(Increase) in loans, net	14,764	(36,227)
Increase in investment in U.S. AgBank, FCB	(2)	-
Proceeds/(Expenditures) for premises and equipment, net	6	(194)
Net cash provided by/(used in) investing activities	14,768	(36,421)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayment of)/draw on note payable to U.S. AgBank, FCB	(20,822)	29,151
Net draw on note payable to CoBank, ACB	934	466
Increase in advance conditional payments	153	907
Protected borrower stock retired	(5)	(4)
Capital stock retired	(102)	(153)
Capital stock issued	54	118
Cash patronage distributions paid	(2,778)	(2,213)
Adjustment to beginning balance due to SFAS 158 accounting chng	-	(70)
Net cash (used in)/provided by financing activities	(22,566)	28,202
Net decrease in cash	(7,228)	(7,864)
Cash at beginning of year	9,131	8,256
Cash at end of period	\$ 1,903	\$ 392
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	\$ 13,714	\$ 13,993
Income taxes	\$ 8	\$ 1
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Net charge-offs/(recoveries)	\$ 3,364	\$ (2)
Patronage distributions payable		
Currently payable	\$ -	\$ 600
Change in accumulated comprehensive income	\$ 37	\$ (30)

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

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of the Heartland, ACA (the 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 Shareholders. These unaudited first quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying 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 for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows.

	March 31	
	2009	2008
Balance at beginning of year	\$ 8,270	\$ 4,174
Provision for loan losses	7,229	649
Charge-offs:		
Production and intermediate-term	2,537	-
Processing and marketing	841	-
Total charge-offs	3,378	-
Recoveries:		
Production and intermediate-term	14	2
Total recoveries	14	2
Net charge-offs / recoveries	3,364	2
Balance at end of period	\$12,135	\$ 4,825

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	March 31	
	2009	2008
Impaired loans with related allowance	\$20,791	\$ -
Impaired loans with no related allowance	11,482	7,406
Total impaired loans	\$32,273	\$ 7,406
Allowance on impaired loans	\$ 6,463	\$ -

The following table summarizes impaired loan information.

	For the three months ended March 31	
	2009	2008
Average impaired loans	\$28,480	\$ 6,828
Interest income recognized on impaired loans	\$ 149	\$ 106

NOTE 3 – 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 to the 2008 Annual Report to Shareholders for a more complete description.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefits trusts	\$ 2,080	\$ -	\$ -	\$ 2,080
Total assets	\$ 2,080	\$ -	\$ -	\$ 2,080

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Impaired loans	\$ -	\$ -	\$ 19,484	\$19,484	(\$ 7,680)

Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Shareholders, 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 presents a brief summary of the valuation techniques used for the Association's assets and liabilities.

Assets Held in Non-Qualified Benefits Trusts

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

Loans

For certain loans evaluated for impairment under 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.