



2009 2nd Quarter Report

Farm Credit of the Heartland, ACA

FARM CREDIT OF THE HEARTLAND, ACA

2009 Second Quarter Report to Shareholders

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 six months ended June 30, 2009, with comparisons to prior periods. 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 under the oversight of our Audit Committee.

Global and local economic conditions continued to impact our customers throughout the first half 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. The deep declines seen in late 2008 and 2009 show signs of letting up, but any substantial improvement and stability will likely be some time into the future. 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 in mid to late 2007. Drier winter conditions, later planting and a late season freeze caused concern about the wheat crop earlier in the year. However, most of our territory received timely and adequate moisture and had average to better yields than anticipated. This increased supply further and, combined with the lower price levels, had a negative impact on those holding 2008 grains for sale in 2009 by keeping prices low. Soybeans were somewhat of an exception to declining prices, where supply continues to trail demand and prices increased during the first half of the year. This will make it more difficult for bio-fuels to be competitive particularly if fossil-fuel prices stay at the levels of the last six to nine months. Feed grass prices dropped in response to both the decline in cattle numbers and good feed grass yields. High input costs have moderated somewhat but continue to be of concern.

As a result of higher feed and feeder-cattle prices last fall and softening fat cattle prices during early 2009, many of the beef producers selling since the beginning of the year recognized losses or very minimal profits. Additional beef continues to come into the marketplace as dairies are downsizing in an attempt to boost milk prices by lowering supply, which has further served to drive down beef prices. This impacts our customers in both the beef and dairy industries. Demand for beef seems to be declining as well, as consumers look for ways to reduce their food costs due to general economic conditions.

Real estate prices in our territory, which have steadily increased over the past three years, have leveled off and even softened in some 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 collateral risk to the Association.

The Association's Board of Directors held 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 received approval from their funding bank (U.S. AgBank), and are now in the process of obtaining the necessary approvals from their regulator (the Farm Credit Administration) and stockholders, to allow completion of the merger as of December 1, 2009.

LOAN PORTFOLIO

Loans outstanding at June 30, 2009 totaled \$930,317, a decrease of \$24,231, or 2.54%, from loans of \$954,548 at December 31, 2008. Most of this decrease was in our short- and intermediate-term

production volume and was primarily due to \$7,403 in charge-offs on loans whose repayment ability and collateral values had deteriorated, loan payoffs by several large-volume customers and the movement of loan volume in the amount of \$5,294 to other property owned upon acquisition of loan collateral. Much of this decline is attributable to a limited number of large customers in our portfolio, primarily in cattle and cattle-related businesses. As noted earlier, declining profit margins, over-supply of cattle and declining demands due to economic conditions have presented challenges to this sector.

Credit quality declined throughout the first half 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.

High risk assets include impaired loans (nonaccrual, restructured, and loans 90 days past due still accruing interest) and other property owned. Refer to the Association's 2008 Annual Report to Shareholders for additional information on these categories. Total high risk assets were \$29,897 at June 30, 2009, an increase of \$16,989, or 131.62%, from December 31, 2008. This was primarily due to an increase of \$12,023 in nonaccrual loans and \$5,294 in other property owned. These increases were slightly offset by declines of \$11 in restructured loans and \$317 in accruing loans 90 days past due. Credit quality also declined during the first six months of the year, with acceptable and other assets especially mentioned loan volume dropping from 96.08% at December 31, 2008 to 95.13% at June 30, 2009.

RESULTS OF OPERATIONS

Net interest income for the six months ended June 30, 2009 was \$10,972, a decrease of \$2,377, or 17.81%, from the same period ended one year ago. Interest income decreased 10.47%, primarily as a result of lower average interest rates to our customers during the first half of 2009 compared to the same period in 2008. Meanwhile, our interest expense declined only 4.67% over the same period due to substantially diminished returns on our loanable funds. Earnings on loanable funds are a significant component used to reduce our cost of funds from U.S. AgBank.

The Association recognized a net loss of \$3,244 for the six months ended June 30, 2009, compared to net income of \$7,344 for the same period ended one year ago. This is primarily due to the \$9,604 provision for loan losses in 2009, an increase of \$6,200 from the same period in 2008. The increase in provision for loan losses was primarily the result of increased risk in the portfolio and charge offs on several large loan complexes.

Noninterest income decreased \$944 during the first six months of 2009, compared to the same period of 2008, primarily attributable to the decrease of \$1,606 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 current year earnings compared to the same period in the previous year will be negatively impacted during 2009. This decrease was somewhat offset by the increase in financially related services income of \$708, 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 \$166, when compared to the same period in 2008, due to a change in the method of calculation mid-2008. Salary and benefit expenses were up \$789 for the six months ending June 30, 2009 compared to the same period in 2008.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2009 was \$211,211, a decrease from \$214,416 at December 31, 2008. This decrease is due to the net loss of \$3,244 and stock reductions, offset by the amortization of pension gains included in the net periodic benefit cost.

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

8/7/09

Date

[Signature on File]

Alan Jaax
Chief Executive Officer

8/7/09

Date

[Signature on File]

Roger Bastow
Chief Financial Officer

8/7/09

Date

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

	June 30	December 31
	2009	2008
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 940,803	\$ 962,818
Less allowance for loan losses	10,486	8,270
Net loans	930,317	954,548
Cash	3,849	9,131
Accrued interest receivable	18,557	16,979
Investment in U.S. AgBank, FCB	20,184	20,172
Premises and equipment, net	2,674	2,744
Other property owned	5,294	-
Prepaid benefit expense	1,353	1,328
Deferred tax asset	64	64
Other assets	3,927	3,970
Total assets	\$ 986,219	\$ 1,008,936
LIABILITIES		
Note payable to U.S. AgBank, FCB	\$ 736,984	\$ 751,196
Note payable to CoBank, ACB	15,327	14,751
Advance conditional payments	2,433	2,228
Accrued interest payable	10,794	13,942
Cash patronage distributions payable	-	2,800
Accrued benefits liability	339	350
Other liabilities	9,131	9,253
Total liabilities	775,008	794,520
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Protected borrower stock	88	98
Capital stock	3,502	3,549
Unallocated retained earnings	208,317	211,539
Accumulated other comprehensive loss	(696)	(770)
Total shareholders' equity	211,211	214,416
Total liabilities and shareholders' equity	\$ 986,219	\$ 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 June 30		For the six months ended June 30	
	2009	2008	2009	2008
INTEREST INCOME				
Loans	\$ 13,705	\$ 15,117	\$ 27,104	\$ 30,272
Total interest income	13,705	15,117	27,104	30,272
INTEREST EXPENSE				
Note payable to U.S. AgBank, FCB	7,833	8,257	15,880	16,660
Note payable to CoBank, ACB	122	100	240	213
Other	6	20	12	50
Total interest expense	7,961	8,377	16,132	16,923
Net interest income	5,744	6,740	10,972	13,349
Provision for loan losses	2,375	2,753	9,604	3,404
Net interest income after provision for loan losses	3,369	3,987	1,368	9,945
NONINTEREST INCOME				
Financially related services income	477	208	1,998	1,290
Loan fees	18	10	55	61
Patronage distribution from U.S. AgBank, FCB	-	1,035	380	1,986
Other noninterest income	6	73	157	197
Total noninterest income	501	1,326	2,590	3,534
NONINTEREST EXPENSE				
Salaries and employee benefits	2,502	1,764	4,330	3,541
Occupancy and equipment	170	165	330	341
Purchased services from AgVantis, Inc.	204	206	417	418
Farm Credit Insurance Fund premium	406	340	840	674
Merger-implementation costs	17	-	17	-
Supervisory and examination costs	77	71	153	141
Other noninterest expense	517	430	1,114	1,013
Total noninterest expense	3,893	2,976	7,201	6,128
(Loss)/Income before income taxes	(23)	2,337	(3,243)	7,351
Provision for income taxes	-	4	1	7
Net (loss)/income	\$ (23)	\$ 2,333	\$ (3,244)	\$ 7,344

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
Adjustment to beginning balance due to SFAS No. 158 accounting change	-	-	(70)	-	(70)
Balance at January 1, 2008	\$ 124	\$ 3,656	\$ 206,023	\$ (600)	\$ 209,203
Comprehensive income					
Net income			7,344		7,344
Change in retirement obligation				90	90
Total comprehensive income			7,344	90	7,434
Stock issued	-	244			244
Stock retired	(9)	(254)			(263)
Patronage distributions: Cash			(563)		(563)
Balance at June 30, 2008	\$ 115	\$ 3,646	\$ 212,804	\$ (510)	\$ 216,055
Balance at December 31, 2008	\$ 98	\$ 3,549	\$ 211,539	\$ (770)	\$ 214,416
Comprehensive income:					
Net loss			(3,244)		(3,244)
Change in retirement obligation				74	74
Total comprehensive (loss)/income			(3,244)	74	(3,170)
Stock issued	-	139			139
Stock retired	(10)	(186)			(196)
Patronage distributions: Cash			22		22
Balance at June 30, 2009	\$ 88	\$ 3,502	\$ 208,317	\$ (696)	\$ 211,211

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 six months ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (3,244)	\$ 7,344
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	166	186
Provision for loan losses	9,604	3,404
Gains on sales of premises and equipment	(13)	(55)
Change in assets and liabilities:		
Increase in accrued interest receivable	(1,578)	(2,895)
(Increase)/Decrease in prepaid benefit expense	(25)	90
Decrease/(Increase) in other assets	43	(352)
Decrease in accrued interest payable	(3,148)	(2,619)
Increase in accrued benefits liability	63	77
Decrease in other liabilities	(122)	(1,004)
Total adjustments	4,990	(3,168)
Net cash provided by operating activities	1,746	4,176
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease/(Increase) in loans, net	9,333	(76,117)
Increase in investment in U.S. AgBank, FCB	(12)	-
Expenditures for premises and equipment, net	(83)	(189)
Net cash provided by/(used in) investing activities	9,238	(76,306)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayment of)/draw on note payable to U.S. AgBank, FCB	(14,212)	68,446
Net draw on note payable to CoBank, ACB	576	1,427
Increase in advance conditional payments	205	2,545
Protected borrower stock retired	(10)	(9)
Capital stock retired	(186)	(254)
Capital stock issued	139	244
Cash patronage distributions paid	(2,778)	(2,813)
Net cash (used in)/provided by financing activities	(16,266)	69,586
Net decrease in cash	(5,282)	(2,544)
Cash at beginning of year	9,131	8,256
Cash at end of period	\$ 3,849	\$ 5,712

SUPPLEMENTAL INFORMATION:

Cash paid during the year for:

Interest	\$ 19,280	\$ 19,542
Income taxes	\$ 8	\$ 5

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Loans transferred to other property owned	\$ 5,294	\$ -
Net charge-offs/(recoveries)	\$ 7,388	\$ 1,978
Patronage distributions currently payable	\$ -	\$ 600
Change in accumulated comprehensive income	\$ 74	\$ 90

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 second quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

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.

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 six months ended June 30, 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.

	June 30	
	2009	2008
Balance at beginning of year	\$ 8,270	\$ 4,174
Provision for loan losses	9,604	3,403
Charge-offs:		
Production and intermediate-term	6,494	1,982
Processing and marketing	909	-
Total charge-offs	7,403	1,982
Recoveries:		
Production and intermediate-term	15	4
Total recoveries	15	4
Net charge-offs / (recoveries)	7,388	1,978
Balance at end of period	\$10,486	\$ 5,599

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.

	June 30	
	2009	2008
Impaired loans with related allowance	\$14,368	\$ 3,717
Impaired loans with no related allowance	10,234	5,040
Total impaired loans	\$24,602	\$ 8,757
Allowance on impaired loans	\$ 4,647	\$ 435

The following table summarizes impaired loan information.

	For the six months ended June 30	
	2009	2008
Average impaired loans	\$28,837	\$ 7,164
Interest income recognized on impaired loans	\$ 239	\$ 290

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	\$ 2,086	\$ -	\$ -	\$ 2,086
Total assets	\$ 2,086	\$ -	\$ -	\$ 2,086

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:

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
Assets:					
Impaired loans	\$ -	\$ -	\$ 9,526	\$ 9,526	(\$12,050)
Other property owned	\$ -	\$ -	\$ 5,294	\$ 5,294	\$ -

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.

NOTE 4 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 27, 2009, which is the date the financial statements were available to be issued.