

# **American AgCredit, ACA**

## **2009 Third Quarter Report to Shareholders**

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

## Message to Stockholders

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Dear Stockholder:

While the general economy continues to struggle and commercial banks fail in growing numbers, your Association is experiencing another solid year. The commodities financed by the Association have, in general, weathered the recession fairly well. The dairy industry, after struggling for much of the year under depressed prices, is beginning to see a slight increase in profit margins. Reports from the vineyard and wine industry indicate that 2009 will produce profits that are at or slightly above historical average. The performance of other commodities – from tree fruit and nuts to field crops and livestock – demonstrate that America, and the world, relies heavily on the high quality food produced in California and Nevada regardless of economic upheavals. Your farming operations sustain all of us and we salute you for your work.

The stockholders of both American AgCredit and Farm Credit of the Heartlands have now approved the merger of the two associations. With this merger, the Association will be adding close to \$1 billion in performing assets to its portfolio. This merger will provide additional diversity in both geography and commodities to better insulate the Association from the risks of being a regional agricultural lender. As with other mergers in the past, our primary concern has been that we make our Association stronger for our stockholders. To thrive in today's market, financial institutions will need resources that were unknown when we began operations almost 100 years ago. We want to ensure that we continue to be a reliable, trusted leader in agricultural financing for many decades yet to come. As we merge and grow, your interests are foremost in our thoughts and actions.

In a recent reorganization of the Board of Directors, Dave Santos was elected Chairman and Frank Stonebarger was elected Vice-Chairman. We express our sincere gratitude to outgoing Chairman Tom Teixeira for his stellar service and leadership for the past three years. Tom will continue on as a director of the Association.

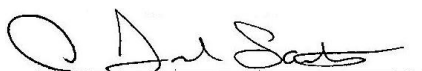
**Financial Condition and Results of Operations:** Third quarter income totaled \$12.6 million. Net interest income increased from \$21.7 million in 2008 to \$26.4 million in 2009 as a result of an additional \$150 million in loan volume compared to last year and higher interest rate spreads. Return on average assets for the quarter was 1.28%. Operating costs rose to \$14.3 million from \$13.6 million a year earlier due primarily to increased employee costs.

Third quarter income for 2008 includes an \$8.7 million adjustment to the loan loss provision in recognition of the settlement of litigation of a previously charged-off loan. The Association received a favorable judgment in a legal dispute over a borrower's loan default. The loan had previously been charged-off as uncollectible. In the third quarter of 2009, the Association recognized a \$3.2 million loan loss provision. This increased provision was primarily related to a small number of large loans that experienced difficulties that were not indicative of the larger portfolio.

Year to date earnings for 2009 have been adversely affected by the absence of a patronage dividend from U. S. AgBank, which through Sept. 30, 2008 had contributed \$7.8 million to the Association's 2008 earnings. AgBank discontinued the dividend in 2009 as a result of depressed earnings and capital constraints.

Accrual loan volume reached \$3.7 billion at Sept. 30, 2009, up 2.3% from the same period in 2008. Non-accrual loans stand at \$60.1 million, an increase of \$52.1 million from the third quarter of last year. Nonaccrual loans represent 1.6% of total loan volume. At Sept. 30, 2008, accrual and nonaccrual volume stood at \$3.6 billion and \$8 million respectively.


The undersigned certify that the 2009 3<sup>rd</sup> Quarter Shareholder Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Dave Santos  
Chairman



Ron Carli  
Chief Executive Officer



Chris B. Call  
Chief Financial Officer

October 31, 2009

**FINANCIAL STATEMENTS**

(\$000s)

| STATEMENT OF CONDITION                      | Sept. 30                            |             | Dec. 31                            |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2009                                | 2008        | 2008                               | 2007        |
|   | Unaudited                           |             | Audited                            | Audited     |
| <b>ASSETS</b>                               |                                     |             |                                    |             |
| Loans                                       | <b>\$3,734,468</b>                  | \$3,597,291 | \$3,783,018                        | \$3,240,167 |
| Less: allowance for loan losses             | <b>(14,634)</b>                     | (10,984)    | (8,843)                            | (9,447)     |
| Net Loans                                   | <b>3,719,834</b>                    | 3,586,307   | 3,774,175                          | 3,230,720   |
| Investment in the U.S. AgBank               | <b>99,143</b>                       | 99,143      | 99,143                             | 99,143      |
| Investment in CoBank                        | <b>11,526</b>                       | 10,005      | 10,005                             | 9,580       |
| Accrued interest receivable                 | <b>40,401</b>                       | 42,049      | 31,303                             | 36,164      |
| Premises and equipment                      | <b>24,842</b>                       | 21,946      | 22,150                             | 18,686      |
| Other Assets                                | <b>16,840</b>                       | 11,542      | 13,749                             | 17,885      |
| Total Assets                                | <b>\$3,912,586</b>                  | \$3,770,992 | \$3,950,525                        | \$3,412,178 |
| <b>LIABILITIES</b>                          |                                     |             |                                    |             |
| Note payable to U.S. AgBank                 | <b>\$3,105,148</b>                  | \$2,963,738 | \$3,158,343                        | \$2,684,154 |
| Funds Held Accounts                         | <b>22,365</b>                       | 8,397       | 5,000                              | 12,476      |
| Accrued interest payable                    | <b>6,863</b>                        | 9,179       | 8,461                              | 10,990      |
| Other liabilities                           | <b>23,402</b>                       | 22,868      | 37,538                             | 42,564      |
| Total Liabilities                           | <b>\$3,157,778</b>                  | \$3,004,182 | \$3,209,342                        | \$2,750,184 |
| <b>MEMBERS' EQUITY</b>                      |                                     |             |                                    |             |
| Common stock and participation certificates | <b>\$3,233</b>                      | \$3,220     | \$3,234                            | \$3,173     |
| Preferred stock                             | <b>108,164</b>                      | 147,678     | 125,422                            | 87,758      |
| Unallocated retained earnings               | <b>643,411</b>                      | 615,912     | 612,527                            | 571,063     |
| Total Members' Equity                       | <b>754,808</b>                      | 766,810     | 741,183                            | 661,994     |
| Total Liabilities and Members' Equity       | <b>\$3,912,586</b>                  | \$3,770,992 | \$3,950,525                        | \$3,412,178 |
| <b>STATEMENT OF INCOME</b>                  |                                     |             |                                    |             |
| Unaudited                                   |                                     |             |                                    |             |
|   | For the three months ended Sept. 30 |             | For the nine months ended Sept. 30 |             |
|   | 2009                                | 2008        | 2009                               | 2008        |
| Interest income                             | <b>\$47,292</b>                     | \$49,203    | <b>\$139,406</b>                   | \$147,765   |
| Interest expense                            | <b>(20,932)</b>                     | (27,460)    | <b>(62,958)</b>                    | (84,726)    |
| Net interest income                         | <b>26,360</b>                       | 21,743      | <b>76,448</b>                      | 63,039      |
| Other income                                | <b>29,451</b>                       | 4,875       | <b>11,154</b>                      | 17,510      |
| Loan Loss (Provision)/Benefit               | <b>(3,226)</b>                      | (1,766)     | <b>(14,235)</b>                    | 6,622       |
| Operating and other expenses                | <b>(14,303)</b>                     | (13,671)    | <b>(44,227)</b>                    | (40,115)    |
| Income before taxes                         | <b>11,922</b>                       | 11,181      | <b>29,140</b>                      | 47,056      |
| Benefit /(Provision) for income taxes       | <b>646</b>                          | 476         | <b>2,099</b>                       | 472         |
| Net income                                  | <b>\$12,568</b>                     | \$11,657    | <b>\$31,239</b>                    | \$47,528    |

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

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

Unaudited

|  | Capital<br>Stock | Preferred<br>Stock | Unallocated<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total<br>Members'<br>Equity |
|--|------------------|--------------------|-------------------------------------|--|-----------------------------|
| Nine months ended Sept. 30, 2008 and 2009                      |                  |                    |                                     |  |                             |
| Balance at December 31, 2007                                   | \$3,173          | \$87,758           | \$571,351                           | \$(288)  | \$661,994                   |
| Comprehensive Income   |                  |                    |                                     |  |                             |
| Net income   |                  |                    | 47,528                              |  | 47,528                      |
| Amortization of costs included in net<br>periodic benefit cost |                  |                    |                                     | 47   | 47                          |
| Total Comprehensive Income                                     |                  |                    |                                     |  | 47,575                      |
| Effect of changing defined benefit<br>plan measurement date    |                  |                    | (105)                               |  | (105)                       |
| Stock issued   | 272              | 230,476            |                                     |  | 230,748                     |
| Stock retired  | (225)            | (173,296)          |                                     |  | (173,521)                   |
| Preferred stock dividends paid                                 |                  | 2,740              | (2,740)                             |  |                             |
| Adjustment to patronage declared                               |                  |                    | 118                                 |  | 118                         |
| <b>Balance at Sept. 30, 2008</b>                               | <b>\$3,220</b>   | <b>\$147,678</b>   | <b>\$616,152</b>                    | <b>\$(241)</b>   | <b>\$766,809</b>            |
| Balance at December 31, 2008                                   | \$3,234          | \$125,422          | \$613,451                           | \$(924)  | \$741,183                   |
| Comprehensive Income   |                  |                    |                                     |  |                             |
| Net income   |                  |                    | 31,239                              |  | 31,239                      |
| Amortization of costs included in net<br>periodic benefit cost |                  |                    |                                     | 77   | 77                          |
| Total Comprehensive Income                                     |                  |                    |                                     |  | 31,316                      |
| Stock issued   | 188              | 149,184            |                                     |  | 149,372                     |
| Stock retired  | (189)            | (166,963)          |                                     |  | (167,152)                   |
| Preferred stock dividends paid                                 |                  | 521                | (521)                               |  |                             |
| Adjustment to patronage declared                               |                  |                    | 89                                  |  | 89                          |
| <b>Balance at Sept. 30, 2009</b>                               | <b>\$3,233</b>   | <b>\$108,164</b>   | <b>\$644,258</b>                    | <b>\$(847)</b>   | <b>\$754,808</b>            |

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

## Notes to the Financial Statements

(Unaudited)

### NOTE 1 - Organization and Significant Accounting Policies

A description of the organization and operations of the American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008 are contained in the 2008 Annual Report to Stockholders (2008 Annual Report) for American AgCredit, ACA. These unaudited third quarter 2009 financial statements of the Association should be read in conjunction with the 2008 Annual Report. The financial statements were prepared under the oversight of the audit committee of the board of directors. The financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the three-month and nine-month periods ended Sept. 30, 2009 are not necessarily indicative of results to be expected for the full year.

In a special stockholder's meeting held October 22, 2009, the stockholders of American AgCredit approved the merger with Farm Credit Services of the Heartland (Heartland). In a separate meeting held on October 21, the stockholders of Heartland also approved the merge as well as By-Law provisions authorizing American AgCredit to

issue preferred stock following the merger. Pending final approval by the Farm Credit Administration, the merger will become effective November 30, 2009.

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

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

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

At Sept. 30, 2009, the Association's regulatory capital ratio was 15.63%, which exceeds the minimum of 7.0% required by our regulators, the Farm Credit Administration.

Association shareholders have approved a class of preferred stock known as H Stock. At Sept. 30, 2009 200 million shares of the stock are authorized at \$1.00 par value. H stock ownership is limited to existing common stockholders of the Association and is considered "at-risk". The stock bears a dividend rate that is set by the Board of Directors. Retirement of the stock is at the discretion of the Board. At Sept. 30, 2009 there were 108,164,243 shares of H stock issued and outstanding. The dividend rate at Sept. 30, 2009 was 0.50%.

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

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

##### **For the nine months ended Sept. 30:**

|                            | <u>2009</u>     | <u>2008</u>     |
|----------------------------|-----------------|-----------------|
| Beginning balance - Jan. 1 | \$8,843         | \$9,447         |
| Recoveries                 | 571             | 8,470           |
| Loss provision adjustment  | 14,235          | (6,622)         |
| Loans charged off          | <u>(9,015)</u>  | <u>(311)</u>    |
| Ending balance – Sept. 30  | <u>\$14,634</u> | <u>\$10,984</u> |

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

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

|  | <u>2009</u>     | 2008    |
|--|-----------------|---------|
| Impaired loans with related allowance    | \$8,843         | \$3,646 |
| Impaired loans with no related allowance | <u>51,257</u>   | 4,402   |
| Total impaired loans                     | <u>\$60,100</u> | \$8,048 |
| Allowance on impaired loans              | <u>\$4,385</u>  | \$3,780 |

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

|  | <u>2009</u>     | <u>2008</u> |
|--|-----------------|-------------|
| Average impaired loans                       | <b>\$61,488</b> | \$10,648    |
| Interest income recognized on impaired loans | <b>\$65</b>     | \$1,037     |

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

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

|   | <u>Sept. 30, 2009</u> | Sept. 30, 2008 | Dec. 31, 2008 |
|---|-----------------------|----------------|---------------|
| Loans purchased from others               | <b>\$242.0</b>        | \$226.7        | \$315.5       |
| Loans sold to others                      | <b>\$2,675.8</b>      | \$2,505.3      | \$2,704.2     |
| Retained interest in sold loans           | <b>\$679.9</b>        | \$699.3        | \$686.2       |
| Syndications serviced for others          | <b>\$1,669.7</b>      | \$1,739.3      | \$1,736.0     |
| Loans sold to and serviced for Farmer Mac | <b>\$0.4</b>          | \$0.5          | \$0.5         |

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

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2008 Annual Report to Stockholders.

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

|                      | <u>Level 3</u> | <u>Fair Value<br/>Measurement Using<br/>Total Fair Value</u> |
|----------------------|----------------|--|
| <b>Assets:</b>       |                |  |
| Loans                | \$7,995        | \$7,995  |
| Other property owned | \$379          | \$379  |

#### **Valuation Techniques**

SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities.

##### *Loans*

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

##### *Other Property Owned*

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

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

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