LONE STAR
AG CREDIT

ANNUAL REPORT 2020

A MESSAGE FROM OUR CEO

Dear Stockholder,

While 2020 will forever be marked by COVID-19, for Lone Star, the year will also be remembered for achieving significant performance milestones such as record loan volume growth, record new loan transactions, record net income, and record patronage distributions.

The global health crisis has no doubt tested every corner of the economy, including agriculture and rural Texas. From supply chain interruptions and shutdowns that challenged how we live and work, to the personal impact of dealing with the virus within our own families, 2020 forced all of us to adapt and overcome. Thankfully, the Association entered the year in a very strong capital position that has allowed us to meet the increasing demand for our loan products due to a greater number of individuals seeking life outside the city limits!

In order to limit the impact of the pandemic on our ability to provide credit in a responsive manner, we immediately began enhancing the team's ability to work remotely while continuing to deliver the customer experience you expect. In fact, even considering the substantially remote working environment, the team closed a record of over $780 million of new loan commitments, resulting in earning asset growth in excess of 20% and surpassing $2 billion in total assets.

Capital levels remain strong and credit quality of the loan portfolio ended the year with over 99% performing as agreed. Sound fiscal discipline during the year resulted in tremendous operating efficiency improvement, which will continue to increase our competitiveness in the future.

If there is anything we learned during the pandemic, diligent and thoughtful planning are all key to our ability to deal with such disruptive events. To that point and to further our ongoing commitment of removing friction from our processes, during the year we launched "Project Falcon," an effort that is focused squarely on enhancing the customer and employee's digital experience.

The Association partnered with a global fintech leader to configure a loan origination and servicing platform that will provide customers online applications, status reporting, electronic documents, and secure file sharing, among other features. The full benefits of this initiative will be further deployed in the coming months.

Our goal is to fulfill our customers' dreams — whether for country living, enjoying that weekend get-away or building a financial future through farming, ranching or an agri-business.

I am reminded of what my Grandad used to tell the family. He would describe how a single stick or twig can very easily be broken, but when several are bound together through a common bond, they become stronger and nearly impossible to break.

That could be used to describe the resilience of the Association's portfolio during COVID-19. Effectively, our diverse group of customer-owners were bound together through a common relationship with Lone Star and made the necessary changes to their business or lifestyle to repay their obligations in a timely manner, while at the same time, referring friends and family along the way. We thank you for that!

To fulfill our customers' dreams — whether for country living, enjoying that weekend getaway or building a financial future through farming, ranching or an agribusiness — we have worked with generation after generation of families and individuals to provide customized financing options as unique as their needs.

Our customer-owners frequently return to us because of our competitive lending products and expert team, but also to enjoy their cooperative's success through our robust patronage program, which returns a portion of our earnings each year. During 2020, the Board took progressive action and declared an unprecedented advance patronage distribution in order to provide financial support during COVID-19.

We understand that our success is a result of your success and your ability to adapt and overcome. Stay safe, and may 2021 be a healthy and prosperous season for you and your family. Thank you for your continued support, and keep those referrals coming!

Sincerely,

Joe H. Hayman
President and CEO

817-509-8381
joe.hayman@lonestaragcredit.com

Customer-Owner Leadership

The Lone Star Ag Credit Board of Directors proudly supports our customer-owners. Together, they set the direction and policy for the co-op and represent the best interests of our customer-owners, to whom they are accountable. For full biographies, see the Discloure Information and Index section of this report.

Board of Directors

David Harris
Board Chairman/Governance Committee

Brent Neuhaus
Vice Chairman
Audit Committee

Matt Carter
Audit Committee

David W. Conrad
Director-Elected Director
Chairman of the Audit Committee

Josh Drews
Compensation and Governance Committees

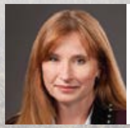
Robert Eubanks, Sr.
Compensation Committee

Gil Flautt V
Compensation Committee

Cody Hughes
Audit Committee

Asa G. Langford
Chairman of the Governance Committee

Chad Lee
Director-Elected Director
Governance Committee
Chairman of the Compensation Committee



Tina Murphy
Compensation and Governance Committees

Bert Pruett
Audit Committee

Executive Team

Joe H. Hayman
Chief Executive Officer

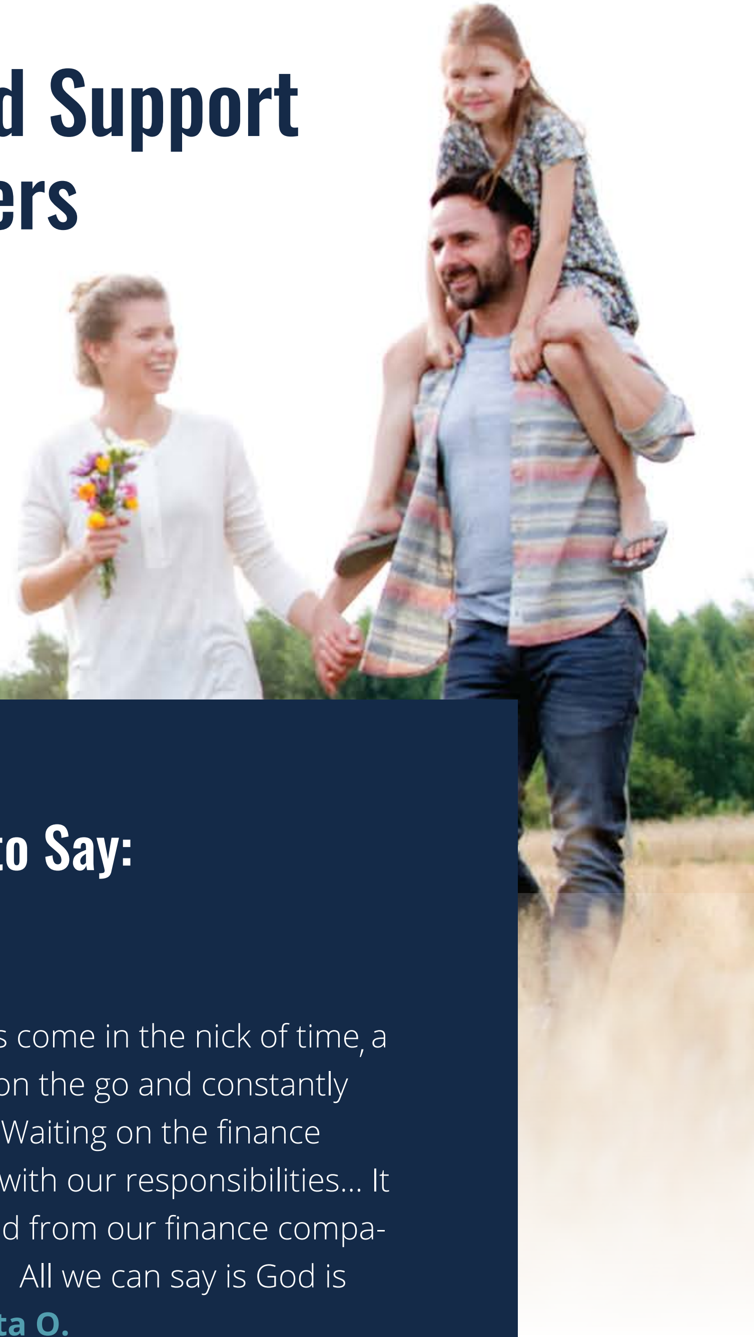
Nicholas (Nick) Acosta
Chief Financial Officer

Jim Bob Reynolds
Chief Credit Officer

Matt James
Chief Lending Officer

Jeff Royal
Chief Collateral Risk Officer

Patronage Dividend and Support for our Customer-Owners



In March 2020, Lone Star Ag Credit paid out $19.5 million on our 2019 earnings. COVID-19 took over shortly after and the world came to a grinding halt. The Board of Directors and Executive Team came together looking for a way to support our customer-owners during this time. The team agreed to pay an early patronage payment on our 2020 earnings and put the cooperatives money back in the pockets of our customer-owners. In October 2020, Lone Star Ag Credit paid an early $7 million on our 2020 earnings.

What Our Customer-Owners Had to Say:

“We put it in savings for a rainy day.” – **Terry G**

”Well it seems that your checks always come in the nick of time, a God thing for us... We are constantly on the go and constantly purchasing inventory with our work... Waiting on the finance company to pay us while we keep up with our responsibilities... It seems whenever there is a slow strand from our finance company...Lone Star shows up with a check! All we can say is God is good and so is Lone Star Ag." - **Loretta O.**

“The extra money has come in handy since my wife was laid off due to the downturn caused by COVID-19.” – **Steven A**

"Man, oh man, was that check timely. I just paid regular bills with it. Thanks tons for it." – **John W.**

Alan and Renee Means,

Grace Farms

McCaulley, Texas

Alan Means remembers the Vietnam war, even if he was a few years too young to serve. He recalls vividly the terrible treatment the returning warriors received coming home after the war. It changed him forever, and when he and his wife Renee got a chance to give back to soldiers returning from war, they gave it their all.

They moved to the area in 2005, and when they needed a loan to buy property, they came to the Lone Start Ag Credit office in Sweetwater. They met with Jason Jones, the office president, and “there was an instant connection. Jason’s been my loan dude ever since,” Alan says with a smile.

In 2009, Alan was invited to join the board of directors for Reel Thanx, a Midland-based nonprofit that provides all-expense-paid fishing trips to wounded, ill, or injured military service members and veterans. The organization hosts four trips a year for a group of about six heroes, making sure each of them receives a personalized experience.

When Alan saw the impact the fishing experiences had on the warriors, he and Renee decided to create a place where other soldiers could experience the peace and beauty of their holdings in the Texas countryside. "I think it's a release to be out on the land. It's a release to be out on a peaceful place like Grace Farms," Alan says. The time the soldiers spend at the property gives them the chance to forget about their pain for a while and just have fun.

The warriors come down for a hog or turkey hunt, and they’re treated like family as soon as they walk off the plane. “From the moment we give them that big welcome hug,” Alan says, “they’re never out of our sight. These guys are like sons and brothers to me now.”

He’s proud to show off the large barn that hosts a bunkroom named for David Larson, a veteran who had come down on turkey hunts a couple of times with his daughter. He’d planned to come down again in the spring of 2020, but he became seriously ill. It turned out to be colon cancer, and David passed away last year. Alan drove to San Antonio for his funeral. A sign designates the space as the David Larson Memorial Bunkhouse.

> “There was an instant connection. Jason’s been my loan dude ever since.”
>
> -Alan Means

Renee has also developed a strong connection with the wives of the warriors the Means have met through Reel Thanx. She started a sister program called Reel Wives, which hosts semi-annual weekend retreat trips for wives of Reel Thanx program participants.

Renee wants to make sure the wives know that their sacrifices are acknowledged and deeply appreciated. “A lot of the soldiers come home wounded,” she says, “and the wives become caretakers. We want them to know they’re heroes, too. They deserve to be honored just like the guys.”

The wives don’t go on fishing or hunting trips; the organization provides a girls’ outing that gives them a break from the pressures of day-to-day life and caretaking. They rest, relax, and enjoy fellowship with other military wives while focusing on their own needs for a few refreshing days. They get a new outfit and a new pair of cowboy boots to wear for their dinner out at a local country club.

Lone Star Ag Credit’s Jason Jones is emotional when he talks about the Means and what they’ve created at Grace Farms.

“Every loan has a purpose – a cause,” he says. “Some people want a place to get away and relax, some are going to make their living off the land. When I started talking to Alan, I got to know what he stands for. And it’s pretty amazing.”

-Jason Jones
Lone Star Ag Credit

Alan and Renee Means are a great example of how a vision for living your own life can become more than you ever imagined. They say sharing their land with the soldiers is a blessing to them, and they’ve certainly spread that blessing to many others. Grace Farms is changing the lives of brave men and women one hero at a time, and we’re proud to play a part in making that happen."

Lone Star Ag Credit awarded more than $36,000 in Scholarships in 2020.

Six students received College Scholarships. They were involved in FFA or 4-H, served their communities in many ways and have a deep appreciation of agriculture.

Tyler Johnston

A graduate of Midway High School, Tyler Johnston attends Texas A&M University majoring in agricultural engineering.

Ethan Lum

A graduate of James Bowie High School, Ethan Lum attends Arkansas Tech University pursuing a degree in fisheries, wildlife biology and conservation.

Madeleine Moody

A Rockdale High School graduate, Madeleine Moody attends Texas A&M University majoring in psychology.

Rette Peters

A Stephenville High School graduate, Rette Peters attends Oklahoma State University majoring in animal science.

Emilee Sanderson

A graduate of Blackwell High School, Emilee Sanderson attends Texas Tech University majoring in agricultural and applied economics.

Skylor Schertz

A Krum High School graduate, Skylor Schertz attends Texas Tech University majoring in animal science.

Community Support During the Pandemic

- Local Food Pantries and Shelters
- Provided food for students at local schools
- Salvation Army
- Lampasas Senior Center
- March of Dimes
- United Way
- Meals on Wheels
- Provided lunches for local Police Departments, Fire Stations, First Responders and Hospital Staff
- Austin Rodeo
- Texas and Southwestern Cattle Raisers Association
- Young Life
- State Fair of Texas
- Community Programs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EQUAL HOUSING LENDER
CONTINUING
THE FAMILY LEGACY

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REPORT OF MANAGEMENT

The consolidated financial statements of Lone Star, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Board of Directors (Board) has overall responsibility for the Association's systems of internal control and financial reporting. The Board consults regularly with management and reviews the results of the audits and examinations referred to previously.

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

Joe H. Hayman, Chief Executive Officer

March 12, 2021

David Harris, Chairman, Board of Directors

March 12, 2021

Nicholas Acosta, Chief Financial Officer

March 12, 2021

David Conrad, Chairman, Audit Committee

March 12, 2021

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the framework in Internal Control—Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020. A review of the assessment performed was reported to the Association's Audit Committee.

Joe H. Hayman, Chief Executive Officer

March 12, 2021

Nicholas Acosta, Chief Financial Officer

March 12, 2021

REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of five members from the Board of Directors of Lone Star, ACA. In 2020, thirteen meetings were held. The Committee oversees the scope of Lone Star, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Lone Star, ACA's website. The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC), independent auditors, to perform the consolidated financial statements audit for 2020.

Management is responsible for Lone Star, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the Committee. PwC is responsible for performing an independent audit of Lone Star, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed Lone Star, ACA's audited consolidated financial statements for the year ended December 31, 2020 (audited consolidated financial statements) with management and PwC. The Committee also reviews with PwC the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PwC's and Lone Star, ACA's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from Lone Star, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the audited consolidated financial statements in Lone Star, ACA's Annual Report to Stockholders for the year ended December 31, 2020.

Audit Committee Members

David W. Conrad, CPA, Chairman
Matt Carter
Cody Hughes
Brent Neuhaus
Bert Pruett

March 12, 2021

LONE STAR, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2020	2019	2018	2017	2016
Balance Sheet Data					
Assets					
Cash	**$ 87**	$ 66	$ 100	$ 90	$ 61
Loans	**1,965,793**	1,631,671	1,559,619	1,681,073	1,648,167
Less: allowance for credit losses	**(8,045)**	(7,129)	(8,645)	(9,182)	(10,072)
Net loans	**1,957,748**	1,624,542	1,550,974	1,671,891	1,638,095
Investment in and receivable from the Bank	**30,731**	26,082	29,603	28,897	27,559
Other assets	**15,183**	15,739	13,433	13,118	13,219
Total assets	**$ 2,003,749**	$ 1,666,429	$ 1,594,110	$ 1,713,996	$ 1,678,934
Liabilities					
Obligations with maturities of one year or less	**$ 29,104**	$ 33,075	$ 30,983	$ 11,862	$ 26,652
Obligations with maturities greater than one year	**1,610,616**	1,281,576	1,219,700	1,361,491	1,322,671
Total liabilities	**1,639,720**	1,314,651	1,250,683	1,373,353	1,349,323
Members' Equity					
Capital stock and participation certificates	**5,841**	5,737	5,911	6,387	6,432
Additional paid-in capital	**91,344**	91,343	91,343	91,343	91,343
Unallocated retained earnings	**267,904**	255,587	246,572	244,271	232,669
Accumulated other comprehensive loss	**(1,060)**	(889)	(399)	(1,358)	(833)
Total members' equity	**364,029**	351,778	343,427	340,643	329,611
Total liabilities and members' equity	**$ 2,003,749**	$ 1,666,429	$ 1,594,110	$ 1,713,996	$ 1,678,934
Statement of Income Data					
Net interest income	**$ 49,048**	$ 45,669	$ 48,025	$ 47,043	$ 44,331
(Provision for) reversal of credit losses	**(775)**	1,824	576	630	(2,821)
Income from the Bank	**8,846**	6,660	6,592	6,237	6,152
Other noninterest income	**1,635**	1,253	2,001	1,147	821
Noninterest expense	**(24,210)**	(26,922)	(27,540)	(43,468)	(29,767)
Benefit from (provision for) income taxes	**17**	53	(24)	(1)	-
Net income	**$ 34,561**	$ 28,537	$ 29,630	$ 11,588	$ 18,716
Key Financial Ratios for the Year					
Return on average assets	**1.9%**	1.8%	1.8%	0.7%	1.2%
Return on average members' equity	**9.4%**	8.0%	8.5%	3.4%	5.6%
Net interest income as a percentage of average earning assets	**2.7%**	2.9%	2.9%	2.8%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%

LONE STAR, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2020	2019	2018	2017	2016
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	**18.2%**	21.1%	21.5%	19.9%	19.6%
Debt as a percentage of members' equity	**450.4%**	373.7%	364.2%	403.2%	409.4%
Allowance for loan losses as a percentage of loans	**0.4%**	0.4%	0.6%	0.5%	0.6%
Common equity tier 1 ratio	**16.9%**	19.7%	19.9%	18.0%	n/a
Tier 1 capital ratio	**16.9%**	19.7%	19.9%	18.0%	n/a
Total capital ratio	**17.2%**	20.1%	20.4%	18.5%	n/a
Permanent capital ratio	**16.9%**	19.8%	20.0%	18.1%	18.9%
Tier 1 leverage ratio	**17.6%**	20.6%	20.7%	18.9%	n/a
UREE leverage ratio	**18.6%**	21.9%	22.0%	20.0%	n/a
Total surplus ratio	**n/a**	n/a	n/a	n/a	18.3%
Core surplus ratio	**n/a**	n/a	n/a	n/a	18.5%
Net Income Distribution					
Cash dividends	**$ 26,908**	$ 20,377	$ 7,050	$ 13,810	$ 15,923

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums with buffers at December 31, 2020. For more information, see Note 11 in the accompanying consolidated financial statements, “Members Equity” included in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Lone Star, ACA, including its wholly owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively referred to as the "Association") for the years ended December 31, 2020, 2019 and 2018, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

Forward-Looking Information:

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In September 2020, the Board declared an advance payment of patronage on expected 2020 full-year patronage paid to eligible borrowers in October 2020. This advance was based on 50 basis points of eligible average outstanding loan balance for the period starting on January 1, 2020 and ending September 30, 2020 in the amount of $7,424,105 and was made in an effort to assist member-owners during an unprecedented and challenging time resulting from COVID-19.

In December 2020, the Board declared a cash patronage in the amount of $14,759,557 to be paid in March 2021 based on 2020 earnings. The patronage will be paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2020. The 2020 cash patronage, including the payment advance of $7,424,105, represents on average an approximately 1.5 percent reduction in borrowers' loan interest rate, less any applicable contractual reductions. The Association's total capital position remains strong after the declaration of patronage at 16.9 percent for the period ending December 2020.

In December 2019, the Board declared a 150-basis-point (1.5 percent) cash patronage paid in March of 2020 based on 2019 earnings. The patronage amount paid was $19,521,714.

In 2019 and 2018, the Association paid a cash patronage of $20,376,992 and $7,049,954, respectively.

The following table provides information on the patronage received from the Bank for the years ended December 31, 2020, 2019 and 2018, respectively:

	2020	2019	2018
Direct loan patronage	**$ 8,135,546**	$ 5,742,455	$ 5,518,014
Special loan patronage	**-**	-	134,596
Stock investment in the Bank	**585,023**	772,220	729,181
AMBS investment patronage	**125,448**	145,426	210,104
Total Patronage Received	**$ 8,846,017**	$ 6,660,101	$ 6,591,895

The direct loan patronage received in 2020, 2019 and 2018 represents 56, 46 and 42 basis points, respectively, on the average daily balance of the Association's direct loan with the Bank.

During the first quarter of 2020, the Board appointed Joe Hayman as President and Chief Executive Officer. Mr. Hayman has served Farm Credit for more than 25 years, most recently as Chief Executive Officer at Southern AgCredit for the previous 12 years.

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 20- to 40-year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $1,965,793,014, $1,631,671,416 and $1,559,619,163 as of December 31, 2020, 2019 and 2018, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses" included in this annual report.

Purchase and Sales of Loans:

The following table provides information on participations purchased and sold during the year ended December 31:

	2020	2019	2018
Participations purchased from other:			
Farm credit institutions	**$ 306,538,266**	$ 269,354,027	$ 244,014,725
Farm credit institutions to total loans	**15.6%**	16.5%	15.6%
Entities outside the district	**$ 3,482,456**	$ 3,654,741	$ 1,728,704
Participations sold	**$ 27,134,724**	$ 14,050,926	$ 6,413,551

Effective January 26, 2012 the Bank purchased Lone Star, ACA's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, there is intended to be no effect to Lone Star, ACA's income based on this transaction as it is expected that the Bank will be able to pay the Association a patronage equivalent to the net interest that would have been earned on the AMBS investment. However, the Bank's payment of patronage is at the discretion of the Bank's Board of Directors. The remaining balance of the AMBS investment at December 31, 2020 was $4,618,399.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2020		2019		2018	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 5,047,957**	**93.6%**	$ 3,333,895	74.4%	$ 4,356,030	74.7%
90 days past due and still accruing interest	**234,577**	**4.3%**	-	0.0%	-	0.0%
Formally restructured	**111,159**	**2.1%**	1,149,573	25.6%	1,474,500	25.3%
Total	**$ 5,393,693**	**100.0%**	$ 4,483,468	100.0%	$ 5,830,530	100.0%

During 2020, the Association experienced a $1,714,062 net increase in nonaccrual loan volume for a total outstanding volume of $5,047,957 as of December 31, 2020. The primary driver of the increase in nonaccruals from 2020 was due to payment default of one large relationship during the year. Of the $5,047,957 in nonaccrual at December 31, 2020, livestock, except dairy and poultry, comprised $3,795,205; cash grains comprised $916,217; with the balance of nonaccrual volume being comprised by other various commodities.

During 2020, the Association experienced a $1,038,414 decrease in formally restructured loans for a total outstanding volume of $111,159. The decrease was primarily attributed to the payoff of a production loan relationship during the year.

At December 31, 2020 the Association held no property classified as other property owned.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender. To help mitigate and diversify credit risk, the Association has employed practices including obtaining credit guarantees and engaging in loan participations.

Allowance for Credit Losses:

The following table provides relevant information regarding the allowance for credit losses as of, or for the year ended, December 31:

	2020	2019	2018
Allowance for credit losses	**$ 8,044,487**	$ 7,129,083	$ 8,645,430
Allowance for credit losses to total loans	**0.4%**	0.4%	0.6%
Allowance for credit losses to nonaccrual loans	**159.4%**	213.8%	198.5%
Allowance for credit losses to impaired loans	**149.1%**	159.0%	148.3%
Net charge-offs to average loans	**0.0%**	0.0%	0.0%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: lending policies and procedures, economic and business conditions, nature and volume of the portfolio, lending management, problem loans, loan review quality, concentration and other external factors.

Based upon ongoing risk assessment and the evaluation process for allowance for credit losses outlined above, the allowance for credit losses is considered adequate by management to compensate for inherent losses in the loan portfolio. Management's process for the evaluation of allowance for credit losses includes a portfolio analysis, peer comparison with similar Farm Credit Institutions and similar commercial banks and an analysis of historical loss experience. The increase in the allowance is driven by an increase in the Association's loan portfolio during the year.

During 2014, management implemented an additional allowance pool to address the need for allowance for loan commitments that have been established, but are not yet drawn. This allowance pool on unfunded commitments is reflected in other liabilities and is not reflected in the allowance for credit losses balance. In view of portfolio analysis, historical trends, projected needs and the implementation of additional allowance pools, management believes that the allowance is adequate.

Results of Operations:

The Association's net income for the year ended December 31, 2020, was $34,560,564 as compared to $28,537,295 for the year ended December 31, 2019, reflecting an increase of $6,023,269, or 21.1 percent. The Association's net income for the year ended December 31, 2018 was $29,629,674. Net income decreased $1,092,379, or 3.7 percent, in 2019 versus 2018.

Net interest income for 2020, 2019 and 2018 was $49,048,712, $45,668,933 and $48,024,532, respectively, reflecting an increase of $3,379,779, or 7.4 percent, for 2020 versus 2019 and a decrease of $2,355,599, or 4.9 percent, for 2019 versus 2018. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2020		2019		2018	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 1,796,246,169**	**$ 83,755,372**	$ 1,588,179,759	$ 82,797,384	$ 1,635,970,654	$ 83,598,040
Total interest-earning assets	**1,796,246,169**	**83,755,372**	1,588,179,759	82,797,384	1,635,970,654	83,598,040
Interest-bearing liabilities	**1,448,430,008**	**34,706,660**	1,250,036,210	37,128,451	1,307,048,902	35,573,508
Impact of capital	**$ 347,816,161**		$ 338,143,549		$ 328,921,752	
Net interest income		**$ 49,048,712**		$ 45,668,933		$ 48,024,532

	2020 Average Yield	2019 Average Yield	2018 Average Yield
Yield on loans	**4.66%**	5.21%	5.11%
Total yield on interest-earning assets	**4.66%**	5.21%	5.11%
Cost of interest-bearing liabilities	**2.40%**	2.97%	2.72%
Interest rate spread	**2.26%**	2.24%	2.39%
Net interest income as a percentage of average earning assets	**2.73%**	2.88%	2.94%

	2020 vs. 2019			2019 vs. 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 10,847,334**	**$ (9,889,346)**	**$ 957,988**	$ (2,442,114)	$ 1,641,458	$ (800,656)
Total interest income	**10,847,334**	**(9,889,346)**	**957,988**	(2,442,114)	1,641,458	(800,656)
Interest expense	**5,892,693**	**(8,314,484)**	**(2,421,791)**	(1,551,714)	3,106,657	1,554,943
Net interest income	**$ 4,954,641**	**$ (1,574,862)**	**$ 3,379,779**	$ (890,400)	$ (1,465,199)	$ (2,355,599)

Interest income for 2020 increased by $957,988, or 1.2 percent, compared to 2019, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for 2020 decreased by $2,421,791, or 6.5 percent, compared to 2019 primarily due to an increase in interest-bearing liabilities offset by a decrease in the cost of interest-bearing liabilities. The interest rate spread increased by two basis points to 2.26 percent in 2020 from 2.24 percent in 2019, primarily due to a more significant decrease in cost of interest bearing liabilities compared to the decrease in yields on interest earning assets. The interest rate spread decreased by 15 basis points to 2.24 percent in 2019 from 2.39 percent in 2018, primarily because of the significant increase in cost of interest rates compared to the marginal increase in yields on earning assets and increased market competition.

The Association offers different interest rate programs including fixed rate products lasting for a set period up to the term of a loan, products indexed to Prime or LIBOR, and a variety of adjustable interest rate products. The Association's control over interest rate margins resides in its ability to add a spread over cost of funds, the goal of which is to achieve an acceptable level of income to fund operations and generate a return for shareholders. Net interest margin for year end 2020 was 2.73 percent, versus 2.88 percent for the same period in 2019.

Noninterest income for 2020 increased by $2,568,373, or 32.5 percent, compared to 2019, primarily due to higher patronage income received from the Bank when compared with 2019. The amount of patronage received from the Bank in 2020 was $8,846,017 compared to $6,660,101 in 2019. Noninterest income for 2019 decreased by $680,232, or 7.9 percent, compared to 2018, due primarily to the receipt of the $340,601 excess insurance funds balances in the allocated insurance reserve accounts (AIRCs) from the Farm Credit System Insurance Corporation (FCSIC) compared to $963,257 received in 2018.

Provisions for loan losses increased by $2,599,857, or 142.5 percent, compared to 2019, due primarily to an increase in loan volume in 2020 when compared with 2019 and uncertainty of COVID-19 impact leading to additional risk of loss in the portfolio.

Operating expenses consist primarily of salaries and employee benefits, purchased services, travel, occupancy and equipment expenses, advertising, public and member relations expenses and insurance fund premiums. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, audit and credit reviews, and legal fees, among others. Net operating expense for 2020, 2019 and 2018 were $24,210,275, $26,921,788 and $27,539,643, respectively, reflecting a decrease of $2,711,513 or 10.1 percent for 2020 and a decrease of $617,855 or 2.2 percent for 2019.

The decreases in operating expenses for 2020 were primarily driven by the decrease in salary and employee benefits due to internal staffing changes and reallocation of resources in 2020. The decrease is also attributed to a decrease in purchased services as a result of a reduction in consulting, legal, and audit expenses and a decrease in travel, advertising, and public member relations expenses due to isolation initiatives resulting from COVID-19. The overall decrease in operating expense is primarily offset by an increase in insurance fund premiums. The decrease in operating expenses for 2019 was driven primarily by a decrease in purchased services.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $4,140,186, $2,301,981 and $1,307,537 for 2020, 2019 and 2018, respectively, in origination fees, and $2,959,293, $1,780,023 and $2,636,198, for 2020, 2019 and 2018, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income.

For the year ended December 31, 2020, the Association's return on average assets was 1.9 percent, as compared to 1.8 percent and 1.8 percent for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2020, the Association's return on average members' equity was 9.4 percent, as compared to 8.0 percent and 8.5 percent for the years ended December 31, 2019 and 2018, respectively.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Bank and its affiliated associations are currently evaluating the impacts of a potential phase-out of the LIBOR benchmark interest rate, including the possibility of using SOFR as an alternative to LIBOR. The transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based instruments, including certain of the Farm Credit Systemwide debt securities, the Bank's borrowings, loans, investments, derivatives, and other assets and liabilities that are indexed to LIBOR.

The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. The LIBOR Workgroup coordinates outreach to associations and with other Farm Credit System institutions, especially the Funding Corporation.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an effect on the operations of the Association.

Liquidity and Funding Sources:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $1,607,883,153, $1,278,483,867 and $1,216,709,990 as of December 31, 2020, 2019 and 2018, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.95 percent, 2.78 percent and 2.72 percent at December 31, 2020, 2019 and 2018, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a General Financing Agreement (GFA). The increase in note payable to the Bank and decrease in accrued interest payable since December 31, 2019, is directly correlated with an increase in the Association's loan volume and decrease in weighted average interest rate. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $359,737,182, $353,619,223 and $342,111,750 at December 31, 2020, 2019 and 2018, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2020, was $1,967,811,035 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is

September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2021. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of $364,029,009, $351,778,484 and $343,427,378 at December 31, 2020, 2019 and 2018, respectively.

New regulations became effective January 1, 2017 which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

Risk-adjusted:	**Regulatory Minimums**	**Regulatory Minimums with Buffer**	**As of December 31, 2020**
Common equity tier 1 ratio	4.50%	7.00%	16.85%
Tier 1 capital ratio	6.00%	8.50%	16.85%
Total capital ratio	8.00%	10.50%	17.24%
Permanent capital ratio	7.00%	7.00%	16.91%
Non-risk-adjusted:			
Tier 1 leverage ratio*	4.00%	5.00%	17.63%
UREE leverage ratio	1.50%	1.50%	18.62%

*Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2020, 2019 and 2018 was 16.9 percent, 19.8 percent and 20.0 percent, respectively.

The Association's members' equity includes accumulated other comprehensive loss (AOCL) related to certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The AOCL includes net actuarial losses and prior service costs/credits that have been included in liabilities, but have not yet been amortized into earnings.

In 2020, 2019 and 2018, the Association paid patronage distributions of $26,907,765, $20,376,992 and $7,049,954, respectively.

In December 2020, the Board approved a $14,759,557 patronage distribution to be paid in March 2021. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Economic Conditions:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices. As of December 31, 2020, the Association recorded a qualitative reserve of approximately $3.5 million related to risk of uncertainty from the COVID-19 pandemic. Capital levels remained strong to support any adversity or continuing loan demand.

As communicated in a press release from the Farm Credit Administration dated March 17, 2020, the Farm Credit Administration encouraged Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

In response to this communication and to aid the Association's customer-owners, the Association implemented a Payment Deferral Program to allow borrowers to defer payments up to six months, in three-month intervals. Interest will continue to accrue over the deferral period. Upon the resumption of regular installment payments, all remitted funds will be applied first to accrued, unpaid interest until fully paid at which time funds will be applied to the principal balance. The Deferral Period will not and does not extend the maturity of the loan. Any deferred payments due and deferred during the Deferral Period will be added to the balance due on the loan at maturity as a balloon payment. As of December 31, 2020, 5.8 percent or $114.6 million of the Association's total loan volume was taking advantage of this relief program.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow personnel to work remotely and support both their families and their customer base. As it relates to the Association's internal controls over financial reporting and disclosure controls and procedures, the controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated. The potential impact of COVID-19 on the global, U.S. and regional economies creates a high degree of economic uncertainty. The Association continues to assess the potential impact as conditions unfold.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP), that provided a $16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19, and a $3 billion food purchase and distribution program. The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic.

The USDA announced on September 18, 2020, that it would provide additional direct assistance of up to $14 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, could sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

On December 27, 2020, the President of the United States signed the Consolidated Appropriations Act, 2021 (CAA) into law. According to Congressional Budget Office estimates, the CAA allocates approximately $868 billion to stimulus and relief programs related to COVID-19, including direct payments to households, continuation of the PPP lending program and an extension of increased federal unemployment benefits. The Congressional Budget Office estimates that the bill provides approximately $12.7 billion in support payments to producers of commodity crops, specialty crops, dairy, livestock, poultry, renewable fuels and timber. Additionally, the CAA authorizes funds to purchase agricultural products for distribution and provides supplemental funding for existing farm support programs. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

A surge in COVID-19 cases observed late in 2020 could potentially threaten the economic recovery in the short-term. According to data published by the Centers for Disease Control and Prevention (CDC), new cases of COVID-19 in the U.S. averaged more than 200,000 per day in December 2020. Significant work is underway to develop, approve, distribute, and administer vaccines to the U.S. population. However, the CDC estimates that less than 20 percent of the more than 14 million COVID-19 vaccine doses distributed in 2020 had been administered at year-end. The Association will continue to proactively monitor the impacts of COVID-19 as the strength of the U.S. economy in 2021 will likely depend on the trajectory of the pandemic, including the impact of vaccination programs, and related legislative response.

According to the U.S. Bureau of Economic Analysis (BEA), U.S. real gross domestic product (GDP) declined at a seasonally adjusted annualized rate of 31.4 percent in the second quarter of 2020. Although real GDP increased substantially in the third quarter of 2020, rising at a rate of 33.4 percent, the U.S. economy has not fully recovered. The U.S. unemployment rate decreased to 6.7 percent in November 2020 from 6.9 percent in the previous month. Although the unemployment rate has nearly doubled year-over-year, it is well below the peak of 14.7 percent observed in April. The Texas statewide unemployment rate was 8.1 percent as of November 2020.

The U.S. Energy Information Administration (EIA) estimates that the spot price of West Texas Intermediate crude oil averaged below $40 per barrel in 2020 for the first time since 2003. Although the EIA anticipates that oil prices will improve in 2021, profitability of oil producers will likely remain depressed relative to recent years. This may limit economic activity in certain areas of Texas.

USDA estimates that net farm income increased by about 43.0 percent in 2020, reaching $119.6 billion. In inflation-adjusted terms, net farm income is expected to be below the peak observed in 2013, but about 32 percent above the 20-year average. Direct government payments are projected at about $46.5 billion, accounting for a historically high level of around 39 percent of all farm income, up $24 billion, or 107 percent, compared to 2019. COVID-19-related assistance programs, including the Coronavirus Food Assistance Programs (CFAP1 and CFAP2) and Paycheck Protection Program (PPP), are estimated to provide about $32.4 billion in support to farmers during 2020.

According to USDA estimates, corn and soybean production rose during the 2020 crop season, while cotton production declined. USDA expects farmers to receive higher prices for corn, soybeans and cotton in the 2021 marketing year. Milk prices have been historically volatile in 2020, due primarily to impacts associated with COVID-19. On an annual average basis, the all-milk price is estimated to fall from $18.63 per hundredweight (cwt) in 2019 to $18.25/cwt in 2020, and to $16.60/cwt in 2021. Livestock prices have been volatile overall, but the outlook for 2021 is generally positive as the industry is expected to continue to adapt to changing conditions.

During 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a slowing economy and weather-related challenges. The Association is currently in the process of evaluating the potential impact of the historically low temperatures observed across the central U.S. in February 2021. While the assessment of the full effect on the Association and Association's borrowers is on-going, this most recent weather event is not expected to have a significant adverse impact on the Association's overall financial condition and results of operations. The loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans. The Association's portfolio continues to be supported by strong credit quality, high levels of capital, low advance rates and diversification.

Significant Recent Accounting Pronouncements:

Refer to Note 2, "Summary of Significant Accounting Policies," in this annual report for disclosures of recent accounting pronouncements which may impact the Association's consolidated financial position and results of operations and for critical accounting policies.

Regulatory Matters:

At December 31, 2020, the Association was not under written agreements with the Farm Credit Administration.

On February 13, 2020, the Farm Credit Administration board approved a final rule to modify eligibility criteria that outside directors must meet to serve on the boards of System institutions. The final rule strengthens the independence of System institution boards by expanding the list of persons who are excluded from serving as outside directors. It finalizes a proposed rule that was published in the Federal Register on August 24, 2018. The final rule differs from the proposed rule in the following respects:

- Limits the application of the immediate family member criteria to only the outside director's institution, that institution's Funding Bank, or any affiliated organization in which that institution has an ownership interest;
- Changes the term "borrower" by inserting the word "current" in the definition to clarify that the eligibility criteria do not include former borrowers; and
- Changes the definition of "controlling interest" to increase the equity percentage from 5% to 10%.

On March 17, 2020, the Farm Credit Administration published a news release encouraging Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

On March 27, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions about their role in ensuring critical infrastructure services and functions during the COVID-19 pandemic.

On April 3, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic. This memorandum was superseded and replaced by an information memorandum on the same subject which the FCA posted on April 7, 2020, together with the FCA’s brief supplement explaining that the statutory borrower stock requirement does not apply to loans made under the Paycheck Protection Program. The April 7, 2020, informational memorandum was subsequently superseded and replaced by an updated informational memorandum which the FCA posted on June 18, 2020, and again superseded and replaced by an updated informational memorandum which the FCA posted on July 15, 2020. The supplement to the informational memorandum was also updated.

On June 25, 2020, the FCA, together with four other federal agencies, published a final rule finalizing changes to their swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities. On July 1, 2020, a final rule and interim final rule on margin and capital requirements for covered swap entities were published in the Federal Register. The final rule became effective on August 31, 2020. The interim final rule became effective September 1, 2020.

On August 25, 2020, the FCA published a Final Rule in the Federal Register on Criteria to Reinstate Nonaccrual Loans. The final rule objectives 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; and
- Update existing terminology and make other grammatical changes.

This regulation became effective on October 21, 2020.

On September 10, 2020, the FCA published a proposed rule in the Federal Register outlining amendments and clarifications to the tier 1/tier 2 regulatory capital framework. The comment period ended on November 9, 2020.

On September 28, 2020, the FCA published a Final Rule in the Federal Register on Amortization Limits repealing the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring System associations to address amortization through their credit underwriting standards and internal controls. This regulation became effective on November 19, 2020.

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR, in which they emphasized that the IBA proposal is not intended to slow down the transition and that Farm Credit System institutions should continue reducing LIBOR exposures as soon as practicable. System institutions should adopt 2021 transition plans with steps and timeframes to accomplish the following:

- Reduce LIBOR exposure,
- Stop the inflow of new LIBOR volume,
- Develop and implement loan products with alternative reference rates,
- Assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts,
- Adjust operations processes, including accounting and management information systems to handle alternative reference rates, and
- Communicate pending or imminent changes to customers, as appropriate.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills district expenses to the Associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 103 years, regardless of the state of the agricultural economy, your Association's Board and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of the Association.

Report of Independent Auditors

To the Board of Directors of Lone Star, ACA

We have audited the accompanying consolidated financial statements of Lone Star, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020, December 31, 2019, and December 31, 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lone Star, ACA and its subsidiaries as of December 31, 2020, December 31, 2019, and December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2021

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LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2020	2019	2018
Assets			
Cash	**$ 86,857**	$ 66,150	$ 100,291
Loans	**1,965,793,014**	1,631,671,416	1,559,619,163
Less: allowance for credit losses	**(8,044,487)**	(7,129,083)	(8,645,430)
Net loans	**1,957,748,527**	1,624,542,333	1,550,973,733
Accrued interest receivable	**8,991,130**	9,223,030	8,983,739
Investment in and receivable from the Bank:			
Capital stock	**28,508,380**	25,036,060	26,555,545
Other	**2,222,472**	1,046,155	3,047,429
Premises and equipment	**2,947,464**	3,098,799	3,088,636
Other assets	**3,244,489**	3,416,805	1,360,525
Total assets	**$ 2,003,749,319**	$ 1,666,429,332	$ 1,594,109,898
Liabilities			
Note payable to the Bank	**$ 1,607,883,153**	$ 1,278,483,867	$ 1,216,709,990
Accrued interest payable	**2,733,031**	3,092,379	2,990,229
Drafts outstanding	**47,422**	44,338	76,843
Patronage dividends payable	**14,759,557**	19,423,559	20,278,837
Other liabilities	**14,297,147**	13,606,705	10,626,621
Total liabilities	**1,639,720,310**	1,314,650,848	1,250,682,520
Members' Equity			
Capital stock and participation certificates	**5,841,380**	5,737,095	5,911,140
Additional paid-in capital	**91,343,553**	91,343,553	91,343,553
Unallocated retained earnings	**267,904,169**	255,587,367	246,571,786
Accumulated other comprehensive loss	**(1,060,093)**	(889,531)	(399,101)
Total members' equity	**364,029,009**	351,778,484	343,427,378
Total liabilities and members' equity	**$ 2,003,749,319**	$ 1,666,429,332	$ 1,594,109,898

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
Interest Income			
Loans	**$ 83,755,372**	$ 82,797,384	$ 83,598,040
Total interest income	**83,755,372**	82,797,384	83,598,040
Interest Expense			
Note payable to the Bank	**34,706,510**	37,124,340	35,572,894
Advance conditional payments	**150**	4,111	614
Total interest expense	**34,706,660**	37,128,451	35,573,508
Net interest income	**49,048,712**	45,668,933	48,024,532
PROVISION FOR CREDIT LOSSES			
Provision for (reversal of) credit losses	**775,400**	(1,824,457)	(575,719)
Net interest income after provision for credit losses	**48,273,312**	47,493,390	48,600,251
Noninterest Income			
Income from the Bank:			
Patronage income	**8,846,017**	6,660,101	6,591,895
Loan fees	**905,747**	461,900	322,658
Refunds from FCSIC	**293,816**	340,601	963,257
Financially related services income	**5,920**	6,967	7,572
Gain on other property owned, net	**-**	10,285	23,723
Gain on sale of premises and equipment, net	**163,410**	299,049	365,828
Other noninterest income	**265,905**	133,539	317,741
Total noninterest income	**10,480,815**	7,912,442	8,592,674
Noninterest Expenses			
Salaries and employee benefits	**14,484,014**	15,705,343	13,293,787
Directors' expense	**408,525**	609,112	477,011
Purchased services	**2,103,096**	2,975,051	6,552,682
Travel	**736,888**	1,080,176	1,007,798
Occupancy and equipment	**1,620,619**	1,597,135	1,447,140
Communications	**508,405**	377,384	375,791
Advertising	**602,053**	738,959	634,506
Public and member relations	**905,631**	1,069,556	956,321
Supervisory and exam expense	**586,173**	648,630	627,966
Insurance Fund premiums	**1,292,428**	1,032,015	1,084,996
Other components of net periodic postretirement benefit cost	**205,629**	278,624	374,652
Other noninterest expense	**756,814**	809,803	706,993
Total noninterest expenses	**24,210,275**	26,921,788	27,539,643
Income before income taxes	**34,543,852**	28,484,044	29,653,282
(Benefit from) provision for income taxes	**(16,712)**	(53,251)	23,608
NET INCOME	**34,560,564**	28,537,295	29,629,674
Other comprehensive income:			
Change in postretirement benefit plans	**(170,562)**	(490,430)	958,668
Other comprehensive income, net of tax	**(170,562)**	(490,430)	958,668
COMPREHENSIVE INCOME	**$ 34,390,002**	$ 28,046,865	$ 30,588,342

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 6,386,865	$ 91,343,553	$ -	$ 244,270,903	$ (1,357,769)	$ 340,643,552
Comprehensive income	-	-	-	29,629,674	958,668	30,588,342
Capital stock/participation certificates and allocated retained earnings issued	394,630	-	-	-	-	394,630
Capital stock/participation certificates and allocated retained earnings retired	(870,355)	-	-	-	-	(870,355)
Dividends declared	-	-	-	(27,328,791)	-	(27,328,791)
Balance at December 31, 2018	5,911,140	91,343,553	-	246,571,786	(399,101)	343,427,378
Comprehensive income	-	-	-	28,537,295	(490,430)	28,046,865
Capital stock/participation certificates issued	694,940	-	-	-	-	694,940
Capital stock/participation certificates and allocated retained earnings retired	(868,985)	-	-	-	-	(868,985)
Dividends declared	-	-	-	(19,521,714)	-	(19,521,714)
Balance at December 31, 2019	5,737,095	91,343,553	-	255,587,367	(889,531)	351,778,484
Comprehensive income	-	-	-	34,560,564	(170,562)	34,390,002
Capital stock/participation certificates issued	1,245,480	-	-	-	-	1,245,480
Capital stock/participation certificates and allocated retained earnings retired	(1,141,195)	-	-	-	-	(1,141,195)
Dividends declared	-	-	-	(22,243,762)	-	(22,243,762)
Balance at December 31, 2020	**$ 5,841,380**	**$ 91,343,553**	**$ -**	**$ 267,904,169**	**$ (1,060,093)**	**$ 364,029,009**

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	**$ 34,560,564**	$ 28,537,295	$ 29,629,674
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (reversal of) credit losses	**775,400**	(1,824,457)	(575,719)
Net change in fair value of concessions granted	**1,352,905**	2,227,673	864,813
Gain on sale of other property owned, net	**-**	(10,285)	(23,723)
Depreciation	**1,042,073**	1,294,971	1,140,181
(Accretion) amortization of net (premiums) discounts in investments	**(213,593)**	(213,593)	(213,593)
Gain on sale of premises and equipment, net	**(163,946)**	(299,049)	(365,828)
Decrease (increase) in accrued interest receivable	**231,900**	(239,291)	337,583
(Increase) decrease in other receivables from the Bank	**(1,176,317)**	2,001,274	(1,712,744)
Decrease (increase) in other assets	**114,839**	(106,465)	(399,054)
(Decrease) increase in accrued interest payable	**(359,348)**	102,150	183,098
Increase in other liabilities	**548,317**	529,221	2,589
Net cash provided by operating activities	**36,712,794**	31,999,444	28,867,277
Cash flows from investing activities:			
(Increase) decrease in loans, net	**(334,707,223)**	(73,624,443)	120,854,984
Proceeds from redemption (purchase) of investment in the Bank	**(3,472,320)**	1,519,485	1,006,485
Purchases of premises and equipment	**(708,752)**	(919,823)	(1,030,403)
Proceeds from sales of premises and equipment	**191,274**	374,317	439,538
Proceeds from sales of other property owned	**-**	20,500	26,318
Net cash (used in) provided by investing activities	**(338,697,021)**	(72,629,964)	121,296,922

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net draws on (repayment of) note payable to the Bank	**328,805,330**	61,179,921	(142,567,606)
Increase (decrease) in drafts outstanding	**3,084**	(32,505)	(61,060)
Issuance of capital stock and participation certificates	**1,245,480**	694,940	394,630
Retirement of capital stock and participation certificates	**(1,141,195)**	(868,985)	(870,355)
Cash dividends paid	**(26,907,765)**	(20,376,992)	(7,049,954)
Net cash provided by (used in) financing activities	**302,004,934**	40,596,379	(150,154,345)
Net increase (decrease) in cash	**20,707**	(34,141)	9,854
Cash at the beginning of the year	**66,150**	100,291	90,437
Cash at the end of the year	**$ 86,857**	$ 66,150	$ 100,291

Supplemental schedule of noncash investing and financing activities:			
Loans charged off	**$ 45,373**	$ 247,501	$ 793,206
Dividends declared	**22,243,762**	19,521,714	27,328,791
Transfer of allowance for credit losses from reserve for unfunded commitments	**28,437**	6,150	141,204
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 35,066,008**	$ 37,026,301	$ 35,390,410

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

LONE STAR, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively called the "Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2020, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2020, the District consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association provides a service facilitating the origination of residential loans that are funded by other lenders as well as acting as an intermediary in offering credit life insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Bank's Annual Report to Stockholders.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the district's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Lone Star, PCA and Lone Star, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

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. The Association has adopted this relief for qualifying loan modifications.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. New contracts entered into before December 31, 2021 will either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate. These actions are necessary to facilitate an orderly transition. The adoption of this guidance will not impact the Association's financial condition or its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations. The Association early adopted to be in line with the FCS.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.

C. Loans and Allowance for Credit Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and net deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions is based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. Concession rates and market rates ranged from 1.25 percent to 5.25 percent and 3.70 percent to 6.95 percent, respectively. The fair value of the concessions are amortized into interest income over the contractual life of the related loans. The unpaid principal balance of loans with discounts for the fair value of concessions granted were $48,436,516, $58,575,259 and $69,688,230, as of December 31, 2020, 2019 and 2018, respectively. The unaccreted fair value of concessions at December 31, 2020, 2019 and 2018 were $10,179,504, $11,532,408 and $13,760,082, respectively. Amounts accreted into interest income for the years ended December 31, 2020, 2019 and 2018 were $1,352,905, $2,227,674 and $864,813, respectively.

Loans acquired in a business combination are initially recognized at fair value, and therefore, no "carryover" of the allowance for credit losses is permitted. Those loans with evidence of credit quality deterioration at purchase are required to follow the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for credit losses and a corresponding increase to allowance for credit losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for credit losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for credit losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated principal loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain. The credit risk-rating methodology is a key component of the Association's allowance for credit losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for the credit losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio.

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including agricultural economy, loan portfolio composition, collateral value, management's process for classification of risk of the loans within the portfolio and the portfolio's prior loss experience. The allowance for credit losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance for loan losses process is supported by loan portfolio stress testing, which simulates stress in the current portfolio and the correlating allowance that would be needed.

The allowance for credit losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for credit losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for credit losses is determined using the risk-rating model.

The Association also provides lines of credit to customers to cover short-term and variable needs. As a result, the Association has unfunded commitments for which a separate reserve is maintained. The reserve is reported as a liability on the Association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred to as the "allowance for credit losses."

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Association, (2) the transferee obtains the right to pledge or exchange the transferred assets and (3) the Association does not maintain effective control over the transferred assets.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under ASC 860 "Transfers and Servicing."

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other district associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet. Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

F. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the Board of Directors.

H. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the Association sponsors a nonqualified defined contribution 401(K) plan. The DB plan is closed to new participants.

Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the years ended December 31, 2020, 2019 and 2018, respectively, made on their behalf into various investment alternatives.

The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $551,959, $500,997 and $470,194 for the years ended December 31, 2020, 2019 and 2018, respectively. For the DB plan, the Association recognized pension costs of $55,308, $464,696 and $744,934 for the years ended December 31, 2020, 2019 and 2018, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $406,458, $434,193 and $362,062 for the years ended December 31, 2020, 2019 and 2018, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans above, the Association sponsors a defined contribution supplemental retirement plan. This plan is a nonqualified 401(k) plan; therefore, the associated liabilities are included in the Association's consolidated balance sheet in other liabilities. The expenses of the nonqualified plan included in the Association's employee benefit costs were $37,706, $878 and $10,400 for the years ended December 31, 2020, 2019 and 2018, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. In 2004, the District discontinued its multi-employer health and welfare plan, which provided substantially all employees with health care, life insurance and postretirement benefits during their working lives and after retirement if they reach a normal retirement age and met the years of service criteria while working for the Association. At that time, the Association adopted a new plan to provide the same benefits to its retirees and employees. Under the new plan, the Association no longer participates in the joint and several liability with any other entities, which was intrinsic to the multi-employer plan. For employers providing these benefits outside of a multi-employer plan, FASB guidance, "Employers Accounting for Postretirement Benefits Other than Pensions," requires the liability for the contractual obligation of these benefits to be recognized as employees render the services necessary to earn the benefits. Accordingly, in December 2004, the Association recognized as an expense the unfunded liability for these postretirement benefits. Since that time, the net periodic expense for these benefits has been accrued in accordance with this guidance.

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the Association on patronage stock distributions from the bank prior to January 1, 1993, the adoption date of the FASB guidance on income taxes. Management's intent is (1) to permanently invest these and other undistributed earnings in the bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

J. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 15, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness. The Association's exposure in off-balance-sheet credit exposures is further disclosed in Note 16 "Commitments and Contingencies."

NOTE 3 — INVESTMENTS:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling $59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased Lone Star's securitized Farmer Mac Agricultural Mortgage Backed Securities Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2012 there was no effect to Lone Star's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2020, 2019 and 2018 was $125,448, $145,426 and $210,104, respectively. However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors. The remaining balance of the AMBS investment at December 31, 2020 was $4,618,399.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans as of December 31 follows:

	2020		2019		2018	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 1,563,661,606**	**79.4%**	$1,292,173,087	79.3%	$1,252,662,987	80.3%
Production and intermediate term	**107,672,020**	**5.5%**	90,965,270	5.6%	93,568,833	6.0%
Agribusiness:						
Loans to cooperatives	**13,604,762**	**0.7%**	8,713,334	0.5%	8,732,264	0.6%
Processing and marketing	**144,686,095**	**7.4%**	143,710,232	8.8%	130,123,023	8.3%
Farm-related business	**45,481,458**	**2.3%**	21,554,430	1.3%	12,730,535	0.8%
Communication	**42,755,132**	**2.2%**	23,407,450	1.4%	8,957,584	0.6%
Energy	**30,944,363**	**1.6%**	36,294,005	2.2%	37,724,209	2.4%
Water and waste water	**5,050,538**	**0.3%**	5,574,542	0.3%	4,947,208	0.3%
Rural residential real estate	**11,937,040**	**0.6%**	9,279,066	0.6%	10,172,520	0.7%
Total	**$ 1,965,793,014**	**100.0%**	$1,631,671,416	100.0%	$1,559,619,163	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 24,192,127	$ 19,499,033	$ 1,905,232	$ -	$ 26,097,359	$ 19,499,033
Production and intermediate term	31,029,456	1,363,555	-	-	31,029,456	1,363,555
Agribusiness	174,143,875	6,272,136	-	-	174,143,875	6,272,136
Communication	42,755,132	-	-	-	42,755,132	-
Energy	30,944,363	-	-	-	30,944,363	-
Water and waste water	3,473,313	-	1,577,224	-	5,050,538	-
Total	$ 306,538,266	$ 27,134,724	$ 3,482,456	$ -	$ 310,020,723	$ 27,134,724

Loan Volume by office or geographic location as of December 31, follows:

Branch	**2020**	2019	2018
Capital Markets	**15.7%**	16.8%	15.4%
Denton	**12.3%**	11.0%	10.6%
Waco	**12.2%**	11.3%	11.1%
Stephenville	**7.5%**	7.6%	6.8%
Sherman	**6.9%**	7.8%	8.1%
Lampasas	**5.8%**	5.5%	5.8%
Georgetown	**5.4%**	5.7%	6.2%
Corsicana	**4.6%**	3.9%	3.9%
Fort Worth	**4.2%**	4.5%	5.0%
Hillsboro	**3.9%**	3.5%	3.1%
Abilene	**3.7%**	3.7%	3.7%
Cleburne	**3.4%**	3.6%	4.2%
Paris	**3.3%**	3.9%	4.3%
Sweetwater	**2.8%**	2.5%	1.8%
New Boston	**2.5%**	2.9%	4.0%
Special Assets	**2.3%**	3.4%	3.9%
Weatherford	**2.1%**	1.8%	1.7%
Agribusiness*	**1.3%**	0.6%	0.0%
Participations Purchased	**0.1%**	0.0%	0.4%
Totals	**100.0%**	100.0%	100.0%

*Agribusiness is a specialized branch created in 2019 dedicated to meeting the lending needs of large, complex commercial-type eligible borrowers. The loans made from this branch are most commonly eligible via processing and marketing or farm-related business.

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2020		2019		2018	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock, except dairy and poultry	**$ 1,196,473,163**	**60.8%**	$ 1,003,134,570	61.6%	$ 993,123,008	63.7%
Hunting, trapping and game propagation	**$ 143,682,955**	**7.3%**	93,163,341	5.7%	83,201,221	5.3%
General farms, primarily crops	**$ 83,547,569**	**4.3%**	75,462,412	4.6%	82,006,021	5.3%
Field crops except cash grains	**$ 76,652,016**	**3.9%**	63,962,071	3.9%	52,928,408	3.4%
Wholesale trade - nondurable goods	**$ 72,383,554**	**3.7%**	53,480,030	3.3%	49,353,148	3.2%
Cash grains	**$ 62,874,696**	**3.2%**	59,133,566	3.6%	40,720,965	2.6%
Timber	**$ 59,419,543**	**3.0%**	43,960,824	2.7%	47,795,984	3.1%
Animal specialties	**$ 52,405,270**	**2.7%**	38,036,021	2.3%	39,497,754	2.5%
Food and kindred products	**$ 48,240,423**	**2.5%**	46,063,017	2.8%	46,732,932	3.0%
Communication	**$ 34,783,099**	**1.8%**	15,088,482	0.9%	-	0.0%
Electric services	**$ 32,049,209**	**1.6%**	40,866,388	2.5%	41,136,376	2.6%
Paper and allied products	**$ 17,615,873**	**0.9%**	18,206,830	1.1%	14,724,880	0.9%
Other	**$ 17,491,286**	**0.9%**	17,834,850	1.1%	17,362,597	1.1%
Farm and garden machinery equipment	**$ 15,685,132**	**0.8%**	15,680,445	1.0%	7,401,983	0.5%
Chemical and allied products	**$ 13,493,695**	**0.7%**	8,125,056	0.5%	9,991,243	0.6%
Rural home loans	**$ 12,547,978**	**0.6%**	9,991,807	0.6%	11,035,676	0.7%
Fruit and tree nuts	**$ 9,750,555**	**0.5%**	7,560,353	0.5%	3,217,221	0.2%
Dairy farms	**$ 8,063,150**	**0.4%**	9,528,670	0.6%	5,691,642	0.4%
Agricultural services	**$ 5,638,320**	**0.3%**	5,971,364	0.4%	6,409,673	0.4%
Poultry and eggs	**$ 2,291,901**	**0.1%**	2,321,787	0.1%	2,535,563	0.2%
General farms, primarily livestock	**$ 495,800**	**0.0%**	713,374	0.0%	857,630	0.1%
Real estate	**$ 154,433**	**0.0%**	1,197,845	0.1%	1,512,266	0.1%
Fish hatcheries and preserves	**$ 53,050**	**0.0%**	78,939	0.0%	106,197	0.0%
Public warehousing and storage	**$ 344**	**0.0%**	44,540	0.0%	96,662	0.0%
Horticultural specialties	**$ -**	**0.0%**	2,064,834	0.1%	2,180,113	0.1%
Total	**$ 1,965,793,014**	**100.0%**	$ 1,631,671,416	100.0%	$ 1,559,619,163	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2020, 2019 and 2018, loans totaling $98,738, $211,466 and $394,135, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $438, $1,001 and $1,341 in 2020, 2019 and 2018, respectively, and are included in "other noninterest expense."

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 table presents information relating to impaired loans:

	2020	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 3,647,305**	$ 784,184	$ 2,628,857
Past due	**1,400,652**	2,549,711	1,727,173
Total nonaccrual loans	**5,047,957**	3,333,895	4,356,030
Impaired accrual loans:			
Restructured accrual loans	**111,159**	1,149,573	1,474,500
Accrual loans 90 days or more past due	**234,577**	-	-
Total impaired accrual loans	**345,736**	1,149,573	1,474,500
Total impaired loans	**$ 5,393,693**	$ 4,483,468	$ 5,830,530

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31, 2020	December 31, 2019	December 31, 2018
Nonaccrual loans:			
Real estate mortgage	**$ 4,369,064**	$ 3,295,585	$ 4,156,191
Production and intermediate term	**678,893**	29,940	47,546
Rural residential real estate	**-**	8,370	152,293
Total nonaccrual loans	**5,047,957**	3,333,895	4,356,030
Accruing restructured loans:			
Real estate mortgage	**111,159**	101,701	109,118
Production and intermediate term	**-**	1,047,872	1,365,382
Total accruing restructured loans	**111,159**	1,149,573	1,474,500
Accruing loans 90 days or more past due:			
Real estate mortgage	**234,577**	-	-
Total accruing loans 90 days or more past due	**234,577**	-	-
Total nonperforming loans	**5,393,693**	4,483,468	5,830,530
Total nonperforming assets	**$ 5,393,693**	$ 4,483,468	$ 5,830,530

One credit quality indicator utilized by the Bank and the Association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2020	2019	2018
Real estate mortgage			
Acceptable	**97%**	96%	95%
OAEM	**2%**	3%	4%
Substandard/doubtful	**1%**	1%	1%
	100%	100%	100%
Production and intermediate term			
Acceptable	**94%**	91%	93%
OAEM	**5%**	8%	6%
Substandard/doubtful	**1%**	1%	1%
	100%	100%	100%
Loans to cooperatives			
Acceptable	**100%**	100%	100%
OAEM	**0%**	0%	0%
Substandard/doubtful	**0%**	0%	0%
	100%	100%	100%
Processing and marketing			
Acceptable	**91%**	93%	100%
OAEM	**9%**	7%	0%
Substandard/doubtful	**0%**	0%	0%
	100%	100%	100%
Farm-related business			
Acceptable	**100%**	100%	99%
OAEM	**0%**	0%	0%
Substandard/doubtful	**0%**	0%	1%
	100%	100%	100%
Communication			
Acceptable	**100%**	100%	100%
OAEM	**0%**	0%	0%
Substandard/doubtful	**0%**	0%	0%
	100%	100%	100%
Energy			
Acceptable	**98%**	89%	98%
OAEM	**0%**	0%	2%
Substandard/doubtful	**2%**	11%	0%
	100%	100%	100%
Water and waste water			
Acceptable	**100%**	100%	100%
OAEM	**0%**	0%	0%
Substandard/doubtful	**0%**	0%	0%
	100%	100%	100%
Rural residential real estate			
Acceptable	**99%**	98%	97%
OAEM	**0%**	1%	1%
Substandard/doubtful	**1%**	1%	2%
	100%	100%	100%
Total Loans			
Acceptable	**97%**	96%	95%
OAEM	**3%**	3%	4%
Substandard/doubtful	**0%**	1%	1%
	100%	100%	100%

There were no loans and related interest in the loss category.

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2020, 2019 and 2018:

December 31, 2020:	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or less than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,667,091**	**$ 914,223**	**$ 3,581,314**	**$ 1,568,115,978**	**$ 1,571,697,292**	**$ 234,577**
Production and intermediate term	**-**	**507,062**	**507,062**	**107,670,111**	**108,177,173**	**-**
Loans to cooperatives	**-**	**-**	**-**	**13,610,671**	**13,610,671**	**-**
Processing and marketing	**-**	**-**	**-**	**144,904,803**	**144,904,803**	**-**
Farm-related business	**-**	**-**	**-**	**45,563,153**	**45,563,153**	**-**
Communication	**-**	**-**	**-**	**42,757,285**	**42,757,285**	**-**
Energy	**-**	**-**	**-**	**31,058,687**	**31,058,687**	**-**
Water and waste water	**-**	**-**	**-**	**5,051,261**	**5,051,261**	**-**
Rural residential real estate	**-**	**-**	**-**	**11,963,819**	**11,963,819**	**-**
Total	**$ 2,667,091**	**$ 1,421,285**	**$ 4,088,376**	**$ 1,970,695,768**	**$ 1,974,784,144**	**$ 234,577**

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 Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 6,102,762	$ 993,465	$ 7,096,227	$ 1,293,326,351	$ 1,300,422,578	$ -
Production and intermediate term	270,694	29,940	300,634	91,189,762	91,490,396	-
Loans to cooperatives	-	-	-	8,721,392	8,721,392	-
Processing and marketing	-	-	-	143,952,511	143,952,511	-
Farm-related business	-	-	-	21,580,739	21,580,739	-
Communication	-	-	-	23,409,603	23,409,603	-
Energy	-	-	-	36,427,019	36,427,019	-
Water and waste water	-	-	-	5,586,319	5,586,319	-
Rural residential real estate	19,491	-	19,491	9,284,398	9,303,889	-
Total	$ 6,392,947	$ 1,023,405	$ 7,416,352	$ 1,633,478,094	$ 1,640,894,446	$ -

December 31, 2018:	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 Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,622,847	$ 732,799	$ 3,355,646	$ 1,257,465,669	$ 1,260,821,315	$ -
Production and intermediate term	10,470	47,546	58,016	93,970,764	94,028,780	-
Loans to cooperatives	-	-	-	8,739,066	8,739,066	-
Processing and marketing	-	-	-	130,279,773	130,279,773	-
Farm-related business	-	-	-	12,765,501	12,765,501	-
Communication	-	-	-	8,958,923	8,958,923	-
Energy	85,370	-	85,370	37,806,152	37,891,522	-
Water and waste water	-	-	-	4,952,834	4,952,834	-
Rural residential real estate	9,064	121,085	130,149	10,035,039	10,165,188	-
Total	$ 2,727,751	$ 901,430	$ 3,629,181	$ 1,564,973,721	$ 1,568,602,902	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

Troubled Debt Restructuring: A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2020, the total recorded investment of troubled debt restructured loans was $1,452,684, including $1,341,525 classified as nonaccrual and $111,159 classified as accrual, with specific allowance for loan losses of $41,551. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2020, 2019 or 2018.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the years ended December 31, 2020, 2019 and 2018. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

December 31, 2020:	**Pre-modification Outstanding Recorded Investment**		**Post-modification Outstanding Recorded Investment**	
Troubled debt restructurings:				
Real estate mortgage	**$**	**1,421,186**	**$**	**1,407,303**
Total	**$**	**1,421,186**	**$**	**1,407,303**

December 31, 2019:	Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment	
Troubled debt restructurings:				
Real estate mortgage	$	26,000	$	23,433
Total	$	26,000	$	23,433

December 31, 2018:	Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment	
Troubled debt restructurings:				
Real estate mortgage	$	201,506	$	201,506
Rural residential real estate		120,213		121,085
Total	$	321,719	$	322,591

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge-off, recorded at the modification date, for the year ended December 31, 2020.

The predominant form of concession granted for troubled debt restructuring includes an extension of term, principal or accrued interest reduction, interest rate decrease, or delay in the repayment of principal, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At December 31, 2020, the Association had no payment defaults on loans that were restructured within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Loans Modified as TDRs					
	December 31, 2020		December 31, 2019		December 31, 2018	
Troubled debt restructurings:						
Real estate mortgage	**$**	**1,452,684**	$	159,540	$	497,525
Production and intermediate term		**-**		1,048,029		1,391,122
Rural residential real estate		**-**		-		121,085
Total	**$**	**1,452,684**	$	1,207,569	$	2,009,732

	TDRs in Nonaccrual Status*					
	December 31, 2020		December 31, 2019		December 31, 2018	
Troubled debt restructurings:						
Real estate mortgage	**$**	**1,341,525**	$	57,839	$	388,407
Production and intermediate term		**-**		157		25,740
Rural residential real estate		**-**		-		121,085
Total	**$**	**1,341,525**	$	57,996	$	535,232

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2020	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ 106,501	$ 5,765
Production and intermediate term	104,758	104,758	41,551	939,475	44,086
Total	$ 104,758	$ 104,758	$ 41,551	$ 1,045,976	$ 49,851
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 4,714,800	$ 4,810,160	$ -	$ 4,022,549	$ 56,273
Production and intermediate term	574,135	597,368	-	208,516	1,129
Rural residential real estate	-	-	-	3,235	6,570
Total	$ 5,288,935	$ 5,407,528	$ -	$ 4,234,300	$ 63,972
Total impaired loans:					
Real estate mortgage	$ 4,714,800	$ 4,810,160	$ -	$ 4,129,050	$ 62,038
Production and intermediate term	678,893	702,126	41,551	1,147,991	45,215
Rural residential real estate	-	-	-	3,235	6,570
Total	$ 5,393,693	$ 5,512,286	$ 41,551	$ 5,280,276	$ 113,823

	Recorded Investment at 12/31/2019	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	1,047,872	1,043,822	206,034	261,519	57,295
Rural residential real estate	-	-	-	-	-
Total	$ 1,047,872	$ 1,043,822	$ 206,034	$ 261,519	$ 57,295
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,397,286	$ 3,452,225	$ -	$ 3,341,265	$ 16,171
Production and intermediate term	29,940	235,980	-	846,647	-
Rural residential real estate	8,370	8,566	-	64,694	-
Total	$ 3,435,596	$ 3,696,771	$ -	$ 4,252,606	$ 16,171
Total impaired loans:					
Real estate mortgage	$ 3,397,286	$ 3,452,225	$ -	$ 3,341,265	$ 16,171
Production and intermediate term	1,077,812	1,279,802	206,034	1,108,166	57,295
Rural residential real estate	8,370	8,566	-	64,694	-
Total	$ 4,483,468	$ 4,740,593	$ 206,034	$ 4,514,125	$ 73,466

	Recorded Investment at 12/31/2018	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 569,621	$ 649,861	$ 136,829	$ 535,521	$ 3,455
Production and intermediate term	21,363	85,499	4,450	315,883	2,325
Rural residential real estate	121,085	168,942	49,207	75,258	2,243
Total	$ 712,069	$ 904,302	$ 190,486	$ 926,662	$ 8,023
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,695,688	$ 3,779,159	$ -	$ 4,383,711	$ 58,083
Production and intermediate term	1,391,565	2,469,221	-	1,591,658	113,771
Rural residential real estate	31,208	31,404	-	42,371	-
Total	$ 5,118,461	$ 6,279,784	$ -	$ 6,017,740	$ 171,854
Total impaired loans:					
Real estate mortgage	$ 4,265,309	$ 4,429,020	$ 136,829	$ 4,919,232	$ 61,538
Production and intermediate term	1,412,928	2,554,720	4,450	1,907,541	116,096
Rural residential real estate	152,293	200,346	49,207	117,629	2,243
Total	$ 5,830,530	$ 7,184,086	$ 190,486	$ 6,944,402	$ 179,877

[a] Unpaid principal balance represents the recorded principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2020, 2019 and 2018.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2020	2019	2018
Interest income which would have been recognized under the original terms	**$ 471,963**	$ 407,240	$ 621,243
Less: interest income recognized	**(113,823)**	(73,466)	(179,877)
Foregone interest income	**$ 358,140**	$ 333,774	$ 441,366

A summary of the changes in the allowance for credit losses and unfunded commitments and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2019	$ 4,713,632	$ 969,201	$ 835,460	$ 20,870	$ 355,277	$ 96,512	$ 138,131	$ 7,129,083
Charge-offs	-	(45,373)	-	-	-	-	-	(45,373)
Recoveries	53,860	102,480	600	-	-	-	-	156,940
Provision for credit losses	1,265,830	(416,587)	233,047	129,739	(268,341)	(75,395)	(92,893)	775,400
Transfer from reserve on unfunded commitments	754	5,117	14,982	184	6,596	804	-	28,437
Balance at December 31, 2020	$ 6,034,076	$ 614,838	$ 1,084,089	$ 150,793	$ 93,532	$ 21,921	$ 45,238	$ 8,044,487
Ending Balance: individually evaluated for impairment	$ -	$ 41,551	$ -	$ -	$ -	$ -	$ -	$ 41,551
Ending Balance: collectively evaluated for impairment	$ 6,034,076	$ 573,287	$ 1,084,089	$ 150,793	$ 93,532	$ 21,921	$ 45,238	$ 8,002,936
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2020	$ 1,571,697,292	$ 108,177,173	$ 204,078,627	$ 42,757,285	$ 31,058,687	$ 5,051,261	$ 11,963,819	$ 1,974,784,144
Ending balance for loans individually evaluated for impairment	$ 4,714,800	$ 678,893	$ -	$ -	$ -	$ -	$ -	$ 5,393,693
Ending balance for loans collectively evaluated for impairment	$ 1,566,982,492	$ 107,498,280	$ 204,078,627	$ 42,757,285	$ 31,058,687	$ 5,051,261	$ 11,963,819	$ 1,969,390,451

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2018	$ 6,497,578	$ 1,457,800	$ 350,450	$ 12,783	$ 23,764	$ 200,444	$ 102,611	$ 8,645,430
Charge-offs	(141,299)	(55,953)	-	-	-	-	(50,249)	(247,501)
Recoveries	57,104	377,597	28,991	-	-	-	85,769	549,461
Provision for credit losses	(1,699,643)	(845,950)	495,046	8,624	321,398	(103,932)	-	(1,824,457)
Transfer from reserve on unfunded commitments	(108)	35,707	(39,027)	(537)	10,115	-	-	6,150
Balance at December 31, 2019	$ 4,713,632	$ 969,201	$ 835,460	$ 20,870	$ 355,277	$ 96,512	$ 138,131	$ 7,129,083
Ending Balance: individually evaluated for impairment	$ -	$ 206,034	$ -	$ -	$ -	$ -	$ -	$ 206,034
Ending Balance: collectively evaluated for impairment	$ 4,713,632	$ 763,167	$ 835,460	$ 20,870	$ 355,277	$ 96,512	$ 138,131	$ 6,923,049
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2019	$ 1,300,422,578	$ 91,490,396	$ 174,254,642	$ 23,409,603	$ 36,427,019	$ 5,586,319	$ 9,303,889	$ 1,640,894,446
Ending balance for loans individually evaluated for impairment	$ 3,397,286	$ 1,077,812	$ -	$ -	$ -	$ -	$ 8,370	$ 4,483,468
Ending balance for loans collectively evaluated for impairment	$ 1,297,025,292	$ 90,412,584	$ 174,254,642	$ 23,409,603	$ 36,427,019	$ 5,586,319	$ 9,295,519	$ 1,636,410,978

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at December 31, 2017	$ 6,775,679	$ 1,510,355	$ 530,851	$ 15,578	$ 38,826	$ 149,622	$ 161,086	$ 9,181,997
Charge-offs	(108,113)	(637,236)	-	-	-	-	(47,857)	(793,206)
Recoveries	27,873	360,471	302,810	-	-	-	-	691,154
Provision for credit losses	(201,490)	121,654	(505,595)	(2,891)	(14,530)	37,751	(10,618)	(575,719)
Transfer from reserve on unfunded commitments	3,629	102,556	22,384	96	(532)	13,071	-	141,204
Balance at December 31, 2018	$ 6,497,578	$ 1,457,800	$ 350,450	$ 12,783	$ 23,764	$ 200,444	$ 102,611	$ 8,645,430
Ending Balance: individually evaluated for impairment	$ 136,829	$ 4,450	$ -	$ -	$ -	$ -	$ 49,207	$ 190,486
Ending Balance: collectively evaluated for impairment	$ 6,360,749	$ 1,453,350	$ 350,450	$ 12,783	$ 23,764	$ 200,444	$ 53,404	$ 8,454,944
Recorded Investment in Loans Outstanding:								
Ending Balance at December 31, 2018	$ 1,260,821,315	$ 94,028,780	$ 151,784,340	$ 8,958,923	$ 37,891,522	$ 4,952,834	$ 10,165,188	$ 1,568,602,902
Ending balance for loans individually evaluated for impairment	$ 4,265,309	$ 1,412,928	$ -	$ -	$ -	$ -	$ 152,293	$ 5,830,530
Ending balance for loans collectively evaluated for impairment	$ 1,256,556,006	$ 92,615,852	$ 151,784,340	$ 8,958,923	$ 37,891,522	$ 4,952,834	$ 10,012,895	$ 1,562,772,372

NOTE 5 — LEASES:

Adoption of the leasing standard impacted our previously reported results as follows:

	Balance Sheet Classification	As of December 31, 2020	As Previously Reported December 31, 2019	Lease Standard Adjustment	As Adopted January 1, 2019
Operating leases	Operating lease right-of-use asset-building	**$ 1,447,446**	$ 1,949,815	$ 1,488,212	$ 1,488,212
Total lease assets		**$ 1,447,446**	$ 1,949,815	$ 1,488,212	$ 1,488,212
Operating leases	Operating lease right-of-use liabilities-building	**$ 1,504,923**	$ 1,966,583	$ 1,488,212	$ 1,488,212
Total lease liabilities		**$ 1,504,923**	$ 1,966,583	$ 1,488,212	$ 1,488,212

The Association's operating leases consist of five office space leases and one consolidated copier lease.

The components of lease expense were as follows:

	Classification	2020	2019
Operating lease cost	Operating	**$ 619,198**	$ 561,343
Net lease cost		**$ 619,198**	$ 561,343

Other information related to leases was as follows:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 572,144**	$ 556,824

Lease term and discount rate are as follows:

	December 31, 2020
Weighted average remaining lease term in years	**3.0**
Operating leases	
Weighted average discount rate	
Operating leases	**2.9%**

Future minimum lease payments under non-cancellable leases as of December 31, 2020, were as follows:

	Operating Leases
2021	$ 569,760
2022	452,681
2023	398,465
2024	150,104
Total lease payments	$ 1,571,010

NOTE 6 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The Association operates under a General Financing Agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The investment in the Bank is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying balance sheet. The Association owned 7.9 percent, 7.5 percent and 8.4 percent of the issued stock of the Bank as of December 31, 2020, 2019 and 2018, respectively. As of those dates, the Bank's assets totaled $28.2 billion, $25.7 billion and $24.5 billion and members' equity totaled $2.0 billion, $1.8 billion and $1.8 billion. The Bank's earnings were $251.1 million, $203.0 million and $190.5 million during 2020, 2019 and 2018.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2020	2019	2018
Land and improvements	**$ 564,498**	$ 564,498	$ 564,498
Building and improvements	**3,313,619**	3,096,627	2,998,396
Furniture and equipment	**364,241**	374,362	388,969
Computer equipment and software	**790,131**	687,621	895,052
Automobiles	**1,621,528**	1,954,009	1,779,855
Construction in progress	**-**	-	5,673
	6,654,017	6,677,117	6,632,443
Accumulated depreciation	**(3,706,553)**	(3,578,318)	(3,543,807)
Total	**$ 2,947,464**	$ 3,098,799	$ 3,088,636

The Association leases office space in Fort Worth, Sherman, Abilene, Weatherford and Georgetown. Lease expense was $619,198, $561,343 and $553,001 for 2020, 2019 and 2018, respectively. All of the Association's leases are considered operating leases.

NOTE 8 — OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	2020	2019	2018
Gain (loss) on sale, net	**$ -**	$ 8,350	$ 26,318
Operating income (expense), net	**-**	1,935	(2,595)
Net gain (loss) on other property owned	**$ -**	$ 10,285	$ 23,723

NOTE 9 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2020	2019	2018
Accounts receivable (other than members)	**$ 794,203**	$ 728,268	$ 804,467
Other assets	**1,002,840**	738,722	556,058
Right of use assets	**1,447,446**	1,949,815	-
Total	**$ 3,244,489**	$ 3,416,805	$ 1,360,525

Other liabilities comprised the following at December 31:

	2020	2019	2018
Accounts payable	**$ 6,099,269**	$ 5,215,576	$ 4,807,598
Lease liability	**1,504,923**	1,966,583	-
Accumulated postretirement obligation	**5,518,104**	5,262,192	4,691,921
Funds held/advanced conditional payments	**23,149**	84,440	29,317
Other liabilities	**1,151,702**	1,077,914	1,097,785
Total	**$ 14,297,147**	$ 13,606,705	$ 10,626,621

NOTE 10 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a GFA. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2020, 2019 and 2018, was $1,607,883,153 at 1.95 percent, $1,278,483,867 at 2.78 percent and $1,216,709,990 at 2.72 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, 2019 and 2018, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2020 was $1,967,811,035, as defined by the GFA.

In addition to borrowing limits, the GFA establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the GFA associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the three years ended December 31, 2020, 2019 and 2018, the Association was not subject to remedies associated with the covenants in the GFA.

Other than the funding relationship with the Bank, the Association does not have other uninsured or insured debt.

NOTE 11 — MEMBERS' EQUITY:

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (for farm loans) or participation certificates (for rural home loans) is equal to 2 percent of the loan amount, up to a maximum amount of $1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

Association bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with the Association's capitalization plans, provided prescribed capital standards have been met. At December 31, 2020, the Association exceeded the prescribed standards. The Association does not anticipate any significant changes in capital that would affect the normal retirement of stock.

All classes of stock are transferable to other customers who are eligible to hold such class of stock as long as the Association meets the regulatory minimum capital requirements.

If needed to meet regulatory capital adequacy requirements, the Board of Directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class A shares is made solely at the discretion of the Association's Board. At December 31, 2020, 2019 and 2018, the Association had 0, 166 and 1,989, respectively, shares of Class A stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A, Class B capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the Board may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2020, 2019 and 2018, respectively:

Date Declared	**Date Paid (to be Paid)**	**Patronage**
December 2020	**March 2021**	**$ 14,759,557**
September 2020	**October 2020**	**7,424,105**
December 2019	March 2020	19,521,714
December 2018	March 2019	20,376,992
July 2018	September 2018	7,049,954

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents leverage ratio that are applicable to both the banks and associations. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2020, the Association is not prohibited from retiring stock or distributing earnings. Furthermore, the Association is unaware of any such prohibitions that may apply during 2021.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2020:

Risk-adjusted:	**Regulatory Minimums**	**Regulatory Minimums with Buffer**	**As of December 31, 2020**
Common equity tier 1 ratio	4.50%	7.00%	16.85%
Tier 1 capital ratio	6.00%	8.50%	16.85%
Total capital ratio	8.00%	10.50%	17.24%
Permanent capital ratio	7.00%	7.00%	16.91%
Non-risk-adjusted:			
Tier 1 leverage ratio*	4.00%	5.00%	17.63%
UREE leverage ratio	1.50%	1.50%	18.62%

*Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred to herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2020:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 205,724,109	$ 205,724,109	$ 205,724,109	$ 205,724,109
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,816,932	5,816,932	5,816,932	5,816,932
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limitations*	-	-	8,073,899	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(25,046,023)	(25,046,023)	(25,046,023)	(25,046,023)
	$ 343,572,537	$ 343,572,537	$ 351,646,436	$ 343,572,537
Denominator:				
Risk-adjusted assets excluding allowance	$ 2,064,336,138	$ 2,064,336,138	$ 2,064,336,138	$ 2,064,336,138
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(25,046,023)	(25,046,023)	(25,046,023)	(25,046,023)
Allowance for loan losses	-	-	-	(7,923,461)
	$ 2,039,290,115	$ 2,039,290,115	$ 2,039,290,115	$ 2,031,366,654

*Capped at 1.25 percent of risk-adjusted assets

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2020:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 205,724,110	$ 205,724,110
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,816,932	-
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(25,046,023)	(1,000)
	$ 343,572,538	$ 362,800,629
Denominator:		
Total Assets	$ 1,978,768,759	$ 1,978,768,759
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(30,429,157)	(30,429,157)
	$ 1,948,339,602	$ 1,948,339,602

The Association’s Board has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association’s capital adequacy goals as well as the minimum permanent capital standard. The Plan monitors projected dividends, patronage distribution equity retirements and other actions that may decrease the Association’s permanent capital, in addition to factors that must be considered in meeting the operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for loan losses to absorb potential loss within the loan and the lease portfolios; sufficiency of liquid funds; needs of an institution’s customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities and other conditions warranting additional capital. At least quarterly, management reviews the Association’s goals and objectives with the Board.

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the Association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of $5 per share:

	2020	2019	2018
Class A stock	**-**	166	1,989
Class B stock	**1,129,184**	1,110,112	1,138,689
Participation certificates	**39,092**	37,141	41,550
Total	**1,168,276**	1,147,419	1,182,228

The Association's accumulated other comprehensive (loss) income relates entirely to its non-pension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive (loss) income and the location on the income statement for the year ended December 31:

	2020	2019	2018
Accumulated other comprehensive (loss) at January 1	**$ (889,531)**	$ (399,101)	$ (1,357,769)
Actuarial (losses) gains	**(198,058)**	(479,848)	678,300
Prior service (cost) credit	**-**	-	221,128
Amortization of prior service (credit) costs included in salaries and employee benefits	**(26,514)**	(26,514)	(26,069)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**54,010**	15,932	85,309
Other comprehensive (loss) income, net of tax	**(170,562)**	(490,430)	958,668
Accumulated other comprehensive (loss) at December 31	**$ (1,060,093)**	$ (889,531)	$ (399,101)

NOTE 12 — INCOME TAXES:

The (benefit from) provision for income taxes follows for the years ended December 31:

	2020	2019	2018
Current:			
Federal	**$ -**	$ -	$ -
Total current	**-**	-	-
Deferred:			
Federal	**(16,712)**	(53,251)	23,608
Total deferred	**(16,712)**	(53,251)	23,608
Total (benefit from) provision for income taxes	**$ (16,712)**	$ (53,251)	$ 23,608

The Association has a net operating loss carryforward of $48,847,605 available to offset against future taxable income. Net operating losses incurred prior to 2018 total $43,356,513 and will begin to expire in 2021. Net operating losses incurred after 2018 total $5,491,092 have an indefinite carryforward period.

The (benefit from) provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2020	2019	2018
Federal tax at statutory rate	**$ 7,254,210**	$ 5,981,649	$ 6,163,979
Effect of nontaxable FLCA subsidiary	**(7,087,080)**	(6,081,214)	(6,679,102)
Change in valuation allowance	**(183,842)**	46,314	538,731
Change in effective tax rate	**-**	-	-
(Benefit from) provision for income taxes	**$ (16,712)**	$ (53,251)	$ 23,608

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2020	2019	2018
Deferred Tax Assets			
Allowance for loan losses	**$ 116,588**	$ 124,519	$ 115,946
Loss carryforwards	**10,257,997**	10,433,907	10,396,166
Gross deferred tax assets	**10,374,585**	10,558,426	10,512,112
Deferred tax asset valuation allowance	**(10,374,585)**	(10,558,426)	(10,512,112)
Deferred Tax Liabilities			
Other	**(44,345)**	(61,057)	(114,308)
Gross deferred tax liabilities	**(44,345)**	(61,057)	(114,308)
Net deferred tax liability	**$ (44,345)**	$ (61,057)	$ (114,308)

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. The expected future tax rates are based upon enacted tax laws.

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, additional amounts of excess investment previously held by the PCA were included in the calculation of the 2 percent requirement of the ACA. The PCA did not hold any excess investment as of December 31, 2020, 2019 and 2018, respectively.

The Association recorded valuation allowances of $10,374,585, $10,558,426 and $10,512,112 during 2020, 2019 and 2018, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

NOTE 13 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. These plans are described more fully in section H of Note 2, "Summary of Significant Accounting Policies." The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The Association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly-compensated employees in the Association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow “make-up” contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year.
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan.
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee’s account in the plan, and to designate a vesting schedule.

The Association elected to participate in a supplemental 401(k) plan. Contributions of $37,706, $95,715 and $10,400 were made to this plan for the years ended December 31, 2020, 2019 and 2018, respectively. There were no payments made from the supplemental 401(k) plan to active employees during 2020, 2019 and 2018.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan’s funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The “projected unit credit” actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2020.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association’s contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Funded status of plan	**62.6** %	66.2 %	68.0 %
Association's contribution	**$ 55,308**	$ 464,696	$ 744,934
Percentage of Association's contribution to total contributions	**0.9** %	5.7 %	7.6 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligations, which was 64.3 percent, 68.0 percent and 70.1 percent at December 31, 2020, 2019 and 2018, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2020	2019	2018
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 5,262,192**	$ 4,691,921	$ 5,453,356
Service cost	**70,725**	70,992	100,209
Interest cost	**178,133**	218,214	215,203
Plan participants' contributions	**69,548**	81,242	88,856
Plan amendments	**-**	-	(221,128)
Actuarial loss (gain)	**198,058**	479,848	(678,300)
Benefits paid	**(260,552)**	(280,025)	(266,275)
Accumulated postretirement benefit obligation, end of year	**$ 5,518,104**	$ 5,262,192	$ 4,691,921
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**191,004**	198,783	177,419
Plan participants' contributions	**69,548**	81,242	88,856
Benefits paid	**(260,552)**	(280,025)	(266,275)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (5,518,104)**	$ (5,262,192)	$ (4,691,921)
Amounts Recognized on the Balance Sheets			
Other liabilities	**$ (5,518,104)**	$ (5,262,192)	$ (4,691,921)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss (gain)	**$ 1,228,193**	$ 1,084,145	$ 620,229
Prior service cost (credit)	**(168,100)**	(194,614)	(221,128)
Total	**$ 1,060,093**	$ 889,531	$ 399,101
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2020**	12/31/2019	12/31/2018
Discount rate	**2.80%**	3.45%	4.75%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.90%/6.40%**	6.90%/6.40%	7.30%/6.90%
Health care cost trend rate assumed for next year - Rx	**6.40%**	6.40%	6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2029**	2028	2027

Total Cost	2020	2019	2018
Service cost	**$ 70,725**	$ 70,992	$ 100,209
Interest cost	**178,133**	218,214	215,203
Amortization of:			
Unrecognized prior service cost	**(26,514)**	(26,514)	(26,069)
Unrecognized net loss (gain)	**54,010**	15,932	85,309
Net postretirement benefit cost	**$ 276,354**	$ 278,624	$ 374,652
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 198,058**	$ 479,848	$ (678,300)
Amortization of net actuarial loss (gain)	**(54,010)**	(15,932)	(85,309)
Prior service cost (credit)	**-**	-	(221,128)
Amortization of prior service cost	**26,514**	26,514	26,069
Total recognized in other comprehensive income	**$ 170,562**	$ 490,430	$ (958,668)
AOCI Amounts Expected to be Amortized Into Expense in 2021			
Unrecognized prior service cost	**(26,514)**	(26,514)	(26,514)
Unrecognized net loss (gain)	**69,290**	54,010	15,932
Total	**$ 42,776**	$ 27,496	$ (10,582)
Weighted-Average Assumptions Used to Determine Benefit Cost			
Measurement date	**12/31/2020**	12/31/2019	12/31/2018
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**6.90%/6.40%**	7.30%/6.90%	7.70%/6.90%
Health care cost trend rate assumed for next year - Rx	**6.40%**	6.90%	6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028**	2027	2026

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)			
Fiscal 2021	**$ 190,732**	$ 199,834	$ 212,420
Fiscal 2022	**189,848**	198,313	211,669
Fiscal 2023	**203,828**	211,928	229,666
Fiscal 2024	**203,788**	210,959	1,174,606
Fiscal 2025	**204,693**	1,084,698	-
Fiscal 2026–2030	**1,067,953**	-	-
Expected Contributions			
Fiscal 2021	**$ 190,732**	$ 199,834	$ 212,420

NOTE 14 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2020, 2019 and 2018 for the Association amounted to $11,548,610, $18,717,374 and $21,349,726, respectively. During 2020, 2019 and 2018, $30,338,312, $29,339,991 and $27,177,190 of new loans were made, and repayments totaled $37,507,076, $31,972,343 and $27,019,048, respectively. In the opinion of management, no such loans outstanding at December 31, 2020, 2019 and 2018 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $103,471, $86,145 and $99,333 in 2020, 2019 and 2018, respectively.

The Association received patronage payments from the Bank totaling $8,846,017, $6,660,101 and $6,591,895 during 2020, 2019 and 2018, respectively.

NOTE 15 — FAIR VALUE MEASUREMENTS:

Accounting guidance 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, "Summary of Significant Accounting Policies," for additional information.

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Fair value of concessions granted	Discounted cash flow	Loan terms Market interest rates
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020, 2019 and 2018 only include nonqualified benefit trusts. This level 1 asset was $228,487, $254,306 and $159,320 at December 31, 2020, 2019 and 2018, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

December 31, 2020	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 62,947**	**$ 62,947**

December 31, 2019	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 841,838	$ 841,838

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 515,785	$ 515,785

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the consolidated balance sheets for each of the fair value hierarchy values are summarized as follows:

	December 31, 2020				
	Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 86,857**	**$ 86,857**	**$ -**	**$ -**	**$ 86,857**
Net loans	**1,957,685,580**	**-**	**-**	**1,975,835,470**	**1,975,835,470**
Total assets	**$ 1,957,772,437**	**$ 86,857**	**$ -**	**$ 1,975,835,470**	**$ 1,975,922,327**
Liabilities:					
Note payable to Bank	**$ 1,607,883,153**	**$ -**	**$ -**	**$ 1,622,789,992**	**$ 1,622,789,992**
Total liabilities	**$ 1,607,883,153**	**$ -**	**$ -**	**$ 1,622,789,992**	**$ 1,622,789,992**

	December 31, 2019				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 66,150	$ 66,150	$ -	$ -	$ 66,150
Net loans	1,623,700,495	-	-	1,614,763,209	1,614,763,209
Total assets	$ 1,623,766,645	$ 66,150	$ -	$ 1,614,763,209	$ 1,614,829,359
Liabilities:					
Note payable to Bank	$ 1,278,483,867	$ -	$ -	$ 1,271,446,746	$ 1,271,446,746
Total liabilities	$ 1,278,483,867	$ -	$ -	$ 1,271,446,746	$ 1,271,446,746

	December 31, 2018				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 100,291	$ 100,291	$ -	$ -	$ 100,291
Net loans	1,550,457,948	-	-	1,497,146,168	1,497,146,168
Total assets	$ 1,550,558,239	$ 100,291	$ -	$ 1,497,146,168	$ 1,497,246,459
Liabilities:					
Note payable to Bank	$ 1,216,079,990	$ -	$ -	$ 1,175,102,109	$ 1,175,102,109
Total liabilities	$ 1,216,079,990	$ -	$ -	$ 1,175,102,109	$ 1,175,102,109

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the Association for assets and liabilities:

Assets Held in Nonqualified 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.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Fair Value of Concessions Granted

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income over the contractual life of the related loans. The unpaid principal balance of loans with discounts for the fair value of concessions granted were $48,436,516, $58,575,259 and $69,688,230 as of December 31, 2020, 2019 and 2018, respectively. The unaccreted fair value of concessions at December 31, 2020, 2019 and 2018 was $10,179,504, $11,532,408 and $13,760,082, respectively. Amounts accreted into interest income for the years ended December 31, 2020, 2019 and 2018 was $1,352,905, $2,227,674 and $864,813, respectively.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 16 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association has various outstanding commitments and contingent liabilities, including the possibility of actions against the Association in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions are unknown at this time.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2020, $210,833,211 of commitments and $1,777,579 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the consolidated balance sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 17 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2020				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 11,733**	**$ 11,978**	**$ 12,195**	**$ 13,143**	**$ 49,049**
(Provision for) reversal of loan losses	**(568)**	**(240)**	**148**	**$ (115)**	**$ (775)**
Noninterest income (expense), net	**(3,783)**	**(3,523)**	**(3,364)**	**$ (3,043)**	**$ (13,713)**
Net income	**$ 7,382**	**$ 8,215**	**$ 8,979**	**$ 9,985**	**$ 34,561**

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 11,656	$ 11,479	$ 11,451	$ 11,083	$ 45,669
(Provision for) reversal of loan losses	(129)	1,760	214	(21)	1,824
Noninterest income (expense), net	(5,109)	(5,122)	(4,237)	(4,488)	(18,956)
Net income	$ 6,418	$ 8,117	$ 7,428	$ 6,574	$ 28,537

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 11,867	$ 14,190	$ 11,061	$ 10,907	$ 48,025
(Provision for) reversal of loan losses	1,193	(38)	(1,053)	474	576
Noninterest income (expense), net	(3,486)	(4,990)	(5,571)	(4,924)	(18,971)
Net income	$ 9,574	$ 9,162	$ 4,437	$ 6,457	$ 29,630

NOTE 18 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 12, 2021, which is the date the financial statements were issued or available to be issued.

There were no subsequent events requiring disclosure as of March 12, 2021.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Lone Star, ACA serves its 48-county territory through its main administrative and lending office at 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102. Additionally, there are 15 branch lending offices located throughout the territory. The Association owns the office buildings in Paris, New Boston, Denton, Cleburne, Stephenville, Sweetwater, Lampasas, Corsicana, Hillsboro and Waco. The Association leases office space in Fort Worth, Sherman, Abilene, Weatherford and Georgetown.

LEGAL PROCEEDINGS

In the ordinary course of business, the Association is involved in various legal proceedings. The Association has various outstanding commitments and contingent liabilities, including the possibility of actions against the Association in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions are unknown at this time.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 10, "Note Payable to the Bank," Note 13, "Employee Benefit Plans," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 16 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Bank, as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association’s annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at *www.lonestaragcredit.com*. Copies of the reports can also be requested by e-mailing *ShareholderRelations@lonestaragcredit.com.*

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2020, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Consolidated Financial Data” included in this annual report to stockholders.

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

“Management’s Discussion and Analysis” which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association’s member-elected and director-elected Board of Directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
David Harris	Chairman	2001	2022
Brent Neuhaus	Vice Chairman	2016	2023
Asa Langford	Director	2018	2021
Bert Pruett	Director	1984	2023
Chad Lee	Director-Elected Outside Director	2011	2021
Cody Hughes	Director	2018	2021
David Conrad	Director-Elected Outside Director	2014	2023
Gil Flautt V	Director	2018	2021
Josh Drews	Director	2020	2023
Matt Carter	Director	2020	2023
Robert Eubanks Sr.	Director	2019	2022
Tina Murphy	Director	2019	2022
Joe H. Hayman	Chief Executive Officer	2020	-
Nick Acosta	Chief Financial Officer	2011	-
Jim Bob Reynolds	Chief Credit Officer	2010	-
Matt James	Chief Lending Officer	1998	-
Jeff Royal	Chief Collateral Risk Officer	1999	-

A brief statement of the business and employment background of each director and senior officer as of December 31, 2020 is provided for informational purposes. As part of normal course of business, and in accordance with the Association’s Standards of Conduct Policy, directors may do business with members and employees of the Association.

David Harris was elected to the Board in 2001, serves as the Association’s Board Chairman and is a member of the Governance Committee. Mr. Harris lives in Johnson County and owns property in Somervell, Johnson and Bosque counties. Mr. Harris is President of Bob Harris Oil Company, which is involved in retail gasoline marketing, ranching (cow-calf), real estate development, and sand and gravel. He is also the President of Harris Riverbend Farms, a purebred and commercial cow-calf operation; a partner in Mansfield Joint Venture, which is involved in warehouse development; the managing partner of Alvarado Joint Venture, which is involved in real estate development; a partner in Deli Partners, a deli and fast food operation; the managing partner in Brazos Aggregates, a sand and gravel operation; and a director of Cleburne Economic Development Board. Mr. Harris serves on the

Somervell County Livestock and Forage Performance Committee. He has previously served as President of the Premier Santa Gertrudis Association and Vice President of Marketing for Santa Gertrudis Breeders International.

Brent Neuhaus was appointed to the Board in 2016 and elected in 2017. Currently serves as the Association's Vice Chairman and is a member of the Audit Committee. He is a native of Waco, Texas, and raises Angus cattle in McLennan County, Texas. Mr. Neuhaus is a Director and Corporate Inventory Manager at United Ag and Turf, which operates John Deere dealerships in Texas, Oklahoma and Arkansas. He is President and Manager of TGBTG Property, LLC and JORE, LLC. He is also a member of ERE Property, LLC and HILLRE, LLC, which are involved in real estate. Mr. Neuhaus has ownership interest and is the trustee of Neuhaus Trust Partnership, which owns farmland, commercial real estate and other business interests. He is a director and shareholder of Alliance Bank Central Texas, and Past-Chairman of the Board for the Heart O' Texas Fair & Rodeo. Mr. Neuhaus is married to Kim, and they attend First Woodway Baptist Church.

Matt Carter was elected to the Board in 2020 and serves on the Audit Committee. He was born in Dalhart, Texas, where his family continues to reside and operate the family ranching and farming interest. Since 2008, Mr. Carter has been Vice President for Fine Line, LP, which has been his primary occupation for the past five years. In addition to his interest in his family's operation in Dalhart, Mr. Carter owns and operates acreage in Jack County, where he and his family manage their cow-calf operation. He is a graduate of Tascosa High School in Amarillo, Texas, earned a BS in Finance from Texas Christian University, and holds an MBA from the University of Texas, Arlington. Matt is active in the Fort Worth Stock Show & Rodeo, as well as provides guidance to other business interests through board participation. Mr. Carter and his wife have been married since 2002 and have two sons in middle school.

David W. Conrad was elected to Texas Land Bank's Board in 2005 as a Director-Elected Director, has served on the Association's Board since January 1, 2014 as a result of the merger, and serves as the Chairman of the Audit Committee. Mr. Conrad resides in Round Rock, Texas, where he is a Certified Public Accountant. He is also a partner in Pilot Peak Investments, LLC, a commercial real estate rental company, and a member of the Texas Society of CPAs. Mr. Conrad was previously employed by the Farm Credit Bank of Texas from 1982 to 1990, where he served as internal auditor and director of Association Financial Operations.

Josh Drews was elected to the Board in 2020 and serves on the Compensation and Governance Committees. He was born in the Marlin, Texas area in Falls County where he currently resides. Josh is a self-employed farmer and rancher whose operation includes a registered and commercial Brangus cow herd, a stocker operation, and a row crop farming operation that includes corn, milo, and cotton. Farming and ranching has been Mr. Drews' primary occupation for the past five years and he has worked his farm and ranch for nineteen years. He is a 2001 graduate of Texas A&M University with a BS in Agricultural Economics. Mr. Drews serves on the Falls County Youth Fair Board of Directors and the Falls County Go-Texan committee. He is married and has four kids that are involved in 4-H, FFA, and the operation of the farm when they are not in school.

Robert Eubanks, Sr. was elected to the Board in July 2019 and serves on the Compensation Committee. Mr. Eubanks resides near Teague, Texas. He is a third-generation rancher and began purchasing land as a teen to continue to grow the family business. He has been self-employed as a rancher all his life. Today, he serves as Partner and Co-Manager of Beene & Eubanks Cattle, LLC and oversees day-to-day operations of the business which includes cows, calves and yearlings. He is married to Melanie, another third-generation rancher. Mr. Eubanks also works with his wife and his father-in-law at Pecan Valley Ranch. The two operations encompass over 9500 acres in Freestone and Limestone counties and run approximately 1550 mother cows.

Gil Flautt V was elected to the Board in 2018 and serves on the Compensation Committee. Mr. Flautt is a resident of the Novice Community in the Blossom area of Lamar County, Texas. Mr. Flautt is a self-employed rancher whose beef cattle operation includes cows, calves and yearlings. Ranching has been his principal occupation for the past five years. In August 2020, he and a partner purchased Paris Livestock, LLC, a weekly auction business for the sale of livestock. He earned a BS degree in Agribusiness from Sam Houston State University and returned to his family's ranch upon graduation. He currently serves on the Paris Rodeo & Horse Club board. He is a member of the Texas Farm Bureau and the Novice Baptist Church. His wife is Celeste Flautt.

Cody Hughes was elected to the Board in 2018 and serves on the Audit Committee. Mr. Hughes was raised on a family farm in Roscoe, Texas and is a sixth-generation farmer who farms cotton and wheat in Nolan, Mitchell and Fisher counties. Mr. Hughes farms individually and through a partnership with his father, CWH Farms. He and his wife, Amy, and two children reside on their farm south of Roscoe, where they also maintain a cow-calf operation. Before returning to the farm full time, Mr. Hughes graduated from Tarleton State University with a degree in Agricultural Services and Development. After college, he was employed by the United States Department of Agriculture, Farm Service Agency for seven years. He served as County Executive Director of Victoria, Gaines and Jones counties from the years 2003-2005, 2005-2007 and 2007-2009, respectively. Mr. Hughes currently serves as a member of the

National Cotton Council, Nolan County Farm Bureau, Plains Cotton Cooperative Association, Rolling Plains Cotton Growers and Central Rolling Plains Co-op Gin. He is a supporter of the Highland FFA and Nolan County Junior Livestock Show.

Asa G. Langford was elected to the Association's Board in 2018 and currently serves as the Governance Committee Chairman. Mr. Langford was born, and currently resides, in Lampasas, Texas. Mr. Langford is a self-employed rancher whose operation includes a cow-calf herd, stocker cattle, small grains and hay. He, and his brother own an order-buying company, and he also is part owner of a feedlot. Ranching has been his principal occupation for the past five years, and he has been involved in his family's ranch operation for thirteen years. He is a graduate of Lampasas High School and earned a BS degree in Agricultural Economics from Texas A&M University. Mr. Langford is a member of the Lampasas County Farm Bureau and the Texas and Southwestern Cattle Raisers Association. He is a member and deacon of School Creek Baptist Church, and he and his wife, Jonna, have a son and a daughter.

Chad Lee was elected to the Board in 2011 as a Director-Elected Director. He serves on the Governance Committee and is the Chairman of the Compensation Committee. Mr. Lee is a private practice attorney with an emphasis on criminal defense, employment, and various agriculture issues, including contracts, oil and gas leasing, and real property disputes. Mr. Lee maintains an operation of commercial cattle, wheat and hay, serves as a director on the Farm Credit Council, is a committee member for the Fort Worth Stock Show and Texas and Southwestern Cattle Raisers, and is a director at Operation Orphans, a non-profit benefiting foster children.

Tina Murphy was elected to the Board in July 2019 and serves on the Compensation and Governance Committees. Mrs. Murphy lives and operates in DeKalb, Bowie County, Texas and has been involved in ranching most of her life; but it has been her principal occupation for the last five years. Concurrently, she is also employed at a veterinary supply company in which her husband is part owner. In addition, she is an independent contractor for a third-party verification company for beef operations. Prior to working at the vet supply business, she was a cattle buyer for an all-natural branded beef company for eleven years. She earned a BS degree in Biology from Ouachita Baptist University and a Master of Science in Animal Science from Texas A&M University. Mrs. Murphy is involved in community organizations such as DeKalb K.A.R.E.S., the Booster Club and her church. She is married to David Murphy, and they have a son and three daughters.

Bert Pruett was elected to the Board in 1984 and currently serves on the Audit Committee. Mr. Pruett lives near Slidell in northwest Denton County, and maintains a cow-calf operation and raises hay. Mr. Pruett serves as the Treasurer of the Greenwood-Slidell Volunteer Fire Department and Chairman of the Deacons of the First Baptist Church in Slidell, Texas.

Joe H. Hayman has been with the Farm Credit System since 1994. He has worked in various capacities within the System, formerly serving as the Chief Operating Officer at Texas AgFinance, FCS, and most recently as Chief Executive Officer at Southern AgCredit, ACA, for 12 years, until joining the Association in February 2020. He is a graduate of Texas A&M University with a degree in Agricultural Economics and is a past member of the TAMU College of Agriculture and Life Sciences Development Council. He serves as a member of the Farm Credit System President's Planning Committee (PPC) and is a member of the PPC's Business Practices Committee. He is a former member of the Dixie National Livestock Show & Rodeo Sale of Champions Committee, former board member of the Mississippi 4-H Foundation and former member of the Thad Cochran Agricultural Leadership Advisory Council.

Nicholas (Nick) Acosta joined the Association in January 2011 and has held various accounting roles within the Association. He became Controller in January 2018 and was promoted to Chief Financial Officer of the Association in March 2020. Mr. Acosta, originally from El Paso, Texas, earned his Bachelor of Science degree in Accounting from LeTourneau University. He is a Certified Public Accountant and has held this certification since 2013.

Jim Bob Reynolds joined the Association in September 2010 as the Senior Vice President of Commercial Credit and now serves as the Chief Credit Officer for the Association. Before joining the Association, Mr. Reynolds worked for First State Bank in Dalhart, Texas, for 11 years, where he served as the Senior Vice President of Commercial Lending. Mr. Reynolds is a native of Dalhart, Texas, where he grew up on his family's farming/cattle operation. He earned his Bachelor of Science degree in Ag Economics from Texas Tech University and his Master of Business Administration degree from the University of Texas at San Antonio.

Matt James joined the Association in August of 1998 and has held various roles within the lending and credit departments. He started his career with the Association as a Loan Officer in the Stephenville branch, later becoming the Credit Office President. In 2011, Matt transitioned into the role of Regional President and later in 2018 became the Senior Vice President of Commercial Credit. In 2020, Matt was promoted to Chief Lending Officer. Originally from Wills Point, Texas, he grew up on a small farm where his family raised Brangus cattle and he was active in the FFA. Matt earned his Bachelor of Science Degree in Animal Industries from Tarleton State University.

Jeff Royal has worked in the field of appraisal for over 35 years, first as an appraiser in Dallas, Texas, and joined the Farm Credit System in 1998. During his tenure at Lone Star Ag Credit, Jeff has overseen all Appraisal Operations and currently serves as Chief Collateral Risk Officer. A native of Menard, Texas, Jeff grew up on his family's cattle, sheep and goat ranch. He earned both a Bachelor of Science degree in Agricultural Economics and Master of Agriculture in Land Economics and Real Estate from Texas A&M University. He enjoys being involved with the Fort Worth Stock Show as a superintendent of the junior lamb and breeding sheep shows.

COMPENSATION OF DIRECTORS

Through August 2020, Directors were compensated for their service to the Association in the form of an honorarium at the rate of $600 per day for director and special meetings. The Board Chairman and Vice Chairman received an additional monthly honorarium at a rate of $1,000 and $800, respectively. The Audit Chairman and Compensation Chairman received an additional honorarium of $1,000 and $400 per month, respectively, while other committee Chairmen received $250 per month. All Directors received an annual retention fee of $700 per month. Directors were paid an honorarium for conference calls less than an hour at the rate of $200 and for calls in excess of an hour they were compensated $300. Effective September 2020, the honorarium rate was decreased to $500 per day for director and special meetings. The Vice Chairman and Compensation Committee Chairman honorariums decreased to $500 and $250 per month, respectively. These decreases were offset by an increase in the annual retention fee to $1,250 per month. Additionally, Outside Directors received an additional honorarium of $750 per month. Committee meetings that are held in conjunction with another meeting are paid at the rate of $500 per meeting and Directors are paid an honorarium for conference calls at $500, regardless of the length of the call. Directors were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2020 was paid at the IRS-approved rate of 57.5 cents per mile.

	Number of Days Served		
Director	**Board Meeting**	**Other Official Activities**	**2020**
Matt Carter	5	2	$ 7,250
David Conrad	14	17	39,500
Josh Drews	5	4	8,250
Robert Eubanks	14	7	21,900
Gil Flautt	11	12	21,600
David Harris	14	21	36,800
Cody Hughes	14	12	23,100
Asa Langford	14	14	26,000
Chad Lee	14	13	24,800
Tina Murphy	14	17	24,900
Brent Neuhaus	14	19	27,150
Bert Pruett	14	12	23,100
[1]John Sawyer	8	18	23,750
[1]Larry Stewart	9	2	12,850
			$ 320,950

[1]Mr. Sawyer and Mr. Stewart separated from the Board in August of 2020.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $42,640, $178,962 and $101,011 in 2020, 2019 and 2018, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The objective of the Association's salary administration program is to attract, develop, retain and motivate staff that are knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and deliver Association results that maximize the value received by its membership. The Association operates utilizing a compensation program, which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives. The Association's Board of Directors, through its Compensation Committee, establishes annual salary and incentive programs utilizing the services of the Human Resources Compensation Team at the Bank to compile "Compensation Market Data" annually that is used by the Board and management in establishing salary levels. Data sources used include the Federal Reserve Bank of Dallas 11th District survey, Texas Community Bank survey (Independent Bankers Association of Texas), Watson Wyatt Financial Institution surveys, Mercer Financial Services Commercial Lending survey and CompData surveys. The Compensation Market Data reveals salary and incentive levels for similar sized institutions operating in our geographic area. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of annual salary plans used by the Association.

Chief Executive Officer (CEO) Compensation Policy

The CEO's salary is established for the period January 1 through December 31 of each year, and is set by the Board using the Compensation Market Data as a guideline to arrive at a fair and competitive salary. The CEO's bonus follows the Association's Annual Incentive Plan structure that is based upon the Association's financial performance, credit administration and quality goals, and attainment of other goals and objectives specifically established in the Association's Business Plan. This incentive is based on the period from January through December of each year.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2020, 2019 and 2018. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/ Perquisite (d)	Other (e)	Total
Joe H. Hayman	**2020**	**$ 414,288**	**$ 242,500**	**$ -**	**$ 46,957**	**$ -**	**$ 703,745**
William Melton (Interim)	**2020**	**70,996**	**-**	**-**	**-**	**-**	**70,996**
William Melton (Interim)	2019	350,013	130,200	-	-	-	480,213
Troy Bussmeir	2019	-	-	-	-	149,077	149,077
William Melton (Interim)	2018	51,706	-	-	-	-	51,706
Troy Bussmeir	2018	343,343	-	-	39,991	1,244	384,578

(a) Gross Salary.
(b) Bonuses earned in 2020, 2019 and 2018.
(c) Change in pension value (noncash).
(d) Deferred Perquisite: 2020, 2019 and 2018 include contribution to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.
(e) Other 2020, 2019 and 2018 includes severance, memberships to professional and social organizations, executive physicals, and travel allowance.

Name of Group	Year	Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/ Perquisite (d)	Other (e)	Total
Aggregate No. of Senior Officers in Year Excluding CEO							
6	**2020**	**$ 1,057,824**	**$ 487,860**	**$ -**	**$ 179,247**	**$ 253**	**$ 1,725,184**
7	2019	945,891	240,715	-	262,238	161,481	1,610,325
6	2018	893,776	174,126	-	96,579	117,519	1,282,000

(a) Gross Salary.
(b) Bonuses earned in 2020, 2019 and 2018.
(c) Change in pension value (noncash).
(d) Deferred Perquisite: 2020, 2019 and 2018 include contribution to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance.
(e) Other 2020, 2019 and 2018 includes severance, memberships to professional and social organizations, executive physicals, and travel allowance.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate is available and will be disclosed to shareholders of the institution upon request.

Defined Benefit Pension Plan:

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan which was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly two years younger than the employee, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

Other

Employees assigned Association automobiles reimburse the Association for personal miles at a management-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2020 at the IRS-approved rate of 57.5 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding $5,000 in 2020, 2019 and 2018.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2020, or any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors have occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services rendered for the Association by PricewaterhouseCoopers LLP for the year ending December 31, 2020 were $134,573 including $900 for non-audit services and $8,900 for tax services.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2021, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

Lone Star, ACA is obligated to establish programs that respond to the credit and related service needs of Young, Beginning and Small (YBS) farmers and ranchers. It is the Association's responsibility to fulfill its public policy role by extending credit and related services to this important sector of our customer base. YBS farmers and ranchers face continuing challenges in agriculture, including access to capital and credit needs, limited financial resources for land and equipment, urbanization demands and increasing competition from larger and highly capitalized operations.

The Board of Directors and management are committed to providing programs that facilitate meeting the needs of this group of customers. These programs also address other issues, including the aging of agricultural landowners and customers, the need to transfer assets to another generation of potential landowners and a recognition that many young, beginning and small operators will need to supplement their farm income by seeking off-farm employment. Additionally, demographic trends indicate that agricultural landowners make decisions regarding land or agricultural endeavors based on lifestyle choices, recreational utility or as an alternative investment in a major financial asset.

Definitions for YBS Farmers and Ranchers

Young Farmer or Rancher- a farmer, rancher or producer/harvester of aquatic products who was age 35 or younger as of the date when the loan was originally made.

Beginning Farmer or Rancher- a farmer, rancher or producer/harvester of aquatic products who had ten years or less of experience at farming, ranching, or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer or Rancher- a farmer, rancher or producer/harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

(A loan to a borrower may meet the definition of a YBS borrower if any one of the categories is achieved.)

In order to address the specific needs of these customers and to be responsive to the credit needs of young, beginning and small farmers, the Association utilizes all existing loan programs to maximize the benefit to young, beginning and small farmers. The Association has also developed specific loan programs to meet the credit needs of this group. Qualifying young, beginning and small farmers who are involved or becoming more involved in agriculture may be eligible for loans with more flexible rates and fees.

The Association's YBS loans as a percentage of total loans outstanding for years ending 2020, 2019 and 2018, respectively, are reflected in the table below:

	2020		2019		2018	
	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume
Young	17.66	11.97	17.07	11.92	17.51	9.79
Beginning	63.78	48.85	62.39	47.75	62.10	50.64
Small	85.02	58.78	85.00	59.90	84.97	61.38

The Association's YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years:

	2020		2019		2018	
	% Loans	% Volume	% Loans	% Volume	% Loans	% Volume
Young	19.42	11.82	17.81	12.88	16.46	8.31
Beginning	64.45	54.85	59.84	45.17	52.36	32.84
Small	81.20	59.64	80.90	54.20	70.85	38.05

The Board established quantitative targets within the 2020 operational and strategic business plan to measure and evaluate progress toward serving young, beginning and small customers. These volume-based targets for performance included new credit to young farmers at 10 percent, to beginning farmers at 35 percent and to small farmers at 35 percent. Based on 2020 lending activity, new credit delivered to young, beginning and small farmers exceeded all targets. The percentage goals were achieved primarily due to core loan activity being greater than projected. Goals were also established by the Board for loans outstanding to young, beginning and small farmers. Volume-based performance goals for outstanding loans included young borrowers at 11 percent, beginning borrowers at 50 percent and small borrowers at 61 percent of all loans outstanding. In this area, the goal for loans to young borrowers was met, but goals were not met for loans to beginning and small borrowers as the overall growth in the loan portfolio outpaced growth in loans to customers in those demographics.

The United States Department of Agriculture's NASS 2017 Census of Agriculture provides data regarding the actual market for YBS farmers and ranchers within the 48-county area served by Lone Star. This census data indicated 4.8 percent of farm operators are "young," 30.4 percent of operators are "beginning" and 97.7 percent of farm units are categorized as "small." There are differences in the methods by which Association YBS data and demographic census data collect information. For instance, census data is based on the number of farms, whereas Association data is based on the number of customers. Additionally, census dates do not coincide with an annual analysis of Association data, and calculations for young and beginning farmers are slightly different. Annual performance data and goals established also include lending activity outside the Association's territory. However, the comparison does offer a quantitative measure of the Association's performance in fulfilling its mission of service to young, beginning and small farmers.

The Association coordinates its young, beginning and small farmer loan program activities with other lenders. This includes the purchase and sale of loan participations, loan guarantees and joint lending. Related services including appraisal, credit life insurance, life and disability products and leasing programs are available to assist YBS borrowers in their credit and related service needs.

Important components of the Association's YBS efforts include the emphasis placed on outreach programs. The Association has held a long-standing belief that an investment in agricultural students and youth activities is important to the long-term success of the cooperative. The Association develops a comprehensive array of marketing efforts to include youth activities and events including livestock shows, 4-H and FFA events, young professional groups, two endowments with major universities in its territory, and agricultural leadership opportunities. Search engine marketing through digital and keyword advertising is also an important means of educating and serving this demographic.

The Association offers a scholarship program for area seniors and six scholarships are awarded in the lending area. The Association also sponsors youth activities in the local area and at the state level through support of 4-H and FFA activities and conventions.

A YBS advisory board was formed to generate ideas and methods on how Lone Star, ACA can better serve the YBS demographic in our area. The advisory board minutes are reported to the Board of Directors.

In summary, the Association fulfills its mission of providing agricultural credit, and meeting the specific credit and related service needs of young, beginning and small farmers, ranchers and producers/harvesters of aquatic products through specific lending programs, quantitative performance measures and broad-based objectives.