Third Quarter Report

2021

Texas Farm Credit District

INTRODUCTION AND TEXAS FARM CREDIT DISTRICT OVERVIEW

The Farm Credit Bank of Texas (Bank) and its related associations collectively are referred to as the Texas Farm Credit District (District). The district is part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The district serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. The bank provides funding to the district associations, which, in turn, provide credit to their borrower-shareholders. As of September 30, 2021, the bank served one Federal Land Credit Association (FLCA), 13 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs) which are not part of the System. The FLCA and ACAs are collectively referred to as associations. The System is a cooperative structure.

Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Farm Credit associations receive funding through one of the four System banks. Each System bank has exposure to Systemwide credit risk because each bank is joint and severally liable for all Systemwide debt issued. System entities have specific lending authorities within their chartered territories and are subject to examination and regulation by an independent federal agency, the Farm Credit Administration (FCA).

The following commentary reviews the combined financial statements of condition and results of operations of the district for the three and nine months ended September 30, 2021.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)		September 30, 2021		December 31, 2020
Total loans	$	**31,577,379**	$	28,893,098
Allowance for loan losses		**88,442**		94,468
Net loans		**31,488,937**		28,798,630
Total assets		**39,027,877**		35,606,914
Total members' equity		**5,541,447**		4,986,742

Nine Months Ended September 30,		**2021**		2020
Net interest income	$	**752,148**	$	668,233
(Loan loss reversal) provision for loan losses		**(7,543)**		12,406
Net fee income		**35,408**		36,775
Net income		**479,036**		419,047
Net interest margin		**2.77%**		2.70%
Net loan charge-offs (recoveries) as a percentage of average loans		**0.00**		0.01
Return on average assets (ROA)		**1.71**		1.62
Return on average shareholders' equity		**11.75**		11.18
Operating expenses as a percentage of net interest income and noninterest income		**42.14**		40.79
Average loans	$	**30,212,679**	$	27,211,472
Average earning assets		**36,268,718**		33,109,156
Average total assets		**37,229,367**		34,270,075

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net Income

Net income for the district of $156.2 million for the three months ended September 30, 2021, reflected an increase of $5.1 million, or 3.37%, over the same time period of 2020. The increase in net income was due to a $20.0 million increase in net interest income and a $6.4 million decrease in provision for loan losses, partially offset by a $2.1 million decrease in noninterest income and a $19.1 million increase in noninterest expense.

Net income for the district of $479.0 million for the nine months ended September 30, 2021, reflected an increase of $60.0 million, or 14.32%, over the same time period of 2020. The increase in net income was driven by an $83.9 million increase in net interest income, a $19.9 million decrease in provision for loan losses, and a $3.6 million increase in noninterest income, partially offset by a $46.7 million increase in noninterest expense. The return on average assets increased to 1.71% for the nine months ended September 30, 2021, compared to 1.62% reported for the same period of the prior year.

Net Interest Income

Net interest income for the three months ended September 30, 2021, was $255.1 million, an increase of $20.0 million, or 8.52%, over the same period of 2020, due primarily to a $3.87 billion increase in combined district average earning assets. The increase in earning assets included growth in the associations' loan portfolios, the bank's investment portfolio and the bank's capital markets loan portfolio.

The net interest rate spread decreased by 5 basis points from 2.60% to 2.55% driven by a 17-basis-point decrease in the average rate on debt, offset by a 22-basis-point decrease in the rate on earning assets. The net interest rate margin decreased by 9 basis points to 2.69% for the three months ended September 30, 2021, compared to 2.78% for the same period of the prior year. The decline in margin and interest rate spread reflects the impact of lower yields on interest earning assets coupled with reduced benefits of callable debt activity given the prolonged low interest rate environment. During the third quarter of 2021, the bank called $1.66 billion in debt and recognized $4.2 million in accelerated concession expense compared to $2.93 billion in debt called and $5.0 million in accelerated concession expense recognition for the same period of 2020.

Net interest income for the nine months ended September 30, 2021, was $752.1 million, an increase of $83.9 million, or 12.56%, over the same period of 2020, due to an increase in the net interest rate spread to 2.63% and a $3.16 billion increase in combined district average earning assets. The increase in earning assets was driven by positive growth in investments at the bank and the associations' loan portfolios, mainly in the real estate mortgage sector, as their borrowers took advantage of the low-interest rate environment and growth in the bank's capital markets loan portfolio.

The net interest rate spread increased by 15 basis points to 2.63% driven by a 58-basis-point decrease in the cost of average interest-bearing liabilities, offset by a 43-basis-point decrease in the yield of average interest earning assets. The net interest rate margin increased by 7 basis points to 2.77% for the nine months ended September 30, 2021, compared to 2.70% for the same period of the prior year. The improvement in interest rate spread and margin reflects the positive aspects of the bank calling debt in 2020 and 2021, supplemented by positive growth in interest-earning assets and a steeper yield curve. During the first nine months of 2021, the bank called $3.93 billion in debt and recognized $7.2 million in accelerated concession expense recognition compared to $14.40 billion in debt called and $19.4 million in accelerated concession expense recognition for the same period of 2020.

Provision for Loan Losses

The provision for the three months ended September 30, 2021, totaled $193 thousand, a decrease of $6.4 million from the $6.6 million provision for loan losses recorded for the same period of 2020. The decrease was due to a $6.4 million decrease at the combined associations, offset by an $84 thousand increase at the bank. The combined associations recorded a loan loss reversal of $227 thousand for the three months ended September 30, 2021, compared to a $6.2 million provision for loan losses for the same period of 2020. The loan loss reversal for the three months ended September 30, 2021, was mainly driven by activity at one association where an increase in Farmer Mac guaranteed loan volume occurred and the general allowance pool decreased due to borrower paydowns.

The loan loss reversal for the nine months ended September 30, 2021, totaled $7.5 million, a decrease of $19.9 million from the $12.4 million provision for loan losses recorded for the same period of 2020. The decrease was due to a $22.0 million decrease at the combined associations, offset by a $2.1 million increase at the bank. The combined associations recorded a loan loss reversal of $10.6 million for the nine months ended September 30, 2021, compared to an $11.5 million provision for loan losses for the same period of 2020. The loan loss reversal for the nine months ended September 30, 2021, was mainly due to an overall improvement in credit quality and prices in certain sectors. The bank recorded a provision for loan losses of $3.1 million, compared to a $921 thousand provision for loan losses for the same period of 2020. The provision for loan losses recorded for the nine months ended September 30, 2021, was mainly driven by an increase in specific reserves and credit deterioration on a limited number of borrowers within the electric utility sector.

Noninterest Income

Noninterest income for the three months ended September 30, 2021, was $17.9 million, a decrease of $2.1 million, or 10.47%, compared to the same period of 2020. The decrease was primarily due to a $4.4 million decrease in fees for loan-related services, partially offset by a $1.3 million increase in patronage income. The decrease in fees for loan-related services is due to fewer prepayments and rate conversions as interest rates have increased.

Noninterest income for the nine months ended September 30, 2021, was $63.6 million, an increase of $3.6 million, or 6.06%, compared to the same period of 2020. The increase was mainly due to a $9.2 million increase in Rural Business Investment Companies (RBIC) related income and a $2.3 million increase in patronage income, offset by a $6.1 million decrease related to distribution refunds from the Farm Credit System Insurance Corporation (FCSIC) not received during 2021.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2021, totaled $116.4 million, an increase of $19.1 million, or 19.60%, from the same period of 2020. The increase in noninterest expense was driven by a $9.4 million increase in salaries and employee benefits, a $4.3 million increase in FCSIC insurance expense due to an 8-basis-point increase in the premium rate, a $1.3 million increase in advertising and member relations expense, a $1.1 million increase in travel expense, and a $1.1 million increase in purchased services.

Noninterest expense for the nine months ended September 30, 2021, totaled $343.7 million, an increase of $46.7 million, or 15.71%, from the same period of 2020. The increase in noninterest expense was driven by a $16.7 million increase in salaries and employee benefits, a $16.1 million increase in FCSIC insurance expense due to an 8-basis-point increase in the premium rate, a $5.4 million increase in purchased services, and a $5.0 million increase in occupancy and equipment.

Loan Portfolio

District Loans by Loan Type

(in thousands)	**September 30, 2021**	December 31, 2020
Real estate mortgage	**$ 19,947,681**	$ 17,674,977
Production and intermediate-term	**3,727,141**	3,518,445
Agribusiness:		
Loans to cooperatives	**603,474**	628,781
Processing and marketing	**3,910,089**	3,855,875
Farm-related business	**494,984**	446,451
Communications	**812,065**	856,600
Energy (rural utilities)	**1,389,369**	1,342,603
Water and waste disposal	**158,223**	163,366
Rural residential real estate	**287,687**	267,506
International	**127,372**	-
Mission-related	**50,352**	73,405
Loans to other financing institutions (OFIs)	**32,398**	31,597
Lease receivables	**36,544**	33,492
Total loans	**$ 31,577,379**	$ 28,893,098

The district loan portfolio consists of retail loans only. The bank's loans to its affiliated associations, also referred to as direct notes, have been eliminated in the combined financial statements. Total loan volume at September 30, 2021, was $31.58 billion, an increase of $2.68 billion, or 9.29%, from the $28.89 billion loan portfolio balance at December 31, 2020. The loan volume increase of $2.68 billion during the first nine months of 2021 was driven by a $2.55 billion increase in the combined associations' loan portfolio and a $138.1 million increase in the bank's capital markets loan portfolio.

The bank's capital markets loan portfolio, also referred to as participations purchased loan portfolio, predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or other System entities.

Loan Quality

One credit quality indicator utilized by the bank and associations is the Farm Credit Administration 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 receivable classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable:

District Loan Quality

	September 30, 2021	December 31, 2020
Acceptable	**97.7%**	97.0%
OAEM (special mention)	**1.3**	2.0
Substandard/doubtful	**1.0**	1.0
Total	**100.0%**	100.0%

Overall credit quality at the bank and at the district associations remained strong at September 30, 2021. Loans classified as acceptable or OAEM as a percentage of total loans and accrued interest receivable were 99.0% at September 30, 2021, and December 31, 2020.

Nonperforming Assets

(in thousands)		September 30, 2021		December 31, 2020
Nonaccrual loans:				
Real estate mortgage	$	**54,886**	$	65,493
Production and intermediate-term		**19,979**		25,454
Agribusiness		**2,078**		3,971
Energy (rural utilities)		**25,533**		1,936
Rural residential real estate		**827**		840
Mission-related		**-**		900
Total nonaccrual loans	$	**103,303**	$	98,594
Accruing restructured loans:				
Real estate mortgage	$	**21,635**	$	23,039
Production and intermediate-term		**3,927**		2,909
Rural residential real estate		**134**		141
Mission-related		**5,009**		5,123
Total accruing restructured loans	$	**30,705**	$	31,212
Accruing loans 90 days or more past due:				
Real estate mortgage	$	**5,502**	$	1,153
Production and intermediate-term		**1,449**		212
Agribusiness		**5**		5
Rural residential real estate		**-**		99
Total accruing loans 90 days or more past due	$	**6,956**	$	1,469
Total nonperforming loans	$	**140,964**	$	131,275
Other property owned		**4,194**		2,544
Total nonperforming assets	$	**145,158**	$	133,819

Nonperforming loans are composed of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, and are also referred to as impaired loans. Nonperforming assets consist of nonperforming loans and other property owned (OPO). Total nonaccrual loans increased by $4.7 million, mainly driven by a $23.6 million increase in energy loans, partially offset by a $16.1 million decrease in real estate mortgage and production and intermediate term loans. Total nonperforming assets have increased by $11.3 million, or 8.47%, from $133.8 million at December 31, 2020, to $145.2 million at September 30, 2021.

At September 30, 2021, $55.8 million, or 54.03%, of loans classified as nonaccrual were current as to principal and interest, compared to $58.1 million, or 58.93%, of nonaccrual loans at December 31, 2020.

The following table provides an age analysis of the loan portfolio (including accrued interest):

Aging Analysis of Loans (in thousands)

September 30, 2021	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
Real estate mortgage	**$ 102,499**	**$ 18,182**	**$ 120,681**	**$ 20,004,435**	**$ 20,125,116**
Production and intermediate-term	**11,199**	**6,925**	**18,124**	**3,740,936**	**3,759,060**
Agribusiness	**2,078**	**5**	**2,083**	**5,024,658**	**5,026,741**
Communications	**-**	**-**	**-**	**812,482**	**812,482**
Energy (rural utilities)	**-**	**15,750**	**15,750**	**1,380,728**	**1,396,478**
Water and waste disposal	**-**	**-**	**-**	**158,601**	**158,601**
Rural residential real estate	**1,714**	**296**	**2,010**	**286,625**	**288,635**
International	**-**	**-**	**-**	**127,523**	**127,523**
Mission-related	**257**	**-**	**257**	**50,599**	**50,856**
Loans to OFIs	**-**	**-**	**-**	**32,450**	**32,450**
Lease receivables	**-**	**-**	**-**	**36,698**	**36,698**
Total loans	**$ 117,747**	**$ 41,158**	**$ 158,905**	**$ 31,655,735**	**$ 31,814,640**

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
Real estate mortgage	$ 90,611	$ 25,962	$ 116,573	$ 17,710,722	$ 17,827,295
Production and intermediate-term	27,608	3,683	31,291	3,513,820	3,545,111
Agribusiness	367	312	679	4,948,503	4,949,182
Communications	-	-	-	856,769	856,769
Energy (rural utilities)	1,924	-	1,924	1,345,098	1,347,022
Water and waste disposal	-	-	-	164,253	164,253
Rural residential real estate	2,384	328	2,712	265,622	268,334
Mission-related	1,889	900	2,789	71,357	74,146
Loans to OFIs	-	-	-	31,653	31,653
Lease receivables	-	-	-	33,655	33,655
Total loans	$ 124,783	$ 31,185	$ 155,968	$ 28,941,452	$ 29,097,420

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:											
Balance at June 30, 2021	$ 43,572	$ 17,900	$ 14,721	$ 788	$ 9,535	$ 366	$ 122	$ 123	$ -	$ 293	$ 87,420
Provision for loan losses (loan loss reversal)	974	(1,007)	499	(28)	(120)	5	(9)	1	-	(122)	193
Recoveries	274	423	1	-	-	-	-	-	-	-	698
Charge-offs	(56)	(32)	-	-	-	-	-	-	-	-	(88)
Other*	(13)	329	(47)	(18)	(22)	(1)	(9)	-	-	-	219
Balance at September 30, 2021	$ 44,751	$ 17,613	$ 15,174	$ 742	$ 9,393	$ 370	$ 104	$ 124	$ -	$ 171	$ 88,442
Balance at December 31, 2020	$ 49,204	$ 24,214	$ 16,354	$ 864	$ 2,867	$ 391	$ -	$ 124	$ -	$ 450	$ 94,468
Provision for loan losses (loan loss reversal)	(4,612)	(8,395)	(940)	(109)	6,689	(20)	123	-	-	(279)	(7,543)
Recoveries	313	1,637	2	-	35	-	-	-	-	-	1,987
Charge-offs	(155)	(353)	(791)	-	-	-	-	-	-	-	(1,299)
Other*	1	510	549	(13)	(198)	(1)	(19)	-	-	-	829
Balance at September 30, 2021	$ 44,751	$ 17,613	$ 15,174	$ 742	$ 9,393	$ 370	$ 104	$ 124	$ -	$ 171	$ 88,442
Individually evaluated for impairment	$ 2,185	$ 2,322	$ 368	$ -	$ 6,877	$ 20	$ -	$ 121	$ -	$ -	$ 11,893
Collectively evaluated for impairment	42,566	15,291	14,806	742	2,516	350	104	3	-	171	76,549
Balance at September 30, 2021	$ 44,751	$ 17,613	$ 15,174	$ 742	$ 9,393	$ 370	$ 104	$ 124	$ -	$ 171	$ 88,442
Recorded Investments in Loans Outstanding:											
Balance at September 30, 2021											
Loans individually evaluated for impairment	$ 83,249	$ 29,576	$ 2,083	$ -	$ 25,533	$ 1,006	$ -	$ 5,009	$ -	$ -	$ 146,456
Loans collectively evaluated for impairment	20,041,867	3,729,484	5,024,658	812,482	1,529,546	287,629	127,523	45,847	32,450	36,698	31,668,184
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2021	$ 20,125,116	$ 3,759,060	$ 5,026,741	$ 812,482	$ 1,555,079	$ 288,635	$ 127,523	$ 50,856	$ 32,450	$ 36,698	$ 31,814,640

*Reserve for losses on letters of credit and unfunded commitments is recorded in other liabilities.

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:										
Balance at June 30, 2020	$ 44,615	$ 25,721	$ 17,206	$ 879	$ 5,587	$ 432	$ 118	$ -	$ 176	$ 94,734
Provision for loan losses (loan loss reversal)	4,419	1,644	1,083	(48)	(547)	(27)	4	-	23	6,551
Recoveries	45	722	17	-	-	2	-	-	-	786
Charge-offs	(313)	(954)	-	-	(2,809)	-	-	-	-	(4,076)
Other*	(23)	200	(401)	(17)	588	-	-	-	-	347
Balance at September 30, 2020	$ 48,743	$ 27,333	$ 17,905	$ 814	$ 2,819	$ 407	$ 122	$ -	$ 199	$ 98,342
Balance at December 31, 2019	$ 44,263	$ 24,200	$ 15,029	$ 609	$ 5,082	$ 422	$ 124	$ -	$ 130	$ 89,859
Provision for loan losses (loan loss reversal)	4,428	3,967	3,602	230	118	(6)	(2)	-	69	12,406
Recoveries	579	2,298	33	-	-	16	-	-	-	2,926
Charge-offs	(499)	(2,683)	-	-	(2,939)	(25)	-	-	-	(6,146)
Other*	(28)	(449)	(759)	(25)	558	-	-	-	-	(703)
Balance at September 30, 2020	$ 48,743	$ 27,333	$ 17,905	$ 814	$ 2,819	$ 407	$ 122	$ -	$ 199	$ 98,342
Individually evaluated for impairment	$ 2,633	$ 3,346	$ 1,653	$ -	$ 1,674	$ 18	$ 115	$ -	$ -	$ 9,439
Collectively evaluated for impairment	46,110	23,987	16,252	814	1,145	389	7	-	199	88,903
Balance at September 30, 2020	$ 48,743	$ 27,333	$ 17,905	$ 814	$ 2,819	$ 407	$ 122	$ -	$ 199	$ 98,342
Recorded Investments in Loans Outstanding:										
Balance at September 30, 2020										
Loans individually evaluated for impairment	$ 117,961	$ 39,822	$ 19,745	$ -	$ 10,674	$ 1,288	$ 6,425	$ -	$ -	$ 195,915
Loans collectively evaluated for impairment	16,976,270	3,358,771	4,934,381	796,818	1,417,934	255,002	70,509	28,689	32,273	27,870,647
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2020	$ 17,094,231	$ 3,398,593	$ 4,954,126	$ 796,818	$ 1,428,608	$ 256,290	$ 76,934	$ 28,689	$ 32,273	$ 28,066,562

*Reserve for losses on letters of credit and unfunded commitments is recorded in other liabilities.

Loans, net of the allowance for loan losses, represented 80.68% of total assets at September 30, 2021, and 80.88% as of December 31, 2020.

Investments

The bank is responsible for meeting the district's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the district's primary source of liquidity, the bank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. Due to the liquidity needs, the bank typically holds investments on an available–for-sale basis. Refer to the bank's 2020 annual report for additional description of the types of investments and maturities. District associations have regulatory authority to enter into certain guaranteed investments that are typically mortgage-backed or asset-backed securities.

Investment Information

(in thousands) **September 30, 2021**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Bank investments	**$ 6,361,688**	**$ 51,328**	**$ (23,090)**	**$ 6,389,926**
District association investments	**97,774**	**887**	**(94)**	**98,567**
Total district investments	**$ 6,459,462**	**$ 52,215**	**$ (23,184)**	**$ 6,488,493**

December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Bank investments	$ 5,468,160	$ 82,825	$ (2,818)	$ 5,548,167
District association investments	87,681	598	(87)	88,192
Total district investments	$ 5,555,841	$ 83,423	$ (2,905)	$ 5,636,359

The district association investments in the preceding tables include held-to-maturity securities with an amortized cost of $6.3 million, an unrealized gain of $108 thousand, and a fair value of $6.4 million as of September 30, 2021, and an amortized cost of $8.3 million, an unrealized gain of $184 thousand, and a fair value of $8.5 million as of December 31, 2020. These securities are reported at amortized cost and included in investment securities on the balance sheets.

Capital Resources

District members' equity totaled $5.54 billion at September 30, 2021, including $970.0 million in preferred stock, $71.7 million in capital stock and participation certificates, $4.42 billion in retained earnings and $224.6 million in additional paid-in-capital, offset by accumulated other comprehensive loss of $147.2 million.

Borrower equity purchases required by association capitalization bylaws, combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $5.54 billion capital position of the district at September 30, 2021, reflected an increase of 11.12% over the December 31, 2020, capital position of $4.99 billion. This increase was attributable to year-to-date net income of $479.0 million and preferred stock net issuance of $200.0 million, offset by $57.4 million in net stock retirements, dividends accrued and paid on preferred stock totaling $42.4 million, estimated patronage payments of $14.0 million, a $5.8 million increase in accumulated other comprehensive loss, and preferred stock issuance costs of $4.7 million.

Accumulated other comprehensive loss totaled $147.2 million at September 30, 2021, an increase of $5.8 million from December 31, 2020. The increase in accumulated other comprehensive losses was driven by a $51.4 million decrease in unrealized gains on the bank's available-for-sale investments, offset by a $33.4 million decrease in unrealized losses on cash flow derivatives hedges resulting from changes in the valuation of interest rate swaps the bank held during 2021 and a $12.2 million decrease in unrealized losses on pension and other postretirement benefit plans. All changes are primarily attributable to increases in interest rates.

Following is a summary of the components of accumulated other comprehensive loss:

Accumulated Other Comprehensive Loss

(in thousands)	**September 30, 2021**	December 31, 2020
Unrealized gains on investment securities	$ 28,922	$ 80,334
Derivatives and hedging position	(74,554)	(107,943)
Employee benefit plan position	(101,591)	(113,787)
Total Accumulated Other Comprehensive Loss	$ (147,223)	$ (141,396)

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations.

On January 19, 2021, one association issued $200 million of Class A noncumulative subordinated perpetual preferred stock, Series 1 (Class A-1 preferred stock), for net proceeds of $195.5 million with issuance costs of $4.5 million. Dividends on the Class A-1 preferred stock, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing March 15, 2021, at an annual fixed rate of 5.00% up to, but excluding, March 15, 2026, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 4.52%. The Class A-1 preferred stock is not mandatorily redeemable at any time but may be redeemed in whole or part at the option of the association, with prior approval from the FCA, on any dividend payment date on or after March 15, 2026. For regulatory purposes, the Class A-1 preferred stock will be included in permanent capital, total capital and tier 1 capital within certain limitations.

Subsequent to September 30, 2021, another association issued $77.9 million of fixed-rate perpetual noncumulative preferred stock, Series B on October 6, 2021. The association authorized 80,000 shares of fixed-rate reset perpetual noncumulative preferred stock, Series B. Holders of Series B preferred stock shall be entitled to receive, if, as and when declared by the board of directors, in its sole discretion, but only out of assets legally available therefor, non-cumulative cash dividends on the Series B stated value, and no more, payable quarterly in arrears on each January 15, April 15, July 15 and October 15 commencing January 15, 2022 and ending October 15, 2026, at an annual rate equal to 5.75% of the par value of $1,000 per share from the date of issuance up to but not including October 15, 2026 (the “Fixed Rate Period”). From and after October 15, 2026 (the “Floating Rate Period”) quarterly dividends will be payable when, as and if declared by the board of directors, in its sole discretion, but only out of assets legally available therefor, at a floating rate equal to the then applicable reset dividend rate.

Regulatory Capital Requirements and Ratios

As of September 30, 2021	Primary Components of Numerator	Regulatory Minimums with Buffers	Bank	District Associations
Risk adjusted:				
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	7.00%	9.52%	10.82% - 19.71%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	15.27%	10.82% - 19.71%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	10.50%	15.36%	12.00% - 20.19%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	15.28%	11.69% - 19.81%
Non-risk adjusted:				
Tier 1 leverage ratio *	Tier 1 capital	5.00%	6.49%	10.02% - 18.44%
UREE leverage ratio	URE and URE equivalents	1.50%	2.69%	7.26% - 19.55%

* Must include the regulatory minimum requirements for the URE and UREE leverage ratio

1 Equities outstanding 7 or more years

2 Capped at 1.25% of risk-adjusted assets

3 Outstanding 5 or more years, but less than 7 years

4 Outstanding 5 or more years

Combined Balance Sheets

(Unaudited)

(in thousands)		September 30, 2021		December 31, 2020
ASSETS				
Cash	**$**	**23,639**	$	130,559
Federal funds sold and overnight investments		**184,640**		208,229
Investment securities		**6,488,385**		5,636,175
Loans		**31,577,379**		28,893,098
Less allowance for loan losses		**88,442**		94,468
Net loans		**31,488,937**		28,798,630
Accrued interest receivable		**246,703**		214,068
Premises and equipment, net		**266,454**		250,342
Other assets		**329,119**		368,911
Total assets	**$**	**39,027,877**	$	35,606,914
LIABILITIES				
Bonds and notes	**$**	**32,848,011**	$	29,723,429
Accrued interest payable		**65,411**		61,063
Patronage distributions payable		**63,419**		208,730
Preferred stock dividends payable		**11,600**		11,600
Other liabilities		**497,989**		615,350
Total liabilities	**$**	**33,486,430**	$	30,620,172
MEMBERS' EQUITY				
Preferred stock	**$**	**970,000**	$	770,000
Capital stock and participation certificates		**71,749**		69,229
Allocated retained earnings		**816,797**		876,706
Unallocated retained earnings		**3,605,499**		3,187,578
Additional paid-in-capital		**224,625**		224,625
Accumulated other comprehensive loss		**(147,223)**		(141,396)
Total members' equity	**$**	**5,541,447**	$	4,986,742
Total liabilities and members' equity	**$**	**39,027,877**	$	35,606,914

Combined Statements of Income

(Unaudited)

(in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
INTEREST INCOME				
Investment securities	**$ 17,198**	$ 21,637	**$ 54,426**	$ 75,636
Loans	**321,402**	300,011	**932,337**	932,688
Total interest income	**$ 338,600**	$ 321,648	**$ 986,763**	$ 1,008,324
INTEREST EXPENSE				
Bonds and notes	**76,409**	79,161	**213,015**	300,475
Notes payable and other	**7,068**	7,397	**21,600**	39,616
Total interest expense	**$ 83,477**	$ 86,558	**$ 234,615**	$ 340,091
Net interest income	**$ 255,123**	$ 235,090	**$ 752,148**	$ 668,233
Provision for loan losses (loan loss reversal)	**193**	6,551	**(7,543)**	12,406
Net interest income after provision for loan losses (loan loss reversal)	**$ 254,930**	$ 228,539	**$ 759,691**	$ 655,827
NONINTEREST INCOME				
Patronage income	**4,252**	2,974	**14,017**	11,734
Fees for loan-related services	**10,459**	14,853	**35,408**	36,775
Refunds from Farm Credit System Insurance Corporation	**-**	-	**-**	6,135
Other income, net	**3,145**	2,118	**14,133**	5,284
Total noninterest income	**$ 17,856**	$ 19,945	**$ 63,558**	$ 59,928
NONINTEREST EXPENSE				
Salaries and employee benefits	**65,081**	55,699	**190,598**	173,934
Occupancy and equipment	**12,449**	11,591	**40,164**	35,136
Purchased services	**11,668**	10,538	**35,083**	29,664
Farm Credit System Insurance Corporation expense	**11,296**	7,013	**32,892**	16,821
Other operating expenses	**15,942**	12,515	**44,980**	41,485
Total noninterest expense	**$ 116,436**	$ 97,356	**$ 343,717**	$ 297,040
Income before income taxes	**156,350**	151,128	**479,532**	418,715
Provision for (benefit from) income taxes	**150**	17	**496**	(332)
Net income	**$ 156,200**	$ 151,111	**$ 479,036**	$ 419,047

Select information on district associations

(in thousands) **As of September 30, 2021**	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	Annualized ROA
Ag New Mexico, Farm Credit Services, ACA	$ 299,434	1.42%	$ 355,547	$ 51,046	12.55%	0.59%	1.24%
AgTexas Farm Credit Services	2,360,854	11.16%	2,724,259	340,381	12.00%	0.50%	1.92%
Alabama Ag Credit, ACA	1,033,666	4.89%	1,258,226	223,409	16.14%	0.68%	1.63%
Alabama Farm Credit, ACA	915,934	4.33%	1,067,992	148,489	13.22%	0.69%	1.75%
Capital Farm Credit, ACA	8,287,779	39.17%	10,129,481	1,698,374	15.34%	0.66%	2.74%
Central Texas Farm Credit, ACA	513,852	2.43%	642,971	125,474	17.80%	0.30%	1.63%
Heritage Land Bank, ACA	575,115	2.72%	678,997	100,501	13.92%	0.09%	1.40%
Legacy Ag Credit, ACA	265,919	1.26%	331,719	65,003	20.19%	1.21%	1.22%
Lone Star, ACA	1,770,469	8.37%	2,203,100	406,860	16.52%	0.20%	2.24%
Louisiana Land Bank, ACA	828,135	3.91%	1,011,912	181,120	15.96%	0.66%	1.73%
Mississippi Land Bank, ACA	769,370	3.64%	935,493	152,125	14.66%	0.26%	1.61%
Plains Land Bank, FLCA	761,025	3.60%	909,543	147,247	14.47%	0.36%	2.06%
Southern AgCredit, ACA	1,094,962	5.17%	1,319,581	202,767	14.39%	0.37%	1.84%
Texas Farm Credit Services	1,683,198	7.95%	1,953,593	256,703	12.65%	0.51%	2.62%
Totals	$ 21,159,712	100.00%	$ 25,522,414	$ 4,099,499			

District Contact Information

Name of Entity	Headquarters Location	Contact Number	Website
Ag New Mexico, Farm Credit Services, ACA	4501 N. Prince Street, Clovis, New Mexico 88101	575-762-3828	www.agnewmexico.com
AgTexas Farm Credit Services	5004 N. Loop 289, Lubbock, Texas 79416	806-687-4068	www.agtexas.com
Alabama Ag Credit, ACA	2660 Eastchase Lane, Suite 401, Montgomery, Alabama 36117	334-270-8687	www.alabamaagcredit.com
Alabama Farm Credit, ACA	300 2nd Avenue SW, Cullman, Alabama 35055	256-737-7128	www.alabamafarmcredit.com
Capital Farm Credit, ACA	3000 Briarcrest Drive, Suite 601, Bryan, Texas 77802	979-822-3018	www.capitalfarmcredit.com
Central Texas Farm Credit, ACA	1026 Early Boulevard, Early, Texas 76802	325-643-5563	www.ranchmoney.com
Farm Credit Bank of Texas	4801 Plaza on the Lake Drive, Austin, Texas 78746	512-465-0400	www.farmcreditbank.com
Heritage Land Bank, ACA	4608 Kinsey Drive, Suite 100, Tyler, Texas 75703	903-534-4975	www.heritagelandbank.com
Legacy Ag Credit, ACA	303 Connally Street, Sulphur Springs, Texas 75482	903-885-9566	www.legacyaca.com
Lone Star, ACA	1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102	817-332-6565	www.lonestaragcredit.com
Louisiana Land Bank, ACA	2413 Tower Drive, Monroe, Louisiana 71201	318-387-7535	www.louisianalandbank.com
Mississippi Land Bank, ACA	5509 Highway 51 North, Senatobia, Mississippi 38668	662-562-9671	www.mslandbank.com
Plains Land Bank, FLCA	1616 S. Kentucky Street, Suite C-250, Amarillo, TX 79102	806-331-0926	www.plainslandbank.com
Southern AgCredit, ACA	402 West Parkway Place, Ridgeland, Mississippi 39157	601-499-2820	www.southernagcredit.com
Texas Farm Credit Services	545 S. Highway 77, Robstown, Texas 78380	361-387-8563	www.texasfarmcredit.com