The lender who can get you there

2007 THIRD QUARTER REPORT

FARM CREDIT BANK OF TEXAS

SEPTEMBER 30, 2007

THIRD QUARTER 2007

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Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three and nine months ended September 30, 2007. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2006 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration promulgated thereunder.

The United States is currently served by four Farm Credit Banks (FCBs), each of which has specific regional lending authority within a chartered territory (or district), and by one Agricultural Credit Bank (ACB), which has the lending authority of an FCB within its chartered territory and limited nationwide lending authority. The FCBs and the ACB are collectively referred to as "System banks." The primary purpose of the FCBs is to serve as a source of funding for System associations within its district. The System associations make loans to or for the benefit of eligible borrowers for qualified purposes.

The bank and its related associations collectively are referred to as the Tenth Farm Credit District (district). At September 30, 2007, the bank served 20 district associations and certain other financing institutions.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended September 30, 2007, was $18,840, an increase of $878, or 4.9 percent, from the quarter ended September 30, 2006. The $878 increase in net income for the third quarter of 2007 was due to a $2,554 increase in net interest income and a $282 negative provision for loan losses in the quarter ended September 30, 2007, offset by a $1,094 decrease in noninterest income and an $864 increase in noninterest expenses.

Net income for the nine months ended September 30, 2007, was $54,592, an increase of $6,975, or 14.6 percent, over the same period of 2006. The increase in net income for the nine months ended September 30, 2007, consisted of an $8,007 increase in net interest income, a $2,460 decrease in provision for loan losses, and a $1,333 increase in noninterest income, offset by a $4,825 increase in noninterest expenses.

Net Interest Income

Net interest income for the three months ended September 30, 2007, was $24,785, an increase of $2,554, or 11.5 percent, from the three months ended September 30, 2006. The increase in net interest income for the quarter ended September 30, 2007, was attributable to a volume increase of $722.3 million in the bank's average earning assets and a 3-basis-point increase in the bank's net interest rate spread. The increase in the interest rate spread was due primarily to a movement of earning assets from the investment portfolio to the loan portfolio, which generally yields a greater spread.

Net interest income for the nine months ended September 30, 2007, was $74,799, an increase of $8,007, or 12.0 percent, over the same period of 2006. The increase in net interest income was attributable to a volume increase of $1.39 billion in the bank's average earning assets. The growth in interest-earning assets for the three and nine months ended September 30, 2007, was due primarily to increases in direct loans to district associations and other financing institutions and to increases in the bank's participations portfolio.

Provision for Loan Losses

The bank recorded a negative provision for loan losses of $282 related to a specific allowance on a loan to one borrower that was sold in the third quarter of 2007. No provision was recorded for the same period in 2006. Provision for loan losses for the nine months ended September 30, 2007, was $118, which represents a decrease of $2,460 over the same period of 2006. The allowance at September 30, 2007, was considered adequate by management to absorb probable losses inherent to its loan portfolio.

Noninterest Income

Noninterest income for the quarter ended September 30, 2007, was $4,596, reflecting a decrease of $1,094, or 19.2 percent, over the same period of 2006. Noninterest income for the nine months ended September 30, 2007, was $15,157, reflecting an increase of $1,333, or 9.6 percent, over the same period of 2006. The decrease for the third quarter of 2007 over the same period of 2006 was due mainly to gains on sales of investments in the third quarter of 2006 of $907, a $772 decrease in fees for loan-related services, a $287 adjustment decreasing the bank's share of gain recognized on property sold by the Farm Credit System Building Association, and a $123 increase in all other noninterest income items, collectively, offset by a $995 increase in patronage income from another Farm Credit System entity. The decrease in loan-related fees includes a $736 decrease in loan prepayment fees.

The $1,333 increase in noninterest income for the nine months ended September 30, 2007, compared to the same period of 2006 was primarily the result of a $2,684 increase in patronage income from another Farm Credit System entity and a $242 increase in patronage income from participation loans, offset by a $747 decrease in fees for financially related services (including a $647 decrease in loan prepayment fees), a $364 decrease in gains on sales of investments, a $287 adjustment decreasing the bank's share of gain recognized on property sold by the Farm Credit System Building Association, and a $195 decrease in all other noninterest income items, collectively.

Noninterest Expense

Noninterest expense for the three and nine months ended September 30, 2007, was $10,823 and $35,246, respectively, reflecting an increase of $864 and $4,825, respectively, over the same periods of 2006. The increase for the third quarter is primarily attributable to a $637 increase in salaries and employee benefits, a $259 increase in premiums to the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund), and a $22 increase in other operating expenses, offset by a $59 decrease in occupancy and equipment expenses related primarily to computer and technology expenses. The $637 increase in salaries and employee benefits was primarily due to a $563 increase in compensation and related payroll taxes, a $46 increase in pension and retirement expenses, and a $28 increase in other benefits. Compensation increased due to increases in the number of employees and increases in compensation rates. Premiums to the Insurance Fund increased due to increases in the loan balances on which premium rates are applied. Other operating expenses increased due to an increase of $196 in professional and contract services, offset by a decrease in advertising and member relations expenses of $91, a decrease of $79 in communications expenses, and a decrease of $4 in all other operating expenses, collectively.

The $4,825 increase in noninterest expense for the nine months ended September 30, 2007, compared to the same period of 2006 was due mainly to a $1,916 increase in salaries and employee benefits, a $973 increase in premiums to FCSIC, a $374 increase in occupancy and equipment expenses, and a $1,549 increase in other operating expenses. The $1,916 increase in salaries and employee benefits was primarily due to a $1,649 increase in compensation and related payroll taxes, a $185 increase in pension and retirement expenses, and an $82 increase in other benefits. Other operating expenses increased due to an increase in advertising and member relations expenses of $641, an increase of $569 in professional and contract services, an increase of $182 in Farm Credit Council fees, an increase of $179 in supervisory and examination expenses, and an increase of $83 in directors' expenses, offset by a decrease of $5 in all other operating expenses, collectively.

Key results of operations comparisons:

	Annualized for the Nine Months Ended 9/30/2007	Annualized for the Nine Months Ended 9/30/2006
Return on average assets	**0.54%**	0.53%
Return on average shareholders' equity	**10.56%**	10.01%
Net interest income as a percentage of average earning assets	**0.75%**	0.75%
Charge-offs, net of recoveries, to average loans	**< 0.01%**	0.04%
Operating expenses as a percentage of net interest income and noninterest income	**39.19%**	37.77%
Operating expenses as a percentage of average earning assets	**0.35%**	0.34%

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2007, was $10,977,047, reflecting an increase of $921,619, or 9.2 percent, compared to $10,055,428 at December 31, 2006, and an increase of $1,264,469, or 13.0 percent, compared to $9,712,578, at September 30, 2006. The changes are net of the effect of the sale of a total of $900 million in participations in its direct notes receivable from associations to another Farm Credit entity during the third and fourth quarters of 2006 and the sale of an additional $600 million in the second and third quarters of 2007. At September 30, 2007, the cumulative total of participations in association loans sold was $2.00 billion. The increases in the loan portfolio are mainly attributable to retail loan growth at district associations, which are primarily funded through direct notes payable to the bank, and to increases in the bank's capital markets loan portfolio. Overall credit quality remained strong, with loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" at 99.9 percent of total loans and accrued interest at September 30, 2007, compared to 99.8 percent and 99.9 percent at December 31, 2006, and September 30, 2006, respectively.

Comparative balances of high-risk assets follow:

		Increase (Decrease)		
	September 30, 2007	$	%	December 31, 2006
Nonaccrual loans	**$ 11,166**	$ 7,453	200.73 %	$ 3,713
Formally restructured loans	**742**	(143)	(16.16)	885
Total impaired loans	**$ 11,908**	7,310	158.98	$ 4,598

The $7,453 increase in nonaccrual loans includes an $11.1 million increase in nonaccrual loans to one borrower, offset by payoffs of $3.8 million on loans to two borrowers. Impaired loans, consisting of nonaccrual loans, formally restructured loans and loans 90 days or more past due and still accruing interest, constituted 0.1 percent of gross loans at September 30, 2007, and less than 0.1 percent of gross loans at December 31, 2006.

At September 30, 2007, the allowance for loan losses was $140, equating to less than 0.01 percent of total loans outstanding, and less than 0.01 percent of capital markets participation loans outstanding, and was considered by management to be adequate to absorb estimated losses inherent in the loan portfolio at that date.

Liquidity and Funding Sources

As of September 30, 2007, the bank exceeded the minimum permanent capital, core surplus, total surplus and net collateral ratio requirements under Farm Credit Administration regulations. At September 30, 2007, the bank's permanent capital ratio was 13.42 percent, core surplus was 6.58 percent, total surplus was 11.12 percent and the net collateral ratio was 105.31 percent. Cash and investment securities totaled $2,621,329, or 19.1 percent, of total assets at September 30, 2007, compared to $2,775,636, or 21.5 percent, at December 31, 2006, reflecting a decrease of $154,307, or 5.6 percent. In 2007, the bank sold investments with a book value of $83.3 million for a gain of $543. The sale was made for capital management purposes. Interest-bearing liabilities, consisting of bonds and notes, increased by $714,573, or 5.9 percent, in order to fund the increases in earning assets previously discussed.

The bank's investment portfolio includes $239.8 million in securitizations of sub-prime mortgage, asset-backed securities. Due to the economic conditions currently affecting that market, the bank has reviewed internally the investments in question, and has consulted with outside analysts. Currently the bonds in question, which are rated Aaa and AAA by Moody's and Standard and Poor's, respectively, are not considered to be in jeopardy of credit downgrading due to the credit enhancement of the structures, the priority of payments assigned to the tranches, and the relatively short weighted average lives. However, prepayments are expected to slow as underwriting standards tighten in this market and this may extend the expected lives on these assets. The bank will continue to monitor these investments. Asset-backed securities represent 9 percent of the bank's investment portfolio.

Capital Resources

Total shareholders' equity at September 30, 2007, totaled $717,267, an increase of $53,046 from December 31, 2006. The increase is primarily the result of net income of $54,592, a decrease in unrealized losses on investment securities of $12,125, dividends paid on preferred stock totaling $7,561, and patronage distributions of $6,110. The change in unrealized losses on investment securities was due primarily to changes in the market value of fixed-rate mortgage-backed securities, whose values have changed as interest rates have fluctuated during the period.

Key financial condition comparisons:

	September 30, 2007	December 31, 2006
Total shareholders' equity to total assets	**5.23%**	5.14%
Total liabilities to shareholders' equity	**18.11:1**	18.44:1
Allowance for loan losses to total loans	**< 0.01%**	< 0.01%

OTHER

Prospective Accounting Changes

On September 30, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” The standard requires an employer to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006, and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The bank will be required to implement the standard for the year ended December 31, 2007. In addition, this standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the bank uses a measurement date of September 30. The requirement to measure the funded status as of the fiscal year end is effective for fiscal years ending after December 15, 2008. The bank is currently evaluating the impact of implementing this standard. It is anticipated that the implementation of this standard will have no impact on the income statement and, based on the current funded status of the plans, it is not expected to have a material or significant impact on the balance sheet.

In February 2007, the FASB issued Statement of Accounting Standards No. 159, “Fair Value Option for Financial Assets and Financial Liabilities.” The standard permits entities to choose on an instrument-by-instrument basis, at special election dates, to measure eligible items at fair value (the “fair value option”). Unrealized gains and losses on items for which the fair value option has been elected shall be reported in earnings at each subsequent reporting date. Up-front costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This standard is effective for financial statements issued for fiscal years beginning after November 1, 2007.

The undersigned certify that we have reviewed the September 30, 2007, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

Larry R. Doyle
Chief Executive Officer

Ralph W. Cortese
Chairman of the Board

Thomas W. Hill
Chief Financial Officer

October 31, 2007

Balance Sheets

(dollars in thousands)	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash	**$ 6,312**	$ 14,165
Federal funds sold and securities purchased under resale agreements	**164,580**	89,229
Investment securities	**2,450,437**	2,672,242
Loans	**10,977,047**	10,055,428
Less allowance for loan losses	**140**	142
Net loans	**10,976,907**	10,055,286
Accrued interest receivable	**75,538**	63,967
Premises and equipment, net	**2,587**	2,286
Other assets	**32,332**	18,585
Total assets	**$ 13,708,693**	$ 12,915,760
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 12,835,356**	$ 12,120,783
Accrued interest payable	**127,405**	96,550
Other liabilities	**28,665**	34,206
Total liabilities	**12,991,426**	12,251,539
Commitments and contingent liabilities (Note 3)		
Shareholders' equity		
Preferred stock, net	**200,000**	200,000
Capital stock	**161,421**	161,421
Allocated retained earnings	**6,197**	6,194
Unallocated retained earnings	**358,994**	318,076
Accumulated other comprehensive loss	**(9,345)**	(21,470)
Total shareholders' equity	**717,267**	664,221
Total liabilities and shareholders' equity	**$ 13,708,693**	$ 12,915,760

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

Statements of Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2007	Quarter Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest Income				
Investment securities	**$ 32,635**	$ 39,520	**$ 100,256**	$ 104,689
Loans	**160,252**	138,116	**465,263**	366,297
Total interest income	**192,887**	177,636	**565,519**	470,986
Interest Expense				
Bonds and notes	**168,102**	155,405	**490,720**	404,194
Net interest income	**24,785**	22,231	**74,799**	66,792
(Negative provision) provision for loan losses	**(282)**	-	**118**	2,578
Net interest income after provision for loan losses	**25,067**	22,231	**74,681**	64,214
Noninterest Income				
Fees for services to associations	**2,276**	2,406	**6,593**	6,713
Loan-related fees	**1,038**	1,810	**3,465**	4,212
Gain from sale of investment securities	**-**	907	**543**	907
Miscellaneous income, net	**1,282**	567	**4,556**	1,992
Total noninterest income	**4,596**	5,690	**15,157**	13,824
Noninterest Expense				
Salaries and employee benefits	**5,092**	4,455	**17,496**	15,580
Occupancy and equipment	**1,153**	1,212	**3,747**	3,373
Insurance Fund premiums	**917**	658	**2,766**	1,793
Gains on other property owned, net	**-**	(5)	**(12)**	(25)
Other operating expenses	**3,661**	3,639	**11,249**	9,700
Total noninterest expense	**10,823**	9,959	**35,246**	30,421
Net Income	**$ 18,840**	$ 17,962	**$ 54,592**	$ 47,617

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2005	$ 200,000	$ 135,390	$ 8,742	$ 306,305	$ (26,130)	$ 624,307
Comprehensive income						
Net income	-	-	-	47,617	-	47,617
Net change in unrealized net losses on investment securities	-	-	-	-	4,786	4,786
Net change in unrealized gains on cash flow derivatives	-	-	-	-	(1,047)	(1,047)
Total comprehensive income	-	-	-	47,617	3,739	51,356
Capital stock retired	-	-	(1,225)	-	-	(1,225)
Preferred stock dividends paid	-	-	-	(7,561)	-	(7,561)
Patronage distributions						
Cash	-	-	-	(5,051)	-	(5,051)
Shareholders' equity	-	-	1	(1)	-	-
Balance at September 30, 2006	$ 200,000	$ 135,390	$ 7,518	$ 341,309	$ (22,391)	$ 661,826
Balance at December 31, 2006	$ 200,000	$ 161,421	$ 6,194	$ 318,076	$ (21,470)	$ 664,221
Comprehensive income						
Net income	-	-	-	54,592	-	54,592
Net change in unrealized net losses on investment securities	-	-	-	-	12,125	12,125
Total comprehensive income	-	-	-	54,592	12,125	66,717
Preferred stock dividends paid	-	-	-	(7,561)	-	(7,561)
Patronage distributions						
Cash	-	-	-	(6,110)	-	(6,110)
Shareholders' equity	-	-	3	(3)	-	-
Balance at September 30, 2007	**$ 200,000**	**$ 161,421**	**$ 6,197**	**$ 358,994**	**$ (9,345)**	**$ 717,267**

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

Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30,	
(dollars in thousands)	**2007**	2006
Operating activities		
Net income	**$ 54,592**	$ 47,617
Reconciliation of net income to net cash provided by operating activities		
Provision for loan losses	**118**	2,578
Depreciation and amortization on premises and equipment	**674**	590
Accretion of net discount on loans	**(279)**	(116)
Amortization and accretion on debt instruments	**(1,774)**	2,066
Amortization of net premium on investment securities	**(2,201)**	(10,496)
Gain on sale of investments	**(543)**	(907)
Losses from sales of other property owned, net	**-**	25
Losses from sales of premises and equipment	**2**	12
Increase in accrued interest receivable	**(11,571)**	(16,700)
Increase in other assets	**(6,073)**	(4,174)
Increase in accrued interest payable	**30,855**	39,249
Increase (decrease) in other liabilities	**2,505**	(2,749)
Net cash provided by operating activities	**66,305**	56,995
Investing activities		
Net increase in federal funds sold and securities purchased under resale agreements	**(75,351)**	(97,215)
Investment securities		
Purchases	**(3,222,546)**	(4,988,677)
Proceeds from maturities, calls and prepayments	**3,376,056**	4,774,893
Proceeds from sales	**83,163**	107,814
Increase in loans, net	**(1,521,460)**	(1,633,564)
Proceeds from sale of loans	**600,000**	400,000
Proceeds from sales of premises and equipment	**108**	59
Expenditures for premises and equipment	**(1,085)**	(596)
Net cash used in investing activities	**(761,115)**	(1,437,286)
Financing activities		
Bonds and notes issued	**20,564,392**	20,325,269
Bonds and notes retired	**(19,858,213)**	(18,924,450)
Capital stock retired and allocated retained earnings distributed	**-**	(1,225)
Cash dividends on preferred stock	**(7,561)**	(7,561)
Cash patronage distributions paid	**(11,661)**	(5,051)
Net cash provided by financing activities	**686,957**	1,386,982
Net (decrease) increase in cash	**(7,853)**	6,691
Cash at beginning of year	**14,165**	4,392
Cash at end of quarter	**$ 6,312**	$ 11,083
Supplemental schedule of noncash investing and financing activities		
Net decrease in unrealized losses on investment securities	**$ 12,125**	$ 4,786
Supplemental schedule of noncash changes in fair value related to hedging activities		
Increase (decrease) in bonds and notes	**10,168**	(6,846)
Supplemental information		
Interest paid	**459,865**	373,910

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

Notes to Financial Statements

Unaudited (dollar amounts in thousands unless otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2006, are contained in the 2006 Annual Report to shareholders (Annual Report). These unaudited third quarter 2007 financial statements should be read in conjunction with the Annual Report.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the bank, and conform to generally accepted accounting principles. The preparation of these financial statements requires the use of management's estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year. Certain amounts in prior years' financial statements have been reclassified to conform with the current year's presentation.

The bank is part of the Tenth Farm Credit District (district), which is part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-shareholders. At September 30, 2007, the bank served 20 district associations and certain other financing institutions.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

	Nine Months Ended September 30,	
	2007	2006
Balance at beginning of period	**$ 142**	$ 142
Provision for loan losses	**118**	2,578
Loans charged off	**(217)**	(2,834)
Recoveries	**97**	256
Balance at end of period	**$ 140**	$ 142

NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES

The bank is primarily liable for its portion of systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated systemwide bonds and notes of the other System banks. Total consolidated bank and systemwide obligations of the System at September 30, 2007, were approximately $146.8 billion.

Other actions are pending against the bank in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom will not be material in relation to the financial position or results of operations of the bank.

NOTE 4 — EMPLOYEE BENEFIT PLANS

The following table summarizes the components of net periodic benefit cost for nonpension postretirement benefit cost for the nine months ended:

	September 30, 2007	September 30, 2006
Service cost	**$ 143**	165
Interest cost	**288**	284
Amortization of prior service costs	**(255)**	(254)
Amortization of net loss	**(4)**	(2)
Net periodic benefit cost	**$ 172**	$ 193

The structure of the district's defined benefit pension plan is characterized as multi-employer, since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations).

NOTE 5 — COMBINED ASSOCIATION FINANCIAL DATA

Condensed financial information for the associations follows. All significant transactions and balances between the associations are eliminated in combination. The multi-employer structure of certain of the district's retirement and benefit plans results in the recording of these plans only in the district's combined financial statements.

Balance sheet data	**September 30, 2007**		December 31, 2006
Cash	**$ 20,100**		46,005
Loans	**11,870,412**		10,665,377
Less allowance for loan losses	**20,790**	(1)	13,827
Net loans	**11,849,622**		10,651,550
Accrued interest receivable	**248,628**		176,583
Other property owned, net	**1,482**		2,020
Other assets	**228,982**		211,927
Total assets	**$ 12,348,814**		$ 11,088,085
Bonds and notes	**$ 10,400,529**		$ 9,214,287
Other liabilities	**177,715**		235,617
Total liabilities	**10,578,244**		9,449,904
Capital stock and participation certificates	**63,062**		60,771
Retained earnings	**1,707,508**		1,577,410
Total members' equity	**1,770,570**		1,638,181
Total liabilities and members' equity	**$ 12,348,814**		$ 11,088,085

	Nine Months Ended September 30,		
Statement of income data	**2007**		2006
Interest income	**$ 654,416**		$ 522,468
Interest expense	**408,122**		305,059
Net interest income	**246,294**		217,409
Provision for loan losses	**35,235**	(1)	4,003
Net interest income after provision for loan losses	**211,059**		213,406
Noninterest income	**44,634**		38,200
Other expense	**109,911**		102,039
Provision for income taxes	**587**		603
Net income	**$ 145,195**		$ 148,964

(1) Twelve associations in the district, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of $68.5 million. The district's associations held $56.3 million of this original balance. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant undercollateralized position and a credit default. The lead lending association in the district has pursued collection efforts and in the third quarter liquidated a part of the collateral, which was applied towards the outstanding balance of all participants. During the third quarter, five of the associations in the district repurchased the loan held by one Farm Credit association outside the district. Through September 30, 2007, the 12 associations in the district have recorded charge-offs of approximately $27.5 million and specific reserves remaining of approximately $4.0 million. The loan has a remaining book balance of $10.9 million at September 30, 2007. The bank does not have a participation interest in this loan.