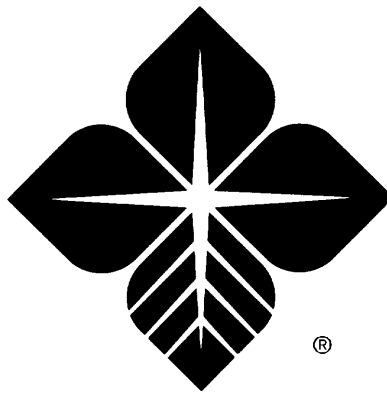


# **LEGACY AG CREDIT, ACA**

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## **2009 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2009**

## **REPORT OF MANAGEMENT**

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

Lee E. Warren, Chief Executive Officer  
*April 23, 2009*

John O. Powell, Chairman, Board of Directors  
*April 23, 2009*

Wayne Bawcum, C.P.A., Chairman, Audit Committee  
*April 23, 2009*

Daryl D. Belt, Chief Financial Officer  
*April 23, 2009*

**LEGACY AG CREDIT, ACA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Significant Events :**

**Loan Portfolio:**

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$300,932,723 compared to \$297,926,872 at December 31, 2008, reflecting an increase of 1.0 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.4 percent at March 31, 2009, compared to 0.2 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$734 in charge-offs for the quarter ending March 31, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

**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. The following table illustrates the Association's components and trends of high-risk assets.

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 4,143,625	98.3%	\$ 515,688	100.0%
90 days past due and still accruing interest	72,705	1.7%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 4,216,330</u>	<u>100.0%</u>	<u>\$ 515,688</u>	<u>100.0%</u>

**Results of Operations:**

The Association had net income of \$1,415,463 for the three months ended March 31, 2009, as compared to net income of \$1,500,543 for the same period in 2008 reflecting a decrease of 5.7 percent. Net interest income was \$2,105,610 for the three months ended March 31, 2009, compared to \$2,026,700 for the same period in 2008. Interest income for the first three months of 2009 decreased by \$397,013 or 8.1 percent from the same periods of 2008, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Interest expense for the first three months of 2009 decreased by \$475,923, or 16.7 percent, from the same periods of 2008 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2009 was \$298,953,543, compared to \$267,167,204 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 2.31 percent, compared to 2.32 percent in the first quarter of 2008.

The Association's return on average assets for the three months ended March 31, 2009, was 1.86 and 2.19 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 11.43 and 13.45 percent for the same period in 2008.

**Liquidity and Funding Sources:**

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<b>March 31, 2009</b>	December 31, 2008
Note payable to the Bank	\$ 257,450,538	\$ 254,829,769
Accrued interest on note payable	786,417	882,874
Total	<u>\$ 258,236,955</u>	<u>\$ 255,712,643</u>

**Capital Resources:**

The Association's capital position increased by \$1,410,017 at March 31, 2009, compared to December 31, 2008. The Association's debt to members' equity ratio was 5.22:1 as of March 31, 2009, compared to 5.34:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 14.5 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 14.1 and 14.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

**Relationship with the Farm Credit Bank of Texas:**

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of Legacy Ag Credit, ACA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at [fcb@farmcreditbank.com](mailto:fcb@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its web site at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Legacy Ag Credit, ACA, 303 Connally Street Sulphur Springs, Texas 75482 or calling 903-885-9566. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [sherry.jennings@legacyaca.com](mailto:sherry.jennings@legacyaca.com).

**LEGACY AG CREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b><u>ASSETS</u></b>		
Cash	\$ 420,625	\$ 1,197,517
Loans	300,932,723	297,926,872
Less: allowance for loan losses	281,967	285,392
Net loans	300,650,756	297,641,480
Accrued interest receivable	2,994,245	2,438,582
Investment in and receivable from the Bank:		
Capital stock	4,783,045	4,783,045
Premises and equipment	469,616	440,133
Other assets	268,775	74,756
Total assets	<u>\$ 309,587,062</u>	<u>\$ 306,575,513</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 257,450,538	\$ 254,829,769
Advance conditional payments	1	1
Accrued interest payable	786,712	882,874
Drafts outstanding	662,783	716,644
Dividends Payable	-	1,000,411
Other liabilities	909,781	778,584
Total liabilities	<u>259,809,815</u>	<u>258,208,283</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,203,735	1,201,265
Unallocated retained earnings	48,430,478	47,017,870
Accumulated other comprehensive income (loss)	143,034	148,095
Total members' equity	<u>49,777,247</u>	<u>48,367,230</u>
Total liabilities and members' equity	<u>\$ 309,587,062</u>	<u>\$ 306,575,513</u>

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

**LEGACY AG CREDIT, ACA**

**CONSOLIDATED STATEMENT OF INCOME**

(unaudited)

	<b>Quarter Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b><u>INTEREST INCOME</u></b>		
Loans	<b>\$ 4,480,326</b>	\$ 4,877,339
Total interest income	<b>4,480,326</b>	4,877,339
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank	<b>2,374,716</b>	2,850,613
Advance conditional payments	-	26
Total interest expense	<b>2,374,716</b>	2,850,639
Net interest income	<b>2,105,610</b>	2,026,700
<b><u>PROVISION FOR LOSSES</u></b>		
Provision (negative provision) for loan losses	<b>(2,691)</b>	15,792
Net interest income after provision for loan losses	<b>2,108,301</b>	2,010,908
<b><u>NONINTEREST INCOME</u></b>		
Income from the bank:		
Patronage income	<b>44,189</b>	50,125
Loan fees	<b>97,281</b>	81,042
Financially related services income	<b>336</b>	556
Gain (loss) on other property owned, net	-	1,683
Other noninterest income	<b>14,897</b>	13,209
Total noninterest income	<b>156,703</b>	146,615
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	<b>453,723</b>	316,250
Directors' expense	<b>38,264</b>	33,203
Purchased services	<b>92,201</b>	77,580
Travel	<b>19,670</b>	20,869
Occupancy and equipment	<b>17,440</b>	14,418
Communications	<b>6,449</b>	4,800
Advertising	<b>7,282</b>	9,768
Public and member relations	<b>26,609</b>	33,400
Supervisory and exam expense	<b>24,978</b>	21,199
Insurance Fund premiums	<b>121,832</b>	97,847
Other noninterest expense	<b>41,093</b>	27,646
Total noninterest expenses	<b>849,541</b>	656,980
Income before income taxes	<b>1,415,463</b>	1,500,543
Net income	<b>\$ 1,415,463</b>	\$ 1,500,543

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 1,225,080	\$ -	\$ 41,529,643	\$ 192,352	\$ 42,947,075
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	(1,017)	-	(1,017)
Balance at January 1, 2008	1,225,080	-	41,528,626	192,352	42,946,058
Comprehensive income					
Net income	-	-	1,500,544	-	1,500,544
Amortization of costs included in periodic retirement benefit costs	-	-	-	(5,046)	(5,046)
Total comprehensive income	-	-	1,500,544	(5,046)	1,495,498
Capital stock/participation certificates issued	29,580	-	-	-	29,580
Capital stock/participation certificates and allocated retained earnings retired	(28,635)	-	-	-	(28,635)
Patronage refunds:					
Adjustments from prior declarations	-	-	3,759	-	3,759
Balance at March 31, 2008	<u>\$ 1,226,025</u>	<u>\$ -</u>	<u>\$ 43,032,929</u>	<u>\$ 187,306</u>	<u>\$ 44,446,260</u>
Balance at December 31, 2008	\$ 1,201,265	\$ -	\$ 47,017,870	\$ 148,095	\$ 48,367,230
Comprehensive income					
Net income	-	-	1,415,465	-	1,415,465
Amortization of costs included in periodic retirement benefit costs	-	-	-	(5,062)	(5,062)
Total comprehensive income	-	-	1,415,465	(5,062)	1,410,403
Capital stock/participation certificates issued	29,905	-	-	-	29,905
Capital stock/participation certificates and allocated retained earnings retired	(27,435)	-	-	-	(27,435)
Patronage refunds:					
Adjustments from prior declarations	-	-	(2,857)	-	(2,857)
Balance at March 31, 2009	<u>\$ 1,203,735</u>	<u>\$ -</u>	<u>\$ 48,430,478</u>	<u>\$ 143,033</u>	<u>\$ 49,777,246</u>

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

**LEGACY AG CREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted FSP No. 157-2, “Effective Date of FASB Statement No. 157.” This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2 — ALLOWANCE FOR LOAN LOSSES:**

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated 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 economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	<b>March 31, 2009</b>	March 31, 2008
Balance at beginning of quarter	\$ <b>285,392</b>	\$ 84,484
Provision for loan losses	<b>(2,691)</b>	15,792
Charge-offs	<b>(734)</b>	-
Recoveries	-	-
Balance at end of quarter	<b>\$ 281,967</b>	<b>\$ 100,276</b>

The following table presents information concerning impaired loans:

	<b>March 31, 2009</b>	March 31, 2008
Impaired loans with related allowance	\$ 740,047	\$ 180,329
Impaired loans with no related allowance	3,476,283	414,976
Total impaired loans	<u>\$ 4,216,330</u>	<u>\$ 595,305</u>
Allowance on impaired loans	\$ 29,082	\$ 13,405
Average impaired loans	\$ 1,858,954	\$ 579,402
Interest income on impaired loans for the quarter	\$ 596	\$ 582

### NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and 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 or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

### NOTE 4 — INCOME TAXES:

Legacy Ag Credit, ACA and its subsidiary, Legacy, PCA, are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. 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 subsidiary, Legacy Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

### NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, :

	<u>Other Benefits</u>	
	<u>2009</u>	<u>2008</u>
Service cost	\$ 3,208	\$ 2,270
Interest cost	4,364	3,793
Expected return on plan assets	-	-
Amortization of prior service costs	(5,062)	(5,122)
Amortizations of net (gain) loss	-	76
Net periodic benefit cost	<u>\$ 2,511</u>	<u>\$ 1,017</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association decreased retained earnings \$1,017 and decreased the postretirement benefit liability by \$1,017.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$11,630 to its defined pension plan in 2009. As of March 31, 2009, \$2,511 of contributions have been made. The Association presently anticipates contributing an additional \$7,533 to fund its defined pension plan in 2009 for a total \$10,044.