



## Stockholders' Report

For the Quarter Ended

September 30, 2007

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

(All Dollar Amounts in Thousands)

The following commentary is a review and explanation of the principal aspects of the combined financial condition and the results of operations of First Ag Credit, FCS (the "Association") including its wholly-owned subsidiaries, First Ag Credit, FLCA (mortgage loans) and First Ag Credit, PCA (commercial loans), for the nine-month period ended September 30, 2007. These comments should be read in conjunction with the December 31, 2006 Annual Report to Stockholders.

### Loan Portfolio

During the nine-month period ended September 30, 2007, the Association experienced a \$106.9 million or 7.2 percent increase in loan volume. This increase is attributable to loan volume growth primarily in the mortgage sector. The following table reflects the Association's stable loan portfolio credit quality:

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Acceptable	94.3%	94.3%
Special mention	3.8%	3.8%
Substandard	1.9%	1.9%
Total	<u>100.0%</u>	<u>100.0%</u>

High-risk assets have increased during the nine-month period ended September 30, 2007. The following table illustrates the Association's components and trends of high-risk assets serviced:

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
Nonaccrual loans	\$14,143	62.0%	\$13,182	66.6%
90 days past due & still accruing interest	2,625	11.5%	225	1.1%
Formally restructured	5,383	23.6%	5,539	28.0%
Other property owned, net	661	2.9%	851	4.3%
Total	<u>\$22,812</u>	<u>100.0%</u>	<u>\$19,797</u>	<u>100.0%</u>

Impaired loans consist of all high-risk assets except other property owned, net and totaled \$22.2 million or 1.4 percent of total loan volume and \$18.9 million or 1.3 percent of total loan volume at September 30, 2007 and December 31, 2006, respectively.

The Association participates in loans with other entities within the Farm Credit System, with commercial banks, and with mortgage companies. At September 30, 2007, the Association had participation loans purchased in the amount of \$196.0 million or 12.3 percent of total loans compared to \$158.2 million or 10.6 percent of total loans at December 31, 2006. To diversify risk, the Association's participation sold volume was \$75.5 and \$77.0 million at September 30, 2007 and December 31, 2006, respectively.

#### Allowance for Losses

The Association had a loan loss reserve of \$7.8 million or 0.5 percent of total loan volume at September 30, 2007 and \$6.8 million or 0.5 percent of total loan volume at December 31, 2006, respectively.

#### Results of Operations

The Association had net income of \$21.9 million for the nine-month period ended September 30, 2007 compared to net income of \$17.7 million for the same period 2006. The increase in net income for the nine-month periods ended September 30 is reflected in the following table.

	2007	2006	Increase (Decrease)
Interest income	<b>\$91,516</b>	\$75,023	\$16,493
Interest expense	<b>56,849</b>	43,760	13,089
Provision for loan losses	<b>1,079</b>	1,679	(600)
Net interest income after provision for loan losses	<b>33,588</b>	29,584	4,004
Noninterest income	<b>7,056</b>	6,040	1,016
Noninterest expense			
Salaries & employee benefits	<b>11,304</b>	10,839	465
Bank purchased services and allocations	<b>3,089</b>	2,783	306
Other	<b>4,362</b>	4,328	34
Total noninterest expense	<b>18,755</b>	17,950	805
Income tax expense	<b>39</b>	-	39
Net income	<b>\$21,850</b>	\$17,674	\$4,176

Net interest income before provision for losses was \$34.7 million for the nine-month period ended September 30, 2007 compared to \$31.3 million for the same period in 2006. Average accrual loans outstanding for the nine-month period ended September 30, 2007 was \$1,527.4 million compared to \$1,282.0 million for the same period 2006. This increase of \$245.4 million (19.1%) in average loan volume primarily contributed to the increase in net interest income. The provision for loan losses was significantly less for the

nine-month period ended September 30, 2007 compared to the same nine month period in 2006. This was due to a \$1.1 million provision taken in the first quarter of 2006 due primarily to one large loan being moved to nonaccrual. Noninterest income increased for the nine-month period ended September 30, 2007 compared to the same nine-month period in 2006 by \$1.0 million due to an increase in fees generated from loan volume and patronage income from the Farm Credit Bank. In addition, total operating expenses increased for the nine-month period ended September 2007 compared to the same period in 2006. This increase is due to an increase in salaries and employee benefits, which consist of salary increases, new hires and postretirement health and welfare plan costs, and an increase in the loan balances on which the Farm Credit Insurance Corporation premiums are calculated. Most other expense categories remained consistent between the two periods. Overall net income increased \$4.2 million for the nine-month period ended September 30, 2007 compared to the same period in 2006.

#### Key financial ratios were:

	<u>FYTD</u> <u>September 30,</u> <u>2007</u> <u>(Unaudited)</u>	<u>FYE</u> <u>Dec. 31, 2006</u>
Return on average assets (annualized)	<b>1.8%</b>	1.7%
Return on average members' equity (annualized)	<b>13.3%</b>	11.6%
Member equity as % of total assets	<b>13.8%</b>	13.4%
Debt as % of members' equity	<b>613.2%</b>	627.1%
Net interest income as % of average earning assets (annualized)	<b>3.0%</b>	3.2%
Allowance for loan losses as % of loans	<b>.5%</b>	.5%
Permanent capital ratio	<b>12.4%</b>	12.7%
Core surplus ratio	<b>11.8%</b>	12.1%
Total surplus ratio	<b>11.8%</b>	12.1%

## Quarterly Financial Reports

The Association is required to distribute quarterly financial reports to all stockholders during periods in which a significant event occurs which materially affects the Association. There were no significant events for First Ag Credit, FCS, which would materially affect the third quarter report for 2007. As a result, this report is not being mailed to First Ag Credit, FCS's stockholders. A copy of this report or the report of the Tenth Farm Credit District ("District") may be obtained by request from First Ag Credit, FCS, Attention: Jeff Norris, P. O. Box 6520, Lubbock, Texas 79493-6520, calling 806-281-1789 or by e-mail to jnorris@agmoney.com. The Association makes its 2006 annual and quarterly stockholder reports available on its web site at www.agmoney.com, and the District reports are available on its web site at www.farmcreditbank.com.

## First Ag Credit, FCS Consolidated Balance Sheet

<i>(Dollars in Thousands)</i>	<b>September 30, 2007 <i>(Unaudited)</i></b>	December 31, 2006
<b><u>Assets</u></b>		
Loans	<b>\$1,593,962</b>	\$1,487,047
Less: allowance for loan losses	<b>(7,843)</b>	(6,844)
Net loans	<b>1,586,119</b>	1,480,203
Cash	<b>6,339</b>	8,711
Accrued interest receivable	<b>45,610</b>	38,317
Investment in the Farm Credit Bank	<b>22,748</b>	22,683
Premises and equipment, net	<b>8,152</b>	8,353
Other property owned, net	<b>661</b>	851
Other assets	<b>4,419</b>	1,362
<b>Total assets</b>	<b>\$1,674,048</b>	<b>\$1,560,480</b>
<b><u>Liabilities</u></b>		
Drafts outstanding	<b>\$4,750</b>	\$10,486
Note payable to the Farm Credit Bank	<b>1,406,853</b>	1,300,593
Accrued interest payable to the Farm Credit Bank	<b>6,652</b>	5,975
Advance conditional payments	<b>11,752</b>	13,360
Patronage payable	<b>-</b>	8,185
Postretirement and other liabilities	<b>13,536</b>	13,538
<b>Total liabilities</b>	<b>1,443,543</b>	<b>1,352,137</b>
<b><u>Members' Equity</u></b>		
At-risk equity:		
Capital stock and participation certificates	<b>9,303</b>	9,007
Unallocated retained earnings	<b>221,202</b>	199,336
<b>Total members' equity</b>	<b>230,505</b>	<b>208,343</b>
<b>Total liabilities and members' equity</b>	<b>\$1,674,048</b>	<b>\$1,560,480</b>

The accompanying notes are an integral part of these statements.

**First Ag Credit, FCS**  
**Consolidated Statement of Income**

<i>Unaudited</i> (Dollars in Thousands)	For Quarter Ended September 30,		For the Nine-Months Ended September 30,	
	2007	2006	2007	2006
<b>Interest Income</b>				
Loans	\$31,353	\$27,453	\$91,516	\$75,023
<b>Interest Expense</b>				
Notes payable –Farm Credit Bank and others	19,627	16,712	56,849	43,760
<b>Net interest income</b>	<b>11,726</b>	<b>10,741</b>	<b>34,667</b>	<b>31,263</b>
<b>Provision for loan losses</b>				
Provision for loan losses	506	497	1,079	1,679
<b>Net interest income after provision for loan losses</b>	<b>11,220</b>	<b>10,244</b>	<b>33,588</b>	<b>29,584</b>
<b>Noninterest Income</b>				
Loan fees	798	690	2,403	2,186
Patronage income from Farm Credit Bank	1,336	1,143	3,952	3,243
Fees for financially related services	127	111	277	286
Other income	76	37	424	325
<b>Total noninterest income</b>	<b>2,337</b>	<b>1,981</b>	<b>7,056</b>	<b>6,040</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,693	3,515	11,304	10,839
Directors' expense	122	127	446	466
Bank purchased services and allocations	1,008	1,034	3,089	2,783
Travel	239	239	690	664
Occupancy and equipment	247	285	737	784
Communications	87	87	283	253
Advertising	232	195	715	823
Public and member relations	157	153	578	585
Training	39	51	190	181
Supervisory and exam expense	116	109	335	321
Other expense	56	81	388	251
<b>Total noninterest expense</b>	<b>5,996</b>	<b>5,876</b>	<b>18,755</b>	<b>17,950</b>
<b>Income before income taxes</b>	<b>7,561</b>	<b>6,349</b>	<b>21,889</b>	<b>17,674</b>
Income tax expense	39	-	39	-
<b>Net income</b>	<b>\$7,522</b>	<b>\$6,349</b>	<b>\$21,850</b>	<b>\$17,674</b>

The accompanying notes are an integral part of these statements.

**First Ag Credit, FCS**  
**Consolidated Statement of Changes in Members' Equity-At Risk**

<i>(Dollars in Thousands)</i>	Capital Stock & Participation Certificates	Retained Earnings Unallocated	Total Members' Equity
	Balance at December 31, 2005	\$8,705	\$183,626
Net income	-	17,674	17,674
Capital stock/participation certificates issued	1,263	-	1,263
Capital stock/participation certificates retired	(1,028)	-	(1,028)
Patronage distributions: Cash	-	-	-
Change in patronage declared and paid	-	184	184
<b>Balance at September 30, 2006 (Unaudited)</b>	<b>\$8,940</b>	<b>\$201,484</b>	<b>\$210,424</b>
Balance at December 31, 2006	\$9,007	\$199,336	\$208,343
Net income	-	21,850	21,850
Capital stock/participation certificates issued	1,344	-	1,344
Capital stock/participation certificates retired	(1,048)	-	(1,048)
Patronage distributions: Cash	-	-	-
Change in patronage declared and paid	-	16	16
<b>Balance at September 30, 2007 (Unaudited)</b>	<b>\$9,303</b>	<b>\$221,202</b>	<b>\$230,505</b>

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Unaudited*

(All Dollar Amounts in Thousands)

#### NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Organization

A description of the organization and operations of First Ag Credit, FCS (the "Association"), the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2006 are contained in the 2006 Annual Report to Stockholders. These unaudited third quarter, 2007 consolidated financial statements should be read in conjunction with the 2006 Annual Report to Stockholders.

The Association's financial condition may be affected by factors that affect the Farm Credit Bank of Texas ("Bank"). The financial condition and results of operations of the Bank may materially affect stockholders' investment in the Association.

##### B. Financial Presentation

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a consolidated statement of cash flows. Generally accepted accounting principles require this type of business enterprise to provide a statement of cash flows for each period for which results of operations are provided. However, the Farm Credit Administration (FCA) allows associations the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a consolidated statement of cash flows in these consolidated financial statements.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period's consolidated financial statement presentation.

#### NOTE 2-LOANS

The Association's loan portfolio has certain credit risks identified by industry. The following table illustrates the industry concentrations in the loan portfolio:

Industry	September 30, 2007	September 30, 2006
Production agricultural:		
Real estate mortgage	\$974,485	\$869,256
Production and intermediate term	331,654	289,126
Agribusiness:		
Processing and marketing	235,896	202,989
Loans to cooperatives	8,958	11,838
Farm-related business	15,484	10,103
Rural residential real estate	20,023	19,911
Communication	5,126	5,108
Energy	2,336	904
Total	<b>\$1,593,962</b>	<b>\$1,409,235</b>

The Association's impaired loans are presented in the following table reporting the recorded investment outstanding plus accrued interest:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Nonaccrual loans:		
Current as to principal and interest	\$10,968	\$11,252
Past due	3,175	3,516
Total nonaccrual loans	<b>14,143</b>	14,768
Accrual loans:		
Restructured	5,383	6,041
90 days or more past due	2,625	399
Total impaired loans	<b>\$22,151</b>	<b>\$21,208</b>

The following table summarizes impaired loan information for the nine-month periods ended:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Average impaired loans	\$19,370	\$18,053
Interest income recognized on impaired loans	\$534	\$323

#### NOTE 3-ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the nine-month periods ended:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Balance at beginning of period	\$6,844	\$4,882
Provision for loan losses	1,080	1,679
Recoveries	20	20
Charge-offs net of adjustments	(101)	1
Balance at end of period	<b>\$7,843</b>	<b>\$6,582</b>

## Report of Management

The following table presents information concerning the allowance on impaired loans as of:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Impaired loans with related allowance	\$8,708	\$9,366
Impaired loans with no related allowance	<u>13,443</u>	<u>11,842</u>
Total impaired loans	<u>\$22,151</u>	<u>\$21,208</u>

The specific allowances on impaired loans were \$4.0 and \$3.1 million at September 30, 2007 and 2006, respectively.

### NOTE 4-NOTE PAYABLE TO THE BANK

The interest rate risk 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 is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. 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 Association is obligated to borrow only from the Bank unless the Bank approves borrowings 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. The Association's note payable meets those standards as of September 30, 2007.

The consolidated financial statements of First Ag Credit, FCS (the Association) are prepared by management, who are responsible for their integrity and objectivity, including amounts that are based on necessary judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

The audit committee of the board of directors has oversight responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors. The vice president of risk management oversees the internal audit function, reports compliance issues quarterly and has direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report have been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete.



Terry D. Dane  
Chief Executive Officer

October 5, 2007



Keith Vandivere  
Chairman, Board of Directors

October 5, 2007