



2008 ANNUAL REPORT

*December 31, 2008*



Part of the Farm Credit System

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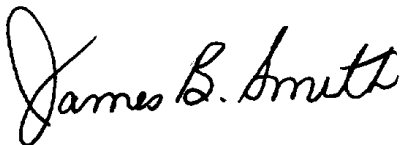
## REPORT OF MANAGEMENT

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

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

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

The undersigned certify that this annual report has been reviewed and 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 knowledge or belief.



James B. Smith, Chief Executive Officer  
*March 6, 2009*



Thomas C. Hall, Chairman, Board of Directors  
*March 6, 2009*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (Committee) is composed of the entire board of directors of Louisiana Ag Credit, ACA. In 2008, eight board of directors meetings and one Audit Committee meeting were held. The Committee oversees the scope of Louisiana Ag Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Louisiana Ag Credit, ACA's web site. The Committee approved the appointment of PricewaterhouseCoopers LLP for 2008.

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

In this context, the Committee reviewed and discussed Louisiana Ag Credit, ACA's audited consolidated financial statements for the year ended December 31, 2008 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The Committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) and both PricewaterhouseCoopers LLP and Louisiana Ag Credit, ACA's internal auditors directly provide reports on significant matters to the Committee.

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the board of directors include the audited consolidated financial statements in Louisiana Ag Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2008.

### Audit Committee Members

Thomas C. Hall  
John Van Bennett  
Joseph A. Dill  
Benoit Holloway, Jr.  
Gary A. Kennedy

*March 6, 2009*

LOUISIANA AG CREDIT, ACA

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

	December 31,				
	2008	2007	2006	2005	2004
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 37	\$ 36	\$ 36	\$ 71	\$ 31
Loans	84,519	77,627	73,106	69,817	68,341
Less: allowance for loan losses	657	272	459	299	652
Net loans	83,862	77,355	72,647	69,518	67,689
Investment in and receivable from the Bank	2,163	2,160	2,153	3,378	3,378
Other property owned, net	89	270	-	21	24
Other assets	1,435	1,723	1,568	1,485	1,291
Total assets	<u>\$ 87,586</u>	<u>\$ 81,544</u>	<u>\$ 76,404</u>	<u>\$ 74,473</u>	<u>\$ 72,413</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 4,287	\$ 6,065	\$ 4,223	\$ 2,253	\$ 2,587
Obligations with maturities greater than one year	68,788	60,994	58,036	58,740	56,454
Total liabilities	<u>73,075</u>	<u>67,059</u>	<u>62,259</u>	<u>60,993</u>	<u>59,041</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	1,198	1,399	1,539	1,571	1,608
Unallocated retained earnings	13,486	13,244	12,606	11,909	11,764
Accumulated other comprehensive loss	(173)	(158)	-	-	-
Total members' equity	<u>14,511</u>	<u>14,485</u>	<u>14,145</u>	<u>13,480</u>	<u>13,372</u>
Total liabilities and members' equity	<u>\$ 87,586</u>	<u>\$ 81,544</u>	<u>\$ 76,404</u>	<u>\$ 74,473</u>	<u>\$ 72,413</u>

	Year Ended December 31,				
	2008	2007	2006	2005	2004
<b>Statement of Income Data</b>					
Net interest income	\$ 2,672	\$ 2,645	\$ 2,507	\$ 2,493	\$ 2,477
(Provision for loan losses) or loan loss reversal	(410)	149	179	(1,191)	1,003
Provision for acquired property losses		(156)			
Income from the Bank	296	315	309	318	239
Other noninterest income	221	200	170	229	191
Noninterest expense	(2,253)	(2,098)	(2,026)	(1,910)	(2,750)
(Provision for) benefit from income taxes	(11)	83	(92)	406	13
Net income	<u>\$ 515</u>	<u>\$ 1,138</u>	<u>\$ 1,047</u>	<u>\$ 345</u>	<u>\$ 1,173</u>

<b>Key Financial Ratios for the Year</b>					
Return on average assets	0.6%	1.4%	1.4%	0.5%	1.6%
Return on average members' equity	3.5%	7.8%	7.5%	2.5%	9.4%
Net interest income as a percentage of average earning assets	3.2%	3.4%	3.5%	3.4%	3.5%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	(0.1%)	2.8%	0.1%

**LOUISIANA AG CREDIT, ACA**

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

	December 31,				
	<b>2008</b>	2007	2006	2005	2004
<b><u>Key Financial Ratios at Year End</u></b>					
Members' equity as a percentage of total assets	<b>16.5%</b>	17.8%	18.5%	18.1%	18.5%
Debt as a percentage of members' equity	<b>503.6%</b>	462.3%	440.1%	452.4%	441.5%
Allowance for loan losses as a percentage of loans	<b>0.8%</b>	0.4%	0.6%	0.4%	1.0%
Permanent capital ratio	<b>16.0%</b>	17.5%	17.5%	17.1%	17.7%
Core surplus ratio	<b>13.6%</b>	14.5%	14.1%	11.9%	12.1%
Total surplus ratio	<b>14.6%</b>	15.7%	15.4%	14.9%	15.3%
<b><u>Net Income Distribution</u></b>					
Patronage refunds:					
Cash	\$ <b>500</b>	\$ 349	\$ 200	\$ 200	\$ -

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
*(dollars in thousands)*

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Louisiana Ag Credit, ACA, including its wholly-owned subsidiaries, Louisiana Ag Credit, PCA and Louisiana Ag Credit, FLCA (Association) for the years ended December 31, 2008, 2007 and 2006, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's Audit Committee.

**Forward-Looking Information:**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

**Significant Events:**

In December 2008, the Association received a direct loan patronage of \$199 from the Bank, representing 30 basis points on the average daily balance of the Association's direct loan with the Bank. During 2008, the Association received \$94 in interest credit patronage payments from the Bank, based on the Association's excess stock investment in the Bank. Also, the Association received a capital markets patronage of \$3 from the Bank, representing 65 basis points on the year's average daily balance of participations in capital markets loans with patronage commitments.

The Association has a contractual lending relationship with the Farm Credit Bank of Texas (Bank) from which the Association borrows to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a general financing agreement (agreement) which contains certain loan covenants. These covenants include financial performance standards which include a minimum earnings requirement. The Association received a "Notice of Breach" from the Bank on January 23, 2009 stating that the Association did not meet the minimum earnings level defined in the agreement. The notice requires the Association to furnish the Bank within 30 days a written plan that is satisfactory to the Bank to correct the breach. The Association provided the Bank with a written plan to improve earnings and received a written waiver from the Bank on February 20, 2009. This waiver was contingent upon the Association providing all information necessary for the Bank to monitor the Association's plan.

In 2007, the Defined Benefits Administrative Committee (DBAC), which administers the district defined benefit pension plan, adopted a funding policy which is intended to fully fund the District Defined Benefit Plan (DB Plan) within seven years. At September 30, 2008 the value of the plan assets in the DB Plan, which provides monthly financial benefits to retirees, was \$13 million below projections due to the losses experienced in the financial markets. The decision to fully fund the pension plan coupled with the decline in market value of the plan assets negatively affected the performance of the Association in 2008 due to higher required plan contributions. The Association recognized DB Plan costs of \$226, \$129 and \$159 for the years ended December 31, 2008, 2007 and 2006, respectively. The Association was notified in the third quarter of 2008 that 2009 funding levels would be \$614 representing a \$387 increase over the prior year.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. During 2007, 2006 and 2005, the Association declared a \$500, \$350 and \$200 cash patronage, respectively, to its members. On December 18, 2008 the Board of Directors declared a \$250 cash patronage for 2008, payable in March 2009.

During the year the Association's territory experienced two hurricanes (Gustav and Ike). Crop harvesting was delayed due to the weather which negatively affected both the yield and the quality of the crops. Cotton yields which were expected to be at record levels were the most seriously impacted by the weather conditions. Corn yields were consistent with the three-year average since a majority of the harvest was completed prior to the storms. Commodity prices have moved lower following record gains earlier in the year as economic conditions weakened. Despite steep declines in feed grain prices, adverse effects from the current worldwide economic downturn are being felt throughout the livestock sectors. The appreciation of the dollar against most foreign currencies is making U.S. beef more expensive internationally, dampening foreign demand. Lower feed prices could help boost milk production; however, softening exports combined with the slightly higher milk production will push prices downward in 2009. High prices during the first part of the year dampened chick placements through the first three quarters of the year. Lower production should have a positive impact on poultry prices in 2009 if export demand improves.

Agricultural producers should benefit from reduced fuel prices during the 2009 season; however, reduced input costs may be offset by lower crop prices.

The financial crisis, which initially began on "Wall Street" and moved quickly to "Main Street," has created challenges that may negatively affect the Association in the future. The Association's cost of funds during the last quarter of 2008 was volatile causing both variable and fixed rate loan spreads to narrow. The collapse of Fannie Mae and Freddie Mac, two government-sponsored entity (GSE) giants, caused credit spreads over related treasuries to increase dramatically during the last quarter of the year as investors required a higher rate of return. Narrowing loan spreads may result in lower net income in the future if the Association is unable to adjust operating expenses, increase noninterest income, and improve loan volume to offset the reduction in net income.

On December 4, 2008, one of the two poultry integrators operating in the Association's territory filed for bankruptcy. The company had experienced significant operating losses during the year due primarily to higher production costs. The Association has a direct loan of \$2.3 million to this entity as well as loans to producers that operate under contract with this integrator. Prior to the bankruptcy filing the Association lowered the risk rating on the direct loan to this integrator to substandard. The company is operating under a reorganization plan which, if successful, should improve their financial position; however, many factors outside of the company's control, i.e., commodity and fuel prices, may delay financial recovery. During the year the company lowered production which caused member-growers to experience higher out-times which has lowered projected producer income. Management completed during the year a risk assessment of all loan accounts that are dependent upon poultry income as a primary source of repayment. As a result of this assessment the risk ratings of some accounts were adjusted. During the fourth quarter the Association made a \$380 increase to the allowance for loan losses account to reflect the additional risk in the portfolio. The increase to the allowance for loan losses account caused earnings to fall below the minimum level required by the loan agreement with the Bank. If the integrator is unable to execute the reorganization plan, both the Association and members that grow for the integrator under contract may experience a negative financial impact.

### **Loan Portfolio:**

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

On February 27, 2009 one of the two largest poultry integrators operating in the territory announced plans to idle three of its 32 poultry processing plants as part of its reorganization plan, which included two processing plants that operate and serve our territory. The Association has member/producers that are dependent upon income from this poultry integrator to service their debt. At December 31, 2008 the total obligation of these members was approximately \$22.0 million. Management is presently assessing the financial impact of the plant closures and expects to record an addition to the allowance for loan losses in the first quarter of 2009.

The Association's loan portfolio is comprised of 55.2 percent real estate loans, 37.2 percent production and intermediate-term loans and 7.6 percent other loan types. The Association's chartered territory includes 11 northwest Louisiana parishes and one county in Texas. More than half (53.4 percent) of the Association loan portfolio by volume is concentrated in Union, Lincoln, DeSoto, Caddo and Claiborne parishes. The largest percentage of volume is represented by the participation loans portfolio which reflects

19.4 percent of total loan volume. The Association's loan portfolio is heavily concentrated (44.5 percent) in loans to poultry and egg producers.

Poultry producers which operate under contract are highly dependent upon the continued operations of the two poultry integrators in our territory. These poultry integrators are the primary source of revenue for loan repayments, and any disruption in the relationship or a decline in the financial stability of the integrator would negatively affect the Association's loan quality and financial position. During 2008, the larger of the two integrators operating in our territory filed for bankruptcy protection but has continued to place birds with growers.

Since a significant concentration of the Association's customers has operations consisting of crop production and beef cattle loans, volume will fluctuate seasonally with peak loan volume occurring in August or September and seasonal lows occurring in February or March. Commodity concentrations, geographical distribution, and portfolio composition percentages reflect volume at December 31, 2008.

Livestock, except dairy, and poultry and timber comprise the second and third highest concentrations, with 12.8 percent and 12.4 percent, respectively.

The Association credit quality declined in 2008 due primarily to the reclassification of a direct loan to a large poultry integrator that operates in the territory and filed for bankruptcy protection during the fourth quarter of 2008. Asset quality, which had improved over the prior two years, declined in 2008 to 96.8 percent. The decrease in asset quality was due primarily to the reclassification of a single large credit to substandard. Management prepared and reviewed with the Audit Committee two assessments of the poultry portfolio in 2008. Based upon this review loan classifications were adjusted as appropriate to reflect management's opinion of the risk in the loans.

There are no known economic or business conditions in any loan categories that would place the Association at risk other than those occurring in the normal course of business.

The composition of the Association's loan portfolio, including principal less funds held of \$84,519, \$77,627 and \$73,106 as of December 31, 2008, 2007 and 2006, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

#### **Purchase and Sales of Loans:**

During 2008, 2007 and 2006, the Association was participating in loans with lenders. As of December 31, 2008, 2007 and 2006, these participations totaled \$16,373, \$11,951 and \$9,842, or 19.4 percent, 15.4 percent and 13.5 percent of loans, respectively. All participations were purchased within the District. The Association has also sold participations of \$609, \$2,396, and \$1,505 as of December 31, 2008, 2007, and 2006, respectively.

## Risk Exposure:

High-risk assets include nonaccrual loans, loans which are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 2,445	96.5%	\$ 23	7.8%	\$ 588	99.7%
90 days past due and still accruing interest	-	-	-	-	2	0.3%
Formally restructured	-	-	-	-	-	-
Other property owned, net	89	3.5%	270	92.2%	-	-
Total	\$ 2,534	100.0%	\$ 293	100.0%	\$ 590	100.0%

At December 31, 2008, 2007 and 2006, loans that were considered impaired were \$2,445, \$23 and \$590, representing 2.9 percent, 0.0 percent and 0.8 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

During the third quarter of 2008 the Association designated a direct loan to a single larger poultry integrator as distressed and moved this credit to a substandard nonaccrual loan classification. Prior to year end the poultry integrator filed for bankruptcy protection, secured debtor-in-possession (DIP) financing, and has continued to operate its production facilities. Contract growers in our territory have continued to receive bird placements which are in most cases their primary source of income. The Association has continued to receive interest payments on the direct loan to this integrator.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

## Allowance for Loan Losses:

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

	2008	2007	2006
Allowance for loan losses	\$ 657	\$ 272	\$ 459
Provision for (benefit from) loan losses	410	(149)	(179)
Allowance for loan losses to total loans	0.8%	0.4%	0.6%
Allowance for loan losses to nonaccrual loans	26.9%	1,182.6%	78.1%
Allowance for loan losses to impaired loans	26.9%	1,182.6%	78.8%
Net charge-offs to average loans	0.0%	0.0%	-0.1%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$657, \$272 and \$459 at December 31, 2008, 2007 and 2006, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

During 2008 the allowance for loan losses increased by \$385 due primarily to the reclassification of a single large credit to substandard nonaccrual. The borrower is currently operating under a bankruptcy plan which includes payment of interest current each month. The Association did not establish a specific allowance on this credit due to the loan being adequately collateralized.

## Results of Operations:

The Association's net income for the year ended December 31, 2008, was \$515 as compared to \$1,138 for the year ended December 31, 2007, reflecting a decrease of \$623, or 54.7 percent. The decrease in net income was largely attributable to the increase in provision for loan losses discussed above. The Association's net income for the year ended December 31, 2006 was \$1,047. Net income increased \$91, or 8.7 percent, in 2007 versus 2006.

Net interest income for 2008, 2007 and 2006 was \$2,672, \$2,645 and \$2,507, respectively, reflecting increases of \$27, or 1.0 percent, for 2008 versus 2007 and \$138, or 5.5 percent, for 2007 versus 2006. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2008		2007		2006	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 83,566	\$ 5,700	\$ 77,964	\$ 5,998	\$ 71,628	\$ 5,467
Interest-bearing liabilities	66,382	3,028	63,175	3,353	60,197	2,960
Impact of capital	\$ 17,184		\$ 14,789		\$ 11,431	
Net interest income		\$ 2,672		\$ 2,645		\$ 2,507

	Average Yield		Average Yield		Average Yield	
Yield on loans	6.82%		7.69%		7.63%	
Cost of interest-bearing liabilities	4.56%		5.31%		4.92%	
Interest rate spread	2.26%		2.38%		2.71%	

	2008 vs. 2007			2007 vs. 2006		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income	\$ 431	\$ (729)	\$ (298)	\$ 337	\$ 194	\$ 531
Interest expense	170	(495)	(325)	146	247	393
Net interest income	\$ 261	\$ (234)	\$ 27	\$ 191	\$ (53)	\$ 138

Interest income decreased by \$298, or 5.0 percent, compared to 2007, primarily due to a decrease in interest rates, partially offset by an increase in average loan volume. Interest expense for 2008 decreased by \$325, or 9.7 percent, compared to 2007 due to a decrease in interest rates, partially offset by an increase in average interest-bearing liabilities. The interest rate spread decreased by 12 basis points to 2.26 percent in 2008 from 2.38 percent in 2007, primarily because of the factors mentioned above and an increase in the participation loans portfolio which generally carries a lower spread. The interest rate spread decreased by 33 basis points to 2.38 percent in 2007 from 2.71 percent in 2006, primarily because of the competitive interest rate environment.

Noninterest income for 2008 increased by \$2, or 0.4 percent, compared to 2007 due to a \$58 increase in loan fees that was offset primarily by a \$19 decrease in patronage income from the Bank and a \$22 decrease in gains on the sales of other property owned. Noninterest income for 2007 increased by \$36, or 7.5 percent, compared to 2006, due primarily to a \$29 gain on the sale of acquired property.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. Operating expenses decreased by \$1 for 2008 as compared to 2007, primarily because the \$118 and \$23 increases in salaries and employee benefits and purchased services, respectively, were more than offset by a \$156 decrease in the provision for acquired property losses. The increase in salaries and employee benefits was attributable to a \$97 increase in the Association's required contribution to the District's DB Plan. Operating expenses for 2007 increased by \$228 or 11.3 percent, compared to 2006, due primarily to provision for acquired property losses of \$156 as well as higher employee salaries and benefits, offset by decreases in purchased services and member relations.

For the year ended December 31, 2008, the Association's return on average assets was 0.6 percent, as compared to 1.4 percent and 1.4 percent for the years ended December 31, 2007 and 2006, respectively. For the year ended December 31, 2008, the Association's return on average members' equity was 3.5 percent, as compared to 7.8 percent and 7.5 percent for the years ended December 31, 2007 and 2006, respectively.

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

### **Liquidity and Funding Sources:**

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

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$68,536, \$60,711 and \$57,786 as of December 31, 2008, 2007 and 2006, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 4.6 percent, 5.2 percent and 4.9 percent at December 31, 2008, 2007 and 2006, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2007 is due to funding needs required by the increase in loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$13,380, \$12,806 and \$12,862 at December 31, 2008, 2007 and 2006, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$81,922 as defined by the general financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2009. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association was notified in January 2009 by the Bank that it was in violation of the return on assets (ROA) covenant of the general financing agreement. The notification requires the Association to respond with a plan to improve its earnings. Bank representatives met with the board of directors in January to discuss the notification and planned changes in the new general financing agreement that will be executed prior to year-end. The Association provided the Bank with a written plan to improve earnings and received a written waiver from the Bank on February 20, 2009. This waiver was contingent upon the Association providing all information necessary for the Bank to monitor the Association's plan.

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

### **Capital Resources:**

The Association's capital position remains strong, with total members' equity of \$14,511, \$14,485 and \$14,145 at December 31, 2008, 2007 and 2006, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the Farm Credit Administration (FCA). The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2008, 2007 and 2006 was 16.0 percent, 17.5 percent and 17.5 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2008, 2007 and 2006 was 13.6 percent, 14.5 percent and 14.1 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investment in the Association. The Association's total surplus ratio at December 31, 2008, 2007 and 2006 was 14.6 percent, 15.7 percent and 15.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

In 2008, 2007 and 2006, the Association paid patronage of \$500, \$349 and \$200, respectively. In December 2008, the board of directors approved a \$250 patronage distribution to be paid in March 2009. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

**Relationship With the Bank:**

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems, and accounting services. Additionally, the Bank allocates District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

**Summary:**

Over the past 75 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors and Stockholders  
of Louisiana Ag Credit, ACA

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income, changes in members' equity and cash flows present fairly, in all material respects, the financial position of Louisiana Ag Credit, ACA and subsidiaries (Association) at December 31, 2008, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Austin, Texas  
March 6, 2009

**LOUISIANA AG CREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**  
(dollars in thousands)

	December 31,		
	2008	2007	2006
<b><u>Assets</u></b>			
Cash	\$ 37	\$ 36	\$ 36
Loans	84,519	77,627	73,106
Less: allowance for loan losses	657	272	459
Net loans	83,862	77,355	72,647
Accrued interest receivable	759	979	933
Investment in and receivable from the Bank:			
Capital stock	2,148	2,148	2,153
Other	15	11	-
Deferred taxes, net	66	82	-
Other property owned, net	89	270	-
Premises and equipment	474	499	514
Other assets	136	164	121
Total assets	<u>\$ 87,586</u>	<u>\$ 81,544</u>	<u>\$ 76,404</u>
<b><u>Liabilities</u></b>			
Note payable to the Bank	\$ 68,536	\$ 60,711	\$ 57,786
Advance conditional payments	2,077	4,116	2,479
Accrued interest payable	261	282	250
Dividends payable	19	-	-
Patronage distributions payable	250	500	350
Deferred taxes, net	-	-	16
Other liabilities	1,932	1,450	1,378
Total liabilities	<u>73,075</u>	<u>67,059</u>	<u>62,259</u>
<b><u>Members' Equity</u></b>			
Capital stock and participation certificates	1,198	1,399	1,539
Unallocated retained earnings	13,486	13,244	12,606
Accumulated other comprehensive loss	(173)	(158)	-
Total members' equity	14,511	14,485	14,145
Total liabilities and members' equity	<u>\$ 87,586</u>	<u>\$ 81,544</u>	<u>\$ 76,404</u>

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

LOUISIANA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME  
(dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
<b><u>Interest Income</u></b>			
Loans	\$ 5,700	\$ 5,998	\$ 5,467
Total interest income	<u>5,700</u>	<u>5,998</u>	<u>5,467</u>
<b><u>Interest Expense</u></b>			
Note payable to the Bank	2,979	3,292	2,926
Advance conditional payments	49	61	34
Total interest expense	<u>3,028</u>	<u>3,353</u>	<u>2,960</u>
Net interest income	<u>2,672</u>	<u>2,645</u>	<u>2,507</u>
<b><u>Provision for Losses</u></b>			
Provision for loan losses or (loan loss reversal)	410	(149)	(179)
Net interest income after provision for loan losses	<u>2,262</u>	<u>2,794</u>	<u>2,686</u>
<b><u>Noninterest Income</u></b>			
Patronage Income from the Bank	296	315	309
Loan fees	181	123	123
Financially related services income	19	23	15
Gain on other property owned, net	7	29	-
Gain on sale of premises and equipment, net	-	1	-
Other noninterest income	14	24	32
Total noninterest income	<u>517</u>	<u>515</u>	<u>479</u>
<b><u>Noninterest Expenses</u></b>			
Salaries and employee benefits	1,397	1,279	1,190
Directors' expense	55	62	70
Purchased services	99	76	97
Travel	89	81	74
Occupancy and equipment	79	67	63
Communications	33	33	31
Advertising	50	47	47
Public and member relations	58	39	51
Supervisory and exam expense	36	37	38
Insurance Fund premiums	104	110	105
Loss on sale of premises and equipment, net	4	-	-
Provision for acquired property losses	-	156	-
Other noninterest expense	249	267	260
Total noninterest expenses	<u>2,253</u>	<u>2,254</u>	<u>2,026</u>
Income before income taxes	<u>526</u>	<u>1,055</u>	<u>1,139</u>
Provision for (benefit from) income taxes	11	(83)	92
Net income	<u>\$ 515</u>	<u>\$ 1,138</u>	<u>\$ 1,047</u>

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

LOUISIANA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY  
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2005	\$ 1,571	\$ 11,909	\$ -	\$ 13,480
Net income	-	1,047	-	1,047
Capital stock/participation certificates issued	221	-	-	221
Capital stock/participation certificates and allocated retained earnings retired	(253)	-	-	(253)
Stock equalization	-	-	-	-
Dividends declared	-	-	-	-
Patronage refunds:				
Cash	-	(350)	-	(350)
Balance at December 31, 2006	1,539	12,606	-	14,145
Net income	-	1,138	-	1,138
Adjustment to initially apply SFAS No. 158	-	-	(158)	(158)
Capital stock/participation certificates issued	122	-	-	122
Capital stock/participation certificates and allocated retained earnings retired	(262)	-	-	(262)
Patronage refunds:				
Cash	-	(500)	-	(500)
Balance at December 31, 2007	1,399	13,244	(158)	14,485
Adjustment to beginning balance due to SFAS No. 158 accounting change	-	(23)	-	(23)
Balance at January 1, 2008	1,399	13,221	(158)	14,462
Comprehensive income				
Net income	-	515	-	515
Change in pension and postretirement benefit plans	-	-	(15)	(15)
Total comprehensive income	-	515	(15)	500
Capital stock/participation certificates issued	110	-	-	110
Capital stock/participation certificates and allocated retained earnings retired	(311)	-	-	(311)
Patronage refunds:				
Cash	-	(250)	-	(250)
<b>Balance at December 31, 2008</b>	<b>\$ 1,198</b>	<b>\$ 13,486</b>	<b>\$ (173)</b>	<b>\$ 14,511</b>

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

**LOUISIANA AG CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
<b>Cash flows from operating activities:</b>			
Net income	\$ 515	\$ 1,138	\$ 1,047
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or (loan loss reversal)	410	(149)	(179)
Provision for acquired property	-	156	-
Gain on other property owned, net	(7)	(29)	(1)
Depreciation	56	56	56
Loss (gain) on sale of premises and equipment, net	4	(1)	-
Decrease (increase) in accrued interest receivable	220	(46)	(109)
Decrease (increase) in deferred tax assets	16	(82)	(25)
Decrease (increase) in other assets	28	(41)	25
(Decrease) increase in accrued interest payable	(21)	32	37
Increase (decrease) in other liabilities	463	(103)	273
Net cash provided by operating activities	1,684	931	1,124
<b>Cash flows from investing activities:</b>			
Increase in loans, net	(7,132)	(4,985)	(3,350)
Cash recoveries of loans previously charged off	90	-	401
(Purchase of) proceeds from redemption of investment in the Bank	(4)	(7)	1,225
Purchases of premises and equipment	(59)	(94)	(76)
Proceeds from sales of premises and equipment	24	53	22
Proceeds from sales of other property owned	313	29	20
Net cash used in investing activities	(6,768)	(5,004)	(1,758)

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

**LOUISIANA AG CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
<b>Cash flows from financing activities:</b>			
Net draws on (repayment of) note payable to the Bank	7,825	2,925	(741)
(Decrease) increase in advance conditional payments	(2,039)	1,637	1,572
Issuance of capital stock and participation certificates	110	472	221
Retirement of capital stock and participation certificates	(311)	(612)	(253)
Patronage distributions paid	(500)	(349)	(200)
Net cash provided by financing activities	5,085	4,073	599
Net increase in cash	1	-	(35)
Cash at the beginning of the year	36	36	71
Cash at the end of the year	\$ 37	\$ 36	\$ 36

**Supplemental schedule of noncash investing and financing activities:**

Loans transferred to other property owned	\$ 100	\$ 498	\$ -
Loans charged off	114	38	62
Patronage distributions declared	250	500	350

**Supplemental cash information:**

Cash paid during the year for:			
Interest	\$ 3,000	\$ 3,385	\$ 2,923

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

**LOUISIANA AG CREDIT, ACA**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(dollars in thousands)*

**NOTE 1 — ORGANIZATION AND OPERATIONS:**

- A. Organization: Louisiana Ag Credit, ACA, including its wholly-owned subsidiaries, Louisiana Ag Credit, PCA and Louisiana Ag Credit, FLCA (collectively called “the Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana, and Cass County in the state of Texas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). The most recent significant amendment to the Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2008, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the “District.” The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2008, the District consisted of the Bank, 6 FLCAs and 13 ACA parent companies, which have two wholly-owned subsidiaries, a FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations, and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations into the Insurance Fund, based on its annual average loan principal outstanding, until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. In June 2008, with the passage of the Food, Conservation, and Energy Act of 2008 (Farm Bill), the basis for assessing premiums was changed, beginning with the second half of 2008, to reflect each Bank’s pro rata share of outstanding insured debt. The Farm Bill imposes premiums of 20 basis points on adjusted insured debt obligations, with the Insurance Corporation Board having the ability to reduce the amount, and a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

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

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

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance, and providing additional services to borrowers such as advance conditional payment accounts.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investment in the Association. Upon request, stockholders of the Association will be provided with the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1 of the District's annual report to stockholders.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

- A. Cash and Cash Equivalents: Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.
- B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated With Originating and Acquiring Loans and Initial Direct Costs of Leases," (SFAS No. 91) requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 has not been implemented because the effects were not material to the financial position or results of operations for any year presented.

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

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified as "doubtful" or "loss." If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

During 2008 nonaccrual loan volume increased by \$2,422 due primarily to the downgrading of a single large poultry integrator that operates in the Association's territory. The integrator has a contract with borrowers which represents its primary source of

repayment. The Association also has a direct loan with the integrator through a participation loan relationship with another Farm Credit institution. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

- C. **Capital Stock Investment in the Bank:** The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other District associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

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

- D. **Other Property Owned, Net:** Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in gains (losses) on other property owned, net.
- E. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- F. **Advance Conditional Payments:** The Association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors. Prior to November 1, 2008 the Association received an interest rate credit for funds held based upon the weighted average transfer rate (WATR). On this date the Bank changed the basis for this credit to the 30-day discount note rate which is considerably below the WATR. As a result of this action the funds-held rate paid to borrowers was not competitive, causing the total funds-held volume to decrease significantly prior to year end.
- G. **Employee Benefit Plans:** Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the year ended December 31, 2008, made on their behalf into various investment alternatives.

The structure of the District's DB and DC plans is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the

associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$18, \$16 and \$11 for the years ended December 31, 2008, 2007 and 2006, respectively. For the DB Plan, the Association recognized pension costs of \$226, \$129 and \$159 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$33, \$31 and \$29 for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees who retire after age 55 with at least 10 years of service or after age 50 with at least 30 years of service are eligible to participate in the employer sponsored District medical plan. The Association pays a percentage of the monthly insurance premium based upon the employee's years of service. At 25 years of service employees are 100 percent vested in the premium subsidy paid by the Association. This subsidy applies to all forms of coverage options including spouse and dependent coverage. The employee medical subsidy outlined above is applicable to employees hired prior to January 1, 2006. Employees hired on or after this date are subject to the standard District employer medical subsidy in effect on the date of their retirement. Under the current standard District policy employees who elect medical coverage may also elect to cover one or more dependents. The cost of dependent coverage is paid by the retiree with no employer subsidy. Vesting percentages are also applicable to this group of employees.

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

Deferred income taxes have not been provided by the Association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of SFAS No. 109 "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

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

- I. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank upon receipt of the patronage.
- J. **Fair Value Measurement:** Effective January 1, 2008, the System adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

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

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

The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 12.

- K. Recently Issued Accounting Pronouncements: In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, "Disclosures about Derivative Instruments and Hedging Activities," (SFAS No. 161) which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under this Statement and related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Association does not expect adoption of SFAS No. 161 to have any impact on its financial statement disclosures.

### NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 46,585	55.2%	\$ 45,751	59.0%	\$ 41,673	57.0%
Production and intermediate term	31,438	37.2%	26,632	34.3%	24,622	33.6%
Agribusiness:						
Loans to cooperatives	-	-	-	-	-	-
Processing and marketing	2,700	3.2%	807	1.0%	968	1.3%
Farm-related business	190	0.2%	312	0.4%	1,292	1.8%
Communication	956	1.1%	931	1.2%	1,812	2.5%
Energy	1,812	2.1%	2,031	2.6%	2,165	3.0%
Water and waste disposal	-	-	-	-	-	-
Rural residential real estate	838	1.0%	1,163	1.5%	574	0.8%
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Total	\$ 84,519	100.0%	\$ 77,627	100.0%	\$ 73,106	100.0%

Geographic Distribution:

County	2008	2007	2006
Union	19.3%	18.6%	17.7%
Lincoln	10.5%	11.7%	13.0%
De Soto	9.1%	10.2%	9.4%
Caddo	7.5%	9.7%	10.0%
Claiborne	7.0%	7.6%	7.1%
Jackson	5.1%	6.2%	6.2%
Bienville	3.5%	2.5%	3.0%
Bossier	3.4%	3.4%	3.6%
Natchitoches	3.2%	2.7%	3.3%
Winn	2.7%	3.3%	3.8%
Red River	2.2%	2.4%	1.5%
Other States	22.1%	17.2%	15.3%
Other with counties less than 3%	4.4%	4.5%	6.1%
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

Portfolio Composition:

Operation/Commodity	2008		2007		2006	
	Amount	%	Amount	%	Amount	%
Poultry and eggs	\$ 37,505	44.5%	\$ 34,805	44.9%	\$ 32,481	44.3%
Livestock, except dairy and poultry	10,859	12.8%	9,702	12.7%	9,109	12.5%
Timber	10,520	12.4%	9,793	12.6%	7,492	10.2%
Field crops except cash grains	6,980	8.3%	7,800	10.0%	5,095	7.0%
Dairy farms	3,985	4.7%	4,720	6.1%	4,850	6.6%
Cash grains	2,432	2.9%	1,915	2.5%	3,748	5.1%
Electric services	1,812	2.1%	2,031	2.6%	2,165	3.0%
Paper and allied products	1,607	1.9%	482	0.6%	516	0.7%
Agricultural services	1,277	1.5%	146	0.2%	350	0.5%
Rural home loans	1,236	1.5%	690	0.9%	135	0.2%
Farm and garden machinery equipment	1,145	1.4%	1,045	1.3%	199	0.3%
Communications	956	1.1%	931	1.2%	1,812	2.5%
General farms, primarily crops	876	1.0%	425	0.5%	91	0.1%
Wholesale trade - nondurable goods	815	1.0%	467	0.6%	-	0.0%
Forest nurseries and gathering forest	590	0.7%	600	0.8%	-	0.0%
Real estate	518	0.6%	556	0.7%	504	0.7%
Animal specialties	496	0.6%	578	0.7%	523	0.7%
Fruit and tree nuts	329	0.4%	178	0.2%	-	0.0%
Food and kindred products	250	0.3%	375	0.5%	415	0.6%
Lumber and wood products, except furniture	117	0.1%	188	0.2%	-	0.0%
Horticultural specialties	104	0.1%	106	0.1%	125	0.2%
Vegetables and melons	62	0.1%	57	0.1%	67	0.1%
Other	25	0.0%	37	0.0%	3,429	4.7%
General farms, primarily livestock	16	0.0%	-	-	-	-
Commercial fishing	4	0.0%	-	-	-	-
Building materials hardware and garden supplies	3	0.0%	-	-	-	-
Total	\$ 84,519	100.0%	\$ 77,627	100.0%	\$ 73,106	100.0%

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

Asset Quality:

The following table reflects the credit quality of the Association's loan volume as of December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acceptable	<b>89.2%</b>	95.4%	91.4%
Special mention	<b>7.6%</b>	3.9%	5.2%
Substandard	<b>3.2%</b>	0.7%	3.4%
Doubtful	<b>0.0%</b>	0.0%	0.0%
Loss	<b>0.0%</b>	0.0%	0.0%
Total	<b><u>100.0%</u></b>	<u>100.0%</u>	<u>100.0%</u>

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following presents information relating to impaired loans as of December 31:

	<u>2008</u>		<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual loans						
Current as to principal and interest	\$ 2,361	96.5%	\$ -	-	\$ 299	50.7%
Past due	84	3.5%	23	100.0%	289	49.0%
Total nonaccrual loans	<b><u>2,445</u></b>	<b><u>100.0%</u></b>	<u>23</u>	<u>100.0%</u>	<u>588</u>	<u>99.7%</u>
Accrual loans						
90 days or more past due	-	-	-	-	2	0.3%
Formally restructured	-	0.0%	-	-	-	-
Total impaired accrual loans	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>	<u>2</u>	<u>0.3%</u>
Total impaired loans	<b><u>\$ 2,445</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 23</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 590</u></b>	<b><u>100.0%</u></b>

At December 31, 2008, 2007, and 2006 loans that were considered impaired were \$2,445, \$23, and \$590 representing 2.9 percent, 0.0 percent, and 0.8 percent of loan volume, respectively. Impaired loans consist of high-risk assets except for property owned, net. The increase in impaired loans compared to the prior year is due to the reclassification of a direct loan to a large poultry integrator to nonaccrual status. The individual analysis of this large credit reflected no specific allowance since the real estate collateral valuation showed adequate coverage. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2008.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies." The following table presents interest income recognized on impaired loans.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income recognized on nonaccrual loans	\$ 118	\$ 40	\$ 97
Interest income recognized on impaired accrual loans	-	8	2
Interest income recognized on impaired loans	<b><u>\$ 118</u></b>	<b><u>\$ 48</u></b>	<b><u>\$ 99</u></b>

A summary of the allowance for loan losses as of December 31 follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 272	\$ 459	\$ 299
Provision for loan losses	410	(149)	(179)
Loans charged off	(114)	(38)	(62)
Recoveries	89	-	401
Allowance for loan losses	<u>\$ 657</u>	<u>\$ 272</u>	<u>\$ 459</u>

The following table presents information concerning impaired loans as of December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Impaired loans with related allowance	\$ 102	\$ 11	\$ 419
Impaired loans with no related allowance	2,343	12	171
Total impaired loans	<u>\$ 2,445</u>	<u>\$ 23</u>	<u>\$ 590</u>
Allowance on impaired loans	<u>\$ 39</u>	<u>\$ 1</u>	<u>\$ 80</u>

The following table summarizes impaired loan information for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Average impaired loans	<u>\$ 204</u>	<u>\$ 144</u>	<u>\$ 572</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income which would have been recognized under the original terms	\$ 286	\$ 303	\$ 424
Less: interest income recognized	(118)	(48)	(99)
Foregone interest income	<u>\$ 168</u>	<u>\$ 255</u>	<u>\$ 325</u>

#### NOTE 4 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 104	\$ 104	\$ 104
Building and improvements	601	600	595
Furniture and equipment	125	132	132
Computer equipment and software	125	125	148
Automobiles	151	148	129
	<u>1,106</u>	<u>1,109</u>	<u>1,108</u>
Accumulated depreciation	(632)	(610)	(594)
Total	<u>\$ 474</u>	<u>\$ 499</u>	<u>\$ 514</u>

#### NOTE 5 – OTHER PROPERTY OWNED, NET:

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gain (loss) on sale, net	\$ 31	\$ 38	\$ (1)
Operating expense, net	(24)	(9)	(1)
Net gain (loss) on other property owned	<u>\$ 7</u>	<u>\$ 29</u>	<u>\$ (2)</u>

## **NOTE 6 — NOTE PAYABLE TO THE BANK:**

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets, and is governed by a 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 total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2008, 2007 and 2006, was \$68,536 at 4.6 percent, \$60,711 at 5.2 percent and \$57,786 at 4.9 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2008, 2007 and 2006, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2008, was \$81,922, as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness.

The Association was notified in January 2009 by the FCBT that it was in violation of the return on assets covenant of the general financing agreement. The notification requires the Association to respond with a plan to improve its earnings. FCBT representatives met with the Association board of directors in January to discuss the notification and planned changes in the new general financing agreement that will be executed prior to year end. The Association provided the Bank with a written plan to improve earnings and received a written waiver from the Bank on February 20, 2009. This waiver was contingent upon the Association providing all information necessary for the Bank to monitor the Association's plan.

## **NOTE 7 — MEMBERS' EQUITY:**

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class B capital stock (for agricultural loans to producers), or participation certificates (for rural home loans and farm-related business loans) is equal to 5 percent of the loan amount, up to a maximum amount of \$5,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the Association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

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

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

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class B stock and participation certificates to Class A capital stock. Class A capital stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class A shares is made solely at the discretion of the Association's board of directors. At December 31, 2008, 2007 and 2006, the Association had \$22, \$60 and \$74, respectively, of Class A stock.

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

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2008, 2007 and 2006, respectively:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>
<b>December 2008</b>	-	<b>\$ 250</b>
	<b>Total 2008</b>	<b>\$ 250</b>
November 2007	March 2008	500
	Total 2007	<b>\$ 500</b>
November 2006	March 2007	350
	Total 2006	<b>\$ 350</b>

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2008, were 16.0 percent, 17.5 percent and 14.5 percent, respectively.

The board of directors has approved a capital adequacy plan to manage the capital position of the Association in a manner which:

- Permits the Association to operate profitably over the long term;
- Provides reasonable protection against risks inherent in operations;
- Meets all regulatory requirements;
- Recognizes the cost impact to stockholders related to investing capital in the Association;
- Prices both operating and mortgage loans evenly considering loan size, term, purpose and inherent risk and considering the pricing by competitors.

An adequate level of capital is necessary for the Association to offer competitively priced loan products to both operating and mortgage borrowers, generate earnings, withstand economic adversity and sustain growth. It is the intent of the board to manage capital to adequately support Association business activities. At the same time, the board recognizes that accumulation of excess capital is a direct cost to stockholders. Therefore, the establishment of capital requirements must reach a balance between the amount of capital necessary to cover business risks and the level that creates long-term value to the shareholder.

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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Class A stock	<b>4,345</b>	11,944	14,711
Class B stock	<b>229,434</b>	259,290	283,342
Participation certificates	<b>6,505</b>	8,591	9,763
Total	<b>240,284</b>	<b>279,825</b>	<b>307,816</b>

**NOTE 8 — INCOME TAXES:**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current:			
Federal	\$ (5)	\$ 15	\$ 1
State	-	-	-
Total current	<u>(5)</u>	<u>15</u>	<u>1</u>
Deferred:			
Federal	25	(98)	91
State	(9)	-	-
Total deferred	<u>16</u>	<u>(98)</u>	<u>91</u>
Total provision for (benefit from) income taxes	<u>\$ 11</u>	<u>\$ (83)</u>	<u>\$ 92</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Federal tax at statutory rate	\$ 179	\$ 359	\$ 388
Effect of nontaxable FLCA subsidiary	(163)	(332)	(242)
Other	(5)	(110)	(54)
Provision for (benefit from) income taxes	<u>\$ 11</u>	<u>\$ (83)</u>	<u>\$ 92</u>

Deferred tax assets and liabilities in accordance with SFAS No. 109, "Accounting for Income Taxes," are comprised of the following at December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 44	\$ 41	\$ 98
Postretirement benefits, other	334	281	241
Other	-	93	-
Gross deferred tax assets	<u>378</u>	<u>415</u>	<u>339</u>
Deferred tax asset valuation allowance	-	-	-
<u>Deferred Tax Liabilities</u>			
Investment in bank stock redemption	(312)	(333)	(355)
Gross deferred tax liabilities	<u>(312)</u>	<u>(333)</u>	<u>(355)</u>
Net deferred tax asset (liability)	<u>\$ 66</u>	<u>\$ 82</u>	<u>\$ (16)</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings including the following at December 31, 2008: Nonpatronage income is expected to be 10 percent of total taxable income (before patronage) and patronage income retained is expected to be 90 percent of total patronage income on a tax basis. The expected future tax rates are based upon enacted tax laws.

The ACA is required to maintain an investment in the Bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the Bank over that allocated to the 2 percent investment requirement. Upon formation of the ACA, additional amounts of previously excess investment held by the PCA were included in the calculation of the 2 percent requirement of the ACA. As a result of the decrease in the excess investment held by the PCA, the related deferred tax liability decreased by \$21, \$22 and \$6 in 2008, 2007 and 2006, respectively.

## NOTE 9 — EMPLOYEE BENEFIT PLANS:

**Employee Retirement Plans:** Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contributions plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section G of Note 2, “Summary of Significant Accounting Policies.”

**Other Postretirement Benefits:** In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees who retire after age 55 with at least 10 years of service or after age 50 with at least 30 years of service are eligible to participate in the employer sponsored District medical plan. The Association pays a percentage of the monthly insurance premium based upon the employee’s years of service. At 25 years of service employees are 100% vested in the premium subsidy paid by the Association. This subsidy applies to all forms of coverage options including spouse and dependent coverage. The employee medical subsidy outlined above is applicable to employees hired prior to January 1, 2006. Employees hired on or after this date are subject to the standard District employer medical subsidy in effect on the date of their retirement. Under the current standard District policy employees who elect medical coverage may also elect to cover one or more dependents. The cost of dependent coverage is paid by the retiree with no employer subsidy. Vesting percentages are also applicable to this group of employees.

In September 2006, the FASB issued SFAS No. 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, the System 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. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and 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 a result, the Association decreased retained earnings \$23, net of taxes and increased the pension and other postretirement benefit liabilities by \$23.

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

<b>Disclosure Information Under FASB Statement 132</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Change in Accumulated Postretirement Benefit Obligation</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,182	\$ 1,358	\$ 947
Service cost	23	22	16
Interest cost	94	80	49
Plan participants' contributions	12	10	6
Actuarial loss (gain)	16	(233)	374
Benefits paid	(61)	(55)	(34)
Accumulated postretirement benefit obligation, end of year	\$ 1,266	\$ 1,182	\$ 1,358
<b>Change in Plan Assets</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Company contributions	48	45	28
Plan participants' contributions	13	10	6
Benefits paid	(61)	(55)	(34)
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
<b>Reconciliation of Funded Status</b>			
Funded status of the plan	\$ (1,266)	\$ (1,182)	\$ (1,358)
Unrecognized prior service cost	-	-	(33)
Unrecognized net gain	-	-	427
Contributions between measurement date and fiscal year-end	-	9	11
Net postretirement liability at end of year	\$ (1,266)	\$ (1,173)	\$ (953)
<b>Amounts Recognized in Balance Sheet</b>			
Current liabilities	\$ (47)	\$ -	\$ -
Liabilities	(1,219)	(1,173)	(953)
Total	\$ (1,266)	\$ (1,173)	\$ (953)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>			
Net actuarial loss	\$ 204	\$ 188	
Prior service credit	(31)	(30)	
Total	\$ 173	\$ 158	
<b>Additional Information</b>			
Increase in minimum liability included in other comprehensive income	\$ 15	\$ -	\$ -
<b>Weighted-Average Assumptions Used to Determine Obligations at Year-end</b>			
Measurement date	12/31/2008	9/30/2007	9/30/2006
Discount rate	6.30%	6.50%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	8.5%/6.5%	8.5%/6.5%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	12.00%	12.00%	13.00%
Ultimate health care cost trend rate	5.00%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2015	2016	2016

<b>Disclosure Information Under FASB Statement 132</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 18	\$ 22	\$ 16
Interest cost	76	80	49
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation	-	-	-
Unrecognized prior service cost	1	(2)	(38)
Unrecognized net loss	-	5	14
Net postretirement benefit cost	<u>95</u>	<u>105</u>	<u>41</u>
Adjustment to retained earnings for 2008 due to change in measurement date	\$ 23	\$ -	\$ -

**Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income**

Net actuarial loss	\$ 16	\$ -	\$ -
Amortization of prior service cost	(1)	-	-
Amortization of transition liability (asset)	-	-	-
Total recognized in other comprehensive income	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ -</u>

**AOCI Amounts Expected to be Amortized into Expense in 2009**

Unrecognized net transition obligation (asset)	\$ -
Unrecognized prior service cost	1
Unrecognized net loss	<u>7</u>
Total	<u>\$ 8</u>

**Weighted-Average Assumptions Used to Determine Benefit Cost**

	<b>9/30/2007</b>	<b>9/30/2006</b>	<b>9/30/2006</b>
Measurement date			
Discount rate	6.50%	6.00%	6.00%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	9.0%/6.75%	9.0%/6.75%	9.0%/6.75%
Health care cost trend rate assumed for next year - Rx	13.00%	13.00%	13.00%
Ultimate health care cost trend rate	4.75%	4.75%	4.75%
Year that the rate reaches the ultimate trend rate	2016	2016	2016

**Expected Future Cash Flows**

**Expected Benefit Payments (net of employee contributions)**

Fiscal 2009	\$ 47
Fiscal 2010	56
Fiscal 2011	59
Fiscal 2012	71
Fiscal 2013	78
Fiscal 2014–2018	<u>472</u>

**Expected Contributions**

Fiscal 2009	\$ 47
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**NOTE 10 — RELATED PARTY TRANSACTIONS:**

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

Total loans to such persons for the Association amounted to \$1,574, \$1,735 and \$1,343 at December 31, 2008, 2007 and 2006, respectively. During 2008, \$1,329 of new loans were made and repayments totaled \$1,490. In the opinion of management, no such loans outstanding at December 31, 2008, 2007 and 2006 involved more than a normal risk of collectibility.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the Associations such as FCSIC expenses. The Bank charges the individual Associations directly for these services based on each Association's proportionate usage. These expenses totaled \$190, \$165 and \$167 in 2008, 2007 and 2006, respectively.

The Association received patronage payments from the Bank totaling \$296, \$315 and \$309 during 2008, 2007 and 2006, respectively.

**NOTE 11 — COMMITMENTS AND CONTINGENCIES:**

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2008, \$16,917 of commitments and \$389 of commercial letters of credit were outstanding.

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

**NOTE 12 — DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The following table presents the carrying amounts and estimated fair values of the Association's financial instruments at December 31, 2008, 2007 and 2006. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments as of December 31 follow:

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash	\$ 37	\$ 37	\$ 36	\$ 36	\$ 36	\$ 36
Loans, net	83,862	85,609	77,355	77,580	72,647	70,723
Financial liabilities						
Note payable to the Bank	68,536	69,964	60,711	60,674	57,786	56,256

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

**A. Cash:**

The carrying value is a reasonable estimate of fair value.

**B. Loans:**

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and discount rates reflecting appropriate credit risk are determined separately for each individual pool.

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of net realizable value.

The carrying value of accrued interest approximates its fair value.

**C. Investment in the Bank:**

Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. As described in Note 2, "Summary of Significant Accounting Policies," the investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The Association owns 0.94 percent of the equity of the Bank as of December 31, 2008. As of that date, the Bank's assets totaled \$14.8 billion and members' equity totaled \$744.5 million. The Bank's earnings were \$76.7 million during 2008.

**D. Note Payable to the Bank:**

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

### E. Commitments to Extend Credit:

The Association does not normally assess fees on its commitments to extend credit; hence, there is no fair value to be assigned to these commitments until they are funded.

### NOTE 13 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

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

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 652	\$ 685	\$ 716	\$ 619	\$ 2,672
Reversal of (provision for) loan losses	126	-	-	(536)	(410)
Noninterest income (expense), net	(609)	(520)	(464)	(154)	(1,747)
Net income	\$ 169	\$ 165	\$ 252	\$ (71)	\$ 515

	2007				
	First	Second	Third	Fourth	Total
Net interest income	\$ 610	\$ 690	\$ 679	\$ 666	\$ 2,645
Reversal of loan losses	-	-	-	149	149
Noninterest expense, net	(432)	(417)	(402)	(405)	(1,656)
Net income	\$ 178	\$ 273	\$ 277	\$ 410	\$ 1,138

	2006				
	First	Second	Third	Fourth	Total
Net interest income	\$ 552	\$ 593	\$ 652	\$ 710	\$ 2,507
Reversal of (provision for) loan losses	215	(14)	-	(22)	179
Noninterest expense, net	(493)	(444)	(410)	(292)	(1,639)
Net income	\$ 274	\$ 135	\$ 242	\$ 396	\$ 1,047

During 2008 the provision for loan losses increased, due primarily to the reclassification of a single large credit to substandard non-accrual.

### NOTE 14 – SUBSEQUENT EVENT:

On February 27, 2009, one of the two largest poultry integrators operating in the territory announced plans to idle three of its 32 poultry processing plants as part of its reorganization plan, which included two processing plants that operate and serve our territory. The Association has member/producers that are dependent upon income from this poultry integrator to service their debt. At December 31, 2008, the total obligation of these members was approximately \$22.0 million. Management is presently assessing the financial impact of the plant closures and expects to record an addition to the allowance for loan losses in the first quarter of 2009.

## **DISCLOSURE INFORMATION AND INDEX**

*Disclosures Required by Farm Credit Administration Regulations*

### **DESCRIPTION OF BUSINESS**

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

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

### **DESCRIPTION OF PROPERTY**

The Louisiana Ag Credit, ACA (Association) serves its territory, which includes 11 Louisiana parishes and one Texas county, through its main administrative and lending office at 1564 Hazel, Arcadia, Louisiana 71001. Additionally, there are two branch lending offices located throughout the territory at 300 Franklin, Farmerville, Louisiana 71241 and at 2042 East 70<sup>th</sup>, Shreveport, Louisiana 71105. The Association owns the office buildings in Arcadia, Farmerville, and Shreveport, free of debt. Borrowers may contact their local branch office at Arcadia (318) 263-2082; Farmerville (318) 368-9043; or Shreveport (318) 797-0140.

### **LEGAL PROCEEDINGS**

In the ordinary course of business, the Association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the consolidated financial statements of the Association.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

### **DESCRIPTION OF LIABILITIES**

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 11 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

### **RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS**

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

The 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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The District's annual and quarterly stockholder reports are also 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 will be available approximately 40 days after quarter end and can be obtained by writing to Louisiana Ag Credit, ACA, P.O. Box 478, Arcadia, Louisiana 71001-0478 or calling (318) 263-2082. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [pbond@farmcredit.com](mailto:pbond@farmcredit.com). The Association's annual stockholder report is available on its web site at [www.louisianaagcredit.com](http://www.louisianaagcredit.com) 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end by contacting the Association using the address or phone number referenced above.

## SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2008, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Combined Financial Data” included in this annual report to stockholders.

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

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

## DIRECTORS AND SENIOR OFFICERS

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

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Thomas C. Hall	Chairman	1996	2011
John Van Bennett	Director	2008	2011
Joseph A. Dill	Audit Committee Chairman	2006	2009
Benoit Holloway, Jr.	Vice Chairman	2005	2010
Gary A. Kennedy	Director-Elected Director	2008	2011
James B. Smith	Chief Executive Officer/President	1998	-
Leo Hyde, Jr.	Senior Vice President/Chief Credit Officer	1990	-
Marcel Vandenoord	Vice President/Branch Manager	1999	-
Cecil R. Oliver	Vice President/Branch Manager	1979	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

**Thomas C. Hall** is 55 years of age. He presently serves as board chairman. Mr. Hall also has a 600-acre farm with 150 head of commercial beef cattle and 92 acres of pine timber.

**John Van Bennett** is 57 years of age. Mr. Bennett served as Farmerville Branch manager until his retirement in 2006. He has a pullet house operation in addition to a 300-acre cattle and timber farm. Mr. Bennett and his wife publish a monthly agricultural paper which is operated under Rainbow Hill Farm Enterprises, LLC. He also serves on the Louisiana Poultry Task Force.

**Joseph A. Dill** is 57 years of age. Mr. Dill serves as Audit Committee chairman, and is a farmer raising soybeans and corn, and has approximately 300 head of beef cattle. He also serves as president of the Red River Parish Port Commission.

**Benoit Holloway, Jr.** is 50 years of age. Mr. Holloway serves as vice chairman of the board and owns and operates an eight-house broiler operation and is owner of both Peck Construction, Inc., a general contractor, and Holloway Center, L.L.C., a shopping mall.

**Gary A. Kennedy** is 48 years of age. Dr Kennedy is the board-elected director and has been department head of the Agricultural Sciences department at Louisiana Tech University since 2001.

**James B. Smith** has been with the Association since 1998 and has 33 years of service in the Farm Credit System. He has been chief executive officer for 10 years.

**Leo Hyde, Jr.** has been with the Association since 1990 and has 33 years of service in the Farm Credit System. He currently serves as senior vice president and chief credit officer.

**Marcel Vandenoord** serves as vice president and branch manager of the Arcadia and Farmerville offices. He has been with the Association since 1999 and also serves on the Louisiana Tech University Agricultural Advisory Council and the Louisiana Poultry Task Force.

**Cecil R. Oliver** is vice president and branch manager of the Shreveport office. He also serves as the Association life insurance agent and handles the crop insurance program as well.

### COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$400 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the Association in an official capacity. Mileage for attending official meetings during 2008 was paid at the IRS-approved rate of 50.5 cents per mile for January through June, and 58.5 cents per mile for July through December. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2008
	Board Meetings	Other Official Activities	
Thomas C. Hall	7	20	\$ 10,300
John Van Bennett	5	10	5,700
Joseph A. Dill	5	4	3,300
Benoit Holloway, Jr.	7	2	3,300
Gary A. Kennedy	2	0	800
Billy Don Perritt	2	6	2,800
Haskell R. McClinton	3	9	4,400
			\$ 30,600

The aggregate compensation paid to directors in 2008, 2007 and 2006 was \$30,600, \$37,300 and \$38,500, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

Director	Committee			
	Audit	Compensation	Other Committees	Total
Thomas C. Hall	\$ 300	\$ -	\$ 7,200	\$ 7,500
John Van Bennett	-	-	3,700	3,700
Joseph A. Dill	-	-	1,300	1,300
Benoit Holloway, Jr.	-	-	500	500
Gary A. Kennedy	-	-	-	-
Billy Don Perritt	300	-	1,700	2,000
Haskell R. McClinton	300	-	2,900	3,200
	\$ 900	\$ -	\$ 17,300	\$ 18,200

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$14,544, \$25,155 and \$32,088 in 2008, 2007 and 2006, respectively.

Name of Individual or Group	Year	Salary	Bonus	Deferred/ Perquisite	Other	Total	
James B. Smith, CEO	2008	\$ 120,182	\$ 18,127	\$ -	\$ 2,389	\$ 140,698	
	2007	116,262	18,091	-	2,293	136,646	
	2006	111,790	9,788	-	2,947	124,525	
Aggregate No. of Senior Officers in Year	(5)	2008	\$ 349,888	\$ 53,846	\$ -	\$ 11,096	\$ 414,830
	(5)	2007	288,703	30,769	-	9,349	328,821
	(5)	2006	316,801	29,976	-	9,356	356,133

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

Total compensation paid to the five most highly paid officers of the Association, including bonuses, was \$414,830, \$328,821 and \$356,130 in 2008, 2007 and 2006, respectively. Bonuses paid to such officers for 2008, 2007 and 2006 were \$53,846, \$30,769 and \$29,976, respectively.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2008 at the IRS-approved rate of 50.5 cents per mile for January through June, and 58.5 cents per mile for July through December.

#### **TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS**

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

#### **DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

During the past five years, none of the Association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2009 or at any time during the fiscal year just ended.

#### **RELATIONSHIP WITH INDEPENDENT AUDITOR**

There were no changes in the relationship with the independent auditor during 2008. Total fees paid to the independent auditor during 2008 were \$35. Such services were approved by the Audit Committee.

#### **FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 6, 2009, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

***Quantitative Goals***

The board of directors in conjunction with the annual business planning process establishes goals for the YBS program. The following table reflects the percent by Association number and volume the goals established for the young, beginning and small farmer program, the actual number of young, beginning and small farmers served at the beginning and end of the current reporting period, and the number of young, beginning and small farmers as reflected in the Census for the territory served:

<b><u>Number of Loans</u></b>	<b><u>Young</u></b>	<b><u>Beginning</u></b>	<b><u>Small</u></b>
Institution - 12/31/2008	14.05%	23.70%	54.74%
2002 Census Data	12.53%	35.86%	77.28%
Institution - 12/31/2007	12.99%	22.71%	62.99%
Goal for 2008	13.69%	23.85%	66.14%
<b><u>Amount of Loans</u></b>	<b><u>Young</u></b>	<b><u>Beginning</u></b>	<b><u>Small</u></b>
Institution - 12/31/2008	15.90%	28.12%	34.24%
Institution - 12/31/2007	13.83%	27.19%	39.29%
Goal for 2008	15.63%	27.43%	41.30%
<b><u>12/31/2008</u></b>	<b><u>Young</u></b>	<b><u>Beginning</u></b>	<b><u>Small</u></b>
Number of Loans	163	275	635
Volume Outstanding	\$15,658	\$27,695	\$33,722

The Association exceeded its goal in volume for beginning farmers but did not meet its goal of a 3 percent increase in the other categories of loans to young, beginning and small farmers. The Association was below plan primarily due to difficult market conditions in the Association's territory, which affected not only loans to young, beginning and small farmers but other borrowers as well.

***Outreach Programs***

We maintain the following outreach programs for young, beginning and small farmers:

- Sponsor four one-thousand-dollar annual scholarships for college bound students majoring in agriculture or business;
- Support of state and local Future Farmers of America (FFA);
- Support and participate in local and state 4-H programs;
- Sponsor of the Louisiana Council of Cooperative's Co-op Couples Conference;
- Participate in the 4-H Youth Conference providing education regarding the formation and operation of cooperatives;
- Support lending education and training for local university students; and
- Maintain ongoing contact and sponsorship of local farm groups that participate in YBS initiatives.