

# **PANHANDLE-PLAINS LAND BANK, FLCA**

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**2009  
Quarterly Report  
First Quarter**



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

## REPORT OF MANAGEMENT

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

[electronic signature]

Robert R. Williams, Jr., Chief Executive Officer  
*April 16, 2009*

[electronic signature]

Dennis Babcock, Chairman, Board of Directors  
*April 16, 2009*

[electronic signature]

Cathy D. Scribner, Chief Financial Officer  
*April 16, 2009*

**PANHANDLE-PLAINS LAND BANK, FLCA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Panhandle-Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The financial statements were prepared under the oversight of the Association's audit committee.

**Significant Event:**

The Association made an adjustment to the risk drivers used to calculate the allowance for loan loss during the first quarter of 2009. This adjustment resulted in a significant increase in the allowance for loan loss account. This increase is further discussed in the Results of Operation Section and under Note 2 of this report.

**Loan Portfolio:**

Total loans outstanding at March 31, 2009, including nonaccrual loans, were \$371,274,989 compared to \$373,106,244 at December 31, 2008, reflecting an decrease of 0.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.1 percent at March 31, 2009, compared to 1.1 percent at December 31, 2008. The loan portfolio credit quality was 94.32 percent Acceptable, 1.50 Special Mention and 4.18 percent Substandard at March 31, 2009 as compared to 95.76 percent Acceptable, 2.03 percent Special Mention and 2.21 percent Substandard at December 31, 2008. Nonaccrual loan volume increased during the first three months of 2009 by \$58,496. The Association had no acquired property as of March 31, 2009. The major commodity concentration within the Association's loan volume was livestock, wheat and cotton.

The Association recorded \$63,327 in recoveries and no charge-offs for the quarter ending March 31, 2009, and no recoveries and no charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.3 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

The negative factors in the national economy are impacting the loan portfolio but overall, credit quality remains strong. To deter the trends in its high-risk assets, the Association readdressed its underwriting standards in the third quarter of 2008. Cattle prices have been pressured due to declining pasture conditions caused by a lack of rainfall in addition to higher feed costs.

Fuel and fertilizer costs, which are impacted by changes in fuel oil and natural gas prices continue to be a major consideration in producer's planning processes. While fuel oil and natural gas prices have decreased from 2008 highs, market volatility could continue to put upward pressure on these prices. The prices in the commodity markets in general have trended lower during the overall volatility in the financial markets. Lack of rainfall during the critical portion of the growing season is expected to adversely impact crop yields.

Interest rates remained favorable through the first quarter of 2009. As interest rates begin to increase, there may be some impact on loan demand in the second quarter and remainder of 2009. During the first quarter of 2009, there continued to be demand for rural and recreational properties; however, overall activity appears to be slowing from 2008's faster pace.

**Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 3,909,762	98.8%	\$ 3,968,258	99.9%
90 days past due and still accruing interest	41,749	1.1%	-	0.0%
Formally restructured	5,712	0.1%	5,665	0.1%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 3,957,223</u>	<u>100.0%</u>	<u>\$ 3,973,923</u>	<u>100.0%</u>

## Results of Operations:

The Association had net income of \$775,784 for the three months ended March 31, 2009, as compared to net income of \$1,265,516 for the same periods in 2008 reflecting an decrease of 38.7 percent, respectively. This decrease in net income is due to an increase in the allowance for loan loss during the first quarter of 2009. The increase in the allowance for loan loss was due to an adjustment to risk drivers used to calculate the allowance for loan loss and the downgrade of some participation volume and an increase in nonaccrual volume. The adjustment to the risk drivers was made to reflect higher risk in the loan portfolio due to current economic conditions. Net interest income was \$2,313,781 for the three months ended March 31, 2009, compared to \$2,151,754 for the same periods in 2008. Interest income for the first three months of 2009 decreased by \$740,103 or 13.1 percent from the same periods of 2008, primarily due to a decrease in interest rates partially offset by a increase in average loan volume. Interest expense for the first three months of 2009 decreased by \$902,130, or 25.9 percent, from the same periods of 2008 due to a decrease in interest rates offset by a decrease in average interest bearing liabilities. Average loan volume for the first quarter of 2009 was \$370,717,253, compared to \$345,739,677 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 2.04 percent, compared to 1.76 percent in the first quarter of 2008.

The Association's return on average assets for the three months ended March 31, 2009, was 0.82 and 1.42 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 4.85 and 8.37 percent for the same period in 2008. The decrease experienced by the Association with regard to these performance measures are a combined result of the large allowance expense incurred by the Association in the first quarter of 2009 partially offset by an increased loan portfolio spread.

## Liquidity and Funding Sources:

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

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Note payable to the Bank	\$ <b>315,065,366</b>	\$ 318,849,872
Accrued interest on note payable	<b>867,630</b>	1,123,881
Total	<b>\$ 315,932,996</b>	<b>\$ 319,973,753</b>

## Capital Resources:

The Association's capital position increased by \$99,027 at March 31, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 4.92:1 as of March 31, 2009, compared to 4.97:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 14.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 14.4 and 14.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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

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

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Panhandle-Plains Land Bank, FLCA, P.O. Box 7785, Amarillo, TX 79114-7785 or calling (806) 353-6688. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [www.panhandle-plainslandbank.com](http://www.panhandle-plainslandbank.com).

**PANHANDLE-PLAINS LAND BANK, FLCA**

**BALANCE SHEET**

	<b>March 31, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b><u>ASSETS</u></b>		
Cash	\$ 511,065	\$ 2,793,572
Investments	-	-
Loans	371,274,989	373,106,244
Less: allowance for loan losses	1,046,686	361,206
Net loans	<u>370,228,303</u>	<u>372,745,038</u>
Accrued interest receivable	5,371,797	5,448,667
Investment in and receivable from the Bank:		
Capital stock	6,128,200	6,128,200
Other	-	-
Other property owned, net	-	-
Premises and equipment	707,467	700,813
Other assets	541,616	60,796
Total assets	<u><u>\$ 383,488,448</u></u>	<u><u>\$ 387,877,086</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 315,065,366	\$ 318,849,872
Accrued interest payable	867,630	1,123,881
Drafts outstanding	728,855	1,491,187
Dividends Payable	-	250,000
Patronage distributions payable	6,454	-
Other liabilities	2,065,139	1,308,114
Total liabilities	<u><u>318,733,444</u></u>	<u><u>323,023,054</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,750,715	1,754,805
Allocated retained earnings	-	-
Unallocated retained earnings	62,797,746	62,886,962
Accumulated other comprehensive income (loss)	206,544	212,265
Total members' equity	<u><u>64,755,005</u></u>	<u><u>64,854,032</u></u>
Total liabilities and members' equity	<u><u>\$ 383,488,449</u></u>	<u><u>\$ 387,877,086</u></u>

The accompanying notes are an integral part of these financial statements

**PANHANDLE-PLAINS LAND BANK, FLCA**

**STATEMENT OF INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 4,893,225	\$ 5,633,328
Investments	-	-
Other	-	-
Total interest income	<b>4,893,225</b>	5,633,328
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank	<b>2,579,444</b>	3,481,574
Total interest expense	<b>2,579,444</b>	3,481,574
Net interest income	<b>2,313,781</b>	2,151,754
<b><u>PROVISION FOR LOSSES</u></b>		
Provision (negative provision) for loan losses	<b>622,153</b>	6,686
Provision for acquired property losses	-	-
Net interest income after provision for loan losses	<b>1,691,628</b>	2,145,068
<b><u>NONINTEREST INCOME</u></b>		
Income from the bank:		
Patronage income	<b>50,270</b>	62,724
Loan fees	<b>211,634</b>	238,797
Financially related services income	<b>4,198</b>	2,518
Gain (loss) on other property owned, net	-	-
Gain (loss) on sale of premises and equipment, net	-	-
Other noninterest income	<b>21,867</b>	19,784
Total noninterest income	<b>287,969</b>	323,823
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	<b>795,690</b>	761,034
Directors' expense	<b>27,861</b>	50,139
Purchased services	<b>67,787</b>	90,473
Travel	<b>11,863</b>	17,320
Occupancy and equipment	<b>26,611</b>	27,082
Communications	<b>5,157</b>	5,500
Advertising	<b>30,700</b>	36,129
Public and member relations	<b>15,225</b>	28,006
Supervisory and exam expense	<b>33,256</b>	30,158
Insurance Fund premiums	<b>151,512</b>	128,337
FAC expense	-	-
Merger-implementation and restructuring costs	-	-
Other noninterest expense	<b>38,151</b>	29,196
Total noninterest expenses	<b>1,203,813</b>	1,203,374
Net income	<b>\$ 775,784</b>	\$ 1,265,517

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

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 1,745,090	\$ -	\$ 58,177,577	\$ 267,640	\$ 60,190,307
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	(11,099)	-	(11,099)
Balance at January 1, 2008	1,745,090	-	58,166,478	267,640	60,179,208
Comprehensive income					
Net income	-	-	1,265,517	-	1,265,517
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(5,711)	(5,711)
Total comprehensive income	-	-	1,265,517	(5,711)	1,259,806
Capital stock/participation certificates issued	69,930	-	-	-	69,930
Capital stock/participation certificates and allocated retained earnings retired	(76,735)	-	-	-	(76,735)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
<b>Balance at March 31, 2008</b>	<b>\$ 1,738,285</b>	<b>\$ -</b>	<b>\$ 59,431,995</b>	<b>\$ 261,929</b>	<b>\$ 61,432,209</b>
Balance at December 31, 2008	\$ 1,754,805	\$ -	\$ 62,886,962	\$ 212,265	\$ 64,854,032
Comprehensive income					
Net income	-	-	775,784	-	775,784
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(5,721)	(5,721)
Total comprehensive income	-	-	775,784	(5,721)	770,063
Capital stock/participation certificates issued	44,535	-	-	-	44,535
Capital stock/participation certificates and allocated retained earnings retired	(48,625)	-	-	-	(48,625)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	(865,000)	-	(865,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
<b>Balance at March 31, 2009</b>	<b>\$ 1,750,715</b>	<b>\$ -</b>	<b>\$ 62,797,746</b>	<b>\$ 206,544</b>	<b>\$ 64,755,005</b>

The accompanying notes are an integral part of these financial statements

**PANHANDLE-PLAINS LAND BANK, FLCA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(UNAUDITED)

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

The Panhandle-Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. A description of the organization and operations of the Panhandle-Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2008 are contained in the 2008 Annual Report to stockholders. These unaudited first quarter 2008 financial statements should be read in conjunction with the 2008 Annual Report to stockholders. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

The preparation of these financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

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

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	<b>March 31, 2009</b>	March 31, 2008
Balance at beginning of quarter	\$ 361,206	\$ 175,747
Provision for loan losses	622,153	6,686
Charge-offs	-	-
Recoveries	63,327	-
Balance at end of quarter	<u>\$ 1,046,686</u>	<u>\$ 182,433</u>

The following table presents information concerning impaired loans:

	<b>March 31, 2009</b>	March 31, 2008
Impaired loans with related allowance	\$ 190,380	\$ -
Impaired loans with no related allowance	3,766,843	309,028
Total impaired loans	<u>\$ 3,957,223</u>	<u>\$ 309,028</u>
Allowance on impaired loans	\$ 118,834	\$ -
Average impaired loans	\$ 4,223,741	\$ 237,836
Interest income on impaired loans for the quarter	\$ 1,109	\$ 151

### NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

### NOTE 4 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note X to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2009 for each of the fair value hierarchy values are summarized below:

	<b>Fair Value Measurement Using</b>			<b>Total Fair Value</b>	<b>Total Gains (losses)</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
Assets:					
Loans	\$ -	\$ -	\$ 104,671	\$ 104,671	\$ -
Other property owned	-	-	-	-	-

\* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral dependent loans for which real estate is the collateral.

### Valuation Techniques

As more fully discussed in Note X to the 2008 Annual Report to Stockholders, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report.

#### Loans

For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

**NOTE 5 — EMPLOYEE BENEFIT PLANS:**

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

	Other Benefits	
	2009	2008
Service cost	\$ 7,784	\$ 6,880
Interest cost	11,065	9,930
Expected return on plan assets		-
Amortization of prior service costs	(5,721)	(5,833)
Amortizations of net (gain) loss	-	122
Net periodic benefit cost	<u>\$ 13,128</u>	<u>\$ 11,099</u>

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

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association decreased retained earnings \$32,531 and increased the postretirement benefit asset/liability by \$32,531.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$581,968 to its defined pension plan in 2009. As of March 31, 2009, \$145,492 of contributions have been made. The Association presently anticipates contributing an additional \$436,476 to fund its defined pension plan in 2009 for a total \$581,968.