

PANHANDLE-PLAINS LAND BANK, FLCA

**2009
Quarterly Report
Second Quarter**



For the Quarter Ended June 30, 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.



Robert R. Williams, Jr., Chief Executive Officer

July 16, 2009



Walter L. Henson, Chairman, Board of Directors

July 16, 2009



Cathy D. Scribner, Chief Financial Officer

July 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 six months ended June 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

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

Throughout the first and second quarter of 2009, the national economy, as well as the global economy, was in the midst of a significant recession. The banking industry in general has experienced significant losses as credit, lending and investment portfolios deteriorated significantly. The federal government has infused billions of dollars of capital into some of the largest financial institutions to prevent the collapse of the banking system.

The Association is not immune from the impact of this recession. Even though the quality of the loan portfolio has trended downward, the Association's financial position remains strong

Two participation loans were downgraded and moved to nonaccrual during the second quarter of 2009 resulting in a specific allowance of \$1,903,000 and \$673,917 respectively. These two events triggered an increase in the provision for losses for the second quarter of \$2,341,126 compared to \$26,252 for the same period of 2008. While these events have eliminated the association's net earnings for the quarter, the association remains strong with good credit quality and a strong capital position. The Association meets all required FCA regulatory capital ratios for the six month period ending June 30, 2009. See Loan Portfolio, Results of Operations, and Note 2 Allowance for Loan Losses for further explanation.

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

Loan Portfolio:

Total loan volume outstanding at June 30, 2009, including nonaccrual loans, were \$378,222,742 compared to \$373,106,244 at December 31, 2008, reflecting an increase of 1.4 percent. This slower growth pattern was expected because of recessionary pressures and the implementation of more restrictive lending standards and does not materially impact the Association's business plans for the year. The credit quality of the loan portfolio decreased during the first six months of the year as evidenced by the increased volume in high-risk assets. Nonaccrual loans as a percentage of total loans outstanding were 2.6 percent at June 30, 2009, compared to 1.1 percent at December 31, 2008. The table under Note 2 of this statement illustrates the Association's components and trends of high-risk assets. The Association experienced an increase in nonaccrual loans during the second quarter of 2009. This increase in nonaccrual loans occurred as financial conditions continued to deteriorate for borrowers in the ethanol industry. The competitive price pressure from traditional fuel producers caused ethanol producers to suffer a decrease in revenues. This decrease in revenues limited the amount of funds available for debt payments and caused some ethanol producers to begin or plan for an orderly liquidation of assets. The Association had no acquired property as of June 30, 2009. The major commodity concentration within the Association's loan volume was livestock, wheat and cotton.

The Association recorded \$1 in recoveries and \$0 in charge-offs for the quarter ending June 30, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.9 percent and 0.1 percent of total loans outstanding as of June 30, 2009, and December 31, 2008, respectively.

The overall quality of the loan portfolio remained strong through the second quarter of 2009. Cattle prices have been pressured due to declining pasture conditions caused by lack of rainfall in addition to higher feed costs. As the United States continues to expand export sales, markets will likely find ongoing support internationally.

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 process. 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 could adversely impact crop yields.

Interest rates have remained favorable through the second quarter of 2009. As interest rates begin to increase, over time, there may be some impact on loan demand.

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.

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 9,850,272	97.7%	\$ 3,968,258	99.9%
90 days past due and still accruing interest	228,134	2.3%	-	0.0%
Formally restructured	-	0.0%	5,665	0.1%
Other property owned, net	-	0.0%	-	0.0%
Total	<u>\$ 10,078,406</u>	<u>100.0%</u>	<u>\$ 3,973,923</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$-858,227 and \$-82,443 for the three and six months ended June 30, 2009, as compared to net income of \$1,531,032 and \$2,796,548 for the same periods in 2008 reflecting an decrease of 156.1 and 103.0 percent, respectively. This decrease is the direct result of the increase in the provision for loan loss expense in the second quarter 2009. During the second quarter 2009, the Association identified two loans in the Capital Markets portfolio that experienced a decrease in their ability to perform as agreed. These loans were downgraded and resulted in an increase in loan loss reserves during the second quarter of 2009. Net interest income was \$2,273,073 and \$4,586,854, respectively, for the three and six months ended June 30, 2009, compared to \$2,164,244 and \$4,315,998 for the same periods in 2008. Interest income for the first six months of 2009 decreased by \$1,178,377 or 10.7 percent from the same periods of 2008, primarily due to declines in yields on earning assets. Interest expense for the first six months of 2009 decreased by \$1,449,252, or 21.8 percent, from the same periods of 2008 due to a decrease in interest rates offset by a decrease in average debt volume. Average loan volume for the second quarter of 2009 was \$376,602,174, compared to \$358,243,052 in the second quarter of 2008. The average spread on the loan portfolio for the second quarter 2009 was 1.93 percent, compared to 1.82 percent in the second quarter of 2008.

The Association's noninterest income decreased from \$534,081 in the first six months of 2008 to \$469,260 in the first six months of 2009. This decrease is a result of the Association generating less loan fee income from new loan originations and reduced patronage accrual from FCBT. The reduced loan fee income in 2009 resulted as recessionary pressures caused demand for financing to slow.

Noninterest expenses increased \$154,687 in the first six months of 2009 as compared to the same time period in 2008. This increase is primarily attributable to increases in the Association's pension plan funding expense and in Farm Credit System insurance premiums. Beginning in 2009, the Farm Credit System Insurance Corporation (FCSIC) raised premiums on accrual volume from 15 basis points to 20 basis points. Contributions to the Association's defined benefit plan increased as deterioration in the stock market required additional funding in the plan.

The Association's return on average assets for the six months ended June 30, 2009, was -0.04 and 1.54 percent for the same period in 2008. The Association's return on average equity for the six months ended June 30, 2009, was -0.25 and 9.13 percent for the same period in 2008.

Liquidity and Funding Sources:

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

	June 30, 2009	December 31, 2008
Note payable to the Bank	\$ 322,868,946	\$ 318,849,872
Accrued interest on note payable	880,250	1,123,881
Total	<u>\$ 323,749,196</u>	<u>\$ 319,973,753</u>

Capital Resources:

The Association's capital position decreased by \$954,065 at June 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.09:1 as of June 30, 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 June 30, 2009, was 14.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 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. The District makes its annual and quarterly stockholder reports available on its web site at 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 cathy.scribner@farmcreditbank.com. The Association makes its annual and quarterly stockholder reports available on its website at www.panhandle-plainslandbank.com.

PANHANDLE-PLAINS LAND BANK, FLCA

BALANCE SHEET

	June 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 415,718	\$ 2,793,572
Investments	-	-
Loans	378,222,742	373,106,244
Less: allowance for loan losses	3,387,813	361,206
Net loans	374,834,929	372,745,038
Accrued interest receivable	6,495,513	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	693,473	700,813
Other assets	400,511	60,796
Total assets	\$ 388,968,344	\$ 387,877,086
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 322,868,946	\$ 318,849,872
Accrued interest payable	880,250	1,123,881
Drafts outstanding	182,499	1,491,187
Dividends Payable	-	250,000
Patronage distributions payable	-	-
Other liabilities	1,136,682	1,308,114
Total liabilities	325,068,377	323,023,054
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,759,625	1,754,805
Allocated retained earnings	-	-
Unallocated retained earnings	61,939,519	62,886,962
Accumulated other comprehensive income (loss)	200,823	212,265
Total members' equity	63,899,967	64,854,032
Total liabilities and members' equity	\$ 388,968,344	\$ 387,877,086

PANHANDLE-PLAINS LAND BANK, FLCA

STATEMENT OF INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 4,895,977	\$ 5,334,251	\$ 9,789,202	\$ 10,967,579
Investments	-	-	-	-
Other	-	-	-	-
Total interest income	<u>4,895,977</u>	<u>5,334,251</u>	<u>9,789,202</u>	<u>10,967,579</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	<u>2,622,904</u>	<u>3,170,008</u>	<u>5,202,348</u>	<u>6,651,581</u>
Total interest expense	<u>2,622,904</u>	<u>3,170,008</u>	<u>5,202,348</u>	<u>6,651,581</u>
Net interest income	<u>2,273,073</u>	<u>2,164,243</u>	<u>4,586,854</u>	<u>4,315,998</u>
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	<u>2,341,125</u>	<u>26,252</u>	<u>2,963,278</u>	<u>32,938</u>
Provision for acquired property losses	-	-	-	-
Net interest income after provision for loan losses	<u>(68,052)</u>	<u>2,137,991</u>	<u>1,623,576</u>	<u>4,283,060</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	49,128	54,399	99,397	117,123
Loan fees	126,480	149,504	338,114	388,961
Financially related services income	5,603	6,305	9,800	8,822
Gain (loss) on other property owned, net	-	-	-	-
Gain (loss) on sale of premises and equipment, net	-	-	-	-
Other noninterest income	81	51	21,949	19,175
Total noninterest income	<u>181,292</u>	<u>210,259</u>	<u>469,260</u>	<u>534,081</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	512,158	414,568	1,307,848	1,175,602
Directors' expense	89,080	51,970	116,941	102,108
Purchased services	69,163	82,342	136,950	172,815
Travel	23,043	29,241	34,906	46,561
Occupancy and equipment	24,611	25,935	51,222	53,016
Communications	5,269	4,231	10,427	9,730
Advertising	15,744	17,389	46,444	53,517
Public and member relations	22,953	9,985	38,177	37,992
Supervisory and exam expense	33,254	30,159	66,510	60,317
Insurance Fund premiums	151,963	132,413	303,475	260,750
FAC expense	-	-	-	-
Merger-implementation and restructuring costs	-	-	-	-
Other noninterest expense	24,229	18,985	62,379	48,184
Total noninterest expenses	<u>971,467</u>	<u>817,218</u>	<u>2,175,279</u>	<u>2,020,592</u>
Net income	<u>\$ (858,227)</u>	<u>\$ 1,531,032</u>	<u>\$ (82,443)</u>	<u>\$ 2,796,549</u>

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	-	-	2,796,548	-	2,796,548
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(11,422)	(11,422)
Total comprehensive income	-	-	2,796,548	(11,422)	2,785,126
Capital stock/participation certificates issued	141,765	-	-	-	141,765
Capital stock/participation certificates and allocated retained earnings retired	(120,115)	-	-	-	(120,115)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at June 30, 2008	<u>\$ 1,766,740</u>	<u>\$ -</u>	<u>\$ 60,963,026</u>	<u>\$ 256,218</u>	<u>\$ 62,985,984</u>
Balance at December 31, 2008	\$ 1,754,805	\$ -	\$ 62,886,962	\$ 212,265	\$ 64,854,032
Comprehensive income					
Net income	-	-	(82,443)	-	(82,443)
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(11,442)	(11,442)
Total comprehensive income	-	-	(82,443)	(11,442)	(93,885)
Capital stock/participation certificates issued	96,215	-	-	-	96,215
Capital stock/participation certificates and allocated retained earnings retired	(91,395)	-	-	-	(91,395)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	(865,000)	-	(865,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at June 30, 2009	<u>\$ 1,759,625</u>	<u>\$ -</u>	<u>\$ 61,939,519</u>	<u>\$ 200,823</u>	<u>\$ 63,899,967</u>

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 second quarter 2009 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 Financial Accounting Standards Board (FASB) Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). This FSP delayed the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" (SFAS 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.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the FSP in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

The Association held no investments in debt securities during the first six months of 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS 165), which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

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 six months ended June 30, 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:

	June 30, 2009	June 30, 2008
Balance at beginning of quarter	\$ 1,046,686	\$ 182,433
Provision for loan losses	2,341,126	26,252
Charge-offs	-	-
Recoveries	1	-
Balance at end of quarter	<u>\$ 3,387,813</u>	<u>\$ 208,685</u>

The following table presents information concerning impaired loans:

	June 30, 2009	June 30, 2008
Impaired loans with related allowance	\$ 5,614,603	\$ -
Impaired loans with no related allowance	4,463,803	297,841
Total impaired loans	<u>\$ 10,078,406</u>	<u>\$ 297,841</u>
Allowance on impaired loans	\$ 2,662,917	\$ -
Average impaired loans	\$ 8,469,388	\$ 302,672
Interest income on impaired loans for the quarter	\$ 2,061	\$ 107

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 2 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 June 30, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Gains (losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans	\$ -	\$ -	\$ 3,184,984	\$ 3,184,984	\$ -
Other property owned	-	-	-	-	-

* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," (SFAS 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 2 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. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral less estimated costs to sell.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the six months ended June 30, :

	Other Benefits	
	2009	2008
Service cost	\$ 15,568	\$ 13,760
Interest cost	22,130	19,860
Expected return on plan assets	-	-
Amortization of prior service costs	(11,442)	(11,666)
Amortizations of net (gain) loss	-	244
Net periodic benefit cost	\$ 26,256	\$ 22,198

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 June 30, 2009, \$290,984 of contributions have been made. The Association presently anticipates contributing an additional \$290,984 to fund its defined pension plan in 2009 for a total \$581,968.

NOTE 7 — Subsequent Events:

The Association has evaluated subsequent events through July 31, 2009, which is the date the financial statements were available to be issued.