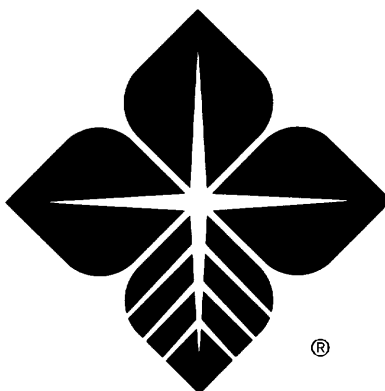


TEXAS AGFINANCE, FARM CREDIT SERVICES

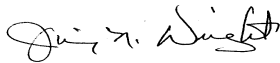
2008 Quarterly Report Third Quarter



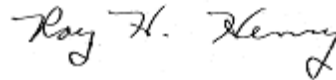
For the Quarter Ended September 30, 2008

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.



Jimmy N. Wright
CEO/President
October 30, 2008



Ray Henry
Chairman, Board of Directors
October 30, 2008



Keith A. Ibrom
Chief Financial Officer
October 30, 2008

TEXAS AGFINANCE, FARM CREDIT SERVICES MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Texas AgFinance, Farm Credit Services (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

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

Loan Portfolio:

Total loans outstanding at September 30, 2008, including nonaccrual loans and sales contracts, were \$424,310,391 compared to \$397,793,943 at December 31, 2007, reflecting an increase of 6.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at September 30, 2008, compared to 0.0 percent at December 31, 2007.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending September 30, 2008, and \$0 in recoveries and \$0 in charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.1 percent and 0.0 percent of total loans outstanding as of September 30, 2008, and December 31, 2007, respectively.

The Association's demand for its loan products have slowed, a factor attributed to a slow-down in the local and regional real estate market. Credit quality remains near all-time highs and nonperforming assets at historic lows.

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.

	September 30, 2008		December 31, 2007	
	Amount	%	Amount	%
Nonaccrual	\$ 1,879,055	100.0%	\$ 4	0.0%
90 days past due and still accruing interest	-	0.0%	84,200	100.0%
Total	\$ 1,879,055	100.0%	\$ 84,204	100.0%

Results of Operations:

The Association had net income of \$2,115,556 and \$5,241,116 for the three and nine months ended September 30, 2008, as compared to net income of \$2,272,907 and \$5,459,745 for the same periods in 2007 reflecting a decrease of 6.9 and 4.0 percent, respectively. Net interest income was \$2,734,210 and \$7,897,164, respectively, for the three and nine months ended September 30, 2008, compared to \$2,705,000 and \$7,617,404 for the same periods in 2007. Interest income for the first nine months of 2008 decreased by \$1,206,239 or 5.5 percent from the same periods of 2007, primarily due to declines in yields on earning assets. Interest expense for the first nine months of 2008 decreased by \$1,485,999, or 10.3 percent, from the same periods of 2007 due to a decrease in average portfolio cost of funds. Average loan volume for the third quarter of 2008 was \$424,508,065, compared to \$382,669,339 in the third quarter of 2007. The average spread on the loan portfolio for the third quarter 2008 was 2.28 percent, compared to 2.43 percent in the third quarter of 2007.

The Association's return on average assets for the nine months ended September 30, 2008, was 1.65 and 1.95 percent for the same period in 2007. The Association's return on average equity for the nine months ended September 30, 2008, was 18.36 and 21.77 percent for the same period in 2007.

The Association's noninterest income increased \$106,223, or 4.7% for the nine months ended September 30, 2008 compared to the same period in 2007 primarily due to an increase in loan origination fees and income generated from financially related services. The Association's noninterest expense increased \$637,328, or 15.1%, for the nine months ended September 30, 2008 compared to the same period in 2007 primarily due to an increase in personnel, an increase in the Association's captive insurance coverage, which is based on loan volume, and an increase in Farmer Mac and Bank guarantees, which is classified as other noninterest expense. The Association has approximately \$190,000,000 in net loans guaranteed from credit risk. The fees associated with the guarantees range from 35 to 80 basis points of the loan's outstanding balance.

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.

	September 30, 2008	December 31, 2007
Note payable to the Bank	\$ 395,489,635	\$ 368,581,278
Accrued interest on note payable	1,434,149	1,691,606
Total	<u>\$ 396,923,784</u>	<u>\$ 370,272,884</u>

The Association applies all excess capital to pay-down the Association's note payable to the Bank. It draws funds from the note payable to fund new loans and operating expenditures. Therefore, the Association's note payable to the Bank has a direct correlation to the Association's loan volume and operating cash flows.

Capital Resources:

The Association's capital position increased by \$5,117,661 at September 30, 2008, compared to December 31, 2007. The Association's debt as a percentage of members' equity was 9.73:1 as of September 30, 2008, compared to 10.43:1 as of December 31, 2007.

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 September 30, 2008, was 10.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2008, were 9.5 and 10.1 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2007 Annual Report of Texas AgFinance, Farm Credit Services 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 Texas AgFinance, Farm Credit Services, P.O. Box 711, Robstown, Texas, 78380 or calling (361) 387-8563. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing kibrom@texasagfinance.com. The Association makes its annual and quarterly stockholder reports available on its Web site at www.texasagfinance.com.

TEXAS AG FINANCE, FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	September 30, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 2,217,873	\$ 56,821
Loans	424,310,391	397,793,943
Less: allowance for loan losses	215,420	194,665
Net loans	424,094,971	397,599,278
Accrued interest receivable	5,263,843	5,100,610
Investment in and receivable from the Bank:		
Capital stock	6,734,125	6,734,125
Other	-	227,398
Deferred taxes, net	59,592	62,974
Premises and equipment	918,960	867,069
Other assets	1,301,112	34,149
Total assets	\$ 440,590,476	\$ 410,682,424
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 395,489,635	\$ 368,581,278
Advance conditional payments	863,266	996,678
Accrued interest payable	1,434,149	1,691,606
Patronage distributions payable	9,211	1,522,192
Other liabilities	1,736,000	1,950,116
Total liabilities	399,532,261	374,741,870
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,549,745	1,632,965
Allocated retained earnings	7,147,562	7,148,304
Unallocated retained earnings	31,782,492	26,547,479
Accumulated other comprehensive income (loss)	578,416	611,806
Total members' equity	41,058,215	35,940,554
Total liabilities and members' equity	\$ 440,590,476	\$ 410,682,424

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<u>INTEREST INCOME</u>				
Loans	\$ 6,985,357	\$ 7,849,622	\$ 20,912,482	\$ 22,118,721
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	4,249,359	5,142,595	13,009,263	14,495,883
Advance conditional payments	1,788	2,027	6,055	5,434
Total interest expense	<u>4,251,147</u>	<u>5,144,622</u>	<u>13,015,318</u>	<u>14,501,317</u>
Net interest income	<u>2,734,210</u>	2,705,000	<u>7,897,164</u>	7,617,404
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	<u>3,565</u>	14,214	<u>20,755</u>	53,022
Net interest income after provision for loan losses	<u>2,730,645</u>	<u>2,690,786</u>	<u>7,876,409</u>	<u>7,564,382</u>
<u>NONINTEREST INCOME</u>				
Patronage income from the Bank	63,489	336,842	827,072	1,008,713
Loan fees	349,485	228,769	771,246	668,482
Financially related services income	532,475	298,921	646,727	379,338
Gain on sale of premises and equipment, net	-	6,158	637	3,722
Other noninterest income	10,698	132,231	104,690	183,894
Total noninterest income	<u>956,147</u>	<u>1,002,921</u>	<u>2,350,372</u>	<u>2,244,149</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	818,823	709,053	2,534,200	2,171,267
Directors' expense	25,960	23,396	131,353	107,881
Purchased services	47,906	39,070	92,623	144,593
Travel	50,835	50,821	135,190	129,796
Occupancy and equipment	119,980	120,257	350,080	363,218
Communications	35,895	38,252	112,417	102,940
Advertising	21,862	17,470	52,481	50,200
Public and member relations	37,489	27,161	168,127	101,596
Supervisory and exam expense	25,735	22,898	77,205	68,694
FCSIC insurance expense	146,525	141,647	443,730	409,873
Other noninterest expense	238,628	230,807	761,717	571,737
Total noninterest expenses	<u>1,569,638</u>	<u>1,420,832</u>	<u>4,859,123</u>	<u>4,221,795</u>
Income before income taxes	<u>2,117,154</u>	<u>2,272,875</u>	<u>5,367,658</u>	<u>5,586,736</u>
Provision for (benefit from) income taxes	<u>1,598</u>	(32)	<u>126,542</u>	126,991
Net income	<u>\$ 2,115,556</u>	<u>\$ 2,272,907</u>	<u>\$ 5,241,116</u>	<u>\$ 5,459,745</u>

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

TEXAS AGFINANCE, FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 1,635,865	\$ 6,828,092	\$ 22,752,200	\$ -	\$ 31,216,157
Net income	-	-	5,459,745	-	5,459,745
Capital stock/participation certificates issued	282,965	-	-	-	282,965
Capital stock/participation certificates and allocated retained earnings retired	(277,840)	-	-	-	(277,840)
Patronage refunds:					
Capital stock/participation certificates and allocated retained earnings	-	55,786	(81,986)	-	(26,200)
Balance at September 30, 2007	<u>\$ 1,640,990</u>	<u>\$ 6,883,878</u>	<u>\$ 28,129,959</u>	<u>\$ -</u>	<u>\$ 36,654,827</u>
Balance at December 31, 2007	\$ 1,632,965	\$ 7,148,304	\$ 26,547,479	\$ 611,806	\$ 35,940,554
Comprehensive income					
Net income	-	-	5,241,116	-	5,241,116
Amortization of costs included in net periodic pension costs	-	-	-	(33,390)	(33,390)
Comprehensive income	-	-	5,241,116	(33,390)	5,207,726
Capital stock/participation certificates issued	252,440	-	-	-	252,440
Capital stock/participation certificates and allocated retained earnings retired	(335,660)	-	-	-	(335,660)
Patronage refunds:					
Cash	-	-	(7,061,154)	-	(7,061,154)
Capital stock/participation certificates and allocated retained earnings	-	(742)	7,055,051	-	7,054,309
Balance at September 30, 2008	<u>\$ 1,549,745</u>	<u>\$ 7,147,562</u>	<u>\$ 31,782,492</u>	<u>\$ 578,416</u>	<u>\$ 41,058,215</u>

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

TEXAS AGFINANCE, FARM CREDIT SERVICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Texas AgFinance, Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Brooks, DeWitt, Dimmitt, Edwards, Fayette, Frio, Goliad, Gonzales, Guadalupe, Jim Wells, Karnes, Kenedy, Kerr, Kinney, Kleberg, LaSalle, Lavaca, Live Oak, Maverick, McMullen, Medina, Nueces, Real, San Patricio, Uvalde, Val Verde, Waller, Wilson, Washington, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. 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:

	September 30, 2008	September 30, 2007
Balance at beginning of quarter	\$ 211,855	\$ 193,185
Provision for loan losses	3,565	14,214
Balance at end of quarter	<u>\$ 215,420</u>	<u>\$ 207,399</u>

The following table presents information concerning impaired loans:

	September 30, 2008	September 30, 2007
Impaired loans with no related allowance	\$ 1,879,055	\$ 4
Average impaired loans	\$ 1,879,055	\$ 4

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Texas AgFinance, Farm Credit Services and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2008, the Association did not participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2008, and 2007, the Association recorded federal income taxes of \$126,542 and \$126,991, respectively.

Subsidiary, Texas AgFinance, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

The Association is unaware of any material changes in uncertain tax positions or changes in classification of interest and/or penalties.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2008	2007
Service cost	\$ 19,446	\$ 23,513
Interest cost	48,513	49,503
Amortization of prior service costs	(51,162)	(55,241)
Amortizations of net (gain) loss	1,077	1,182
Net periodic benefit cost	<u>\$ 17,874</u>	<u>\$ 18,957</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, 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 result, the Association increased retained earnings \$611,806 and decreased the pension and postretirement benefit asset/liability by \$611,806.

The Association previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$36,557 to its pension plan in 2008. As of September 30, 2008, \$27,417 of contributions have been made. The Association presently does not anticipate contributing any additional funds, above its previous estimate, to its pension plan in 2008.