Yosemite Farm Credit

Quarterly Financial Report

March 2020

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A MESSAGE TO OUR MEMBERS

Association COVID-19 Pandemic Response

The Association continues to take precautions to ensure the health and safety of our Members and our Team Members during this COVID-19 pandemic. Yosemite Farm Credit (YFC) offices are minimally staffed and many Team Members are working remotely from home. In order to further mitigate the health risk and spread of COVID-19 for all concerned, we ask that you **please avoid coming to the office** and instead utilize alternative options available to you:

- Email or phone
- Utilize Electronic Funds Transfer (ACH)
- Online Banking – www.yosemitefarmcredit.com/online-banking
- Mail payments to YFC

We understand the impact of the global COVID-19 pandemic is far reaching and YFC is committed to working with Members during this time. Your loan may qualify for one of the following accommodations:

- **Interest only** up to 12 months – The balance of payment(s) to be re-amortized over the existing maturity on Mortgage loans.
- **Payment deferments** up to 6 months on Mortgage loans.
- **Interest only** up to 6 months – The balance of payment(s) to be re-amortized over the existing maturity on Equipment and Cattle loans (leases are not eligible).

Please contact your loan officer for more information if you are interested in learning more about the accommodations available to you.

The Association does not yet know the full extent of the effects of COVID-19 on its business, operations or the global economy as a whole, but they could materially and adversely affect the Association's business, results of operations and financial condition.

Financial Highlights

We are pleased to inform you of the Association's financial progress during the three months ending March 31, 2020. The financial condition of the Association is sound. The Association remains capitalized to withstand adversity, sufficiently liquid to meet obligations as they come due, and able to earn profits to further enhance total shareholders' equity. This quarterly shareholder report was prepared under the oversight of the Audit Committee.

The Association, in the form of qualified cash patronage, returned $24.2 million of its 2019 patronage sourced earnings to patrons in March 2020. This distribution effectively reduced each patron's interest rate in 2019 by approximately three-quarter percent.

The Association's first quarter 2020 net earnings were $16.6 million, which is approximately $0.7 million lower than the same period in the prior year.

Net interest income before the provision for credit losses decreased $0.1 million during the first quarter compared to the same period last year. The decrease was primarily due to lower interest rates.

Non-interest income decreased approximately $2.2 million during the first quarter compared to the same period last year. The decrease was primarily due to fees assessed for the prepayment of our note payable to CoBank, ACB in the amount of $2.4 million in the first quarter 2020.

The quarterly review of credit risk resulted in the Association recording a credit loss reversal of $0.7 million in the first quarter 2020 compared to a $1.3 million provision for credit losses in the first quarter 2019.

Non-interest expense increased approximately $0.5 million during the first quarter of which $0.4 million was an increase in salaries and benefits due to both an increase in the number of employees and the annual increase in salary and benefits costs.

Credit quality increased to 96.6% Acceptable/OAEM at March 31, 2020 compared to 95.9% at March 31, 2019. Nonaccrual loan volume is $24.0 million and represents 0.8% of total loan volume. The volume of delinquent accounts, 0.2% of accrual loans and leases, remain low.

The Association advance conditional payment accounts, offering an interest rate of 1.60% for the month of March, increased $16.0 million from $53.3 million at year-end to $69.3 million at March 31, 2020.

To our Members, we appreciate the confidence you have placed in us. It is a privilege to serve you. To our prospective Members, we welcome the opportunity to consider your agricultural financing needs.

Mark R. Jensen Board Chair	Tracy V. Sparks President and CEO	Matthew McNelis Senior VP and CFO

The Stockholders' investment in the Association is materially affected by the financial condition and the results of operations of CoBank. The CoBank, FCB and CoBank District quarterly and annual reports are available free of charge by accessing CoBank's website, www.Cobank.com, or may be obtained at no charge by contacting us at 806 W. Monte Vista Avenue, P.O. Box 3278, Turlock California, 95381-3278 or by calling (209) 667-2366.

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CONDITION
March 31, 2020
($ in thousands)

	March 31, 2020 (unaudited)	December 31, 2019 (audited)
ASSETS		
Loans	$ 3,111,102	$ 3,190,991
Less allowance for loan losses	9,294	9,957
Net loans	3,101,808	3,181,034
Cash	-	9,754
Investment securities - held-to-maturity	8,969	10,146
Accrued interest receivable	24,842	42,363
Investment in CoBank, ACB	106,358	105,951
Premises and equipment, net	20,829	20,940
Other assets	4,398	13,691
Total assets	$ 3,267,204	$ 3,383,879
LIABILITIES		
Note payable to CoBank, ACB	$ 2,612,774	$ 2,738,031
Advance conditional payments	69,269	53,333
Accrued interest payable	4,134	5,364
Patronage distribution payable	-	24,235
Other liabilities	7,831	6,339
Total liabilities	2,694,008	2,827,302
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	1,879	1,882
Unallocated retained earnings	571,322	554,700
Accumulated other comprehensive loss	(5)	(5)
Total shareholders' equity	573,196	556,577
Total liabilities and shareholders' equity	$ 3,267,204	$ 3,383,879

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
March 31, 2020
($ in thousands)

	Quarter Ended 3/31/2020 (unaudited)	Quarter Ended 3/31/2019 (unaudited)
INTEREST INCOME		
Loans	$ 36,894	$ 40,868
Investment securities	103	174
Total interest income	36,997	41,042
INTEREST EXPENSE		
Note payable to CoBank, ACB	13,968	17,881
Advance conditional payments	265	321
Total interest expense	14,233	18,202
Net interest income	22,764	22,840
(Credit loss reversals)/provision for credit losses	(746)	1,300
Net interest income after (credit loss reversals)/provision for credit losses	23,510	21,540
NON-INTEREST INCOME		
Patronage distribution from Farm Credit Institutions	3,217	3,132
Financially related services income	17	36
Note payable prepayment fees	(2,379)	-
Other non-interest income	1,058	970
Total non-interest income	1,913	4,138
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,998	5,625
Occupancy and equipment	429	409
Farm Credit Insurance Fund premium	509	561
Other non-interest expense	1,863	1,749
Total non-interest expense	8,799	8,344
Income before income taxes	16,624	17,334
Provision for income taxes	2	-
Net income	$ 16,622	$ 17,334
COMPREHENSIVE INCOME		
Amortization of retirement credits	-	-
Total comprehensive income	$ 16,622	$ 17,334

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
March 31, 2020
($ in thousands)

	Capital Stock & Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2018	$ 1,855	$ 522,166	$ (6)	$ 524,015
Comprehensive income		17,334		17,334
Stock and participation certificates issued	34			34
Stock and participation certificates retired	(30)			(30)
Net Patronage Distributions		(7,176)		(7,176)
Balance at March 31, 2019 (unaudited)	$ 1,859	$ 532,324	$ (6)	$ 534,177
Balance at December 31, 2019	$ 1,882	$ 554,700	$ (5)	$ 556,577
Comprehensive income		16,622		16,622
Stock and participation certificates issued	37			37
Stock and participation certificates retired	(40)			(40)
Balance at March 31, 2020 (unaudited)	$ 1,879	$ 571,322	$ (5)	$ 573,196

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CASH FLOWS
March 31, 2020
($ in thousands)

	Three months ended March 31, 2020 (unaudited)	Three months ended March 31, 2019 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,622	$ 17,334
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit loss reversals)/provision for credit losses	(746)	1,300
Depreciation and amortization	304	289
Gain on sale of premises and equipment	(19)	(16)
Stock patronage received from CoBank	(112)	(91)
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	17,521	7,735
Decrease in other assets	8,998	8,492
(Decrease) increase in accrued interest payable	(1,230)	378
Increase (decrease) in other liabilities	3,954	(2,539)
Net cash provided by operating activities	45,292	32,882
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in loans	79,889	(14,062)
Payments received on investment securities	1,177	1,142
Purchase of premises and equipment, net	(174)	(1,066)
Net cash provided by (used in) investing activities	80,892	(13,986)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayment on note payable to CoBank	(125,257)	(29,552)
Note payable prepayment fees	(2,379)	-
Increase in advance conditional payments	15,936	22,986
Patronage distributions	(24,235)	(21,879)
(Retirement) issuances of capital stock and participation certificates, net	(3)	4
Net cash used in financing activities	(135,938)	(28,441)
Net decrease in cash	(9,754)	(9,545)
Cash at beginning of period	9,754	10,585
Cash at end of period	$ -	$ 1,040
SUPPLEMENTAL CASH FLOW INFORMATON:		
Cash paid for interest	$ 15,463	$ 17,824
Cash paid for income taxes	$ 2	$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Net charge-offs	$ -	$ 167
Transfer of allowance to reserve for unfunded commitments	$ 83	$ (179)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

Note 1 – Organization and Significant Accounting Policies

A description of the organization and operations of Yosemite Farm Credit, ACA, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2019 are contained in the 2019 Annual Report to Stockholders. These unaudited first quarter 2020 financial statements should be read in conjunction with the 2019 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019 as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

On April 1, 2020, the Farm Credit Administration issued an informational memorandum for reporting troubled debt restructurings (TDR) for customers affected by the COVID-19 outbreak. Pursuant to this guidance, borrowers experiencing short-term economic difficulties arising from the COVID-19 outbreak and who receive loan modifications including payment deferrals, fee waivers or other extensions of repayment terms are not required to be accounted for and reported as TDRs. This guidance covers the period beginning March 1, 2020, and ending on December 31, 2020, or 60 days after termination of the COVID-19 national emergency, whichever is earlier.

Recently Adopted or Issued Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution's financial condition or results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Note 2 – Loans and Allowance for Loan Losses

A summary of loans follows:

	March 31, 2020	December 31, 2019
Real estate mortgage	$ 2,309,732	$ 2,329,324
Production and intermediate-term	496,747	571,487
Agribusiness	302,623	288,161
Rural residential real estate	2,000	2,019
Total	$ 3,111,102	$ 3,190,991

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participation purchased and sold at March 31, 2020:

	Participations with Other Farm Credit Institutions		Participations with Non-Farm Credit Institutions		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 67,313	$ 126,629	$ 80	$ -	$ 67,393	$ 126,629
Production and intermediate term	58,104	49,980	1,465	-	59,569	49,980
Agribusiness	129,560	101,814	3,678	-	133,238	101,814
Total	$ 254,977	$ 278,423	$ 5,223	$ -	$ 260,200	$ 278,423

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	$ 10,781	$ 12,000
Production and intermediate-term	10,306	11,847
Agribusiness	2,915	2,915
Total nonaccrual loans	$ 24,002	$ 26,762
Accrual loans 90 days or more past due:		
Real estate mortgage	1,806	-
Production and intermediate-term	1,618	-
Total accrual loans 90 days or more past due	$ 3,424	$ -
Other property owned	-	-
Total nonperforming assets	$ 27,426	$ 26,762

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2020	December 31, 2019
Real estate mortgage		
Acceptable	94.8%	94.3%
OAEM	2.6	3.2
Substandard	2.6	2.5
Total	100.0%	100.0%
Production and intermediate-term		
Acceptable	86.2%	86.6%
OAEM	6.7	7.2
Substandard	7.1	6.2
Doubtful	0.0	0.0
Total	100.0%	100.0%
Agribusiness		
Acceptable	78.6%	78.2%
OAEM	17.2	18.2
Substandard	3.9	3.2
Doubtful	0.3	0.4
Total	100.0%	100.0%
Rural residential real estate		
Acceptable	100.0%	100.0%
OAEM	-	-
Substandard	-	-
Total	100.0%	100.0%
All Loans		
Acceptable	91.9%	91.5%
OAEM	4.7	5.3
Substandard	3.4	3.2
Doubtful	0.0	0.0
Total	100.0%	100.0%

Although the overall credit quality of our loan portfolio remained strong during the first three months of 2020, economic conditions deteriorated rapidly during the latter part of March 2020. The introduction and spread of COVID-19 around the world has caused significant volatility and unfavorable conditions in the U.S. and international markets as well as business disruptions impacting the U.S. and international economies. As such, it is uncertain if COVID-19 will have a material impact on the Association's credit quality. At this time, we believe the credit quality impacts within our loan portfolio resulting from the COVID-19 business disruptions will vary by commodity. While many commodity prices have been impacted, we have identified the dairy industry as having the most exposure to the lower demand and supply chain disruptions in the current environment. Management performs stress testing and other forward looking assessments of credit quality and the related impact on earnings and capital under a variety of macroeconomic environments. Under these stress scenarios, the Association continues to remain profitable, albeit at lower levels, and maintains capital above regulatory minimums.

The following tables provide an age analysis of past due loans, including accrued interest.

March 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 3,024	$ 2,366	$ 5,390	$ 2,324,315	$ 2,329,705	$ 1,806
Production and intermediate-term	1,661	8,623	10,284	489,816	500,100	1,618
Agribusiness	-	2,915	2,915	301,164	304,079	-
Rural residential real estate	-	-	-	2,013	2,013	-
Total	$ 4,685	$ 13,904	$ 18,589	$ 3,117,308	$ 3,135,897	$ 3,424

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 333	$ 1,276	$ 1,609	$ 2,361,542	$ 2,363,151	$ -
Production and intermediate-term	2,116	6,259	8,375	569,194	577,569	-
Agribusiness	-	2,915	2,915	287,613	290,528	-
Rural residential real estate	-	-	-	2,027	2,027	-
Total	$ 2,449	$ 10,450	$ 12,899	$ 3,220,376	$ 3,233,275	$ -

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

Additional impaired loan information is as follows:

	At March 31, 2020			At December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Production and intermediate-term	$ 18	$ 18	$ 17	$ 21	$ 21	$ 20
Agribusiness	2,915	2,915	1,210	2,915	2,915	1,210
Total	$ 2,933	$ 2,933	$ 1,227	$ 2,936	$ 2,936	$ 1,230
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 12,587	$ 12,475	$ -	$ 12,000	$ 12,000	$ -
Production and intermediate-term	11,906	11,850	-	11,826	11,826	-
Total	$ 24,493	$24,325	$ -	$ 23,826	$ 23,826	$ -
Total impaired loans:						
Real estate mortgage	$ 12,587	$ 12,475	$ -	$ 12,000	$ 12,000	$ -
Production and intermediate-term	11,924	11,868	17	11,847	11,847	20
Agribusiness	2,915	2,915	1,210	2,915	2,915	1,210
Total	$ 27,426	$ 27,258	$ 1,227	$ 26,762	$ 26,762	$ 1,230

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ -	$ -	$ 8,101	$ -
Production and intermediate-term	19	-	10,537	-
Agribusiness	2,915	-	1,036	-
Total	$ 2,934	$ -	$ 19,674	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 11,132	$ 258	$ 11,792	$ 1,314
Production and intermediate-term	10,669	93	3,958	7
Total	$ 21,801	$ 351	$ 15,750	$ 1,321
Total impaired loans:				
Real estate mortgage	$ 11,132	$ 258	$ 19,893	$ 1,314
Production and intermediate-term	10,688	93	14,495	7
Agribusiness	2,915	-	1,036	-
Total	$ 24,735	$ 351	$ 35,424	$ 1,321

A summary of changes in the allowance for credit losses and period end recorded investment in loans is as follows ($ thousands):

	Balance at December 31, 2019	Charge-offs	Recoveries	Transfers (to) from Reserve for Unfunded Commitments	Provision for Credit Losses/(Credit Loss Reversals)	Balance at March 31, 2020
Real estate mortgage	$ 4,081	$ -	$ -	$ (6)	$ (92)	$ 3,983
Production and intermediate-term	3,773	-	-	(47)	(682)	3,044
Agribusiness	2,101	-	-	136	28	2,265
Rural residential real estate	2	-	-	-	-	2
Total	$ 9,957	$ -	$ -	$ 83	$ (746)	$ 9,294

	Balance at December 31, 2018	Charge-offs	Recoveries	Transfers (to) from Reserve for Unfunded Commitments	Provision for Credit Losses/(Credit Loss Reversals)	Balance at March 31, 2019
Real estate mortgage	$ 3,693	$ -	$ -	$ (12)	$ 68	$ 3,749
Production and intermediate-term	3,439	(167)	-	(150)	1,040	4,162
Agribusiness	439	-	-	(17)	192	614
Rural residential real estate	2	-	-	-	-	2
Total	$ 7,573	$ (167)	$ -	$ (179)	$ 1,300	$ 8,527

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). The Association obtained approval from the SBA in April 2020 to participate as a lender in the PPP and has begun to process PPP loans for borrowers.

Note 3 – Capital

The following sets forth the regulatory capital ratio requirements and ratios at March 31, 2020:

Ratios	Ratios as of March 31, 2020	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 Capital	13.69%	7.0%	4.5%
Tier 1 Capital	13.69%	8.5%	6.0%
Total Capital	14.03%	10.5%	8.0%
Tier 1 Leverage**	14.42%	5.0%	4.0%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage	17.17%	—	1.5%
Permanent Capital	13.73%	—	7.0%

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

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

Note 4 – Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 15 to the 2019 Annual Report to Stockholders for a more complete description. There are no assets or liabilities measured at fair value on a recurring basis at March 31, 2020.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below.

March 31, 2020	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	$ 1,706	$ (1,227)

December 31, 2019	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	$ 1,706	$ (1,230)

With regard to nonrecurring measurements for impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. The Association utilizes appraisals to value these loans and take into account unobservable inputs such as, income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques
As more fully discussed in Note 15 of the 2019 Annual Report to Stockholders, the FASB guidance 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 2019 Annual Report to Stockholders.

> ***Loans Evaluated for Impairment***: For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Note 5 – Subsequent Events

The Association has evaluated subsequent events through May 7, 2020, which is the date the financial statements were issued, and no material subsequent events were identified.