Yosemite Farm Credit

Quarterly Financial Report

June 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 staffed at reduced levels 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 six months ending June 30, 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.

Net loans decreased by $24.7 million in the six months ended June 30. The decrease is primarily due to pay downs by members offset by new loans and advances on existing loans to members in the almond and dairy industries.

The note payable to CoBank, ACB (CoBank) decreased $89.1 million from year-end due to the pay downs discussed above, offset by the receipt of 2019 CoBank patronage and Association earnings.

The Association's second quarter 2020 net earnings were $8.7 million, which is approximately $6.2 million lower than the same period in the prior year.

Net interest income before the provision for credit losses increased $1.3 million during the second quarter compared to the same period last year. The increase was primarily due to higher levels of accruing loan volume.

Non-interest income decreased approximately $7.5 million during the second 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 $7.6 million in the second quarter 2020. The high volume of borrower prepayments was triggered by a historically low interest rate environment.

The quarterly review of credit risk resulted in the Association recording a provision for credit losses of $17 thousand in the second quarter 2020 compared to a $0.5 million provision for credit losses in the second quarter 2019.

Non-interest expense increased approximately $0.5 million during the second quarter of which $0.6 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, offset by a $0.1 million decrease in other non-interest expense.

Credit quality increased to 96.6% Acceptable/OAEM at June 30, 2020 compared to 95.4% at June 30, 2019. Nonaccrual loan volume is $22.7 million and represents 0.7% of total loan volume. The volume of delinquent accounts, 0.3% of accrual loans and leases, remain low.

The Association advance conditional payment accounts, offering an interest rate of 0.40% for the month of June, increased $33.0 million from $53.3 million at year-end to $86.3 million at June 30, 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
June 30, 2020
($ in thousands)

	June 30, 2020 (unaudited)	December 31, 2019 (audited)
ASSETS		
Loans	$ 3,165,567	$ 3,190,991
Less allowance for loan losses	9,270	9,957
Net loans	3,156,297	3,181,034
Cash	1,354	9,754
Investment securities - held-to-maturity	8,571	10,146
Accrued interest receivable	33,325	42,363
Investment in CoBank, ACB	106,358	105,951
Premises and equipment, net	20,602	20,940
Other assets	7,131	13,691
Total assets	$ 3,333,638	$ 3,383,879
LIABILITIES		
Note payable to CoBank, ACB	$ 2,648,970	$ 2,738,031
Advance conditional payments	86,306	53,333
Accrued interest payable	2,809	5,364
Patronage distribution payable	-	24,235
Other liabilities	13,673	6,339
Total liabilities	2,751,758	2,827,302
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	1,893	1,882
Unallocated retained earnings	579,992	554,700
Accumulated other comprehensive loss	(5)	(5)
Total shareholders' equity	581,880	556,577
Total liabilities and shareholders' equity	$ 3,333,638	$ 3,383,879

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
June 30, 2020
($ in thousands)

	Quarter Ended 6/30/2020 (unaudited)	Six Months Ended 6/30/2020 (unaudited)	Quarter Ended 6/30/2019 (unaudited)	Six Months Ended 6/30/2019 (unaudited)
INTEREST INCOME				
Loans	$ 30,474	$ 67,368	$ 38,825	$ 79,693
Investment securities	90	193	162	336
Total interest income	30,564	67,561	38,987	80,029
INTEREST EXPENSE				
Note payable to CoBank, ACB	8,852	22,820	18,313	36,194
Advance conditional payments	116	381	368	689
Total interest expense	8,968	23,201	18,681	36,883
Net interest income	21,596	44,360	20,306	43,146
Provision for credit losses/(credit loss reversals)	17	(729)	499	1,799
Net interest income after provision for credit losses/ (credit loss reversals)	21,579	45,089	19,807	41,347
NON-INTEREST INCOME				
Patronage distribution from Farm Credit Institutions	2,997	6,214	3,080	6,212
Financially related services income	32	49	12	48
Note payable prepayment fees	(7,643)	(10,022)	-	-
Other non-interest income	357	1,415	142	1,112
Total non-interest income	(4,257)	(2,344)	3,234	7,372
NON-INTEREST EXPENSE				
Salaries and employee benefits	6,001	11,999	5,365	10,990
Occupancy and equipment	403	832	392	801
Farm Credit Insurance Fund premium	498	1,007	566	1,127
Other non-interest expense	1,750	3,613	1,864	3,613
Total non-interest expense	8,652	17,451	8,187	16,531
Income before income taxes	8,670	25,294	14,854	32,188
Provision for income taxes	-	2	2	2
Net income	$ 8,670	$ 25,292	$ 14,852	$ 32,186
COMPREHENSIVE INCOME				
Amortization of retirement credits	-	-	-	-
Total comprehensive income	$ 8,670	$ 25,292	$ 14,852	$ 32,186

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
June 30, 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		32,186		32,186
Stock and participation certificates issued	66			66
Stock and participation certificates retired	(46)			(46)
Net Patronage Distributions		(7,174)		(7,174)
Balance at June 30, 2019 (unaudited)	$ 1,875	$ 547,178	$ (6)	$ 549,047
Balance at December 31, 2019	$ 1,882	$ 554,700	$ (5)	$ 556,577
Comprehensive income		25,292		25,292
Stock and participation certificates issued	80			80
Stock and participation certificates retired	(69)			(69)
Balance at June 30, 2020 (unaudited)	$ 1,893	$ 579,992	$ (5)	$ 581,880

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

YOSEMITE FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2020
($ in thousands)

	Six months ended June 30,	
	2020	2019
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,292	$ 32,186
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit loss reversals)/provision for credit losses	(729)	1,799
Depreciation and amortization	614	572
Gain on sale of premises and equipment	(19)	(28)
Stock patronage received from CoBank	(229)	(182)
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable	9,038	(4,398)
Decrease in other assets	6,382	5,829
(Decrease) increase in accrued interest payable	(2,555)	191
Increase (decrease) in other liabilities	15,019	(1,318)
Net cash provided by operating activities	52,813	34,651
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in loans	25,424	(43,124)
Payments received on investment securities	1,575	1,765
Purchase of premises and equipment, net	(257)	(1,988)
Net cash provided by (used in) investing activities	26,742	(43,347)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayment) draws on note payable to CoBank	(86,682)	1,143
Note payable prepayment fees	(10,022)	-
Increase in advance conditional payments	32,973	21,883
Patronage distributions	(24,235)	(21,877)
Issuances of capital stock and participation certificates, net	11	20
Net cash (used in) provided by financing activities	(87,955)	1,169
Net decrease in cash	(8,400)	(7,527)
Cash at beginning of period	9,754	10,585
Cash at end of period	$ 1,354	$ 3,058
SUPPLEMENTAL CASH FLOW INFORMATON:		
Cash paid for interest	$ 25,756	$ 36,692
Cash paid for income taxes	$ 2	$ 2
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Net charge-offs	$ -	$ 167
Transfer of allowance from (to) reserve for unfunded commitments	$ 42	$ (232)

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 second 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.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In December 2019, the 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 Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association'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.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact the lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a right-of-use asset and a lease liability in the amount of $170.7 thousand.

Note 2 – Loans and Allowance for Loan Losses

A summary of loans follows:

	June 30, 2020	December 31, 2019
Real estate mortgage	$ 2,348,081	$ 2,329,324
Production and intermediate term	499,641	571,487
Agribusiness	311,225	288,161
Rural residential real estate	1,983	2,019
Energy	4,637	-
Total	$ 3,165,567	$ 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 participations purchased and sold at June 30, 2020:

	Participations with Other Farm Credit Institutions		Participations with Non-Farm Credit Institutions		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 65,798	$ 128,978	$ 80	$ -	$ 65,878	$ 128,978
Production and intermediate-term	58,331	54,636	-	-	58,331	54,636
Agribusiness	123,566	98,159	231	-	123,797	98,159
Energy	4,664	-	-	-	4,664	-
Total	$ 252,359	$ 281,773	$ 311	$ -	$ 252,670	$ 281,773

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

	June 30, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	$ 9,568	$ 12,000
Production and intermediate-term	10,256	11,847
Agribusiness	2,915	2,915
Total nonaccrual loans	$ 22,739	$ 26,762
Accrual loans 90 days or more past due	-	-
Other property owned	-	-
Total nonperforming assets	$ 22,739	$ 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:

	June 30, 2020	December 31, 2019
Real estate mortgage		
Acceptable	95.1%	94.3%
OAEM	2.3	3.2
Substandard	2.6	2.5
Doubtful	-	-
Total	100.0%	100.0%
Production and intermediate-term		
Acceptable	86.4%	86.6%
OAEM	6.3	7.2
Substandard	7.3	6.2
Doubtful	-	-
Total	100.0%	100.0%
Agribusiness		
Acceptable	82.8%	78.2%
OAEM	14.2	18.2
Substandard	2.7	3.2
Doubtful	0.3	0.4
Total	100.0%	100.0%
Rural residential real estate		
Acceptable	100.0%	100.0%
OAEM	-	-
Substandard	-	-
Doubtful	-	-
Total	100.0%	100.0%
Energy		
Acceptable	100.0%	-
OAEM	-	-
Substandard	-	-
Doubtful	-	-
Total	100.0%	-
All Loans		
Acceptable	92.5%	91.5%
OAEM	4.1	5.3
Substandard	3.3	3.2
Doubtful	0.1	-
Total	100.0%	100.0%

Although the overall credit quality of our loan portfolio remained strong during the first six 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.

June 30, 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	$ 4,707	$ 185	$ 4,892	$ 2,371,270	$ 2,376,162	$ -
Production and intermediate-term	6,526	7,107	13,633	489,452	503,085	-
Agribusiness	-	2,915	2,915	310,021	312,936	-
Rural residential real estate	-	-	-	1,998	1,998	-
Energy	-	-	-	4,642	4,642	-
Total	$ 11,233	$ 10,207	$ 21,440	$ 3,177,383	$ 3,198,823	$ -

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 June 30, 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	$ 285	$ 285	$ 20	$ 21	$ 21	$ 20
Agribusiness	2,915	2,915	1,210	2,915	2,915	1,210
Total	$ 3,200	$ 3,200	$ 1,230	$ 2,936	$ 2,936	$ 1,230
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 9,568	$ 9,568	$ -	$ 12,000	$ 12,000	$ -
Production and intermediate-term	9,971	9,971	-	11,826	11,826	-
Total	$ 19,539	$ 19,539	$ -	$ 23,826	$ 23,826	$ -
Total impaired loans:						
Real estate mortgage	$ 9,568	$ 9,568	$ -	$ 12,000	$ 12,000	$ -
Production and intermediate-term	10,256	10,256	20	11,847	11,847	20
Agribusiness	2,915	2,915	1,210	2,915	2,915	1,210
Total	$ 22,739	$ 22,739	$ 1,230	$ 26,762	$ 26,762	$ 1,230

	For the Three Months Ended			
	June 30, 2020		June 30, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Production and intermediate-term	$ 396	$ -	$ 5,027	$ -
Agribusiness	2,915	-	3,108	-
Total	$ 3,311	$ -	$ 8,135	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 10,296	$ 64	$ 21,277	$ (1,284)
Production and intermediate-term	10,344	15	12,232	62
Total	$ 20,640	$ 79	$ 33,509	$ (1,222)
Total impaired loans:				
Real estate mortgage	$ 10,296	$ 64	$ 21,277	$ (1,284)
Production and intermediate-term	10,740	15	17,259	62
Agribusiness	2,915	-	3,108	-
Total	$ 23,951	$ 79	$ 41,644	$ (1,222)

	For the Six Months Ended			
	June 30, 2020		June 30, 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	$ -	$ -	$ 4,050	$ -
Production and intermediate-term	208	-	7,782	-
Agribusiness	2,915	-	2,072	-
Total	$ 3,123	$ -	$ 13,904	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 10,713	$ 321	$ 16,546	$ 30
Production and intermediate-term	10,506	108	8,110	70
Total	$ 21,219	$ 429	$ 24,656	$ 100
Total impaired loans:				
Real estate mortgage	$ 10,713	$ 321	$ 20,596	$ 30
Production and intermediate-term	10,714	108	15,892	70
Agribusiness	2,915	-	2,072	-
Total	$ 24,342	$ 429	$ 38,560	$ 100

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 June 30, 2020
Real estate mortgage	$ 4,081	$ -	$ -	$ (14)	$ 169	$ 4,236
Production and intermediate-term	3,773	-	-	(77)	(669)	3,027
Agribusiness	2,101	-	-	133	(229)	2,005
Rural residential real estate	2	-	-	-	-	2
Total	$ 9,957	$ -	$ -	$ 42	$ (729)	$ 9,270

	Balance at December 31, 2018	Charge-offs	Recoveries	Transfers (to) from Reserve for Unfunded Commitments	Provision for Credit Losses/(Credit Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	$ 3,693	$ -	$ -	$ (26)	$ 252	$ 3,919
Production & intermediate-term	3,439	(167)	-	(181)	1,166	4,257
Agribusiness	439	-	-	(25)	381	795
Rural residential real estate	2	-	-	-	-	2
Total	$ 7,573	$ (167)	$ -	$ (232)	$ 1,799	$ 8,973

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 processed $39.3 million PPP loans for borrowers. The Association has collected $1.3 million in loan processing fees from SBA which are included in other liabilities as unearned revenue on the Consolidated Statements of Condition.

Note 3 – Capital

The following sets forth the regulatory capital ratio requirements and ratios at June 30, 2020:

Ratios	Ratios as of June 30, 2020	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 Capital	14.03%	7.0%	4.5%
Tier 1 Capital	14.03%	8.5%	6.0%
Total Capital	14.35%	10.5%	8.0%
Tier 1 Leverage**	14.79%	5.0%	4.0%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage	17.53%	1.5%	1.5%
Permanent Capital	14.07%	7.0%	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 June 30, 2020.

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

June 30, 2020	Total Fair Value Level 3	Total Gains (Losses)
Assets:		
Impaired loans	$ 1,969	$(1,230)

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 July 31, 2020, which is the date the financial statements were issued, and no material subsequent events were identified.