Farm Credit Midsouth, ACA

Quarterly Report
September 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (Association) and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2020 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

COVID-19 PANDEMIC

As domestic public health measures have been implemented to limit the spread of the virus, including the availability of vaccines, many locations across the United States have been able to lift many or all restrictions. Currently, anyone over the age of 12 years is eligible to receive a vaccine in Arkansas. Approximately 46% of the Arkansas population is fully vaccinated with an additional 10% of the population having received one dose. While the emergence of COVID-19 variants have caused an increase in positive cases and may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. Our business continuity response has allowed us to continue to serve our mission, and we have weathered the significant challenges presented to date. We have not had any significant changes to internal controls over financial reporting due to working remotely.

AGRICULTURAL AND ECONOMIC CONDITIONS

According to the United States Department of Agriculture Crop Progress and Condition Report as of October 3, 2021, 94% of corn is harvested compared to the 5-year average of 92%, and 72% of rice is harvested compared to the 5-year average of 82%. Cotton harvested is 7% compared to 25% for the 5-year average, and soybeans harvested are 33% compared to the 5-year average of 36%. Managers are reporting average to above-average yields on most crops with higher prices than last year. Additionally, commodity prices continue to be strong which will positively impact customer profitability.

The State of Arkansas unemployment rate was 3.8% as of August 2021 (not seasonally adjusted), significantly lower than 2020. The national average was 5.3%, also significantly lower than 2020. All counties in our territory saw a decrease in unemployment due to the economy returning to work after the COVID-19 shutdowns in the second quarter of 2020.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.3 billion at September 30, 2021, an increase of $208.6 million from December 31, 2020. The increase was primarily due to increases in the real estate mortgage and production and intermediate-term portfolios.

The Paycheck Protection Program (PPP) is a guaranteed loan program administered by the U.S. Small Business Administration (SBA) created in response to the COVID-19 pandemic. We obtained approval from the SBA in 2020 to participate as a lender in the PPP. The PPP provides for payment deferral, and when certain requirements are fulfilled, loan forgiveness. As of May 31, 2021, when the PPP ended, we had successfully processed $3.1 million in PPP loans for customers. As of September 30, 2021, there were 48 customers with outstanding PPP loan balances totaling $1 million. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans. As of September 30, 2021, $2.1 million, representing 80 borrowers, has been forgiven.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2020. Adversely classified loans decreased slightly to 0.8% of the portfolio at September 30, 2021, from 1.0% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At September 30, 2021, $9.7 million of our loans were, substantially, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ 9,161**	$ 8,851
Accruing restructured	**1**	1
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**9,162**	8,852
Other property owned	**--**	--
Total risk assets	**$ 9,162**	$ 8,852
Total risk loans as a percentage of total loans	**0.7%**	0.8%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**0.7%**	0.8%
Total delinquencies as a percentage of total loans	**0.7%**	0.9%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased slightly from December 31, 2020, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**September 30, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.3%**	0.4%
Nonaccrual loans	**46.9%**	47.0%
Total risk loans	**46.9%**	47.0%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2021.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30		2021		2020
Net income	$	**13,034**	$	10,429
Return on average assets		**1.5%**		1.4%
Return on average members' equity		**7.1%**		5.9%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30		2021		2020		Increase (decrease) in net income
Net interest income	$	**21,015**	$	19,942	$	**1,073**
Provision for loan losses		**236**		4,342		**4,106**
Non-interest income		**5,383**		6,065		**(682)**
Non-interest expense		**12,930**		11,488		**(1,442)**
Provision for (benefit from) income taxes		**198**		(252)		**(450)**
Net income	$	**13,034**	$	10,429	$	**2,605**

Provision for Loan Losses

The change in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. After the allowance calculation was completed for September 30, 2021, a net provision of $236 thousand was necessary to reasonably reflect the estimated credit loss in the loan portfolio. The provision for loan losses recorded in 2020 was related to one nonaccrual relationship.

Non-Interest Income

The change in non-interest income was primarily due to a decrease in fee income and Allocated Insurance Reserve Accounts distribution, partially offset by an increase in patronage income.

Fee Income: The decrease in fee income was primarily due to higher conversion fee income during 2020 as a result of a low interest rate environment.

Allocated Insurance Reserve Accounts Distribution: The change in the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) was due to our share of the distribution from AIRA of $194 thousand during the nine months ended September 30, 2020, and no distribution during the same period of 2021. The AIRA was established by FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2% of insured debt. Refer to the 2020 Annual Report for additional information about the FCSIC.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands) For the nine months ended September 30		2021		2020
Patronage from AgriBank	$	**3,898**	$	3,415
Other patronage		**34**		139
Total patronage income	$	**3,932**	$	3,554

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage distributions from AgriBank are in the form of either cash or AgriBank stock and determined based on actual financial results, projections, and long-term capital goals.

Non-Interest Expense

The change in non-interest expense was primarily due to an increase in salaries and employee benefits expense, as well as an increase in Farm Credit System insurance expense.

Salaries and Employee Benefits: The change in salaries and employee benefits is primarily due to an increase in staffing during the last twelve months.

Farm Credit System Insurance: The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 16 basis points for the nine months ended September 30, 2021, compared to a premium rate of 8 basis points for the first half of 2020 and 11 basis points for the third quarter of 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for (Benefit from) Income Taxes

The change in provision for (benefit from) income taxes was primarily related to our estimate of taxes based on taxable income. The benefit from income taxes recorded as of September 30, 2020, was primarily driven by the large provision for loan losses that was recorded during the same time period.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on April 30, 2022; however, it was renewed early for $1.2 billion with a maturity date of April 30, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at September 30, 2021, or December 31, 2020.

Total members' equity increased $8.0 million from December 31, 2020, primarily due to net income for the period partially offset by patronage distribution accruals**.**

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2020 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.3%**	18.6%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.3%**	18.6%	6.0%	2.5%	8.5%
Total capital ratio	**17.6%**	18.9%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.4%**	18.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.4%**	20.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.8%**	20.4%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2020 Annual Report.

CERTIFICATION

The undersigned have reviewed the September 30, 2021, Quarterly Report of Farm Credit Midsouth, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Dane Coomer
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Diane Steiling
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

November 5, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

As of:		**September 30, 2021**		December 31, 2020
ASSETS				
Loans	**$**	**1,250,754**	$	1,042,156
Allowance for loan losses		**4,298**		4,158
Net loans		**1,246,456**		1,037,998
Investment in AgriBank, FCB		**26,948**		23,354
Accrued interest receivable		**22,642**		18,972
Deferred tax assets, net		**234**		432
Other assets		**16,227**		14,997
Total assets	**$**	**1,312,507**	$	1,095,753
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,050,123**	$	840,062
Accrued interest payable		**3,653**		3,333
Patronage distribution payable		**5,100**		6,700
Other liabilities		**4,231**		4,267
Total liabilities		**1,063,107**		854,362
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,991**		1,945
Unallocated surplus		**247,644**		239,709
Accumulated other comprehensive loss		**(235)**		(263)
Total members' equity		**249,400**		241,391
Total liabilities and members' equity	**$**	**1,312,507**	$	1,095,753

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2021**	2020	**2021**	2020
Interest income	**$ 11,444**	$ 11,002	**$ 31,134**	$ 31,660
Interest expense	**3,653**	3,496	**10,119**	11,718
Net interest income	**7,791**	7,506	**21,015**	19,942
Provision for loan losses	**166**	415	**236**	4,342
Net interest income after provision for loan losses	**7,625**	7,091	**20,779**	15,600
Non-interest income				
Patronage income	**1,414**	1,467	**3,932**	3,554
Financially related services income	**207**	229	**236**	264
Fee income	**97**	421	**1,144**	1,793
Allocated Insurance Reserve Accounts distribution	**--**	--	**--**	194
Other non-interest income	**20**	3	**71**	260
Total non-interest income	**1,738**	2,120	**5,383**	6,065
Non-interest expense				
Salaries and employee benefits	**2,784**	2,528	**8,317**	7,523
Other operating expense	**1,641**	1,315	**4,611**	3,954
Other non-interest expense	**--**	--	**2**	11
Total non-interest expense	**4,425**	3,843	**12,930**	11,488
Income before income taxes	**4,938**	5,368	**13,232**	10,177
(Benefit from) provision for income taxes	**(63)**	390	**198**	(252)
Net income	**$ 5,001**	$ 4,978	**$ 13,034**	$ 10,429
Other comprehensive income				
Employee benefit plans activity	**$ 9**	$ 4	**$ 28**	$ 14
Total other comprehensive income	**9**	4	**28**	14
Comprehensive income	**$ 5,010**	$ 4,982	**$ 13,062**	$ 10,443

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2019	$ 1,896	$ 231,240	$ (122)	$ 233,014
Net income	--	10,429	--	10,429
Other comprehensive income	--	--	14	14
Unallocated surplus designated for patronage distributions	--	(4,999)	--	(4,999)
Capital stock and participation certificates issued	168	--	--	168
Capital stock and participation certificates retired	(131)	--	--	(131)
Balance at September 30, 2020	$ 1,933	$ 236,670	$ (108)	$ 238,495
Balance at December 31, 2020	$ 1,945	$ 239,709	$ (263)	$ 241,391
Net income	**--**	**13,034**	**--**	**13,034**
Other comprehensive income	**--**	**--**	**28**	**28**
Unallocated surplus designated for patronage distributions	**--**	**(5,099)**	**--**	**(5,099)**
Capital stock and participation certificates issued	**151**	**--**	**--**	**151**
Capital stock and participation certificates retired	**(105)**	**--**	**--**	**(105)**
Balance at September 30, 2021	**$ 1,991**	**$ 247,644**	**$ (235)**	**$ 249,400**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2020 (2020 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Midsouth, ACA and its subsidiaries Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market-related value of assets for the fixed-income pension assets. This change in accounting principle did not have a material impact on the financial statements.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848." In January 2021, the FASB issued ASU 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts 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 contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	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.	We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)						
As of:		**September 30, 2021**			December 31, 2020	
		Amount	%		Amount	%
Real estate mortgage	**$**	**654,794**	**52.4%**	$	564,388	54.2%
Production and intermediate-term		**518,354**	**41.4%**		403,091	38.7%
Agribusiness		**75,021**	**6.0%**		72,511	7.0%
Other		**2,585**	**0.2%**		2,166	0.1%
Total	**$**	**1,250,754**	**100.0%**	$	1,042,156	100.0%

The other category is composed of rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2021**		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
Real estate mortgage	**$**	**--**	**$**	**2,791**	**$**	**2,791**	**$**	**664,550**	**$**	**667,341**
Production and intermediate-term		**22**		**6,287**		**6,309**		**521,122**		**527,431**
Agribusiness		**--**		**--**		**--**		**76,035**		**76,035**
Other		**--**		**--**		**--**		**2,589**		**2,589**
Total	**$**	**22**	**$**	**9,078**	**$**	**9,100**	**$**	**1,264,296**	**$**	**1,273,396**

As of December 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
Real estate mortgage	$	126	$	2,377	$	2,503	$	572,325	$	574,828
Production and intermediate-term		123		6,404		6,527		404,159		410,686
Agribusiness		32		--		32		73,412		73,444
Other		--		--		--		2,170		2,170
Total	$	281	$	8,781	$	9,062	$	1,052,066	$	1,061,128

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2021, or December 31, 2020.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		**September 30, 2021**		December 31, 2020
Volume with specific allowance	**$**	**6,287**	$	6,374
Volume without specific allowance		**2,875**		2,478
Total risk loans	**$**	**9,162**	$	8,852
Total specific allowance	**$**	**1,980**	$	2,086
For the nine months ended September 30		**2021**		2020
Income on accrual risk loans	**$**	**--**	$	5
Income (reversal) on nonaccrual loans		**50**		(21)
Total income on risk loans	**$**	**50**	$	(16)
Average risk loans	**$**	**9,260**	$	7,512

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2021.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral. There may be modifications made in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the nine months ended September 30, 2021, or 2020. Additionally, there were no TDRs that defaulted during the nine months ended September 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of:	**September 30, 2021**	December 31, 2020
TDRs in accrual status	**$ 1**	$ 1
TDRs in nonaccrual status	**23**	30
Total TDRs	**$ 24**	$ 31

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2021**	2020
Balance at beginning of period	**$ 4,158**	$ 2,682
Provision for loan losses	**236**	4,342
Loan recoveries	**--**	69
Loan charge-offs	**(96)**	(3,051)
Balance at end of period	**$ 4,298**	$ 4,042

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. In 2009, we were named as a counter-defendant based on various lender liability type of theories in an on-going foreclosure lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was rendered against the Association. We appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals substantially reversed all of the verdict. The decision of the Arkansas Court of Appeals was subsequently upheld by the Arkansas Supreme Court on June 21, 2018, when the Court denied the defendants' Petition for Review. This decision effectively ends the lender liability portion of the litigation. We had previously recorded a $2.3 million liability for this lawsuit, of which $2.0 million has been overturned and therefore reversed. As of September 30, 2021, the remaining liability related to this matter was $186 thousand and was included in "Other liabilities" in the Consolidated Statements of Condition. At the date of these Consolidated Financial Statements, our management team was not aware of any other material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

In June 2021, we signed an agreement guaranteeing the amounts borrowed by SunStream Business Services (SunStream) on their line of credit with AgriBank, up to $40.0 million. The term of the line of credit is 36 months and may be extended. The guarantee is in effect until any outstanding balance is paid in full. While we are primarily liable for our pro-rata portion of SunStream's indebtedness to AgriBank, we are jointly and severally liable with certain other owners of SunStream. In the event of default by SunStream, we are responsible for the prompt and full payment of amounts outstanding. However, we may seek reimbursement from the remaining owners of SunStream subject to the guarantee agreement. There was no outstanding balance on the SunStream line of credit at September 30, 2021. At this time we believe it is unlikely that we will be required to make payment under this guarantee.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2020 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2021, or December 31, 2020.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of September 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 4,522**	**$ 4,522**

As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 4,503	$ 4,503

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 5, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.