



**2009 Quarterly Report - First Quarter
For the Quarter ending March 31, 2009
Lone Star, ACA**

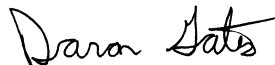


REPORT OF MANAGEMENT

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee has oversight responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditor have direct access to the audit committee.

The undersigned certify that this annual report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge or belief.




Daron Gates, Chief Executive Officer

April 30, 2009



Bruce Duncan, Chairman, Board of Directors

April 30, 2009



M'Lissa Kiel, Chief Financial Officer

April 30, 2009



Don Crawford, Audit Committee

April 30, 2009

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(all dollars in thousands unless otherwise noted)

The following commentary reviews the financial performance of the Lone Star, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008, Annual Report of the Association.

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

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$1,175,891 compared to \$1,155,381 at December 31, 2008, reflecting an increase of 1.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at March 31, 2009, compared to 1.0 percent at December 31, 2008.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 15,237	93.3%	\$ 11,042	98.7%
90 days past due and still accruing interest	114	0.7%	50	0.5%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	984	6.0%	92	0.8%
Total	<u>\$ 16,335</u>	<u>100.0%</u>	<u>\$ 11,184</u>	<u>100.0%</u>

The majority of the increase in high-risk assets is attributable to three loans to a single borrower that transferred into nonaccrual.

Results of Operations:

The Association had net income of \$5,922 for the three months ended March 31, 2009, as compared to net income of \$5,945 for the same periods in 2008 reflecting a decrease of 0.4 percent. Net interest income was \$8,186 for the three months ended March 31, 2009, compared to \$7,272 for the same periods in 2008. Interest income for the first three months of 2009 decreased by \$1,942 or 10.6 percent from the same period of 2008, primarily due to a decrease in overall interest rates. Interest expense for the first three months of 2009 decreased by \$2,856, or 25.7 percent, from the same periods of 2008 due to a decrease in average debt costs. Average loan volume for the first quarter of 2009 was \$1,166,000, compared to \$1,060,650 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 2.46 percent, compared to 2.22 percent in the first quarter of 2008.

The Association's noninterest income decreased from \$1,630 as of March 31, 2008, to \$1,536 as of March 31, 2009. This decrease is largely attributable to a decrease in loan fees of \$64 and a decrease of patronage income from the Bank of \$18 for the three months ending March 31, 2009, as compared to the same period in 2009.

The Association's decrease in net income was also attributable to an increase in noninterest expenses. Noninterest expenses increased \$658 for the three months ending March 31, 2009, as compared to the same period in 2008. Most of the increase is attributable to increases in salary and employee benefits, supervisory and exam expense, and insurance fund premiums. Salaries and employee benefits increased \$379 resulting from the addition of staff members. Supervisory and exam expense increased \$82 as a result of increased loan volume growth and insurance fund premiums increased \$96 as the result of loan volume growth and an increase premium rates.

The Association recorded \$2 in recoveries and \$181 in charge-offs for the quarter ending March 31, 2009, and \$0 in recoveries and \$229 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

The Association's return on average assets for the three months ended March 31, 2009, was 1.97 and 2.17 percent for the same period in 2008. The Association's return on average equity for the three months ended March 31, 2009, was 14.48 and 16.45 percent for the same period in 2008.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	March 31, 2009	December 31, 2008
Note payable to the Bank	\$ 1,038,062	\$ 1,016,383
Accrued interest on note payable	2,757	3,173
Total	<u>\$ 1,040,819</u>	<u>\$ 1,019,556</u>

The increase of \$21,263 for the three months ended March 31, 2009, is attributable to the increase in the Association's loan volume. The note carried a weighted average interest rate of 3.12 percent as of March 31, 2009, compared to 3.63 percent as of December 31, 2008. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2009. As borrower payments are received they are applied to the Association's note payable with the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years, and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year.

Capital Resources:

The Association's capital position increased by \$5,927 to \$166,103 at March 31, 2009, compared to 160,176 at December 31, 2008. The Association's debt as a percentage of members' equity was 6.32:1 as of March 31, 2009, compared to 6.43:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 12.6 percent, which is in compliance with the FCA's minimum permanent capital standard and meets the Association's goal of exceeding twelve percent. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 12.2 and 12.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard and exceeds the Association goals of, equal to or greater than five percent and ten percent, respectively.

Forward Looking Statement:

Throughout the Association's territory, most areas have received rain although a few areas are in need of additional moisture. Grain markets have decreased from 2008 levels, but have remained relatively strong for the first quarter of 2009. It is expected that with higher input prices for the 2009 crop that farm income will be down from the past year, but should remain positive.

Timber prices have shown a decrease since December of 2008, and although futures prices show some strength in the fall of 2009, there is currently a significant amount of inventory to work through.

Cattle feeding operations have continued to see losses during the first quarter; however, current prices are allowing some cattle feeders to operate at a breakeven with some showing small profits.

Dairy operations continue to see large losses as milk prices have reached record lows; however, futures prices are showing some strength and the CWT is currently accepting bids to remove some cows from the nation's dairy herd during the second quarter of 2009. It remains to be seen the number of cows that will be removed and the effect the program may have on milk prices.

Real estate values are expected to remain stable throughout 2009, but with the stresses on the economy, its expected that demand for real estate will remain slow through the summer. Existing home sales continued to decline and median prices edged lower,

although contacts say the level of inventory is low and should continue to keep price declines minimal compared with the national average.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008, Annual Report of Lone Star, ACA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Lone Star ACA, 1612 Summit Ave Suite 300, Fort Worth, TX 76102 or calling (817)332-6565. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Kimberly.Thomas@LoneStarAgCredit.com.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

(dollars in thousands)

(unaudited)

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 70	\$ 380
Loans	1,175,891	1,155,381
Less: allowance for loan losses	(1,179)	(917)
Net loans	1,174,712	1,154,464
Accrued interest receivable	12,959	12,491
Investment in and receivable from the Bank:		
Capital stock	19,400	19,400
Other	2,359	1,927
Other property owned, net	984	92
Premises and equipment	1,783	1,684
Other assets	2,988	266
Total assets	<u>\$ 1,215,255</u>	<u>\$ 1,190,704</u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 1,038,062	\$ 1,016,383
Advance conditional payments	79	220
Accrued interest payable	2,757	3,173
Drafts outstanding	320	197
Patronage distributions payable	6	5,430
Other liabilities	7,928	5,125
Total liabilities	<u>1,049,152</u>	<u>1,030,528</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,783	4,752
Unallocated retained earnings	161,158	155,237
Accumulated other comprehensive income (loss)	162	187
Total members' equity	<u>166,103</u>	<u>160,176</u>
Total liabilities and members' equity	<u>\$ 1,215,255</u>	<u>\$ 1,190,704</u>

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF INCOME

(dollars in thousands)

(unaudited)

	Quarter Ended	
	March 31,	
	2009	2008
<u>INTEREST INCOME</u>		
Loans	\$ 16,427	\$ 18,369
Total interest income	<u>16,427</u>	<u>18,369</u>
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	8,241	11,096
Advance conditional payments	-	1
Total interest expense	<u>8,241</u>	<u>11,097</u>
Net interest income	<u>8,186</u>	<u>7,272</u>
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	<u>442</u>	<u>257</u>
Net interest income after provision for loan losses	<u>7,744</u>	<u>7,015</u>
<u>NONINTEREST INCOME</u>		
Income from the bank:		
Patronage income	539	557
Loan fees	971	1,035
Financially related services income	34	32
Gain (loss) on other property owned, net	(16)	(7)
Gain (loss) on sale of premises and equipment, net	8	13
Total noninterest income	<u>1,536</u>	<u>1,630</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,719	1,340
Directors' expense	87	54
Purchased services	233	191
Travel	95	86
Occupancy and equipment	165	145
Communications	46	45
Advertising	97	115
Public and member relations	155	129
Supervisory and exam expense	82	-
Insurance Fund premiums	490	394
Other noninterest expense	189	201
Total noninterest expenses	<u>3,358</u>	<u>2,700</u>
Income before income taxes	<u>5,922</u>	<u>5,945</u>
Net income	<u>\$ 5,922</u>	<u>\$ 5,945</u>

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 4,643	\$ -	\$ 136,800	\$ 434	\$ 141,877
Net income	-	-	5,945	-	5,945
Change in postretirement benefit plans investment securities	-	-	(36)	(36)	(36)
Amortization of costs included in periodic retirement benefit costs	-	-	36	-	36
	-	-	5,945	-	5,945
Capital stock/participation certificates issued	206	-	-	-	206
Capital stock/participation certificates and allocated retained earnings retired	(182)	-	-	-	(182)
Balance at March 31, 2008	<u>\$ 4,667</u>	<u>\$ -</u>	<u>\$ 142,745</u>	<u>\$ 398</u>	<u>\$ 147,810</u>
Balance at December 31, 2008	\$ 4,753	\$ -	\$ 155,237	\$ 187	\$ 160,177
Net income	-	-	5,922	-	5,922
Amortization of costs included in periodic retirement benefit costs	-	-	-	(25)	(25)
Total comprehensive income	-	-	5,922	(25)	5,897
Capital stock/participation certificates issued	156	-	-	-	156
Capital stock/participation certificates and allocated retained earnings retired	(127)	-	-	-	(127)
Other	1	-	(1)	-	-
Balance at March 31, 2009	<u>\$ 4,783</u>	<u>\$ -</u>	<u>\$ 161,158</u>	<u>\$ 162</u>	<u>\$ 166,103</u>

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

LONE STAR, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Lone Star, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Hood, Johnson, Somervell, Tarrant, Denton, Wise, Dallas, Bowie, Camp, Cass, Morris, Titus, Delta, Lamar, Red River, Cooke, Fannin, Grayson, Eastland, Erath, Palo Pinto, Parker, Shackelford, Stephens, Throckmorton, Young, Borden, Fisher, Kent, Mitchell, Nolan, Scurry and Taylor in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted FSP No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

An analysis of the allowance for loan losses follows:

	March 31, 2009	March 31, 2008
Balance at beginning of quarter	\$ 916	\$ 1,012
Provision for loan losses	442	257
Charge-offs	(181)	(229)
Recoveries	2	-
Balance at end of quarter	<u>\$ 1,179</u>	<u>\$ 1,040</u>

The following table presents information concerning impaired loans:

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 10,676	\$ 1,052
Impaired loans with no related allowance	4,676	605
Total impaired loans	<u>\$ 15,352</u>	<u>\$ 1,657</u>
Allowance on impaired loans	\$ 161	\$ 175
Average impaired loans	\$ 11,628	\$ 1,635
Interest income recognized on impaired loans	\$ 1	\$ 2

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Lone Star, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. No provision for income taxes was recorded as of March 31, 2009.

Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2009, and 2008 the Association carries a deferred tax asset of 441 and 295 respectively with full valuation allowance recorded against the asset each year.

The subsidiary, Lone Star, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, :

	Other Benefits	
	2009	2008
Service cost	\$ 14	\$ 12
Interest cost	25	23
Amortization of prior service costs	(35)	(36)
Amortizations of net (gain) loss	11	-
Net periodic benefit cost	<u>\$ 15</u>	<u>\$ (1)</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$54 to its defined pension plan in 2009. As of March 31, 2009, \$14 of contributions have been made.