Farm Credit Illinois, ACA

Quarterly Report
June 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA (Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 (U.S.) have been able to lift many or all restrictions. While the emergence of COVID-19 variants 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. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

AGRICULTURAL AND ECONOMIC CONDITIONS

From late May through early June, temperatures in much of the territory were well above normal with below average precipitation. Relatively cooler weather and widespread heavy rains in late June helped to relieve crop stress in many areas. As stated in the June 27, 2021 United States Department of Agriculture (USDA) National Agricultural Statistics Services report, 68% of Illinois corn was rated good-excellent and soybeans were rated 67% good-excellent, both similar to last year. Across the region, Illinois and other southern Midwest states saw relief from less severe dry weather while upper Midwest drought conditions continued to intensify.

According to the June 10, 2021, USDA World Agriculture Supply Demand Estimates report, the U.S. corn outlook expects reduced beginning and ending stocks. Ethanol demand is almost back to pre-COVID-19 levels and export demand remains strong despite higher prices. The season-average farm price projection remained at $5.70 per bushel this month, comparing very favorably to the $4.35 per bushel estimate for the previous marketing year and $3.56 per bushel for 2019/2020. Soybean supply and use projections were both slightly higher for beginning and ending stocks as higher prices have tempered demand. The projected season-average farm price was unchanged at $13.85 per bushel. Current soybean price projections are substantially higher than the previous two marketing years. The 2020/2021 estimate is $11.25 per bushel and the 2019/2020 average price was $8.57 per bushel.

The June 20, 2021, USDA Acreage report was bullish for both corn and soybeans. Soybean planted acreage was lower than all trade estimates with new crop soybean futures closing $0.87 higher at $13.99 per bushel. Corn prices surged on expected changes in the corn balance sheet and sub-optimal July weather forecasts. New crop corn futures finished the quarter up $0.40 at $5.89 per bushel.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.4 billion at June 30, 2021, a decrease of $69.9 million from December 31, 2020. The decrease was primarily in the production and intermediate-term loan portfolio, as a result of a significant cash influx in the marketplace from government stimulus programs, resulting in low utilization of debt.

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. Loans issued under the PPP provide for payment deferral and are eligible for forgiveness when certain requirements are fulfilled. As of June 30, 2021, we had successfully processed $57.0 million in PPP loans for customers with production and intermediate-term type loans type loans, of which $44.6 million were processed during the first half of 2021. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $22.7 million has been forgiven as of June 30, 2021. We expect most PPP loans outstanding to be forgiven by year end.

We have implemented a loan modification program for borrowers with acceptable credit quality who have experienced financial difficulty related to COVID-19, which after proper approval, allows for payment deferral up to 12 months or updated amortization of payments without extension of maturity. To date, there have not been significant actions taken under this program. On June 30, 2021, this program was concluded.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2020. Adversely classified loans increased to 2.2% of the portfolio at June 30, 2021, from 1.9% 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.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ 3,374**	$ 3,841
Accruing restructured	**--**	36
Accruing loans 90 days or more past due	**4,525**	1,345
Total risk loans	**7,899**	5,222
Other property owned	**--**	--
Total risk assets	**$ 7,899**	$ 5,222
Total risk loans as a percentage of total loans	**0.2%**	0.1%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**82.4%**	86.1%
Total delinquencies as a percentage of total loans	**0.3%**	0.2%

Note: Accruing loans include accrued interest receivable.

The increase in accruing loans 90 days or more past due was primarily due to loans that are included in our government guaranteed loan program and we are working with the lead lender to resolve payment.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

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:	**June 30, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.2%**	0.1%
Nonaccrual loans	**195.3%**	162.4%
Total risk loans	**83.4%**	119.4%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30		**2021**		2020
Net income	**$**	**46,018**	$	43,858
Return on average assets		**2.0%**		1.9%
Return on average members' equity		**8.5%**		8.5%

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 six months ended June 30		**2021**		2020		**Increase (decrease) in net income**
Net interest income	**$**	**51,172**	$	49,293	**$**	**1,879**
Provision for loan losses		**351**		39		**(312)**
Non-interest income		**27,927**		21,417		**6,510**
Non-interest expense		**32,733**		29,987		**(2,746)**
Benefit from income taxes		**(3)**		(3,174)		**(3,171)**
Net income	**$**	**46,018**	$	43,858	**$**	**2,160**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30		**2021 vs 2020**
Changes in volume	**$**	**536**
Changes in interest rates		**1,641**
Changes in nonaccrual income and other		**(298)**
Net change	**$**	**1,879**

Non-Interest Income

The change in non-interest income was primarily due to an increase in fee income. The fee income increase was primarily due to fees collected from the SBA for originating PPP loans. During the first half of 2021, SBA PPP fees totaled $5.5 million, as compared to $73 thousand during the same period of 2020. The additional fees in 2021 are related to a special loan program and are expected to be non-recurring.

Non-Interest Expense

The change in non-interest expense was primarily related to an increase in other operating expense. The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by Farm Credit System Insurance Corporation (FCSIC) The premium rate, which is primarily impacted by System growth, was 16 basis points for the first half of 2021, compared to a premium rate of 8 basis points during the same period in 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Benefit from Income Taxes

The change in benefit from income taxes was primarily related to the adjustments to reduce the valuation allowance against deferred tax as a result of pandemic related tax law changes that allows for certain carryback of net operating losses.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on July 31, 2022. 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 unallocated surplus. At June 30, 2021, gross loans are funded 80.5% by the direct note and 19.5% by unallocated surplus.

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 June 30, 2021, or December 31, 2020.

Total members' equity increased $46.2 million from December 31, 2020, primarily due to net income for the period. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2020 Annual Report for more information on the Pension Restoration Plan.

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 7 in our 2020 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**19.7%**	20.0%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.7%**	20.0%	6.0%	2.5%	8.5%
Total capital ratio	**19.8%**	20.1%	8.0%	2.5%	10.5%
Permanent capital ratio	**19.7%**	20.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**21.0%**	21.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.9%**	23.3%	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 11 in our 2020 Annual Report.

CERTIFICATION

The undersigned have reviewed the June 30, 2021, Quarterly Report of Farm Credit Illinois, 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.

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

August 5, 2021

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		June 30, 2021		December 31, 2020
ASSETS				
Loans	**$**	**4,378,628**	$	4,448,568
Allowance for loan losses		**6,590**		6,237
Net loans		**4,372,038**		4,442,331
Investment in AgriBank, FCB		**133,878**		137,515
Investment securities		**45,640**		49,840
Accrued interest receivable		**38,562**		49,424
Deferred tax assets, net		**1,241**		1,241
Other assets		**73,291**		68,550
Total assets	**$**	**4,664,650**	$	4,748,901
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,526,446**	$	3,616,253
Accrued interest payable		**10,830**		10,676
Patronage distribution payable		**873**		42,670
Other liabilities		**17,099**		16,068
Total liabilities		**3,555,248**		3,685,667
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**7,739**		7,656
Unallocated surplus		**1,102,962**		1,056,955
Accumulated other comprehensive loss		**(1,299)**		(1,377)
Total members' equity		**1,109,402**		1,063,234
Total liabilities and members' equity	**$**	**4,664,650**	$	4,748,901

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2021**	2020	**2021**	2020
Interest income	**$ 36,813**	$ 41,598	**$ 72,881**	$ 86,508
Interest expense	**10,830**	16,508	**21,709**	37,215
Net interest income	**25,983**	25,090	**51,172**	49,293
(Reversal of) provision for loan losses	**(172)**	(149)	**351**	39
Net interest income after provision for loan losses	**26,155**	25,239	**50,821**	49,254
Non-interest income				
Patronage income	**7,994**	7,082	**15,214**	13,777
Financially related services income	**2,098**	1,986	**4,111**	3,920
Fee income	**2,389**	1,903	**7,339**	2,198
Allocated Insurance Reserve Accounts distribution	**--**	--	**--**	835
Other non-interest income	**827**	453	**1,263**	687
Total non-interest income	**13,308**	11,424	**27,927**	21,417
Non-interest expense				
Salaries and employee benefits	**8,813**	8,844	**17,793**	17,451
Other operating expense	**7,670**	6,094	**14,940**	12,536
Total non-interest expense	**16,483**	14,938	**32,733**	29,987
Income before income taxes	**22,980**	21,725	**46,015**	40,684
Benefit from income taxes	**(3)**	(3,174)	**(3)**	(3,174)
Net income	**$ 22,983**	$ 24,899	**$ 46,018**	$ 43,858
Other comprehensive income				
Employee benefit plans activity	**$ 39**	$ 28	**$ 78**	$ 73
Total other comprehensive income	**39**	28	**78**	73
Comprehensive income	**$ 23,022**	$ 24,927	**$ 46,096**	$ 43,931

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

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

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2019	$ 7,489	$ 1,011,847	$ (1,122)	$ 1,018,214
Net income	--	43,858	--	43,858
Other comprehensive income	--	--	73	73
Unallocated surplus designated for patronage distributions	--	7	--	7
Capital stock and participation certificates issued	349	--	--	349
Capital stock and participation certificates retired	(304)	--	--	(304)
Balance at June 30, 2020	$ 7,534	$ 1,055,712	$ (1,049)	$ 1,062,197
Balance at December 31, 2020	$ 7,656	$ 1,056,955	$ (1,377)	$ 1,063,234
Net income	**--**	**46,018**	**--**	**46,018**
Other comprehensive income	**--**	**--**	**78**	**78**
Unallocated surplus designated for patronage distributions	**--**	**(11)**	**--**	**(11)**
Capital stock and participation certificates issued	**403**	**--**	**--**	**403**
Capital stock and participation certificates retired	**(320)**	**--**	**--**	**(320)**
Balance at June 30, 2021	**$ 7,739**	**$ 1,102,962**	**$ (1,299)**	**$ 1,109,402**

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 Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted 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 six months ended June 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 Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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:	June 30, 2021 Amount		%	December 31, 2020 Amount		%
Real estate mortgage	**$**	**2,490,416**	**56.9%**	$	2,468,119	55.5%
Production and intermediate-term		**594,481**	**13.6%**		742,873	16.7%
Agribusiness		**959,792**	**21.9%**		932,399	21.0%
Other		**333,939**	**7.6%**		305,177	6.8%
Total	**$**	**4,378,628**	**100.0%**	$	4,448,568	100.0%

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 5,961**	**$ 5,006**	**$ 10,967**	**$ 2,508,773**	**$ 2,519,740**	**$ 4,525**
Production and intermediate-term	**747**	**71**	**818**	**599,478**	**600,296**	**--**
Agribusiness	**--**	**--**	**--**	**962,697**	**962,697**	**--**
Other	**--**	**--**	**--**	**334,210**	**334,210**	**--**
Total	**$ 6,708**	**$ 5,077**	**$ 11,785**	**$ 4,405,158**	**$ 4,416,943**	**$ 4,525**

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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 7,650	$ 1,768	$ 9,418	$ 2,493,306	$ 2,502,724	$ 1,345
Production and intermediate-term	639	109	748	753,432	754,180	--
Agribusiness	--	--	--	935,399	935,399	--
Other	--	--	--	305,412	305,412	--
Total	$ 8,289	$ 1,877	$ 10,166	$ 4,487,549	$ 4,497,715	$ 1,345

Note: Accruing loans include accrued interest receivable.

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:	**June 30, 2021**	December 31, 2020
Volume with specific allowance	**$ 445**	$ 532
Volume without specific allowance	**7,454**	4,690
Total risk loans	**$ 7,899**	$ 5,222
Total specific allowance	**$ 134**	$ 220
For the six months ended June 30	**2021**	2020
Income on accrual risk loans	**$ 25**	$ 35
Income on nonaccrual loans	**98**	396
Total income on risk loans	**$ 123**	$ 431
Average risk loans	**$ 4,797**	$ 5,387

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 June 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 were no TDRs that occurred during the six months ended June 30, 2021, or 2020. In addition, there were no TDRs that defaulted during the six months ended June 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		**June 30, 2021**		December 31, 2020
Accrual status:				
Real estate mortgage	**$**	**--**	$	--
Production and intermediate-term		**--**		36
Total TDRs in accrual status	**$**	**--**	$	36
Nonaccrual status:				
Real estate mortgage	**$**	**513**	$	512
Production and intermediate-term		**54**		40
Total TDRs in nonaccrual status	**$**	**567**	$	552
Total TDRs:				
Real estate mortgage	**$**	**513**	$	512
Production and intermediate-term		**54**		76
Total TDRs	**$**	**567**	$	588

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30		**2021**		2020
Balance at beginning of period	**$**	**6,237**	$	8,699
Provision for loan losses		**351**		39
Loan recoveries		**5**		140
Loan charge-offs		**(3)**		(2)
Balance at end of period	**$**	**6,590**	$	8,876

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $45.6 million at June 30, 2021, and $49.8 million at December 31, 2020. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at June 30, 2021, and December 31, 2020.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at June 30, 2021, or December 31, 2020.

Our investments are asset-backed securities, which are generally shorter-term investments.

Additional Investment Securities Information

(dollars in thousands) As of:		**June 30, 2021**		December 31, 2020
Amortized cost	**$**	**45,640**	$	49,840
Unrealized gains		**137**		482
Unrealized losses		**(300)**		(35)
Fair value	**$**	**45,477**	$	50,287
Weighted average yield		**1.5%**		1.8%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $358 thousand and $388 thousand for the six months ended June 30, 2021, and 2020, respectively. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

Contractual Maturities of Investment Securities

(in thousands) **As of June 30, 2021**		Amortized Cost
Five to ten years	**$**	**29,605**
More than ten years		**16,035**
Total	**$**	**45,640**

Actual maturity of the investment securities may be less than contractual maturity due to prepayments.

NOTE 4: 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. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of June 30, 2021, our total commitment was $14.0 million of which $11.4 million was unfunded, with varying commitment end dates through December 2030. Certain commitments may have an option to extend under certain circumstances.

NOTE 5: 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 material assets or liabilities measured at fair value on a recurring basis at June 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 June 30, 2021**	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 327**	**$ 327**
As of December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 327	$ 327

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 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 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.