

**FARMERS AND RANCHERS**



**IT'S WHO WE HELP  
IT'S WHO WE ARE**

**FARM CREDIT OF NEW MEXICO, ACA**



**2004 ANNUAL REPORT**



## **BOARD OF DIRECTORS**



Left to right: Allen W. "Wess" Wells, W. Douglas Reid, Harold "Sonny" Houghtaling Jr., Kevin Penn, Joe Clavel, Tom Drake, Tyson "Ty" Achen, and Mack Bell

## **MANAGEMENT TEAM**



Left to right: Al Porter, SVP/Chief Credit Officer, Bruce McAbee, President/Chief Executive Officer, and Brian Lyon, SVP/Chief Financial Officer.

FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT

MESSAGE TO STOCKHOLDERS

To Our Stockholders:

On behalf of Management and the Board of Directors, I am pleased to present the 2004 Annual Report on the financial condition of Farm Credit of New Mexico, ACA, including its wholly owned subsidiaries; the Production Credit Association of Southern New Mexico and Farm Credit of New Mexico, FLCA. We hope that you will take the time to review the contents of the report and let us know if you have any questions.

The Association's net earnings continued to be strong and ended the year at \$30.9 million. This was an increase from the previous year's net earnings due in part to the continued strong earnings of the Association, and also due to a change in the Allowance for Loan Losses methodology, resulting in a fourth quarter 2004 reversal of a portion of the allowance for loan losses. These and other issues are explained in the Results of Operations in the Management's Discussion and Analysis section of the report. Earnings contribute to the overall capital position of the Association, while building the foundation for continued growth and progress in the future.

During 2004, the Association experienced a period of slowed growth. At year-end, the combined Association staff was responsible for serving 2,243 loans with an outstanding loan volume of more than \$735.8 million. This slower growth was the result of loan pay downs resulting from profitable customer operations, plus collection efforts on the part of Association staff. As important, however, was the fact that the delinquency rate stood at 0.27 percent of the total volume of the portfolio, with combined acceptable and special mention credit quality at 98 percent of the total portfolio.

The Association maintains full-time lending offices in Albuquerque, Las Cruces, Roswell, Clovis, and Tucumcari as well as a part-time office in Clayton. We believe our presence in these local communities is a benefit to agricultural producers in New Mexico. We are committed to providing the highest quality products and services available in the market.

Thank you for your business and continued support of your Association.

Sincerely,

Bruce L. McAbee  
Chief Executive Officer

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**FARM CREDIT OF NEW MEXICO, ACA**  
**FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**  
(Dollars in Thousands)

	<b>December 31</b>				
	2004	2003	2002	2001	2000
<b>Balance Sheet Data</b>					
Loans	\$ 726,880	\$ 724,552	\$ 659,950	\$ 582,785	\$ 487,888
Allowance for loan losses	3,722	19,611	18,711	16,911	15,131
Net loans	723,158	704,941	641,239	565,874	472,757
Investment in U.S. AgBank, FCB	17,111	16,623	12,629	11,382	11,382
Other property owned	-	-	-	-	117
Other assets	18,554	23,775	20,565	23,876	26,077
<b>Total assets</b>	<b>\$ 758,823</b>	<b>\$ 745,339</b>	<b>\$ 674,433</b>	<b>\$ 601,132</b>	<b>\$ 510,333</b>
Obligations with maturities of one year or less	\$ 10,979	\$ 7,917	\$ 4,949	\$ 4,738	\$ 4,330
Obligations with maturities longer than one year	587,027	606,658	555,935	493,328	412,473
<b>Total liabilities</b>	<b>598,006</b>	<b>614,575</b>	<b>560,884</b>	<b>498,066</b>	<b>416,803</b>
Protected stock	71	81	102	116	300
Patronage stock	1,368	2,098	2,792	3,448	4,110
Stock	1,964	1,964	1,900	2,857	6,368
Unallocated retained earnings	157,566	126,711	108,755	96,645	82,752
Other comprehensive income/(loss)	(152)	(90)	-	-	-
<b>Total shareholders' equity</b>	<b>160,817</b>	<b>130,764</b>	<b>113,549</b>	<b>103,066</b>	<b>93,530</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 758,823</b>	<b>\$ 745,339</b>	<b>\$ 674,433</b>	<b>\$ 601,132</b>	<b>\$ 510,333</b>

	<b>For the Year Ended December 31</b>				
	2004	2003	2002	2001	2000
<b>Statement of Income Data</b>					
Net interest income	\$ 21,935	\$ 20,503	\$ 17,345	\$ 16,440	\$ 13,400
Patronage distribution from U.S. AgBank, FCB	2,899	9,226	3,662	5,977	16,283
(Provision reversal)/Provision for loan losses	(16,721)	3,839	1,800	1,780	12,369
Noninterest expense, net	8,924	8,396	6,525	6,012	5,493
Provision for/(Benefit from) income taxes	1,776	(462)	572	732	953
<b>Net income</b>	<b>\$ 30,855</b>	<b>\$ 17,956</b>	<b>\$ 12,110</b>	<b>\$ 13,893</b>	<b>\$ 10,868</b>

<b>Key Financial Ratios</b>					
Return on average assets	4.10%	2.53%	1.90%	2.50%	3.26%
Return on average shareholders' equity	21.16%	14.70%	11.18%	14.13%	12.34%
Net interest income as a percentage of average earning assets	3.02%	2.96%	2.79%	3.07%	4.66%
Net (recoveries)/charge-offs as a percentage of average net loans	(0.12%)	0.44%	-	-	0.02%
Shareholders' equity as a percentage of total assets	21.19%	17.54%	16.84%	17.15%	18.33%
Debt as a ratio to shareholders' equity	3.72:1	4.70:1	4.94:1	4.83:1	4.46:1
Allowance for loan losses as a percentage of loans	0.51%	2.71%	2.84%	2.90%	3.10%
Permanent capital ratio	18.78%	15.61%	15.81%	15.71%	16.38%
Core surplus ratio	18.34%	15.13%	14.89%	14.74%	14.41%
Total surplus ratio	18.35%	15.16%	15.30%	15.16%	14.90%
<b>Other</b>					
Loans serviced for U.S. AgBank, FCB	\$ 60	\$ 63	\$ 64	\$ 68	\$ 70

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Dollars in thousands, except as noted)

**OVERVIEW**

The following commentary summarizes the financial condition and results of operations of Farm Credit of New Mexico, ACA, as of December 31, 2004, with comparisons to prior years. You should read these comments with the accompanying financial statements and other sections of this annual report.

We are one of the more than 90 institutions of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for almost 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration (FCA) which is an independent safety and soundness regulator.

We are a cooperative, which is owned by the members we serve. The territory we serve extends across a diverse agricultural region of all counties in the state of New Mexico, with the exception of San Juan County in the far northwest corner of the state. We provide credit and services to farmers, ranchers, rural residents and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

We obtain funding from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the "District." AgVantis is a provider of technology services to certain associations and AgBank. We are materially affected by AgBank's financial condition and results of operations. The AgBank Annual Report to Shareholders, the AgBank District Annual Report to Shareholders and the AgBank District's quarterly reports are on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by calling (505) 884-1048 or 1-800-451-5997. Annual reports are available approximately 90 days after year end and quarterly reports are available approximately 45 days after the calendar quarter end. Effective October 1, 2003, the former Farm Credit Bank of Wichita (Wichita Bank) and the former Western Farm Credit Bank (Western Bank) merged to form AgBank. Prior to the merger, the banks had been jointly managed since January 1, 2002.

Our quarterly reports to shareholders are on our website, [www.farmcreditnm.com](http://www.farmcreditnm.com), or may be obtained free of charge by calling (505) 884-1048 or 1-800-451-5997. The reports are available approximately 45 days after each calendar quarter end.

**Agreements with Farm Credit Institutions**

We obtain funds for operations through a borrowing relationship with AgBank. The note payable to AgBank is collateralized by a pledge of substantially all our assets to AgBank. This indebtedness is governed by a General Financing Agreement (GFA). See the Funding Sources section for more detail.

We are party to a shared lending operation known as the Agribusiness Finance Group (AFG). The agreement exists between our association, Premier Farm Credit, ACA, Farm Credit of Southern Colorado, ACA, and Farm Credit Services of the Mountain Plains, ACA. The associations pool their resources to coordinate and enhance the marketing, originating and servicing of large, complex commercial and mortgage loans, as well as diversify their risk.

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas and New Mexico. The agreement eliminates territorial restrictions and allows associations that are a party to the agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of a headquarters. This Agreement can be terminated upon the earlier to occur of: (1) the time when all but one association has withdrawn as a party to the Agreement, or (2) December 31, 2025, or (3) when required by FCA.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

We have a Territorial Approval Agreement with Ag New Mexico Farm Credit Services, ACA (Ag New Mexico). The agreement allows us to make commercial loans in Ag New Mexico's territory and allows Ag New Mexico to make mortgage loans in our territory. This agreement may be terminated at the mutual consent of both parties.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. The Services Agreement with AgVantis renews every two years unless we provide AgVantis with advance notice. The current Services Agreement expires on January 1, 2006. We are a shareholder in AgVantis, along with other AgVantis customers. We also purchase payroll and other human resource related services from AgBank.

**Economic Conditions**

During 2004, economic conditions in our region were much more favorable than during 2003. The precipitation level for most of our lending area was in excess of normal averages. The increased precipitation resulted in improved range conditions for most ranchers and dry land farm operators, while surface irrigation water supplies continued to be limited during the year. Despite the continued problems with drought, cow/calf operators experienced above average prices. Some operators sold part of their breeding herd, but a good portion of ranchers began to restock and paid higher prices for replacement cattle.

Onions and lettuce market prices were adequate to cover growing costs, resulting in slight returns for growers. Fall lettuce for some producers was very good, but others dealt with excess rain that restricted the ability to harvest in a timely manner. Chile yields were good for the most part and growers' returns were better than average. Cotton yields were lower with prices lower than in previous years. Milk prices remained well above the breakeven price for most operators throughout the year. Pecan prices were strong while yields were lower, due to the "off production" year. Hay yields were good for those operators with adequate water. Grain yields were improved during the year with fair prices for wheat and milo.

**LOAN PORTFOLIO**

We offer production, intermediate- and long-term loan products to eligible borrowers. Product options include variable, fixed, adjustable, prime-based and LIBOR-based interest rates. Loans are also made for rural homes, farm related businesses and processing and marketing operations. Our loan portfolio also contains purchased loans (participations purchased), which are later described in greater detail. Loan volume by major categories at December 31 follows.

	2004		2003		2002	
	Volume	Percent of Total	Volume	Percent of Total	Volume	Percent of Total
Long-term farm mortgage	<b>\$516,124</b>	<b>71.01%</b>	\$504,345	69.61%	\$455,284	68.99%
Production and intermediate-term	<b>153,299</b>	<b>21.09%</b>	166,189	22.94%	152,121	23.05%
Rural home	<b>4,323</b>	<b>0.59%</b>	3,069	0.42%	1,826	0.28%
Process marketing	<b>16,690</b>	<b>2.30%</b>	7,767	1.07%	2,798	0.43%
Farm related business	<b>3,493</b>	<b>0.48%</b>	2,673	0.37%	91	—
Sales contracts	<b>11</b>	<b>—</b>	12	—	2,022	0.30%
Participations purchased	<b>32,940</b>	<b>4.53%</b>	40,497	5.59%	45,808	6.95%
<b>Total</b>	<b>\$726,880</b>	<b>100.00%</b>	<b>\$724,552</b>	<b>100.00%</b>	<b>\$659,950</b>	<b>100.00%</b>

Loans outstanding at December 31, 2004 totaled \$726,880 an increase of \$2,328, or 0.32%, from loans of \$724,552 at December 31, 2003, and \$66,930, or 10.14%, from loans of \$659,950 at December 31, 2002. Loans increased at a slower rate of growth from 2003 to 2004 when compared to previous years due to a number of factors including the pay down of existing loans, the residual effects of the extended drought, and our decision to reduce adverse loans. Strong milk and cattle prices, combined with an excellent 2003 pecan crop were the primary reasons for the pay down of existing loans during 2004.

The geographic distribution of loans by county at December 31 follows. Participations purchased are not in our territory and are included in Other.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

	<b>2004</b>	2003	2002
Dona Ana	<b>22.01%</b>	25.45%	21.45%
Curry	<b>11.29%</b>	7.67%	7.04%
Chaves	<b>11.08%</b>	10.67%	9.57%
Roosevelt	<b>6.16%</b>	8.19%	5.80%
Eddy	<b>4.00%</b>	4.15%	3.96%
Lea	<b>3.35%</b>	4.38%	4.44%
Luna	<b>2.33%</b>	-	-
Bernalillo	<b>2.32%</b>	-	-
Sierra	<b>1.97%</b>	3.17%	2.68%
Union	<b>1.87%</b>	2.33%	3.81%
Lincoln	<b>1.81%</b>	2.79%	2.57%
Quay	<b>1.66%</b>	2.74%	2.49%
Santa Fe	<b>1.57%</b>	-	-
San Miguel	<b>1.48%</b>	2.07%	-
Valencia	<b>1.36%</b>	-	-
Colfax	<b>1.29%</b>	2.33%	2.67%
Grant	<b>1.15%</b>	-	-
Socorro	<b>1.14%</b>	2.11%	1.97%
Torrance	<b>1.12%</b>	2.44%	-
Catron	<b>1.00%</b>	2.17%	3.22%
Other	<b>20.04%</b>	17.34%	28.33%
Total	<b>100.00%</b>	100.00%	100.00%

Major commodities as a percent of loans at December 31 follows.

	<b>2004</b>	2003	2002
Dairy	<b>24.70%</b>	23.78%	20.88%
Cattle	<b>22.04%</b>	22.41%	24.09%
Pecans	<b>7.87%</b>	8.42%	6.00%
Hay Crops	<b>6.12%</b>	6.44%	6.90%
Grains	<b>3.81%</b>	3.56%	3.19%
Feed Lots	<b>3.74%</b>	3.77%	3.83%
Ag Services	<b>3.02%</b>	3.52%	3.75%
Vegetables & Chile	<b>2.72%</b>	3.74%	4.06%
Cotton	<b>2.26%</b>	1.42%	1.46%
Non-Farm Income	<b>18.74%</b>	19.64%	20.97%
Other	<b>4.98%</b>	3.30%	4.87%
Total	<b>100.00%</b>	100.00%	100.00%

Dairy continues to increase due to dairy businesses moving into our territory. Cattle decreased slightly during 2004 mainly due to the drought and the resulting range grass conditions. Pecans have decreased due to good profitability in the industry. Vegetables & chile have decreased due to limitations of available ditch water.

Repayment ability of our borrowers is closely related to the production and the profitability of the commodities they raise and their off-farm income. Our loan portfolio contains a concentration of dairy, livestock, pecans and hay crops. Approximately 18.74% of our loan volume consists of borrowers with off-farm income, a decrease from 19.64% for 2003, and 20.97% for 2002. At December 31, 2004, large loans to customers with individual commitments of over \$7,300, represented about 32.11% of total loans. Within this large loan group, 48 customers with 129 loans totaled approximately \$240,000. The loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Management's credit evaluation of a borrower may determine that collateral should be obtained. Collateral may include farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. Refer to Note 4 of the Notes to the Financial Statements for more detail.

Our Board of Directors approved the use of Federal Agricultural Mortgage Corporation (Farmer Mac) long-term standby purchase commitments as a loan portfolio credit risk management tool. These are effectively credit guarantees from Farmer Mac for the life of the loan. The initial transfer of \$72,135 of loan volume occurred during the first quarter 2004. The balance of loans under long-term standby commitments was \$68,020 at December 31, 2004. We do not currently plan additional loan transfers into the Farmer Mac program. Note 4 of the Notes to Financial Statements provides more details on the Farmer Mac long-term commitments.

**Purchase and Sales of Loans**

We purchase participation interests in loans from other Farm Credit and non-Farm Credit entities. We also sell a portion of certain large loans to other Farm Credit and non-Farm Credit entities to reduce risk and comply with lending limits established by management. These participations (both purchased and sold) provide a means to reduce the risk associated with large loans along with an opportunity to further diversify the risk associated within individual commodities and/or geographic areas. As mentioned earlier, we are a part of the AFG, which enables us to participate in large, complex loans. These loans are recorded as participations purchased and sold. The volume of participations purchased and sold as of December 31 follows.

	2004	2003	2002
Participations purchased – AFG	\$ 29,185	\$ 35,326	\$ 36,209
Participations purchased – other	3,755	5,171	9,599
<b>Total participations purchased</b>	<b>\$ 32,940</b>	<b>\$ 40,497</b>	<b>\$ 45,808</b>
Participations sold – AFG	\$ 25,400	\$ 39,389	\$ 30,466
Participations sold – other	1,412	3,268	3,916
<b>Total participations sold</b>	<b>\$ 26,812</b>	<b>\$ 42,657</b>	<b>\$ 34,382</b>

**Credit Quality**

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

	2004	2003	2002
Acceptable & OAEM	98.00%	97.03%	96.99%
Substandard	2.00%	2.94%	3.01%
Doubtful	–	0.03%	–
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Substandard loan volume improved during the year due to a number of factors, but was mainly due to our efforts to reduce adverse loans. Doubtful loan volume at the end of 2003 consisted of one nonaccrual participation loan in the energy sector. During the second quarter 2004, a settlement was negotiated on this participation loan resulting in a reduction of nonaccrual loans and a recovery of a 2003 charge-off of \$13. No loans were classified as Loss for the years presented.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**High Risk Assets**

FCA regulations specify three high risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. Loan volume outstanding, including accrued interest, for each loan performance category and other property owned as of December 31 follows.

	<b>2004</b>	2003	2002
Nonaccrual	<b>\$ 3,073</b>	\$ 7,030	\$ 3,463
90 days past due, still accruing interest	–	175	–
<b>Total high risk assets</b>	<b>\$ 3,073</b>	<b>\$ 7,205</b>	<b>\$ 3,463</b>
Nonaccrual loans/total loans	<b>0.42%</b>	0.97%	0.52%
High risk assets/total loans	<b>0.42%</b>	0.99%	0.52%
High risk assets/total shareholders' equity	<b>1.91%</b>	5.51%	3.05%

For the three years presented, no loans were classified as restructured, and there was no other property owned.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loans at the end of 2004 were \$3,073, a decrease of \$3,957 from year-end 2003. The decrease was due to an energy related participation loan settlement for \$1,807, which reduced nonaccrual volume by \$1,794 and provided for a \$13 recovery of a previous charge-off. Collections on loans, including a cattle feeding participation loan, also contributed to the decrease in nonaccrual loans.

The following table provides additional information on nonaccrual loans as of December 31.

	<b>2004</b>	2003	2002
Nonaccrual loans current as to principal and interest	<b>\$ 1,745</b>	\$ 5,236	\$ 2,719
Cash basis nonaccrual loans	<b>\$ 143</b>	\$ 145	\$ 363

High risk asset volume is anticipated to remain approximately the same in the future. Collection activity and pay downs will be offset by continued drought related problems.

**Accounting Developments Related to the Allowance for Loan Losses**

During 2004, we completed our study to further refine the allowance for loan losses methodology. We took into account recently issued guidance by FCA, the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines. As a result of this study and the resulting refinements in methodology, we recorded a \$16,721 reversal of the allowance for loan losses during the fourth quarter of 2004.

Our allowance for loan losses methodology was adjusted and revised in the late 1980s to take into account the credit losses experienced in the mid-to-late 1980s, as a result of unusually adverse economic factors affecting American agriculture. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s. This resulted in conservative estimates of the allowance for loan losses. Our allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. Our allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of FCA in its role as a “safety and soundness” regulator. FCA’s view was that the allowance for loan losses should include among others, an assessment of: probable losses, historical loss experience and economic conditions.

In April 2004, FCA issued an “Informational Memorandum” to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution’s allowance for loan losses. FCA endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised levels of allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. We considered changes to the following when adjusting the historical charge-offs experience:

- credit risk classifications,
- collateral values,
- risk concentrations,
- weather related conditions, and
- economic conditions.

While the provision reversal for loan losses had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of our risk bearing capacity, generally referred to as "risk funds" (permanent capital plus the allowance for loan losses). Risk funds totaled \$147,740 at December 31, 2004 (20.33% of loans), as compared with \$133,730 at December 31, 2003 (18.46% of loans).

The following table provides information regarding the allowance for loan losses at December 31.

	2004	2003	2002
Allowance for loan losses	\$ 3,722	\$ 19,611	\$ 18,711
(Provision reversal)/Provision for loan losses	(16,721)	3,839	1,800
Net (recoveries)/charge-offs	(832)	2,939	-
Allowance for loan losses to loans	0.51%	2.71%	2.84%
Allowance for loan losses to nonaccrual loans	121.12%	278.96%	540.31%
Allowance for loan losses to impaired loans	121.12%	272.19%	540.31%
Net (recoveries)/charge-offs to average net loans	(0.12%)	0.44%	-

## RESULTS OF OPERATIONS

### Net Income

Net income for the year ended December 31, 2004 was \$30,855, an increase of \$12,899, or 71.84%, from the same period one year ago, and \$18,745, or 154.79%, from the same period ended December 31, 2002. The change in net income from 2003 was primarily due to a provision reversal for loan losses of \$16,721 during 2004. See the Accounting Developments Related to the Allowance for Loan Losses section for further information.

The following table presents the changes in the significant components of net income.

	2004 vs. 2003	2003 vs. 2002
Net income, prior year	\$ 17,956	\$ 12,110
Changes from prior year		
Increased/(Decreased) interest income	1,518	(1,988)
(Increased)/Decreased interest expense	(86)	5,146
Increased net interest income	1,432	3,158
Decreased/(Increased) provision for loan losses	20,560	(2,039)
(Decreased)/Increased noninterest income	(7,296)	5,544
Decreased/(Increased) noninterest expense	441	(1,851)
(Increased)/Decreased provision for/(benefit from) income taxes	(2,238)	1,034
Total increase in net income	12,899	5,846
Net income, current year	\$ 30,855	\$ 17,956

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

The following table illustrates profitability information as of December 31.

	<b>2004</b>	2003	2002
Return on average assets	<b>4.10%</b>	2.53%	1.90%
Return on average shareholders' equity	<b>21.16%</b>	14.70%	11.18%

The increase in the return on average assets and average shareholders' equity for 2004, was primarily due to increased net income related to the provision reversal for loan losses.

**Net Interest Income**

The chart below provides an analysis of the individual components of the change in net interest income for 2004 and 2003.

	<b>2004 vs. 2003</b>	2003 vs. 2002
Net interest income, prior year	<b>\$ 20,503</b>	\$ 17,345
Increase/(Decrease) in net interest income due to changes in:		
Interest rates earned and interest credits paid	<b>492</b>	970
Interest credits on investment in AgBank	<b>(163)</b>	(93)
Volume of accruing assets/interest bearing liabilities	<b>888</b>	2,196
Interest income on nonaccrual loans	<b>215</b>	85
Increase in net interest income	<b>1,432</b>	3,158
Net interest income, current year	<b>\$ 21,935</b>	\$ 20,503

The following table illustrates the relationship among loan rate, debt cost, spread and net interest margin.

	<b>For the Year Ended December 31</b>		
	<b>2004</b>	2003	2002
Net interest margin	<b>3.02%</b>	2.96%	2.79%
Interest rate on:			
Average loan volume	<b>4.58%</b>	4.56%	5.33%
Average debt	<b>1.86%</b>	1.94%	2.98%
Interest rate spread	<b>2.72%</b>	2.62%	2.35%

At December 31, 2004, average loan rates increased 2 basis points and average debt costs decreased 8 basis points from the same period one year ago, causing a 10 basis point increase in interest rate spread. This increase in spread coupled with increased loan volume growth resulted in a \$1,432 increase in net interest income.

Net interest margin (net interest income as a percentage of average loans) increased from year-end 2003 to 2004 as a result of a larger increase in interest income than in average loans. Prior to the October 1, 2003 AgBank merger, AgBank paid interest credits on our investment with them, which was reported as other interest income. AgBank discontinued the interest credit program and began a patronage program based on excess investment in AgBank.

**Noninterest Income**

Noninterest income for the year ended December 31, 2004 totaled \$3,470, a decrease of \$7,296, or 67.77%, from \$10,766 for 2003. Our primary source of noninterest income is patronage distributions from AgBank and are shown in the following table.

	<b>For the Year Ended December 31</b>		
	<b>2004</b>	2003	2002
Cash patronage	<b>\$ 2,411</b>	\$ 1,033	\$ 2,415
Stock patronage	<b>488</b>	243	1,247
Stock allocation	-	7,950	-
Total patronage from AgBank	<b>\$ 2,899</b>	\$ 9,226	\$ 3,662

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

The increase in cash and stock patronage is due to a timing change in AgBank's patronage program. During first quarter 2003, AgBank's patronage program changed from an annual distribution to a quarterly distribution in the month following quarter-end. We received three patronage distributions during 2003 and four patronage distributions during 2004. The stock allocation was effective October 1, 2003 as part of the AgBank merger.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees for the year-ended 2004 were \$68, a decrease of \$1,115, or 94.25% from 2003. The decrease was primarily due to a deferral of certain loan fees and reduced conversion and origination fees from 2003. Prior to 2004, the capitalization, deferral and amortization of loan fees and direct origination costs were affected at the District level, and were not reflected in our financial statements. Beginning in 2004, we capitalized loan origination fees and direct loan origination costs. The impact has been to recognize the amortization of these fees, net of costs over the average life of a loan.

**Noninterest Expense**

Noninterest expense for the year ended December 31, 2004, decreased \$441, or 4.44%, compared with 2003. The following table compares the significant components of noninterest expense for the years ended 2004, 2003 and 2002.

	<b>For the Year Ended December 31</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>Percent of Change</b>	
				<b>2004/2003</b>	<b>2003/2002</b>
Salaries & employee benefits	\$ 5,405	\$ 5,661	\$ 4,581	(4.52%)	23.58%
Occupancy & equipment	484	482	434	0.41%	11.06%
Purchased services from AgVantis	354	271	326	30.63%	(16.87%)
Purchased services from AgBank	114	130	194	(12.31%)	(32.99%)
Supervisory & examination costs	275	251	254	9.56%	(1.18%)
Other	2,114	1,615	1,343	30.90%	20.25%
<b>Total operating expense</b>	<b>8,746</b>	<b>8,410</b>	<b>7,132</b>	<b>4.00%</b>	<b>17.92%</b>
Farm Credit Insurance Fund premium	366	839	194	(56.38%)	332.47%
Financial Assistance Corporation debt assessment	383	687	759	(44.25%)	(9.49%)
<b>Total noninterest expense</b>	<b>\$ 9,495</b>	<b>\$ 9,936</b>	<b>\$ 8,085</b>	<b>(4.44%)</b>	<b>22.89%</b>

For the year ended December 31, 2004, operating expense increased \$336, or 4.00%, compared to operating expense for the year ended December 31, 2003, primarily due to increased expenditures for advertising, public/member relations and employee training, which are included in other. The reduction in salaries and employee benefits was due to the capitalization of the direct loan origination costs as detailed in the Noninterest Income discussion.

The Farm Credit insurance premium decreased \$473 from 2003 to 2004. Farm Credit System Insurance Corporation (Insurance Corporation) decreased the premium on accrual loans from 12 basis points during 2003 to 4.97 basis points during 2004. Financial Assistance Corporation assessment decreased \$304 from 2003 to 2004. The debt to the Financial Assistance Corporation will mature in June 2005. Note 12 of the Notes to Financial Statements provides more details of the Insurance Corporation and the Financial Assistance Corporation.

**FUNDING SOURCES AND LIQUIDITY**

**Funding Sources**

We obtain funds for operations through a borrowing relationship with AgBank. The note payable to AgBank is collateralized by a pledge to AgBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness, governed by the GFA, renews annually.

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with AgBank and allows for loans to be match-funded with AgBank. Borrowings from AgBank match the pricing, maturity, and option characteristics of our loans to borrowers. AgBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although AgBank incurs and manages the primary sources of interest rate risk, we may still be

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

exposed to interest rate risk from the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed funds with AgBank at a fixed rate as a part of AgBank's Earnings Stabilization Management Program (ESMP). Additional information about ESMP is found in the following Liquidity section.

The annual average principal balances of the note payable to AgBank were \$581,314 in 2004, \$600,683 in 2003 and \$547,862 in 2002.

AgBank's primary source of funds is the sale of Systemwide Debt securities to investors through the Federal Farm Credit Banks' Funding Corporation. These funds are available to us through various AgBank loan products, provided our loan with AgBank is in good standing under the GFA. Therefore, our continued liquidity is directly dependent upon the Farm Credit System's ability to sell debt securities at competitive rates and our maintaining a sound financial position and borrowing relationship with AgBank. Our direct loan, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

We plan to continue to fund lending operations through the utilization of a borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investment in our association.

### **Liquidity**

Our liquidity policy is intended to manage cash balances in order to maximize debt reduction and to liquidate nonearning assets. We anticipate liquidity levels will be adequate to meet our obligations.

Our own funds consists of accrual loans and excess investment in AgBank, less interest bearing trust funds and advanced conditional payments and note payable to AgBank, were \$135,436 at December 31, 2004. This compares to \$112,207 at December 31, 2003 and \$118,247 at December 31, 2002. The overall improvement in our own funds position during 2004 resulted from the earnings generated from the loan portfolio, financial management practices and funding practices.

As previously mentioned, we commit funds in AgBank's ESMP for investment at a fixed rate for a specified timeframe. This enables us to stabilize earnings without significantly increasing our overall interest rate risk position. Our investment strategy is to invest in short and intermediate term maturities and to the extent possible, have a relatively equal amount of funds rolling out monthly. The weighted average remaining term of our ESMP investments will be limited to a maximum of 2.5 years. The balance of the ESMP commitments and the average interest rate as of December 31, 2004 in the various maturities follow.

	<b>Balance</b>	<b>Average Rate</b>
Maturing in 1 year or less	\$ 49,100	3.10%
Maturing in 1 to 3 years	16,300	3.17%
Maturing in over 3 years	7,800	4.35%
Total	\$ 73,200	3.25%

### **Funds Management**

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. The Association Asset/Liability Committee, under delegation from the Board of Directors, determines the interest rate charged based on the following factors: the discount rate we are charged by AgBank, our existing rates and spreads, the competitive rate environment, and our profitability.

### **CAPITAL RESOURCES**

Capital provides protection against unexpected credit and operating losses. Capital is also needed for future growth and investment in new products and services. Over the past several years, we have been able to build capital through net income earned and retained. Shareholders' equity at December 31, 2004 totaled \$160,817, compared with \$130,764 at December 31, 2003 and \$113,549 at December 31, 2002.

Capital resources include stock purchased by our borrowers and retained earnings accumulated through net income, less retirement of Class H Stock.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

Our capital position is reflected in the following ratio comparisons.

	<b>2004</b>	2003	2002
Debt to shareholders' equity	<b>3.72:1</b>	4.70:1	4.94:1
Shareholders' equity as a percent of loans	<b>22.12%</b>	18.05%	17.21%
Shareholders' equity as a percent of assets	<b>21.19%</b>	17.54%	16.84%

Shareholders' equity as a percent of loans and of total assets increased from 2003 to 2004 as a result of earnings generated from the loan portfolio and also as a result of the provision reversal for loan losses, as previously discussed.

For all System institutions, FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. The minimum standards established were not meant to be adopted as the optimum capital level. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	<b>2004</b>	2003	2002	Regulatory Minimum
Permanent capital	<b>18.78%</b>	15.61%	15.81%	7.00%
Total surplus	<b>18.35%</b>	15.16%	15.30%	7.00%
Core surplus	<b>18.34%</b>	15.13%	14.89%	3.50%

We have established a permanent capital goal in excess of the 7.00% FCA minimum requirement. As of December 31, 2004, we were above the 18.50% target established by the Board of Directors.

The increase in the capital ratios in 2004 was primarily due to the use of the FarmerMac standby commitment program discussed in the Loan Portfolio section. The transfer of loan volume reduced risk-weighted assets, which improved the ratios. Risk-weighted assets are the divisor in the calculation of the capital ratios.

Capital ratios are projected to increase during the first quarter of 2005 due to the provision reversal for loan losses, which we recorded during fourth quarter 2004.

Effective October 1, 2003, AgBank converted all our shares of stock to AgBank Class A Stock. Additionally, AgBank allocated \$60 million of Class A Stock to the former Wichita District associations. Our share of the allocation was \$7,950. Additionally, AgBank made a one-time retirement of excess purchased stock totaling \$4,199, effective October 1, 2003.

Before October 1, 2003, we included investment of Wichita Bank Class A Stock as permanent capital. After October 1, 2003, only excess patronage-based stock is included as permanent capital.

During November 2002, our Board of Directors approved and we recorded the redemption of AgBank's investment in the Association in the amount of \$1,039. This transaction was recorded at par value. In addition, we received a one-time patronage of \$1,247 and as a result, our investment in AgBank increased \$1,247. These transactions created a small positive impact on the permanent capital and total surplus ratios and a slight negative impact on the core surplus ratio.

The Board has approved a Patronage Allocation Program beginning with the 2005 operating year. The program will allow us to distribute available net earnings in the manner described in the Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by Regulations; to increase surplus to meet capital targets as established by the Board of Directors and necessary to support competitive pricing at targeted earnings levels; and for reasonable reserves. Patronage distributions are based on business activity with us during the operating year.

## **OTHER BUSINESS MATTERS**

### **Board Oversight**

Our Board of Directors meets regularly to review and discuss our strategies and performance, our plans and prospects, the issues we face and the risks we manage. The Board maintains an Audit Committee that consists of three Directors, appointed by the Board for individual terms of three years.

**FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT**

The Audit Committee is responsible for assisting the Board in monitoring the integrity of financial statements, compliance with applicable legal and FCA requirements and selecting, directing and reviewing the work of independent auditors and examiners. During 2004, six audit committee meetings and three conference calls were held. The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We have taken or are taking the following actions:

- implementation of the Audit Committee and Audit Committee Charter,
- systems for the receipt and treatment of complaints,
- a code of ethics for our principal officers and directors,
- open lines of communication between the independent auditors, management, and the Audit Committee,
- “plain English” disclosures,
- officer certification of accuracy and completeness of the financial statements, and
- information disclosures through electronic media.

**Young, Beginning and Small Farmers and Ranchers Program**

We are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. Quarterly reports are provided to the Board detailing the number, volume and credit quality of the YBS customers we have financed.

To facilitate credit, we have adopted financing programs and use government guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer or rancher who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer: A farmer or rancher who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer: A farmer or rancher who normally generated less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2002 USDA Agricultural Census, which is the most current data available.

	<b>2004</b>	2003	2002	USDA
Young	<b>11.09%</b>	11.49%	16.83%	4.60%
Beginning	<b>19.41%</b>	18.42%	24.55%	30.90%
Small	<b>49.11%</b>	59.21%	58.61%	94.60%

**Employee Benefits**

We participate with AgBank, 16 other District associations and AgVantis in various employee benefit programs including retirement plans, medical and dental plans, and various insurance plans.

Before January 1, 2003, the Ninth District defined benefit Plan (Plan) expense was allocated from AgBank to each participating entity. Each entity funded the Plan equal to the expense. Actual annual expenses were reconciled and assets/liabilities were recorded at the combined former Wichita District level. Effective October 1, 2003, the December 31, 2002 Ninth Plan respective balances were transferred from AgBank to each participating entity. The balances transferred were based on each association’s percentage ownership of the Ninth Plan. The Plan balance transferred to us was \$409 and is reported as a pension asset.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

In 2003, we also became a participant in the Eleventh District defined benefit Retirement Plan (Eleventh Plan). The assets, liabilities and costs of the Eleventh Plan are not segregated by participating entities, but are allocated among the participating entities. Pension costs are allocated by multiplying the Eleventh Plan's net pension expense (credit if applicable) by our prior year salary expense as a percentage of the former Western District's prior year salary expense. At December 31, 2003, the Accumulated Benefit Obligation (ABO) of the Eleventh Plan exceeded the fair value of Eleventh Plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions", the recognition of a minimum liability in the amount of the difference between the ABO and fair value of plan assets is required. Our allocated amount of minimum liability recognized at December 31, 2003 was \$112 and is included in pension liability. In conjunction with the minimum liability, other comprehensive loss of \$90 and an intangible asset of \$22, this is included in other assets, were recorded. We funded \$41 in 2003, through our note payable to AgBank.

Before January 1, 2003, we paid and expensed a cash subsidy for postretirement benefits allocated from AgBank. Effective October 1, 2003, the December 31, 2002 respective postretirement benefit obligation balances were transferred from AgBank to each participating entity. The allocation was based on each participating entity's percentage of accumulated postretirement benefit obligation, which was originally determined by a third party actuary. The postretirement obligation balance transferred to us was \$341 and is reported as a postretirement benefit liability. The measurement date for determining pension and postretirement obligations, assets, and income statement effects changed from December 31 to September 30 during 2004. The change was made as part of a Systemwide effort for all Farm Credit entities to use a common measurement date.

Note 11 of the Notes to Financial Statements provides more detail of the pension asset and postretirement benefits.

#### **Forward-Looking Information**

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief as well as certain assumptions made by and information currently available to management. When used in this discussion, the words "anticipate," "project," "expect," "believe," and similar expressions are intended to identify forward-looking statements. Although our management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected or expected. Among key factors that may have a direct bearing on our operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; continued influx of government payments to borrowers; and FCA mandates and rulings.

#### **Customer Privacy**

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

#### **Summary**

Our credit and financial performance are excellent due primarily to a loyal and cooperative customer base. The formation of the ACA on January 1, 2001, whereby Farm Credit of New Mexico, FLCA and PCA of Southern New Mexico became wholly owned subsidiaries, established an organizational structure intended to create efficiencies and improved customer service. Therefore, continued customer support and referrals of new prospective borrowers is appreciated and encouraged.

**FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT**

**FARM CREDIT OF NEW MEXICO, ACA  
CONSOLIDATED BALANCE SHEET  
(Dollars in Thousands)**

	<b>December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>			
Loans	\$ 726,880	\$ 724,552	\$ 659,950
Less allowance for loan losses	3,722	19,611	18,711
Net loans	723,158	704,941	641,239
Cash	4,342	7,128	4,015
Accrued interest receivable	8,920	9,109	11,204
Investment in U.S. AgBank, FCB	17,111	16,623	12,629
Premises and equipment, net	3,097	3,256	3,344
Pension asset	1,016	866	-
Deferred tax asset	54	1,434	1,406
Other assets	1,125	1,982	596
<b>Total assets</b>	<b>\$ 758,823</b>	<b>\$ 745,339</b>	<b>\$ 674,433</b>
<b>LIABILITIES</b>			
Note payable to U.S. AgBank, FCB	\$ 581,314	\$ 600,683	\$ 547,862
Advanced conditional payments	7,319	4,632	3,007
Accrued interest payable	5,713	5,975	8,073
Postretirement benefits	386	364	-
Pension liability	228	71	-
Other liabilities	3,046	2,850	1,942
<b>Total liabilities</b>	<b>598,006</b>	<b>614,575</b>	<b>560,884</b>
<b>Commitments and Contingencies (See Note 15)</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Protected stock	71	81	102
Patronage stock	1,368	2,098	2,792
Stock	1,964	1,964	1,900
Unallocated retained earnings	157,566	126,711	108,755
Other comprehensive income/(loss)	(152)	(90)	-
<b>Total shareholders' equity</b>	<b>160,817</b>	<b>130,764</b>	<b>113,549</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 758,823</b>	<b>\$ 745,339</b>	<b>\$ 674,433</b>

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

**FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT**

**FARM CREDIT OF NEW MEXICO, ACA  
CONSOLIDATED STATEMENT OF INCOME  
(Dollars in Thousands)**

	<b>For the Year Ended December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>INTEREST INCOME</b>			
Loans	\$ 33,612	\$ 31,931	\$ 33,826
Other	-	163	256
<b>Total interest income</b>	<b>33,612</b>	<b>32,094</b>	<b>34,082</b>
<b>INTEREST EXPENSE</b>			
Note payable to U.S. AgBank, FCB	11,613	11,546	16,690
Other	64	45	47
<b>Total interest expense</b>	<b>11,677</b>	<b>11,591</b>	<b>16,737</b>
Net interest income	21,935	20,503	17,345
(Provision reversal)/Provision for loan losses	(16,721)	3,839	1,800
Net interest income after (provision reversal)/provision for loan losses	38,656	16,664	15,545
<b>NONINTEREST INCOME</b>			
Financially related services income	370	294	222
Loan fees	68	1,183	1,259
Patronage distribution from U.S. AgBank, FCB	2,899	9,226	3,662
Other noninterest income	133	63	79
<b>Total noninterest income</b>	<b>3,470</b>	<b>10,766</b>	<b>5,222</b>
<b>NONINTEREST EXPENSE</b>			
Salaries and employee benefits	5,405	5,661	4,581
Occupancy and equipment	484	482	434
Purchased services from AgVantis, Inc.	354	271	326
Purchased services from U.S. AgBank, FCB	114	130	194
Farm Credit Insurance Fund premium	366	839	194
Financial Assistance Corporation debt assessment	383	687	759
Supervisory and examination costs	275	251	254
Other noninterest expense	2,114	1,615	1,343
<b>Total noninterest expense</b>	<b>9,495</b>	<b>9,936</b>	<b>8,085</b>
Income before income taxes	32,631	17,494	12,682
Provision for/(Benefit from) income taxes	1,776	(462)	572
<b>Net income</b>	<b>\$ 30,855</b>	<b>\$ 17,956</b>	<b>\$ 12,110</b>

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

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**FARM CREDIT OF NEW MEXICO, ACA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars in Thousands)

	Protected Stock	Patronage Stock	Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<b>Balance at December 31, 2001</b>	\$ 116	\$ 3,448	\$ 2,857	\$ 96,645	\$ -	\$ 103,066
Net income				12,110		12,110
Stock issued	-	-	354			354
Stock retired	(14)	(656)	(1,311)			(1,981)
<b>Balance at December 31, 2002</b>	102	2,792	1,900	108,755	-	113,549
Net income				17,956		17,956
Minimum pension liability					(90)	(90)
Stock issued	-	-	397			397
Stock retired	(21)	(694)	(333)			(1,048)
<b>Balance at December 31, 2003</b>	81	2,098	1,964	126,711	(90)	130,764
Net income				30,855		30,855
Minimum pension liability					(62)	(62)
Stock issued	-	-	295			295
Stock retired	(10)	(730)	(295)			(1,035)
<b>Balance at December 31, 2004</b>	\$ 71	\$ 1,368	\$ 1,964	\$ 157,566	\$ (152)	\$ 160,817

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

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**FARM CREDIT OF NEW MEXICO, ACA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Dollars in Thousands)

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 30,855	\$ 17,956	\$ 12,110
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	346	345	285
(Provision reversal)/Provision for loan losses	(16,721)	3,839	1,800
Patronage stock from U.S. AgBank, FCB	(488)	(8,193)	(1,247)
Pension plan transfer from U.S. AgBank, FCB	-	(409)	-
Postretirement benefits transfer from U.S. AgBank, FCB	-	341	-
Gain on sales of premises and equipment	(52)	(18)	(22)
(Decrease)/Increase in deferred tax asset	1,380	(28)	(203)
Change in assets and liabilities:			
Decrease in accrued interest receivable	189	2,095	849
Decrease in accrued interest payable	(262)	(2,098)	(4,163)
Increase in pension asset	(150)	(457)	-
Decrease/(Increase) in other assets	857	(1,364)	(169)
Increase in advanced conditional payments	2,687	1,625	117
Increase in postretirement benefits	22	23	-
Increase/(Decrease) in pension liability	95	(41)	-
Increase in other liabilities	196	908	94
Total adjustments	(11,901)	(3,432)	(2,659)
Net cash provided by operating activities	18,954	14,524	9,451
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Disbursements on loans, net	(1,496)	(67,541)	(77,165)
Decrease in investment in U.S. AgBank, FCB	-	4,199	-
Purchases of premises and equipment	(191)	(262)	(421)
Proceeds from sales of premises and equipment	56	23	40
Net cash used in investing activities	(1,631)	(63,581)	(77,546)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
(Net repayment)/draw on note payable to U.S. AgBank, FCB	(19,369)	52,821	65,731
Protected stock retired	(10)	(21)	(14)
Patronage stock retired	(730)	(694)	(656)
Stock retired	(295)	(333)	(272)
Stock issued	295	397	354
Net cash provided by financing activities	(20,109)	52,170	65,143
Net increase/(decrease) in cash	(2,786)	3,113	(2,952)
Cash at beginning of year	7,128	4,015	6,967
Cash at end of year	\$ 4,342	\$ 7,128	\$ 4,015

**SUPPLEMENTAL CASH INFORMATION:**

Cash paid/(received) during the year for:

Interest	\$ 11,939	\$ 13,689	\$ 20,900
Income taxes	\$ (335)	\$ 678	\$ 993

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Class D stock retired	\$ -	\$ -	\$ 1,039
Net (recoveries)/charge-offs	\$ (832)	\$ 2,939	\$ -
Other comprehensive income/(loss)	\$ (62)	\$ (90)	\$ -

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

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**NOTES TO FINANCIAL STATEMENTS**

(Dollars in Thousands, Except as Noted)

**NOTE 1 – ORGANIZATION AND OPERATIONS**

- A. Organization: Farm Credit of New Mexico, ACA and its subsidiaries, Farm Credit of New Mexico, FLCA (Federal Land Credit Association (FLCA)) and Production Credit Association of Southern New Mexico (Production Credit Association (PCA)), (collectively called “the Association”) is a member-owned cooperative which, with funding from U.S. AgBank, FCB (AgBank), provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in all the counties except San Juan in the state of New Mexico.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment of the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2004, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and numerous associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the “District.” AgBank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. AgVantis provides technology and other operational services to AgBank and certain associations. On December 31, 2004, the District consisted of AgBank, 27 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), three FLCAs and AgVantis. Effective January 1, 2005, two ACAs in the District merged operations.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and associations. The activities of the associations are examined by FCA, and certain actions by the associations are subject to the prior approval of the FCA and/or AgBank.

Effective October 1, 2003, the former Farm Credit Bank of Wichita (Wichita Bank) and the former Western Farm Credit Bank (Western Bank) merged to form AgBank. The banks had been jointly managed since January 1, 2002, and doing business as AgBank. The Wichita Bank provided funding to the Association prior to the merger.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate amount as the Insurance Corporation in its sole discretion determines is actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. AgBank passes this premium expense through to the Association based on the Association’s annual average loan volume.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

- B. Consolidation: Effective January 1, 2001, Production Credit Association of Southern New Mexico and Farm Credit of New Mexico, FLCA became wholly-owned subsidiaries of the Association when it was formed as an ACA parent entity. The consolidation was approved by the previous associations' boards of directors and shareholders, AgBank and FCA.

The consolidation has been accounted for on a historical cost basis with the associations combined at their respective book values. Accordingly, the accompanying financial statements for all years presented have been restated to include the accounts and results of operations of the FLCA and PCA as if the consolidation had been in effect for all periods presented. The Association succeeded to all the rights and obligations of the consolidating associations pursuant to the consolidation plans adopted by the boards of directors of the FLCA and the PCA. Prior to the consolidation, the accounting practices used by the associations were comparable. On the effective date of the consolidation, each outstanding share of borrower stock of the FLCA and the PCA was exchanged for a share of a similar class of equity of the ACA.

- C. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance and multi-peril crop and crop hail insurance, and providing additional services to borrowers such as fee appraisal services, advance conditional payment accounts and an investment bond program.

The AgBank District Annual Report to Shareholders (District's Annual Report) is available on its web site, [www.usagbank.com](http://www.usagbank.com); or upon request, Association shareholders will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related associations. The Association's financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Based on this fact, disclosure of certain accounting policies related to these costs is included in the District's Annual Report. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation.

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Statement of Income in prior years included certain interest expense to AgBank as other noninterest expense. These expenses have been reclassified as interest expense on the note payable to AgBank. Significant estimates are discussed in these footnotes as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of Farm Credit of New Mexico, FLCA and Production Credit Association of Southern New Mexico. All significant inter-company transactions have been eliminated in consolidation.

- A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have maturities ranging up to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded investment asset balance (if accrued in prior years).

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when all contractual principal and interest payments are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss.

Prior to 2004, the capitalization and deferral of loan fees and direct origination costs were affected at the District level, and were therefore not reflected in the financial statements of the Association. Beginning in 2004, loan origination fees and direct loan origination costs were capitalized and the net fee or cost is being amortized over an average loan life as an adjustment to yield by the Association.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan and lease portfolio. A specific allowance may be established for impaired loans under SFAS No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. See Note 3 for a discussion on the refinement of the allowance for loan losses methodologies.

The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers changes in the following factors when adjusting the historical charge-offs experience:

- credit risk classifications,
- collateral values,
- risk concentrations,
- weather related conditions, and
- economic conditions.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and on deposit at banks.
- C. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 6.25% of average direct loan volume, net of excess investment, subject to phase-in provisions. The phase-in of the 6.25% required investment will occur over a three-year period beginning in 2003 since the Association had less permanent capital on October 1, 2003, due to the AgBank merger. The Association's required investment in AgBank, at December 31, 2004 was 5.90% and will change to 6.07% on October 1, 2005. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage-based stock and purchased stock.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

- D. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized. Land is carried at cost.
- E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable. Significant components of other liabilities include accounts payable and Financial Assistance Corporation liabilities.
- F. Advanced Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short- and intermediate-term loans are recorded in the Balance Sheet as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. These amounts are netted against Loans on the Balance Sheet. Advanced conditional payments are not insured. Interest is generally paid by the Association on advanced conditional payments.
- G. Employee Benefit Plans: The Association participates in the Ninth District Defined Benefit Retirement Plan (Plan). The assets, liabilities, and costs of the Plan are not segregated by participating entities, but are allocated among participating entities. Pension plan costs are a combination of service costs specific to the participating entities and other costs allocated annually, based on pro-rata ownership in the Plan. Benefits are based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The Plan includes certain non-qualified plans. Additional financial information for the Plan may be found in the District's Annual Report. The employees of the Association are eligible to participate in the Ninth District thrift/deferred compensation plan (Thrift Plan); the Association matches a certain percentage of employee contributions. Thrift Plan costs are expensed monthly as funded.

The Association participates in the Ninth District Retiree Medical Plan with other District employers. Postretirement benefits other than pensions are provided to eligible retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Association.

- H. Income Taxes: The Association is generally subject to Federal and certain other income taxes. Deferred taxes are recorded on 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% probability), based on management's estimate, that they will not be realized.

Prior to January 1, 1999, the Association filed its federal income tax return as a nonexempt cooperative and was exempt from income taxes to the extent that distributable income was returned to members in the form of patronage distributions. The patronage program was terminated. Remaining prior year allocated equities are being retired based on a specific schedule.

Deferred income taxes have not been provided by the Association on pre-1993 patronage distributions received from AgBank when management's intent is 1) to permanently invest these and other undistributed earnings in AgBank, thereby indefinitely postponing their conversion to cash, or 2) to pass through any distribution related to pre-1993 earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to AgBank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

- I. Patronage Distribution from AgBank: Patronage distributions are made by AgBank the month following quarter-end. No monthly accrual is recorded.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

J. Other Comprehensive Income/(Loss): Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders' equity but are excluded from net income. The Association records other comprehensive loss based on the actuarially determined fair market value of the pension plan asset.

**NOTE 3 – REFINEMENT OF THE ALLOWANCE FOR LOAN LOSSES METHODOLOGIES**

During 2004, the Association conducted a study to further refine its allowance for loan losses methodology taking into account recently issued guidance by the Farm Credit Administration, the System's regulator, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines.

The Association's allowance for loan losses methodology was adjusted and revised in the late 1980s to take into account credit losses in that period. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The Association's allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. The Association's allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of FCA in its role as a "safety and soundness" regulator. FCA's view was that the allowance for loan losses should include among others, an assessment of: probable losses, historical loss experience and economic conditions.

In April 2004, FCA issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. FCA endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

During the fourth quarter of 2004, the Association completed its study and refined its methodology to be in compliance with the guidance discussed in the previous paragraph. The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis.

While the \$16,721 provision reversal for loan losses had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of the risk bearing capacity of the Association, generally referred to as "risk funds" (permanent capital plus the allowance for loan losses), which totaled \$147,740 at December 31, 2004 (20.33% of loans), as compared with \$133,730 at December 31, 2003 (18.46% of loans).

**NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows.

	<b>2004</b>	<b>December 31</b>	
		2003	2002
Long-term farm mortgage	\$ 516,124	\$ 504,345	\$ 455,284
Production and intermediate-term	153,299	166,189	152,121
Rural home	4,323	3,069	1,826
Process marketing	16,690	7,767	2,022
Farm related business	3,493	2,673	2,798
Sales contracts	11	12	91
Participations purchased	32,940	40,497	45,808
Total	\$ 726,880	\$ 724,552	\$ 659,950

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Commodity	2004		December 31 2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Dairy	\$ 179,540	24.70%	\$ 172,299	23.78%	\$ 137,798	20.88%
Cattle	160,204	22.04%	162,372	22.41%	158,982	24.09%
Pecans	57,205	7.87%	61,007	8.42%	39,597	6.00%
Hay crops	44,485	6.12%	46,661	6.44%	45,537	6.90%
Grains	27,694	3.81%	25,794	3.56%	21,052	3.19%
Feed Lots	27,185	3.74%	27,316	3.77%	25,276	3.83%
Ag Services	21,952	3.02%	25,504	3.52%	24,748	3.75%
Vegetables & Chile	19,771	2.72%	27,098	3.74%	26,794	4.06%
Cotton	16,428	2.26%	10,289	1.42%	9,635	1.46%
Non-Farm Income	136,217	18.74%	142,302	19.64%	138,391	20.97%
Other	36,199	4.98%	23,910	3.30%	32,140	4.87%
<b>Total</b>	<b>\$ 726,880</b>	<b>100.00%</b>	<b>\$ 724,552</b>	<b>100.00%</b>	<b>\$ 659,950</b>	<b>100.00 %</b>

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2004	2003	2002
Nonaccrual:			
Current as to principal and interest	\$ 1,745	\$ 5,236	\$ 2,719
Past due	1,328	1,794	744
<b>Total nonaccrual</b>	<b>3,073</b>	<b>7,030</b>	<b>3,463</b>
Accrual:			
90 days or more past due	—	175	—
<b>Total impaired loans</b>	<b>\$ 3,073</b>	<b>\$ 7,205</b>	<b>\$ 3,463</b>

There were no material commitments to lend additional funds to debtors whose loans were classified impaired at December 31, 2004.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2.

The following table presents interest income recognized on impaired loans and average impaired loans.

	For the Year Ended December 31		
	2004	2003	2002
Interest income recognized on nonaccrual loans	\$ 215	\$ 85	\$ 436
Interest income on impaired accrual loans	22	29	131
<b>Interest income recognized on impaired loans</b>	<b>\$ 237</b>	<b>\$ 114</b>	<b>\$ 567</b>
<b>Average impaired loans</b>	<b>\$ 5,075</b>	<b>\$ 5,960</b>	<b>\$ 3,494</b>

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

The following table presents information concerning impaired loans.

	December 31		
	2004	2003	2002
Impaired loans with related allowance	\$ 392	\$ 2,045	\$ 1,775
Impaired loans with no related allowance	2,681	5,160	1,688
<b>Total impaired loans</b>	<b>\$ 3,073</b>	<b>\$ 7,205</b>	<b>\$ 3,463</b>
Allowance on impaired loans	\$ 392	\$ 311	\$ 159

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	For the Year Ended December 31		
	2004	2003	2002
Interest income which would have been recognized under the original loan terms	\$ 402	\$ 578	\$ 244
Less: interest income recognized	215	92	124
<b>Foregone interest income</b>	<b>\$ 187</b>	<b>\$ 486</b>	<b>\$ 120</b>

A summary of the changes in the allowance for loan losses follows.

	For the Year Ended December 31		
	2004	2003	2002
Balance at beginning of year	\$ 19,611	\$ 18,711	\$ 16,911
Provision for loan losses	-	3,839	1,800
Nonrecurring provision reversal for loan losses	(16,721)	-	-
Charge-offs: Production and intermediate-term	-	2,940	-
Recoveries:			
Long-term farm mortgage	13	-	-
Production and intermediate-term	819	1	-
<b>Net (recoveries)/charge-offs</b>	<b>(832)</b>	<b>2,939</b>	<b>-</b>
<b>Balance at end of year</b>	<b>\$ 3,722</b>	<b>\$ 19,611</b>	<b>\$ 18,711</b>
Ratio of net (recoveries)/charge-offs during the period to average net loans outstanding during the period	(0.12%)	0.44%	-

As previously discussed in Note 3, the nonrecurring provision for loan losses reversal resulted from the refinement of the Association's allowance for loan losses methodology.

A breakdown of the allowance for loan losses follows.

	2004		December 31 2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Long-term farm mortgage	\$ 1,407	37.80 %	\$ 15,804	80.59 %	\$ 14,804	79.12 %
Production and intermediate-term	2,315	62.20%	3,807	19.41%	3,907	20.88%
<b>Total</b>	<b>\$ 3,722</b>	<b>100.00%</b>	<b>\$ 19,611</b>	<b>100.00%</b>	<b>\$ 18,711</b>	<b>100.00%</b>

To mitigate the risk of loan losses, the Association entered into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) during 2004. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default, subject to certain

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

conditions. The balance of loans under long-term standby commitments was \$68,020 at December 31, 2004. Fees paid to Farmer Mac for such commitments totaled \$292 during 2004 and are classified as noninterest expense.

**NOTE 5 – INVESTMENT IN AGBANK**

The Association's investment in AgBank may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank is in the form of AgBank Class A Stock. Subject to a phase-in rule, the Association is required to maintain an investment in AgBank equities equal to 6.25% of average direct loan volume, net of excess investment. The Association's initial required investment percent was reduced to prevent the Association from experiencing a reduction in its permanent capital ratio solely as a result of the bank merger. Therefore, a phase-in of the 6.25% required investment will occur over a three-year period beginning in 2003. The Association's required investment in AgBank, at December 31, 2004, was 5.90%, and will change to 6.07% on October 1, 2005. The investment in AgBank will be adjusted on a quarterly basis to reflect changes in direct loan volume, attributed surplus and stock investment balances. If needed to meet capital adequacy requirements, AgBank may require the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve month period.

Effective October 1, 2003, AgBank converted all shares of Class A, I and J Stock to AgBank Class A Stock. AgBank allocated \$60 million of Class A Stock to the former Wichita District associations effective October 1, 2003. The allocation was based on association average direct loan volume from July 1, 2002 through June 30, 2003. The transaction was recorded as noninterest income. The Association's share of the allocation was \$4,199.

**NOTE 6 – PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following:

	<b>December 31</b>		
	<b>2004</b>	2003	2002
Land	\$ 460	\$ 460	\$ 460
Buildings and leasehold improvements	2,778	2,760	2,736
Furniture, equipment and automobiles	1,634	1,572	1,364
Construction in progress	-	-	20
	<b>4,872</b>	4,792	4,580
Less: accumulated depreciation	1,775	1,536	1,236
<b>Total</b>	<b>\$ 3,097</b>	\$ 3,256	\$ 3,344

**NOTE 7 – NOTE PAYABLE TO AGBANK**

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to AgBank and is governed by a General Financing Agreement, which is renewed annually. All borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.94% for the year ended December 31, 2004. Additionally, beginning in 2002, the Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified timeframe. These committed funds as of December 31 follow.

	<b>2004</b>	2003	2002
Committed funds	<b>\$ 73,200</b>	\$ 53,600	\$ 50,600
Average rates	<b>3.25%</b>	3.10%	3.40%

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, consistent with FCA regulations, has established limitations on the

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2004, the Association's notes payable are within the specified limitations.

**NOTE 8 – SHAREHOLDERS' EQUITY**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

**A. Protected Stock**

Protection of certain borrower stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes that which was outstanding as of January 6, 1988, or was issued or allocated prior to October 6, 1988. If an association is unable to retire protected stock at par value or stated value, the amounts required to retire this stock would be obtained from the Insurance Fund.

**B. Stock**

In accordance with the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00% of the amount of the loan to 10.00% of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00%.

The borrower acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan cannot automatically result in retirement of the corresponding stock.

**C. Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00% of risk-adjusted assets and off-balance-sheet commitments. Failure to meet this requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.00% and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.50%. The Association's permanent capital, core surplus and total surplus ratios at December 31, 2004, were 18.78%, 18.34% and 18.35%, respectively.

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

**D. Description of Equities**

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicates the number of shares outstanding at December 31, 2004. Unless otherwise indicated all classes of stock have a par value of \$5.00.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

- Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.
- Class B Common Stock (Voting, at-risk, 375,400 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class C Common Stock (Nonvoting, at-risk, 17,432 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class D Common Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) – Issued to AgBank or to any person through direct sale.
- Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and AgBank) - Issued only to AgBank in consideration of financial assistance to the Association from AgBank. Retirement is at the sole discretion of the Board of Directors.
- Class F Common Stock (Voting, protected, 12,223 shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class G Common Stock (Nonvoting, protected, 1,959 shares outstanding) – Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.
- Class H Common Stock (Nonvoting, at risk, 273,536 shares outstanding) – May be issued for allocated surplus distributions and patronage distributions. This stock shall be issued in series with the stock issued in each calendar year constituting a separate series. Retirement is at the sole discretion of the Board of Directors.

The Board of Directors adopted a resolution during 2000 to retire Class H stock. Class H stock of \$730 was retired during 2004.

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

During November 2002, the Association Board of Directors approved and the Association recorded the redemption of AgBank's investment in the Association in the amount of \$1,039. This transaction was recorded at par value.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

**NOTE 9 – PATRONAGE DISTRIBUTION FROM AGBANK**

For the year ended December 31, 2004, the Association recorded \$2,899 in patronage distribution from AgBank, which consisted of \$2,411 in cash and \$488 in stock.

For the year ended December 31, 2003, the Association recorded \$9,226 in patronage distribution from AgBank. On October 1, 2003, AgBank allocated \$60 million of stock to the former Wichita District associations as part of the AgBank merger. The distributions were based on association average direct loan volume from July 1, 2002 through June 30, 2003, and were in the form of Class A Stock. The Association recorded its portion of the distribution by recognizing noninterest income of \$7,950. Additionally, the Association received patronage distributions from AgBank in the form of \$906 in cash and \$243 in stock from the patronage program in place before the October 1, 2003 merger and \$127 in cash from AgBank's Program for Reduction of Treasury Index Risk, for the year ended December 31, 2003. The patronage program for Reduction of Treasury Index Risk was discontinued for all future periods effective April 1, 2003.

For the year ended December 31, 2002, the Association recorded \$3,662 patronage distribution from AgBank, which consisted of \$2,306 in cash, \$109 in cash from AgBank's Program for Reduction of Treasury Index Risk, and a one-time \$1,247 stock patronage.

**NOTE 10 – INCOME TAXES**

The provision for/(benefit from) income taxes follows:

	<b>For the Year Ended December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Current:			
Federal	\$ 396	\$ (442)	\$ 650
State	–	8	125
Deferred:			
Federal	1,152	31	(177)
State	228	(59)	(26)
<b>Total provision for/(benefit from) income taxes</b>	<b>\$ 1,776</b>	<b>\$ (462)</b>	<b>\$ 572</b>

The provision for/(benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	<b>For the Year Ended December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Federal tax at statutory rate	\$11,095	\$ 5,948	\$ 4,314
State tax, net of federal benefit	150	(34)	66
Effect of nontaxable entity	(10,043)	(5,711)	(3,390)
AgBank stock patronage dividend	(166)	(670)	(424)
Change in tax law/rates – Reduction in DTA – Patronage	1,187	–	–
Other	(447)	5	6
<b>Provision for/(Benefit from) income taxes</b>	<b>\$ 1,776</b>	<b>\$ (462)</b>	<b>\$ 572</b>

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

Deferred tax assets and liabilities result from the following at:

	<b>December 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Allowance for loan losses	\$ 72	\$ 1,414	\$ 1,451
Nonaccrual loan interest	-	7	-
Nonqualified deferred compensation	-	47	34
Nonqualified pension restoration	-	18	15
Charitable contribution carryover	-	1	-
Organizational costs	-	3	4
State NOL Carryover	1	40	-
Gross deferred tax assets	<b>73</b>	<b>1,530</b>	<b>1,504</b>
Deferred tax asset valuation allowance	<b>(12)</b>	<b>(12)</b>	<b>(12)</b>
Depreciation	<b>(6)</b>	<b>(78)</b>	<b>(80)</b>
Sale of fixed assets	<b>(1)</b>	<b>(6)</b>	<b>(6)</b>
Gross deferred tax liability	<b>(7)</b>	<b>(84)</b>	<b>(86)</b>
Net deferred tax asset	<b>\$ 54</b>	<b>\$ 1,434</b>	<b>\$ 1,406</b>

The Association recorded a valuation allowance of \$12 during 2004, 2003 and 2002. The Association will continue to evaluate the realizability of these assets and adjust the valuation allowance accordingly.

Prior to the termination of the patronage program discussed in Note 2, deferred taxes arose principally from temporary differences in the methods of reporting nonpatronage-related income and certain other expenses for tax and financial statement purposes. Taxes were not provided for temporary differences arising from patronage allocated to patrons in the form of patronage dividends.

**NOTE 11 – EMPLOYEE BENEFIT PLANS**

The Association participates in the Ninth District Defined Benefit Retirement Plan (Ninth Plan). The assets, liabilities, and costs of the Ninth Plan are not segregated by participating entities, but are allocated among participating entities. Pension plan costs are a combination of service costs specific to the participating entities and other costs allocated annually, based on pro-rata ownership in the Plan. Benefits are based on salary and years of service. Prior to January 1, 2003, Ninth Plan expense was allocated from AgBank to each participating entity. Each participating entity funded the Ninth Plan equal to the expense. Actual annual expenses were reconciled and assets/liabilities were recorded at the combined District level. Effective October 1, 2003, the December 31, 2002 Ninth Plan balances were transferred from AgBank to each participating entity. The balances transferred were based on each entity's percentage ownership of the Ninth Plan. The Ninth Plan balance transferred to the Association was \$409, which is reported as pension asset and recognized as a reduction to salaries and employee benefits expense.

In 2003, the Association also began participating in the Eleventh District defined benefit Retirement Plan (Eleventh Plan). The assets, liabilities and costs of the Eleventh Plan are not segregated by participating entities, but are allocated among the participating entities. Pension costs (or credits if applicable) are allocated by multiplying the Eleventh Plan's net pension expense (credit if applicable) by the Association's prior year salary expense as a percentage of the former Western District's prior year salary expense. At December 31, 2003, the Accumulated Benefit Obligation (ABO) of the Eleventh Plan exceeded the fair value of Eleventh Plan assets. In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions", the recognition of a minimum liability in the amount of the difference between the ABO and fair value of plan assets is required. At December 31, 2004, the Association's allocated amount of minimum liability of \$164 was recognized and is included in pension liability. In conjunction with the minimum liability, an other comprehensive loss of \$152 and an intangible asset of \$12, which is included in other assets, were recorded. At December 31, 2003, the Association's allocated amount of minimum liability of \$112 was recognized and is included in pension liability. In conjunction with the minimum liability, an other comprehensive loss of \$90 and an intangible asset of \$22, which is included in other assets, were recorded. The Association funded \$23 in 2004 and \$41 in 2003, through the note payable to AgBank.

The Association funded \$150 in 2004, \$671 in 2003 and \$238 in 2002, through the note payable to AgBank. Ninth and Eleventh Plan expenses included in salaries and employee benefits were \$281 in 2004, \$87 in 2003 and \$238 in

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

2002. Certain non-qualified plans exist in the Ninth Plan. Additional financial information for the Ninth and Eleventh Plans may be found in AgBank's Annual Report.

The measurement date for determining pension and postretirement obligations, assets and income statement effects changed from December 31 to September 30 during 2004. The change was made as part of a Systemwide effort for all Farm Credit entities to use a common measurement date.

The Association participates in the Ninth District Retiree Medical Plan with other District employers. Postretirement benefits other than pensions are provided to retirees of the Association. Benefits provided are determined on a graduated scale, based on years of service. Prior to January 1, 2003, the Association paid and expensed a cash subsidy allocated from AgBank. Effective October 1, 2003, the December 31, 2002, postretirement benefit obligation balances were transferred from AgBank to participating entities. The allocation was based on each participating entity's percentage of accumulated postretirement benefit obligation, which was originally determined by a third party actuary. The postretirement obligation balance transferred to the Association was \$409, which is reported as postretirement benefits liability and recognized as a salaries and employee benefits expense. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$43 for 2004, \$382 for 2003 and \$21 for 2002.

The Association participates in the Ninth District Thrift Plan. Thrift Plan contributions are recognized by each participating entity. Association contributions charged to expense were \$164 for 2004 and 2003 and \$129 for 2002.

**NOTE 12 – INTRA-SYSTEM FINANCIAL ASSISTANCE AND INSURANCE FUND**

The Financial Assistance Corporation was established in 1988 primarily to provide capital to institutions of the System experiencing financial difficulty. Such assistance was funded through the Financial Assistance Corporation's issuance of \$1.261 billion of 15-year U.S. Treasury-guaranteed debt. The interest rates on these issuances ranged from 8.80% to 9.45%. The repayment of this debt and related interest is the responsibility of System banks. At December 31, 2004, \$325 million of Financial Assistance Corporation debt remains outstanding and will mature in June 2005. All other debt has either matured or was called and redeemed. The expense to the Association was \$383 in 2004, \$687 in 2003, and \$759 in 2002.

As explained in Note 1, each System Bank is required to pay premiums into the Insurance Fund based on its annual average loan principal outstanding. AgBank, in turn, assesses the Association for insurance premiums based on the average annual principal outstanding of accrual and nonaccrual loans of the Association. The assessment to the Association was \$366 in 2004, \$839 in 2003 and \$194 in 2002. At December 31, 2004, the assets in the Insurance Fund aggregated \$2.164 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that Fund assets will be available or sufficient to ensure the payment of principal of, or interest on, insured debt securities in the event of a default by any System Bank having primary liability thereon.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Association may enter into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and employees must be maintained at an Acceptable/Other Assets Especially Mentioned (OAEM) credit classification. If a Director's loan falls below the OAEM credit classification, corrective action must be taken and the classification must be brought back to either Acceptable or OAEM within one year. If the designated timeframes are not met, the director or employee must resign from the Board or employment.

Total loans to such persons at December 31, 2004, amounted to \$21,407. During 2004, \$22,543 of new loans were made and repayments totaled \$30,521. In the opinion of management, none of these loans outstanding at December 31, 2004, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid \$354 to AgVantis for technology services. The Association paid AgBank \$114 for operational services and \$72 for internal credit and operations reviews during 2004.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**NOTE 14 – REGULATORY ENFORCEMENT MATTERS**

There are no regulatory enforcement actions in effect for the Association.

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2004, \$162,569 of commitments to extend credit and \$1,074 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Balance Sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

There are no actions pending against the Association in which claims for monetary damages are asserted.

**NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Quarterly results of operations for the years ended December 31, 2004, 2003 and 2002, follow:

	2004				
	First	Second	Third	Fourth	Total
<b>Net interest income</b>	\$ 5,486	\$ 5,344	\$ 5,496	\$ 5,609	\$ 21,935
<b>Provision reversal for loan losses</b>	–	–	–	16,721	16,721
<b>Noninterest expense, net</b>	993	1,321	1,503	3,984	7,801
<b>Net income</b>	\$ 4,493	\$ 4,023	\$ 3,993	\$ 18,346	\$ 30,855

	2003				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,819	\$ 4,998	\$ 5,404	\$ 5,282	\$ 20,503
Provision for loan losses	400	650	–	2,789	3,839
Noninterest (expense)/income, net	(1,655)	(1,730)	(1,738)	6,415	1,292
<b>Net income</b>	\$ 2,764	\$ 2,618	\$ 3,666	\$ 8,908	\$ 17,956

	2002				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,961	\$ 4,128	\$ 4,419	\$ 4,837	\$ 17,345
Provision for loan losses	200	700	300	600	1,800
Noninterest expense, net	987	1,103	1,217	128	3,435
<b>Net income</b>	\$ 2,774	\$ 2,325	\$ 2,902	\$ 4,109	\$ 12,110

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
Farm Credit of New Mexico, ACA:

We have audited the accompanying consolidated balance sheets of Farm Credit of New Mexico, ACA and subsidiaries (the Association) as of December 31, 2004, 2003 and 2002, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of New Mexico, ACA and subsidiaries at December 31, 2004, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 4, 2005

FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT


REPORT OF MANAGEMENT

The financial statements of the Farm Credit of New Mexico, ACA are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgements and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. The financial statements, in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the annual report is consistent with that in the financial statements.

To meet the responsibility for reliable financial information, management depends on 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 must be related to the benefits derived. To monitor compliance, U. S. AgBank, FCB's Quality Assurance staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial Statements are examined by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards. The Association is also examined by the Farm Credit Administration.

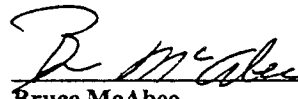
The board of directors has overall responsibility for the Association's system of internal control and financial reporting. The board consults regularly with management and reviews the results of the examinations by the various entities named above. The independent accountants have direct access to the board.

The undersigned certify that the Farm Credit of New Mexico, ACA 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 our knowledge.

  
\_\_\_\_\_  
Joe Clavel  
Chairman of the Board

Date

3-4-05

  
\_\_\_\_\_  
Bruce McAbee  
President and Chief Executive Officer

Date

3/4/05

FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT

The Audit Committee (Committee) is composed of three Board members appointed by the Board of Directors of Farm Credit of New Mexico, ACA (the Association). In 2004, six Committee meetings and three conference calls were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside accountants, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. In addition, the Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent accountant for 2004. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and audited financial statements for the year ended December 31, 2004 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent accountant's independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Stockholders for the year ended December 31, 2004.



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Tom Drake, Chairman of the Audit Committee

Audit Committee Members

Tyson Achen

Harold Houghtaling, Jr.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**DISCLOSURE INFORMATION REQUIRED BY**  
**FARM CREDIT ADMINISTRATION REGULATIONS**  
(Amounts in Whole Dollars)

**DESCRIPTION OF BUSINESS**

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to shareholders.

**DESCRIPTION OF PROPERTY**

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
3121 Carlisle Blvd., N.E. Albuquerque, New Mexico	Office Building	Owned
721 South First Street Clayton, New Mexico	Office Building	Owned
2420 Ashford Street Clovis, New Mexico	Office Building	Owned
2800 Las Vegas Court Las Cruces, New Mexico	Office Building	Owned
2730 Wilshire Blvd. Roswell, New Mexico	Office Building	Owned
323 South Second Tucumcari, New Mexico	Office Building	Owned

**LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS**

Information required to be disclosed in this section is incorporated herein by reference from Note 14 to the financial statements, "Regulatory Enforcement Matters," and Note 15 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

**DESCRIPTION OF CAPITAL STRUCTURE**

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

**DESCRIPTION OF LIABILITIES**

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Note Payable to AgBank," included in this annual report to shareholders.

The description of advanced conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," to the financial statements, included in this annual report to shareholders.

The description of contingent liabilities, Intra-System financial assistance rights and obligations, and responsibility for repayment of obligations issued by the Farm Credit System Financial Assistance Corporation, required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Intra-System Financial Assistance and Insurance Fund," and Note 15 included in this annual report to shareholders.

**SELECTED FINANCIAL DATA**

The selected financial data for the five years ended December 31, 2004 required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Financial Data," included in this annual report to shareholders.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

**DIRECTORS AND SENIOR OFFICERS**

The following represents certain information regarding the directors and senior officers of the Association.

Directors

Name: Joe Clavel.  
Title: Chairman  
Term of Office: Three years, expiring December 31, 2004. First elected in 1995.  
Business Experience: Ranching; President, Harding County Farm Bureau. Former director of FLBA of Tucumcari. Member of New Mexico Cattle Growers' Association.



Name: Kevin Penn  
Title: Vice Chairman  
Term of Office: Three years, expiring December 31, 2004. First elected in 2001.  
Business Experience: Farming; Produces crops of cotton, chile, watermelons, onions, pumpkins, and wheat on 600 acres. Current President of Membres Valley Produce Board.



Name: Tyson "Ty" Achen  
Title: Member  
Term of Office: Three years, expiring 2006. First elected in 2003.  
Business Experience: Farming; 300 acres of pecans and alfalfa and partners in growing lettuce. Served 33 years with Farm Credit of which he was CEO for 24 years for the PCA. Outstanding Alumnus award from New Mexico State University and served in various community organizations.



FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT

Name: Mack Bell  
Title: Member  
Term of Office: Three years, expiring 2006. First elected in 2003.  
Business Experience: Ranching and farming; cow/calf operation and produces wheat pasture, grain, and improved grass. Member of New Mexico Cattle Growers' Association and served in many community organizations.



Name: Tom Drake  
Title: Appointed Director  
Term of Office: Three years, expiring 2006. First appointed in 2002.  
Business Experience: Assistant to the President at Clovis Community College. Serves as the lead Administrator for the Clovis Community College Foundation and Legislative Affairs. Functions as an extension to the Office of the President in all capacities and as the primary legislative liaison for the College as a registered lobbyist. Mr. Drake has previous commercial banking experience.



Name: Harold Houghtaling, Jr.  
Title: Member  
Term of Office: Three years, expiring December 31, 2004. First appointed in 1986.  
Business Experience: Farming; 1,000 acres of cotton, alfalfa and chile. President of Pecos Valley Chile and Produce, Inc. and Nelson Farms, Inc.



Name: Allen W. "Wess" Wells  
Title: Member  
Term of Office: Three years, expiring 2006. First elected in 2003.  
Business Experience: Farming and ranching; cow/calf and yearling operation and owner of Farmers Insurance Business. Current member of New Mexico Cattle Growers' Association.



Name: W. Douglas Reid  
Title: Member  
Term of Office: Three years, expiring 2006. First appointed to fill unexpired term of Lyle Hutchins of July 17, 2001.  
Business Experience: Runs 600 head of steers and takes 300-400 head per year through the feedlot. Produces crops of milo and wheat; partner in a 2,500 cow dairy at Sudan, Texas. Mr. Reid previously served on the Curry County ASCS County Commission and the Board of Directors of PCA of Eastern New Mexico.



Senior Officers

Name: Bruce L. McAbee  
Title: President and Chief Executive Officer  
FCS Employment: 27 years  
Business Experience: Business and Finance Management - Credit Operations, Farm Credit System

**FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT**

Name: Brian D. Lyon  
 Title: Senior Vice President Finance/Chief Financial Officer  
 FCS Employment: 31 years  
 Business Experience: Certified Computer Professional, Business and Finance Management - Credit Operations, Farm Credit System

Name: Alfred E. Porter, Jr.  
 Title: Senior Vice President Credit/Chief Credit Officer  
 FCS Employment: 24 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Roy G. Milligan  
 Title: Senior Vice President  
 FCS Employment: 29 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Gregory M. Carrasco  
 Title: Vice President/Branch Manager  
 FCS Employment: 19 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Cary Crist  
 Title: Vice President/Branch Manager  
 FCS Employment: 11 years  
 Business Experience: Credit Operations, Farm Credit System

Name: Dwain Nunez  
 Title: Vice President/Branch Manager  
 FCS Employment: 14 years  
 Business Experience: Credit Operations, Farm Credit System

Name: G. L. Straley  
 Title: Vice President/Branch Manager  
 FCS Employment: 24 years  
 Business Experience: Credit Operations, Farm Credit System

**COMPENSATION OF DIRECTORS AND SENIOR OFFICERS**

Directors of the Association were compensated for services on a per diem basis at the rate of \$500 per day, and mileage at the rate of \$0.375 per mile while on official business.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Total Compensation Paid During 2004
Joe Clavel	18.0	11.5	\$ 14,750
Kevin Penn	17.5	16.5	17,000
Tyson "Ty" Achen	19.0	16.5	17,750
Mack Bell	18.5	20.5	19,500
Tom Drake	15.5	10.5	13,000
Harold Houghtaling, Jr.	18.5	10.5	14,500
Allen W. "Wess" Wells	18.0	16.5	17,250
W. Douglas Reid	19.0	26.5	22,750
<b>Total Compensation</b>			<b>\$ 136,500</b>

**FARM CREDIT OF NEW MEXICO, ACA**  
**2004 ANNUAL REPORT**

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were \$234,908 in 2004, \$166,106 in 2003 and \$132,519 in 2002.

Information on the former chief executive officer (CEO) follows.

Former CEO	Annual			Total
	Year	Salary	Bonus	
Joe E. Ratliff	2002	\$ 216,927	\$ 70,000	\$ 286,927

Information on CEO and senior officer compensation, including the CEO follows.

CEO	Annual			Total
	Year	Salary	Bonus	
Bruce L. McAbee	2004	\$ 189,813	\$ 42,046	\$ 231,859

Aggregate Number Of Officers	Annual			Total
	Year	Salary	Bonus	
6	2004	\$ 793,996	\$ 217,337	\$ 1,011,333
6	2003	\$ 778,994	\$ 245,566	\$ 1,024,560
6	2002	\$ 706,829	\$ 221,799	\$ 928,628

In addition to base salary, senior officers can earn additional compensation under a bonus plan which is tied to overall business performance and the individual's performance rating. The senior officers which are considered to be in the control group are on a bonus plan which is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Board. These targets typically include credit quality, credit administration, loan volume, nonaccrual loan volume, cost of operations, return on assets and other key ratios. Bonus percentages are determined and approved by the Board of Directors.

All employees are covered by the bonus plan and the percentage of salary earned is equal at all position levels. Bonuses are shown in the year paid.

Disclosure of the total compensation paid during the last fiscal year to any senior officer, or to any other employee included in the aggregate whose compensation exceeds \$50,000, is available to shareholders upon request.

**TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS**

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 13 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

**INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS**

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

**RELATIONSHIP WITH U.S. AGBANK, FCB (AGBANK)**

The Association's statutory obligation to borrow from AgBank is discussed in Note 7. Financial assistance agreements between the Association and AgBank are discussed in Note 8. Association requirement to invest in AgBank and AgBank's ability to access capital of the Association is discussed in Note 5 to the financial statements, "Investment in AgBank". AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity and Funding sources.

AgBank is required to distribute its Annual Report to shareholders of the Association if a "significant event", as defined by FCA regulations occurs.

**FARM CREDIT OF NEW MEXICO, ACA  
2004 ANNUAL REPORT**

**RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS**

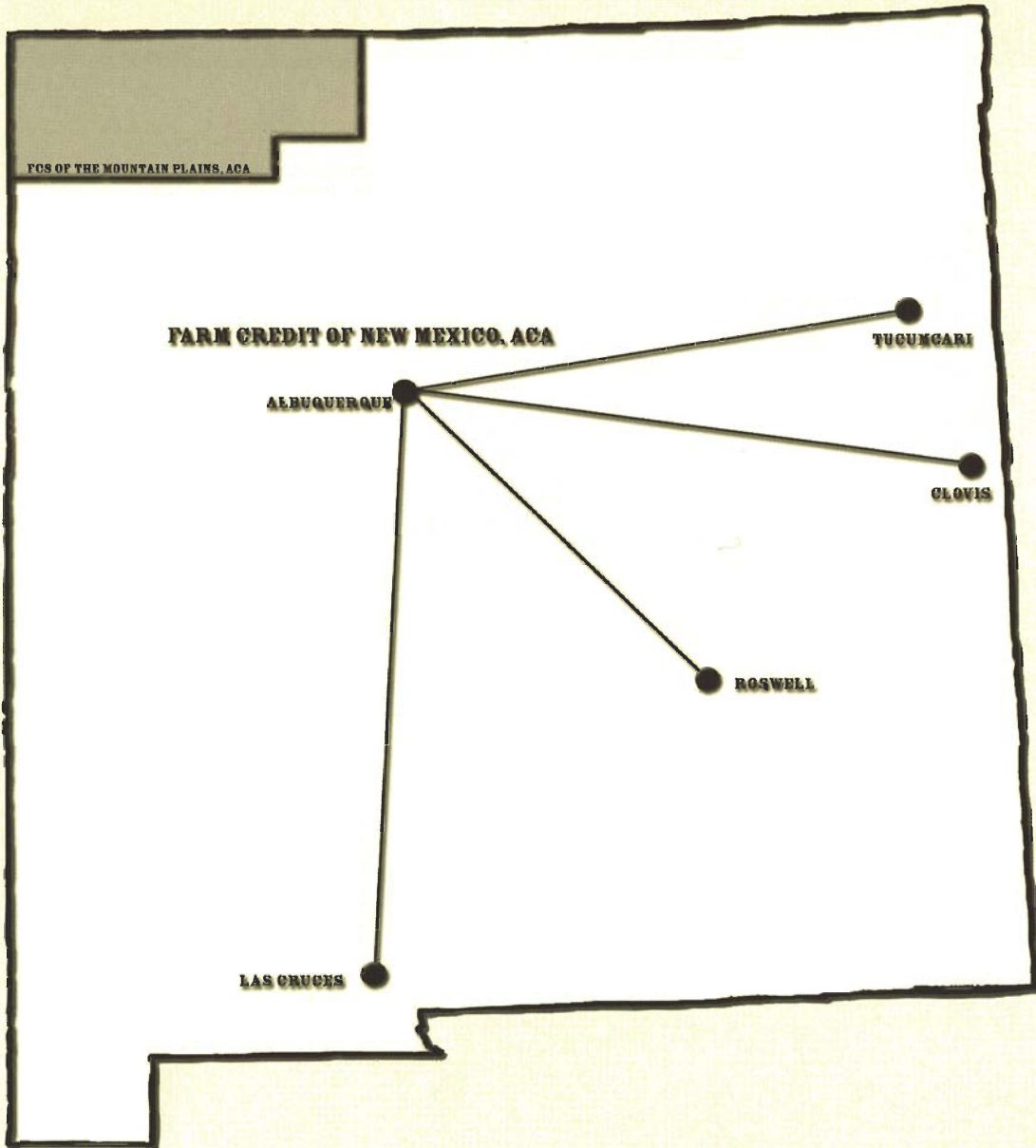
There were no changes in independent public accountants since the prior annual report to shareholders and there were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

**FINANCIAL STATEMENTS**

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 4, 2005, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

**AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS**

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank. Consequently, the Association's annual report should be read in conjunction with AgBank's Annual and Quarterly Reports to Shareholders. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3121 Carlisle Blvd., N.E., Albuquerque, New Mexico 87110-1685, or may be contacted by calling (505) 884-1048 or 1-800-451-5997.



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