

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

2008
Quarterly Report
First Quarter



For the Quarter Ended March 31, 2008



Part of the Farm Credit System

REPORT OF MANAGEMENT

The financial statements of the Federal Land Bank Association of South Alabama, FLCA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the financial statements.

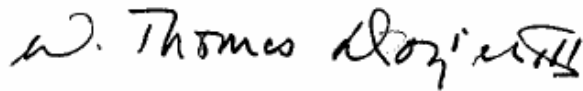
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions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

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

The undersigned certify that, to the best of our knowledge and belief, the financial statements and other financial information included in this quarterly report reliably present the financial condition of the Federal Land Bank Association of South Alabama, FLCA and the results of its operations for the periods shown.



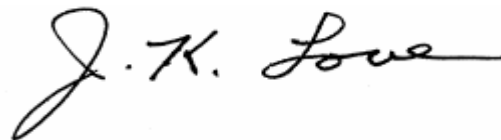
Douglas Thiessen
Chief Executive Officer
May 1, 2008



W. Thomas Dozier, III
Chairman, Board of Directors
May 1, 2008



M. Scott Sellers, CPA
Sr.VP/Chief Financial Officer
May 1, 2008



J.K. Love, CPA
Chairman, Audit Committee
May 1, 2008

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter ended March 31, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

The financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations:

The Association had net income of \$2,950,352 for the three months ended March 31, 2008, as compared to net income of \$2,984,432 for the same period in 2007 reflecting an decrease of 1.1 percent. Net interest income was \$3,994,004 for the three months ended March 31, 2008, compared to \$3,989,174 for the same period in 2007. Interest income decreased by \$201,484 or 2.1 percent, from the first three months of 2007, primarily due to declines in yields on earning assets, offset partially by an increase in average loan volume. Interest expense for the first three months of 2008 decreased by \$206,314, or 3.6 percent, from the same period of 2007 due to a decrease in interest rates, offset partially by an increase in average debt volume. Average loan volume for the first quarter of 2008 was \$548,148,209, compared to \$503,173,341 in the first quarter of 2007.

Noninterest income for the three months ended March 31, 2008 increased by \$384,019, or 78.7 percent, over the same period of 2007. This is due primarily to higher patronage income from Farm Credit Bank of Texas (the Bank) in the first three months of 2008 as compared to the first three months of 2007. This increase in patronage is due almost entirely to the fact that in 2008, the Association began accruing Direct Note patronage from the Bank on a monthly basis. Accordingly, three months of estimated Direct Note patronage, to be received at year end, have been accrued into income as of March 31, 2008. As this is the first year of accruing this income during the year, no such income was reflected for the comparable period in 2007. Also contributing to the increase in noninterest income is an increase in loan fees caused by proportionately higher activity in loan closings, and an increase in the Association's pro-rata share of earnings in the Farm Credit System Association Captive Insurance Company (the Captive).

Noninterest expenses for the three months ended March 31, 2008 increased by \$394,090, or 25.5 percent, as compared to the same period in 2007. The increase is due primarily to an increase in salaries and employee benefits costs, purchased services expense, and Farm Credit System Insurance Corporation (FCSIC) premium expense. The increase in salaries and employee benefits is primarily due to an increase in contributions to the defined benefit retirement plan. For more information on the defined benefit plan refer to the 2007 Annual report and Note 5, "Employee Benefit Plans," to the financial statements, included in this quarterly report. Purchased services increased primarily due to legal and consulting fees incurred in connection with protecting the Association's interests in credit-related matters with a borrower with a large credit from the Association, as noted below in the "Risk Exposure" section of the Management's Discussion and Analysis. FCSIC premiums increased on the basis of the Association having higher loan volume in the first quarter of 2008 than the first quarter of 2007.

The Association recorded no recoveries and \$35,004 in charge-offs for the quarter ending March 31, 2008, and no recoveries or charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of March 31, 2008, and 2007, respectively.

The Association's return on average assets for the three months ended March 31, 2008, was 2.08 and 2.32 percent for the same period in 2007. The Association's return on average equity for the three months ended March 31, 2008, was 12.30 and 13.45 percent for the same period in 2007.

Loan Portfolio:

The Association makes and services loans, secured by a first lien on real estate, to farmers, ranchers, rural homeowners and certain farm-related businesses. The majority of the loans serviced by the Association contain provisions for variable interest rates and are long-term. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2008, stated at recorded investment (principal less funds held), were \$554,686,814 compared to \$542,069,361 at December 31, 2007, reflecting an increase of 2.3 percent. The major commodity concentrations within the Association's loan portfolio are timber, cattle, poultry, and field crops.

The following table reflects the credit quality of the Association's loan volume as of:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Acceptable	98.0 %	99.0 %
Special Mention	0.9 %	0.4 %
Substandard	1.1 %	0.6 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

Risk Exposure:

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

	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 2,925,534	97.6%	\$ 2,942,308	97.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	71,600	2.4%	92,075	3.0%
Total	<u>\$ 2,997,134</u>	<u>100.0%</u>	<u>\$ 3,034,383</u>	<u>100.0%</u>

At March 31, 2008 loans that were considered impaired were \$2,925,534, compared to \$2,942,308 at December 31, 2007. This represents 0.5 percent and 0.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association originated a loan to one borrower through the Capital Markets of the South (CMS) and participated the loan to 13 other Farm Credit associations, with the Association serving as the lead lender. The original funded balance of the loan was \$68,500,000, and the Association retained 5.56% of the loan.

During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant undercollateralized position and a credit default. The Association is currently pursuing collection efforts, and in the third quarter of 2007 liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other CMS member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants. During 2007, charge-offs of \$30,245,000 were recognized, and specific reserves of \$1,460,000 remain on the books related to this loan. The Association's portion of charge-offs and specific reserves were \$4,814,212 and \$279,022, respectively. No further charge-offs or allowance reserves have been required to be recognized in 2008, and as of March 31, 2008, the Association's portion of the loan's remaining book balance is \$2,040,876. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

Liquidity and Funding Sources:

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

	March 31, 2008	December 31, 2007
Note payable to the Bank	\$ 472,322,629	\$ 463,189,388
Accrued interest on note payable	1,774,493	2,065,294
Total	<u>\$ 474,097,122</u>	<u>\$ 465,254,682</u>

Capital Resources:

The Association's capital position decreased by \$233,921 at March 31, 2008, compared to December 31, 2007. The Association's debt as a ratio to members' equity was 5.07:1 as of March 31, 2008, compared to 4.92:1 as of December 31, 2007.

In March 2008, the board declared a \$3,200,000 cash patronage to be paid to stockholders from the Association's 2007 earnings. The patronage distribution was completed in April 2008. See Note 3, "Capital" to the financial statements included in this quarterly report for further discussion.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2008, was 15.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2008, were 15.2 and 15.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Legal Proceedings:

In relation to the loan described in the "Risk Exposure" section of Management's Discussion and Analysis, above, the Association is involved in three lawsuits as of the date of this report. The overall character of the lawsuits is of collection of the principal and interest from the borrower and control of the loan's collateral.

These legal proceedings are described in more detail in Note 6, “Commitments and Contingencies,” to the financial statements included in this quarterly report.

These legal proceedings have the potential to be very lengthy and the outcome is unknown at this time. However, the Association has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery, and in defense of the counter-claims asserted by the borrower and others against the Association. The Association’s legal counsel believes that the Association’s claims are supported by facts and applicable law, and have a reasonable chance of success, and at the same time believe that the claims of the borrower and other defendants are without merit and the Association will likely be successful in its defense against such claims.

Relationship with the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2007 Annual Report of the Federal Land Bank Association of South Alabama, FLCA more fully describe the Association’s relationship with the Bank.

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

The Association’s annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Federal Land Bank Association of South Alabama, FLCA, P.O. Box 241687, Montgomery, Alabama, 36124-1687, or by calling (334)270-8687. Copies of the reports can also be requested by e-mailing awolf@farmcreditbank.com. The Association’s quarterly stockholder reports are available on its website at www.alabamalandloan.com approximately 40 days after each quarter end, and the annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the annual stockholder report can also be requested 90 days after fiscal year end.

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA
BALANCE SHEET

	March 31, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 2,540,506	\$ 1,250,729
Loans	554,686,814	542,069,361
Less: allowance for loan losses	475,832	552,564
Net loans	554,210,982	541,516,797
Accrued interest receivable	8,149,479	9,361,142
Investment in and receivable from the Bank:		
Capital stock	8,736,625	8,736,625
Accrued patronage receivable	347,500	351,309
Other property owned, net	71,600	92,075
Premises and equipment	1,635,456	1,630,274
Other assets	834,343	258,982
Total assets	\$ 576,526,491	\$ 563,197,933
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 472,322,629	\$ 463,189,388
Accrued interest payable	1,774,493	2,065,294
Drafts outstanding	2,295,330	324,967
Patronage distributions payable	3,200,050	-
Other liabilities	2,020,576	2,470,949
Total liabilities	481,613,078	468,050,598
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,370,210	3,326,230
Unallocated retained earnings	91,270,418	91,538,558
Accumulated other comprehensive income (loss)	272,785	282,547
Total members' equity	94,913,413	95,147,335
Total liabilities and members' equity	\$ 576,526,491	\$ 563,197,933

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

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

STATEMENT OF INCOME

(unaudited)

	For the Three Months Ended March 31,	
	2008	2007
<u>INTEREST INCOME</u>		
Loans	\$ 9,549,301	\$ 9,750,785
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	5,555,297	5,761,611
Net interest income	3,994,004	3,989,174
<u>PROVISION FOR LOSSES</u>		
Provision for loan losses	(41,728)	(50,093)
Provision for acquired property losses	20,475	-
Net interest income after provision for losses	4,015,257	4,039,267
<u>NONINTEREST INCOME</u>		
Patronage income from the Bank	450,639	109,207
Loan fees	367,395	332,558
Financially related services income	1,502	1,593
Gain (loss) on sale of premises and equipment, net	1,488	-
Other noninterest income	51,231	44,878
Total noninterest income	872,255	488,236
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,071,014	947,019
Directors' expense	61,169	60,573
Purchased services	790,894	196,971
Travel	66,214	67,313
Occupancy and equipment	60,252	53,885
Communications	22,878	20,164
Advertising	28,574	15,311
Public and member relations	31,203	36,930
Supervisory and exam expense	54,386	46,655
FCSIC insurance expense	237,194	208,680
Other noninterest expense	21,318	18,478
CMS expense reimbursements	(507,936)	(128,908)
Total noninterest expenses	1,937,160	1,543,071
Net income	\$ 2,950,352	\$ 2,984,432

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

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2006	\$ 3,150,865	\$ 87,388,071	\$ -	\$ 90,538,936
Net income	-	2,984,432	-	2,984,432
Capital stock/participation certificates issued	159,430	-	-	159,430
Capital stock/participation certificates retired	(119,105)	-	-	(119,105)
Patronage refunds:				
Cash	-	(3,000,000)	-	(3,000,000)
Change in patronage declared and paid	-	15,143	-	15,143
Balance at March 31, 2007	\$ 3,191,190	\$ 87,387,646	\$ -	\$ 90,578,836
Balance at December 31, 2007	\$ 3,326,230	\$ 91,538,558	\$ 282,547	\$ 95,147,335
Comprehensive income				
Net income	-	2,950,352	-	2,950,352
Other comprehensive income				
Prior service credits (costs)	-	-	(9,914)	(9,914)
Actuarial gains (losses)	-	-	152	152
Other comprehensive income	-	-	(9,762)	(9,762)
Comprehensive income	-	2,950,352	(9,762)	2,940,590
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158				
Service and interest costs for October 1-December 31, net of tax	-	(28,254)	-	(28,254)
Amortization of prior service credits for October 1-December 31, net of tax	-	9,914	-	9,914
Additional net loss, October 1-December 31, net of tax	-	(152)	-	(152)
Net effects of accounting change	-	(18,492)	-	(18,492)
Capital stock/participation certificates issued	166,340	-	-	166,340
Capital stock/participation certificates retired	(122,360)	-	-	(122,360)
Patronage refunds:				
Cash	-	(3,200,000)	-	(3,200,000)
Balance at March 31, 2008	\$ 3,370,210	\$ 91,270,418	\$ 272,785	\$ 94,913,413

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

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA
NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

A description of the Association's significant accounting policies and the financial condition and results of operations as of December 31, 2007 are contained in the 2007 Annual Report to the stockholders. These unaudited first quarter 2008 financial statements should be read in conjunction with the 2007 Annual Report to the stockholders.

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

The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated 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. An analysis of the allowance for loan losses follows:

	March 31, 2008	March 31, 2007
Balance at beginning of quarter	\$ 552,564	\$ 455,588
Provision for loan losses	(41,728)	(50,093)
Charge-offs	(35,004)	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 475,832</u>	<u>\$ 405,495</u>

The following table presents information concerning impaired loans:

	March 31, 2008	March 31, 2007
Impaired loans with related allowance	\$ 2,126,508	\$ 343,349
Impaired loans with no related allowance	799,026	3,307,077
Total impaired loans	<u>\$ 2,925,534</u>	<u>\$ 3,650,426</u>
Allowance on impaired loans	\$ 290,376	\$ 120,549
Average impaired loans	\$ 2,784,360	\$ 2,600,344
Interest income on impaired loans for the quarter	\$ -	\$ 21,787

NOTE 3 — CAPITAL:

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

In March 2008, the board declared a \$3,200,000 cash patronage to be paid to stockholders from the Association's 2007 earnings. The patronage distribution to the stockholders was completed in April of 2008.

NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, the Federal Land Bank Association of North Alabama, FLCA, the Land Bank of North Mississippi, FLCA, Land Bank South, FLCA, and the Louisiana Federal Land Bank Association, FLCA. During the second quarter of 2007, the CMS members decided to discontinue the joint venture. The Association will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association's books and then reimbursed 80% by the other four associations. The total amount of reimbursements is included on the statement of income in the line item entitled "CMS expense reimbursements." The Association's pro-rata share of income from CMS operations are recorded in the statement of income in their respective line items.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	<u>2008</u>	<u>2007</u>
Service cost	\$ 10,768	\$ 11,242
Interest cost	17,486	15,697
Expected return on plan assets	-	-
Amortization of prior service costs	(9,914)	(10,875)
Amortizations of net (gain) loss	152	197
Net periodic benefit cost	<u>\$ 18,492</u>	<u>\$ 16,261</u>

The Association previously disclosed in its Annual Report to the stockholders for the year ended December 31, 2007, that it expected to contribute \$22,548 to its post-retirement health and welfare benefits plan in 2008. As of March 31, 2008, \$5,234 of contributions have been made. The Association's liability for the plan's unfunded accumulated benefit obligation at March 31, 2008 was \$1,125,083 and is included in "Other liabilities" in the balance sheet.

NOTE 6 — COMMITMENTS AND CONTINGENCIES:

As of December 31, 2007, the Association was party to three lawsuits related to a large loan. The loan was originated by the Association to one borrower through CMS and was participated to 13 other Farm Credit associations, with the Association serving as the lead lender. The original funded balance of the loan was \$68.5 million, and the Association retained 5.56% of the loan. During 2007 the loan, which is significantly undercollateralized, was declared to be in default and transferred to nonaccrual status, and collection actions were commenced by the Association. Also during 2007, the Association along with the other CMS member associations, repurchased on a pro-rata basis the portions of the loan held by all other non-CMS participants. As part of the repurchase transactions, the Association received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

The overall character of the lawsuits is of collection of the principal and interest from the borrower and control of the loan's collateral. Two of the lawsuits were filed in the borrower's domicile state of Texas and involved enjoining the borrower from denying access to collateral, as well as civil complaints by the Association against the borrower and other related individuals as well as third parties for damages incurred as a consequence of alleged wrongful acts by the respective parties. The third lawsuit was filed in the state of Kentucky, where the primary real estate collateral is located, for the purpose of gaining access to and foreclosing the lien of its mortgages on the real estate and commencing an action for collection of the debt.

The Kentucky state court has appointed a receiver to protect the Association's collateral and preserve the status quo pending resolution of the suit. The borrower and other related individuals have responded by filing a counter-claim seeking damages against the Association, alleging various claims, including breach of contract. These legal proceedings have the potential to be very lengthy and the outcome is unknown at this time.