Farm Credit Services of Mandan, ACA

Quarterly Report
September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Mandan, ACA and its subsidiaries Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

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

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Production results from the 2019 small grain harvest have primarily been satisfactory with good yields and quality; however, wet conditions have hampered harvest and created quality issues in isolated areas of our territory. Yield projections for row and oil crops are excellent barring an early frost. Commodity prices for most crops grown in our service area remain depressed. This will challenge producer's earnings potential for 2019; however, some will be able to offset the lower prices with good yields. A second round of Market Facilitation Program payments on commodities effected by the trade disruption will also help to improve profit margins.

Adequate moisture conditions during the year provided sufficient pasture for grazing herds and good hay production for winter feed supplies. Cattle feeders and producers with cow/calf operations had a small window this spring to lock in favorable fall prices with either LRP or futures contracts. Most recently, cattle prices have started to trend higher from contract lows this summer.

The demand for real estate remains strong, and land prices have generally held steady.

Despite the above challenges, nearly all producers will continue to modify their operations to remain profitable, obtain financing and continue their farming and ranch operations.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.2 billion at September 30, 2019, an increase of $77.6 million from December 31, 2018. The increase was primarily due to increases in agribusiness loans affiliated with our Commercial Finance Group (CFG) alliance along with traditional operating and real estate loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 2.6% of the portfolio at September 30, 2019, from 1.9% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2019, $28.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 2,807**	$ 2,529
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**2,807**	2,529
Other property owned	**--**	6
Total risk assets	**$ 2,807**	$ 2,535
Total risk loans as a percentage of total loans	**0.2%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**72.5%**	78.6%
Total delinquencies as a percentage of total loans	**0.6%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**September 30 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**116.8%**	127.5%
Total risk loans	**116.8%**	127.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2019**	2018
Net income	**$ 19,771**	$ 18,606
Return on average assets	**2.1%**	2.1%
Return on average members' equity	**10.0%**	10.4%

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30		2019		2018		Increase (decrease) in net income
Net interest income	$	**25,079**	$	24,769	$	**310**
Provision for loan losses		**256**		273		**17**
Patronage income		**4,564**		2,503		**2,061**
Other income, net		**4,884**		6,092		**(1,208)**
Operating expenses		**13,880**		14,034		**154**
Provision for income taxes		**620**		451		**(169)**
Net income	$	**19,771**	$	18,606	$	**1,165**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30		2019 vs 2018
Changes in volume	$	**1,200**
Changes in interest rates		**(708)**
Changes in nonaccrual income and other		**(182)**
Net change	$	**310**

Patronage Income

(in thousands) For the nine months ended September 30		2019		2018
Wholesale patronage:				
Cash	$	**1,393**	$	2,437
Stock		**2,299**		--
Pool program patronage		**872**		66
Total patronage income	$	**4,564**	$	2,503

The increase in patronage income was primarily due to an increase in wholesale patronage. Total wholesale patronage increased primarily as a result of a higher patronage rate for the nine months ended September 30, 2019, compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage are paid in cash.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) received from the Farm Credit System Insurance Corporation (FCSIC) of $273 thousand in 2019, compared to $653 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on July 31, 2022, at which time the note will be renegotiated. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

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

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

We were not subject to a risk premium at September 30, 2019, or December 31, 2018.

In addition, with approval from AgriBank, on July 24, 2006, we entered into a loan agreement with CoBank, ACB (CoBank) to obtain funding in the amount not to exceed $20.0 million in connection with specific CoBank related transactions. The interest rate on such indebtedness will be established at the time of the related transactions.

Total members' equity increased $17.9 million from December 31, 2018, primarily due to net income for the period. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 8 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**September 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.2%**	16.7%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.2%**	16.7%	6.0%	2.5%*	8.5%
Total capital ratio	**17.4%**	16.9%	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.2%**	16.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.1%**	19.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.1%**	19.6%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the September 30, 2019, Quarterly Report of Farm Credit Services of Mandan, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Michael J Schaaf

Michael J. Schaaf
Chairperson of the Board
Farm Credit Services of Mandan, ACA

Aaron Vetter

Aaron Vetter
Chief Executive Officer
Farm Credit Services of Mandan, ACA

Sandy Nagel

Sandy Nagel
Vice President – Finance, Chief Financial Officer
Farm Credit Services of Mandan, ACA

November 7, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

As of:		**September 30 2019**		December 31 2018
ASSETS				
Loans	**$**	**1,228,248**	$	1,150,629
Allowance for loan losses		**3,279**		3,225
Net loans		**1,224,969**		1,147,404
Investment in AgriBank, FCB		**31,799**		28,933
Accrued interest receivable		**23,308**		17,641
Other assets		**16,622**		16,571
Total assets	**$**	**1,296,698**	$	1,210,549
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,009,492**	$	940,592
Accrued interest payable		**6,786**		6,307
Deferred tax liabilities, net		**468**		397
Patronage distribution payable		**1,875**		2,400
Other liabilities		**5,867**		6,567
Total liabilities		**1,024,488**		956,263
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**2,107**		2,156
Unallocated surplus		**270,969**		253,073
Accumulated other comprehensive loss		**(866)**		(943)
Total members' equity		**272,210**		254,286
Total liabilities and members' equity	**$**	**1,296,698**	$	1,210,549

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

For the period ended September 30	*Three Months Ended* **2019**	*Three Months Ended* 2018	*Nine Months Ended* **2019**	*Nine Months Ended* 2018
Interest income	**$ 15,458**	$ 14,811	**$ 45,199**	$ 40,700
Interest expense	**6,786**	5,971	**20,120**	15,931
Net interest income	**8,672**	8,840	**25,079**	24,769
Provision for loan losses	**256**	286	**256**	273
Net interest income after provision for loan losses	**8,416**	8,554	**24,823**	24,496
Other income				
Patronage income	**1,712**	876	**4,564**	2,503
Financially related services income	**908**	1,219	**3,571**	3,897
Fee income	**343**	329	**901**	920
Allocated Insurance Reserve Accounts distribution	**--**	--	**273**	653
Miscellaneous income, net	**71**	342	**139**	622
Total other income	**3,034**	2,766	**9,448**	8,595
Operating expenses				
Salaries and employee benefits	**2,822**	2,855	**8,635**	8,781
Other operating expenses	**1,679**	1,664	**5,245**	5,253
Total operating expenses	**4,501**	4,519	**13,880**	14,034
Income before income taxes	**6,949**	6,801	**20,391**	19,057
Provision for income taxes	**200**	149	**620**	451
Net income	**$ 6,749**	$ 6,652	**$ 19,771**	$ 18,606
Other comprehensive income				
Employee benefit plans activity	**$ 25**	$ 37	**$ 77**	$ 111
Total other comprehensive income	**25**	37	**77**	111
Comprehensive income	**$ 6,774**	$ 6,689	**$ 19,848**	$ 18,717

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$ 2,272	$ 229,866	$ (1,136)	$ 231,002
Net income	--	18,606	--	18,606
Other comprehensive income	--	--	111	111
Unallocated surplus designated for patronage distributions	--	(1,800)	--	(1,800)
Capital stock and participation certificates issued	49	--	--	49
Capital stock and participation certificates retired	(146)	--	--	(146)
Balance at September 30, 2018	$ 2,175	$ 246,672	$ (1,025)	$ 247,822
Balance at December 31, 2018	$ 2,156	$ 253,073	$ (943)	$ 254,286
Net income	**--**	**19,771**	**--**	**19,771**
Other comprehensive income	**--**	**--**	**77**	**77**
Unallocated surplus designated for patronage distributions	**--**	**(1,875)**	**--**	**(1,875)**
Capital stock and participation certificates issued	**83**	**--**	**--**	**83**
Capital stock and participation certificates retired	**(132)**	**--**	**--**	**(132)**
Balance at September 30, 2019	**$ 2,107**	**$ 270,969**	**$ (866)**	**$ 272,210**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	On October 16, 2019, the FASB voted to defer effective dates for various standards for certain entities, which includes ASU 2016-13. We have determined we qualify for the delay in the required adoption date for this standard. We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:		**September 30, 2019**			December 31, 2018	
		Amount	%		Amount	%
Real estate mortgage	**$**	**423,793**	**34.5%**	$	405,266	35.2%
Production and intermediate-term		**423,362**	**34.5%**		403,481	35.1%
Agribusiness		**251,938**	**20.5%**		220,616	19.2%
Other		**129,155**	**10.5%**		121,266	10.5%
Total	**$**	**1,228,248**	**100.0%**	$	1,150,629	100.0%

The other category is primarily comprised of energy, communication, agricultural export finance, water and waste water related loans and certain assets originated under the mission related investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ --**	**$ 54**	**$ 54**	**$ 435,421**	**$ 435,475**
Production and intermediate-term	**4,089**	**718**	**4,807**	**428,966**	**433,773**
Agribusiness	**2,317**	**--**	**2,317**	**250,531**	**252,848**
Other	**--**	**--**	**--**	**129,460**	**129,460**
Total	**$ 6,406**	**$ 772**	**$ 7,178**	**$ 1,244,378**	**$ 1,251,556**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ 392	$ 334	$ 726	$ 413,941	$ 414,667
Production and intermediate-term	369	183	552	410,213	410,765
Agribusiness	--	--	--	221,326	221,326
Other	--	--	--	121,512	121,512
Total	$ 761	$ 517	$ 1,278	$ 1,166,992	$ 1,168,270

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2019, or December 31, 2018.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**September 30 2019**	December 31 2018
Volume with specific allowance	**$ 1,264**	$ 1,518
Volume without specific allowance	**1,543**	1,011
Total risk loans	**$ 2,807**	$ 2,529
Total specific allowance	**$ 344**	$ 522
For the nine months ended September 30	**2019**	2018
Income on accrual risk loans	**$ 13**	$ 70
Income on nonaccrual loans	**99**	281
Total income on risk loans	**$ 112**	$ 351
Average risk loans	**$ 3,182**	$ 3,775

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2019.

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain production and intermediate-term loans during the nine months ended September 30, 2019, and 2018. Our recorded investment in these loans just prior to and immediately following restructuring was $19 thousand and $28 thousand during the nine months ended September 30, 2019, and 2018, respectively. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification was forgiveness of interest.

There were no TDRs that defaulted during the nine months ended September 30, 2019, in which the modification was within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $2 thousand that defaulted during the nine months ended September 30, 2018, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of:	**September 30 2019**	December 31 2018
TDRs in accrual status	**$ --**	$ --
TDRs in nonaccrual status	**15**	--
Total TDRs	**$ 15**	$ --

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2019**	2018
Balance at beginning of period	**$ 3,225**	$ 2,992
Provision for loan losses	**256**	273
Loan recoveries	**--**	95
Loan charge-offs	**(202)**	(167)
Balance at end of period	**$ 3,279**	$ 3,193

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2019, or December 31, 2018.

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of September 30, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 966**	**$ 966**

	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,046	$ 1,046

Valuation Techniques

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

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 7, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.