Farm Credit Services of Mandan, ACA

Quarterly Report
June 30, 2020

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, 2019 (2019 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 2019 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

Spring planting was completed timely in most areas of our service area. Many fields in the eastern and central parts of our territory had some low areas that were too wet to seed. A smaller portion of our territory had significant Prevented Plant acres due to wet ground, while others had remaining standing crop from 2019. Moisture conditions were sufficient early this spring, however there is growing concern of drought as rainfall has been below average in most of our territory.

Commodity prices for most crops grown in our service area have been adversely affected by the ongoing trade disruption and the recent COVID-19 pandemic. This will continue to challenge the profitability of our producers. Government program payments will assist in stabilizing profit margins.

Pasture conditions have been good primarily due to a wet fall. This gave pastures and hay land acres a good start this spring with adequate subsoil moisture; however, conditions are starting to deteriorate due to the lack of spring rainfall. Concern is developing about producing sufficient winter feed supplies which would further strain earnings for some producers. Cattle prices have also been adversely affected by the Covid-19 pandemic. Fortunately, a significant amount of cattle sales for producers in our service area took place ahead of the outbreak and the market decline. Additionally, the cattle industry has been included in recent government program payments.

To assist with deteriorating agricultural conditions due to COVID-19, nearly $24.0 billion of aid has been approved via federal stimulus packages and more aid could be on the way in the future if poor conditions persist; however, at this point, the timing, the level of aid, and the distribution to various agriculture commodities is unknown.

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 $1.3 billion at June 30, 2020, an increase of $97.7 million from December 31, 2019. The increase was primarily due to growth in real estate mortgage and production and intermediate-term loans along with growth in participation volume through our alliance with AgCountry, CFG.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the Farm Credit Administration (FCA) Regulations are able to borrow from our association under this program. The PPP provides for loan forgiveness under limited circumstances and loan payments can be deferred up to six months. Since beginning the program, we have successfully processed $1.6 million in PPP loans for customers with production and intermediate-term type loans. To date, no loans have been forgiven and nearly all payments have been deferred.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 2.2% of the portfolio at June 30, 2020, from 2.7% of the portfolio at December 31, 2019. 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.

While overall credit quality remains strong, the impact of the global pandemic disruption to many agriculture industries, and with commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020. These conditions may result in increases to adverse credit quality and related provision for credit losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2020, $33.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2020**	December 31, 2019
Loans:		
Nonaccrual	**$ 7,153**	$ 2,567
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**6,087**	151
Total risk loans	**13,240**	2,718
Other property owned	**--**	--
Total risk assets	**$ 13,240**	$ 2,718
Total risk loans as a percentage of total loans	**1.0%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**11.4%**	57.8%
Total delinquencies as a percentage of total loans	**1.3%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2019, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to two large customers with both real estate and production and intermediate-term loans moving to nonaccrual during the second quarter of 2020. Nonaccrual loans remained at an acceptable level at June 30, 2020, and December 31, 2019.

The increase in accruing loans 90 days or more past due was due to five customers with real estate and production and intermediate-term loans that are in the process of being renewed or refinanced. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in total delinquencies as a percentage of total loans occurred across a variety of loan types, including real estate mortgage, production intermediate-term, and agribusiness. Although some of these loans moved to nonaccrual status, the majority continue to be in accrual status and are adequately secured in the process of being renewed or collected.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	June 30, 2020	December 31, 2019
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**60.1%**	136.1%
Total risk loans	**32.5%**	128.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2020.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30,	2020	2019
Net income	**$ 13,323**	$ 13,022
Return on average assets	**2.0%**	2.1%
Return on average members' equity	**9.5%**	10.0%

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30,	2020	2019	Increase in net income
Net interest income	**$ 16,915**	$ 16,407	**$ 508**
Provision for loan losses	**818**	--	**(818)**
Non-interest income	**7,103**	6,414	**689**
Non-interest expense	**9,729**	9,379	**(350)**
Provision for income taxes	**148**	420	**272**
Net income	**$ 13,323**	$ 13,022	**$ 301**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30,	2020 vs 2019
Changes in volume	**$ 1,577**
Changes in interest rates	**(1,119)**
Changes in nonaccrual income and other	**50**
Net change	**$ 508**

Provision for Loan Losses

The change in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. During the first six months of 2020, a provision adjustment of approximately $800 thousand was required to reflect an increase in the estimated credit loss in our loan portfolio. The majority of this provision requirement was due to establishing a specific allowance on two relationships that are currently in nonaccrual status.

Non-Interest Income

The change in non-interest income was primarily due to patronage income. We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution’s Board of Directors.

Patronage Income

(in thousands) For the six months ended June 30,	**2020**	2019
Wholesale patronage	**$ 2,885**	$ 2,402
Pool program patronage	**563**	450
Total patronage income	**$ 3,448**	$ 2,852
Form of patronage distributions:		
Cash	**$ 3,448**	$ 1,357
Stock	**--**	1,495
Total patronage income	**$ 3,448**	$ 2,852

The increase in patronage income was primarily due to an increase in wholesale patronage, which is largely the result of a higher patronage rate and an increase in the note payable for the first six months of 2020 compared to the same period of 2019.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on July 31, 2022. 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 June 30, 2020, or December 31, 2019.

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 $11.0 million from December 31, 2019, primarily due to net income for the period partially offset by patronage distribution accruals. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized gain/loss related to the Pension Restoration Plan. Refer to Note 8 in our 2019 Annual Report for more information on the Pension Restoration Plan.

The 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 2019 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**June 30, 2020**	December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.8%**	17.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.8%**	17.5%	6.0%	2.5%	8.5%
Total capital ratio	**17.0%**	17.8%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.8%**	17.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.7%**	19.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.7%**	20.6%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments.

OTHER MATTERS

Relationships with Other Farm Credit Institutions

SunStream Business Services: SunStream Business Services (SunStream) was previously a division of AgriBank. Effective April 1, 2020, SunStream is a System service corporation. We are a partial owner and continue to purchase services from SunStream. We purchase various services from

SunStream, which include financial and retail systems, tax reporting services, technology services, and insurance services. Our entire investment in SunStream was called on April 1, 2020, at which time $171 thousand was paid in cash and the remainder is due in January 2021. As of June 30, 2020, our investment in SunStream was $307 thousand.

COVID-19

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions have been taken by governments, businesses and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government and how quickly “normal” daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment, and operations of our Association are fully functioning. Our business continuity response has allowed us to continue to serve our mission, and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

CERTIFICATION

The undersigned have reviewed the June 30, 2020, 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
Chairperson of the Board
Farm Credit Services of Mandan, ACA

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

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

August 5, 2020

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		June 30, 2020		December 31, 2019
ASSETS				
Loans	**$**	**1,343,124**	$	1,245,427
Allowance for loan losses		**4,300**		3,493
Net loans		**1,338,824**		1,241,934
Investment in AgriBank, FCB		**34,498**		32,034
Accrued interest receivable		**14,805**		18,573
Other assets		**20,148**		17,591
Total assets	**$**	**1,408,275**	$	1,310,132
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,108,857**	$	1,016,564
Accrued interest payable		**4,155**		6,205
Deferred tax liabilities, net		**522**		508
Patronage distribution payable		**2,300**		4,500
Other liabilities		**5,012**		5,974
Total liabilities		**1,120,846**		1,033,751
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**2,064**		2,094
Unallocated surplus		**286,338**		275,314
Accumulated other comprehensive loss		**(973)**		(1,027)
Total members' equity		**287,429**		276,381
Total liabilities and members' equity	**$**	**1,408,275**	$	1,310,132

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)

	Three Months Ended		Six Months Ended	
For the period ended June 30,	**2020**	2019	**2020**	2019
Interest income	**$ 12,679**	$ 15,082	**$ 26,965**	$ 29,741
Interest expense	**4,155**	6,800	**10,050**	13,334
Net interest income	**8,524**	8,282	**16,915**	16,407
Provision for loan losses	**818**	--	**818**	--
Net interest income after provision for loan losses	**7,706**	8,282	**16,097**	16,407
Non-interest income				
Patronage income	**1,759**	1,751	**3,448**	2,852
Financially related services income	**1,116**	1,245	**2,416**	2,663
Fee income	**513**	309	**844**	558
Allocated Insurance Reserve Accounts distribution	**--**	--	**256**	273
Other non-interest income	**34**	31	**139**	68
Total non-interest income	**3,422**	3,336	**7,103**	6,414
Non-interest expense				
Salaries and employee benefits	**3,187**	2,942	**6,212**	5,813
Other operating expense	**1,590**	1,676	**3,517**	3,566
Total non-interest expense	**4,777**	4,618	**9,729**	9,379
Income before income taxes	**6,351**	7,000	**13,471**	13,442
(Benefit from) provision for income taxes	**(92)**	233	**148**	420
Net income	**$ 6,443**	$ 6,767	**$ 13,323**	$ 13,022
Other comprehensive income				
Employee benefit plans activity	**$ 27**	$ 26	**$ 54**	$ 52
Total other comprehensive income	**27**	26	**54**	52
Comprehensive income	**$ 6,470**	$ 6,793	**$ 13,377**	$ 13,074

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, 2018	$ 2,156	$ 253,073	$ (943)	$ 254,286
Net income	--	13,022	--	13,022
Other comprehensive income	--	--	52	52
Unallocated surplus designated for patronage distributions	--	(1,250)	--	(1,250)
Capital stock and participation certificates issued	61	--	--	61
Capital stock and participation certificates retired	(107)	--	--	(107)
Balance at June 30, 2019	$ 2,110	$ 264,845	$ (891)	$ 266,064
Balance at December 31, 2019	$ 2,094	$ 275,314	$ (1,027)	$ 276,381
Net income	**--**	**13,323**	**--**	**13,323**
Other comprehensive income	**--**	**--**	**54**	**54**
Unallocated surplus designated for patronage distributions	**--**	**(2,299)**	**--**	**(2,299)**
Capital stock and participation certificates issued	**81**	**--**	**--**	**81**
Capital stock and participation certificates retired	**(111)**	**--**	**--**	**(111)**
Balance at June 30, 2020	**$ 2,064**	**$ 286,338**	**$ (973)**	**$ 287,429**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020. 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, 2019 (2019 Annual Report).

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Mandan, ACA 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 in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We do not expect to early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	June 30, 2020		December 31, 2019	
	Amount	%	Amount	%
Real estate mortgage	**$ 478,288**	**35.6%**	$ 444,958	35.7%
Production and intermediate-term	**436,998**	**32.5%**	403,035	32.4%
Agribusiness	**277,545**	**20.7%**	262,994	21.1%
Other	**150,293**	**11.2%**	134,440	10.8%
Total	**$ 1,343,124**	**100.0%**	$ 1,245,427	100.0%

The other category is primarily composed primarily of rural infrastructure related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2020**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,938**	**$ 6,098**	**$ 8,036**	**$ 477,511**	**$ 485,547**	**$ 2,816**
Production and intermediate-term	**5,633**	**3,691**	**9,324**	**434,252**	**443,576**	**3,271**
Agribusiness	**--**	**--**	**--**	**278,319**	**278,319**	**--**
Other	**--**	**--**	**--**	**150,487**	**150,487**	**--**
Total	**$ 7,571**	**$ 9,789**	**$ 17,360**	**$ 1,340,569**	**$ 1,357,929**	**$ 6,087**

As of December 31, 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,815	$ --	$ 1,815	$ 452,995	$ 454,810	$ --
Production and intermediate-term	1,872	767	2,639	408,152	410,791	151
Agribusiness	--	--	--	263,791	263,791	--
Other	--	--	--	134,608	134,608	--
Total	$ 3,687	$ 767	$ 4,454	$ 1,259,546	$ 1,264,000	$ 151

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**June 30, 2020**	December 31, 2019
Volume with specific allowance	**$ 3,333**	$ 1,189
Volume without specific allowance	**9,907**	1,529
Total risk loans	**$ 13,240**	$ 2,718
Total specific allowance	**$ 1,006**	$ 423
For the six months ended June 30,	**2020**	2019
Income on accrual risk loans	**$ 59**	$ 10
Income on nonaccrual loans	**135**	86
Total income on risk loans	**$ 194**	$ 96
Average risk loans	**$ 5,394**	$ 3,100

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2020.

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.

There were no TDRs that occurred during the six months ended June 30, 2020. In addition, there were no TDRs that defaulted during the six months ended June 30, 2020, or 2019 in which the modification was within twelve months of the respective reporting period.

We completed TDRs of certain production and intermediate-term loans during the six months ended June 30, 2019. Our recorded investment in these loans just prior to and immediately following restructuring was $19 thousand and $18 thousand during the six months ended June 30, 2019. The recorded investment in 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 investment.

The primary type of modification was forgiveness of interest.

TDRs outstanding in the production and intermediate-term loan category totaled $13 thousand, all of which were in nonaccrual status at June 30, 2020, and December 31, 2019.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30,	**2020**	2019
Balance at beginning of period	**$ 3,493**	$ 3,225
Provision for loan losses	**818**	--
Loan recoveries	**40**	--
Loan charge-offs	**(51)**	(1)
Balance at end of period	**$ 4,300**	$ 3,224

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 2019 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 June 30, 2020, or December 31, 2019.

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 June 30, 2020	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 2,444**	**$ 2,444**

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 804	$ 804

Valuation Techniques

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

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 5, 2020 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.