Quarterly Report to Stockholders

Farm Credit of
Western Oklahoma, ACA
Woodward, Oklahoma

September 30, 2012

The shareholders' investment in the Farm Credit of Western Oklahoma, ACA (Association) is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2011 CoBank Annual Report to Shareholders, the 2011 U.S. AgBank District Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge on CoBank's web site, www.cobank.com, or may be obtained at no charge by visiting or contacting the Association at 3302 Williams Avenue, Woodward, Oklahoma 73801 or calling 580-256-3465 or toll-free 1-800-299-3465.

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

(Dollars in Thousands, Except as Noted)
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the nine months ended September 30, 2012, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2011 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Commodity prices remain relatively strong. Weather conditions have improved in our region due to recent rains. Fall crop conditions have been favorable.

On January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank, ACB (CoBank). Beginning January 1, 2012, we receive our funding from CoBank. In the following disclosure, our funding bank both prior to and after the merger date will be referred to as "the Bank".

LOAN PORTFOLIO

Loans outstanding at September 30, 2012 totaled $420,240, an increase of $38,352, or 10.04%, from loans of $381,888 at December 31, 2011. The increase was primarily due to an overall strong agriculture economy, increased demand for loans and relative low interest rates.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2012 was $4,648, an increase of $63, or 1.37%, from the same period ended one year ago, primarily due to patronage from the Bank.

Net interest income for the nine months ended September 30, 2012 was $8,303, an increase of $448, or 5.70%, compared with September 30, 2011. Interest income increased primarily as a result of increased loan volume.

The provision for loan losses for the nine months ended September 30, 2012 was $159, an increase of $130, or 448.27%, from the provision for loan losses for the same period ended one year ago. The provision for loan losses increased as a result of overall loan growth and recoveries of $66, offset by charge-offs of $153.

Noninterest income decreased $21 during the first nine months of 2012 compared with the first nine months in 2011 primarily due to the timing of recording patronage income from the Bank. In the first nine months of 2012 we recorded patronage of $1,146. Beginning in 2012, patronage accrues monthly and will be paid in March 2013. Patronage reported during the first nine months of 2011 was based on the Bank's 2010 annual earnings and was received and recorded during the first quarter of 2011.

Mineral income of $410 was recognized during the first nine months of 2012. Of this amount, quarterly payments totaling $405 were received from the Bank. In 2011, mineral income was received from the Bank as a priority patronage and included as part of the Bank patronage income received annually.

In the second quarter of 2012 we received our allocated portion of a rebate of $377 distributed by Farm Credit System Insurance Company (FCSIC). There was no FCSIC rebate in 2011.

During the first nine months of 2012, noninterest expense increased $234 to $5,524, primarily due to increases in employee benefits and purchased services from AgVantis and others, offset by a decrease in salaries.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2012 was $83,753, an increase from $79,108 at December 31, 2011. This increase is due to net income, offset by stock reductions.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

signature on file	signature on file	signature on file
Jimmie Purvine, Chairman of the Board	John Grunewald, President/CEO	Jamie Shirkey, Sr. V.P. - CFO
November 8, 2012	November 8, 2012	November 8, 2012

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2012	December 31 2011
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 420,240**	$ 381,888
Less allowance for loan losses	**2,221**	2,149
Net loans	**418,019**	379,739
Cash	**8,302**	3,113
Accrued interest receivable	**8,185**	5,114
Investment in Funding Bank	**13,215**	13,215
Premises and equipment, net	**1,759**	1,749
Prepaid benefit expense	**176**	521
Other assets	**1,411**	1,989
Total assets	**$ 451,067**	$ 405,440
LIABILITIES		
Note payable to Funding Bank	**$ 356,307**	$ 312,833
Advance conditional payments	**7,672**	8,365
Accrued interest payable	**2,762**	2,958
Patronage distributions payable	**-**	1,500
Accrued benefits liability	**113**	126
Other liabilities	**460**	550
Total liabilities	**367,314**	326,332
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Protected borrower stock	**-**	3
Capital stock	**1,383**	1,383
Unallocated retained earnings	**82,370**	77,722
Total shareholders' equity	**83,753**	79,108
Total liabilities and shareholders' equity	**$ 451,067**	$ 405,440

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended September 30		For the nine months ended September 30	
UNAUDITED	**2012**	2011	**2012**	2011
INTEREST INCOME				
Loans	**$ 4,737**	$ 4,522	**$ 14,014**	$ 13,731
Total interest income	**4,737**	4,522	**14,014**	13,731
INTEREST EXPENSE				
Note payable to Funding Bank	**1,864**	1,928	**5,653**	5,823
Other	**19**	23	**58**	53
Total interest expense	**1,883**	1,951	**5,711**	5,876
Net interest income	**2,854**	2,571	**8,303**	7,855
Provision for loan losses/(loan loss reversal)	**(32)**	(12)	**159**	29
Net interest income after provision for loan losses/loan loss reversal	**2,886**	2,583	**8,144**	7,826
NONINTEREST INCOME				
Financially related services income	**9**	9	**25**	27
Loan fees	**13**	(18)	**14**	(3)
Patronage refund from Farm Credit Institutions	**410**	-	**1,146**	1,945
Farm Credit Insurance Fund distribution	**-**	-	**377**	-
Mineral income	**89**	2	**410**	29
Other noninterest income	**4**	4	**56**	51
Total noninterest income	**525**	(3)	**2,028**	2,049
NONINTEREST EXPENSE				
Salaries and employee benefits	**820**	821	**3,013**	2,958
Occupancy and equipment	**95**	85	**240**	227
Purchased services from AgVantis, Inc.	**175**	129	**520**	425
Farm Credit Insurance Fund premium	**41**	47	**117**	150
Supervisory and examination costs	**38**	35	**115**	104
Other noninterest expense	**372**	449	**1,519**	1,426
Total noninterest expense	**1,541**	1,566	**5,524**	5,290
Net income	**1,870**	1,014	**4,648**	4,585
OTHER COMPREHENSIVE INCOME				
Other comprehensive income	**-**	-	**-**	-
Comprehensive income	**$ 1,870**	$ 1,014	**$ 4,648**	$ 4,585

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2010	$ 5	$ 1,396	$ 69,875	$ 71,276
Comprehensive income			4,585	4,585
Stock issued	-	125		125
Stock retired	(2)	(139)		(141)
Balance at September 30, 2011	$ 3	$ 1,382	$ 74,460	$ 75,845
Balance at December 31, 2011	$ 3	$ 1,383	$ 77,722	$ 79,108
Comprehensive income			4,648	4,648
Stock issued	-	126		126
Stock retired	(3)	(126)		(129)
Balance at September 30, 2012	**$ -**	**$ 1,383**	**$ 82,370**	**$ 83,753**

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

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Western Oklahoma, ACA, (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited third quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Shareholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operation, but may result in additional disclosures.

In September 2011, the FASB issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and postretirement benefits other than pensions, which should help financial statement users, better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the Association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is to be applied retrospectively and is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

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 and prevailing practices within the banking industry. The results for the nine months ended September 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2012	December 31, 2011
Real estate mortgage	**$ 270,206**	$ 242,137
Production and intermediate-term	**133,067**	126,506
Agribusiness:		
Loans to cooperatives	**9,271**	2,644
Processing and marketing	**5,470**	6,120
Farm-related business	**806**	375
Rural residential real estate	**1,420**	4,106
Total loans	**$ 420,240**	$ 381,188

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 31,801	$ 12,726	$ 270	$ ---	$ 32,071	$ 270
Production and intermediate-term	21,901	1,982	2	---	21,903	2
Agribusiness	5,470	---	---	1,774	5,470	1,774
Total	$ 59,172	$ 14,708	$ 272	$ 1,774	$ 59,444	$ 2,046

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**98.84%**	98.25%
OAEM	**1.03%**	1.35%
Substandard	**0.13%**	0.40%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**97.90%**	98.23%
OAEM	**1.79%**	1.43%
Substandard	**0.31%**	0.34%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**90.14%**	98.57%
OAEM	**0.00%**	1.43%
Substandard	**9.86%**	0.00%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	98.75%
OAEM	**0.00%**	1.25%
Substandard	**0.00%**	0.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**98.23%**	98.25%
OAEM	**1.23%**	1.33%
Substandard	**0.54%**	0.42%
Total	**100.00%**	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	**September 30, 2012**	December 31, 2011
Nonaccrual loans		
Real estate mortgage	**$ 171**	$ ---
Production and intermediate-term	**44**	320
Agribusiness	**82**	128
Rural residential real estate	**---**	---
Total nonaccrual loans	**297**	449
Accruing loans 90 days past due		
Real estate mortgage	**---**	390
Total accruing loans 90 days past due	**---**	390
Total impaired loans	**297**	839
Total high risk assets	**$ 297**	$ 839

Additional impaired loan information is as follows:

	September 30, 2012			December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 171**	**$ 180**	**$ ---**	$ 390	$ 360	$ ---
Production and intermediate-term	**44**	**1,499**	**---**	320	1,866	---
Agribusiness:						
Loans to cooperatives	**82**	**93**	**---**	128	124	---
Rural residential real estate	**---**	**---**	**---**	1	3	---
Total	**$ 297**	**$ 1,772**	**$ ---**	$ 839	$ 2,353	$ ---
Total impaired loans:						
Real estate mortgage	**$ 171**	**$ 180**	**$ ---**	$ 390	$ 360	$ ---
Production and intermediate-term	**44**	**1,499**	**---**	320	1,866	---
Agribusiness:						
Loans to cooperatives	**82**	**93**	**---**	128	124	---
Rural residential real estate	**---**	**---**	**---**	1	3	---
Total	**$ 297**	**$ 1,772**	**$ ---**	$ 839	$ 2,353	$ ---

	For the Three Months Ended September 30, 2012		For the Three Months Ended September 30, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 1,025**	**$ 42**	$ 64	$ 14
Production and intermediate-term	**107**	**5**	125	1
Agribusiness:				
Loans to cooperatives	**89**	**---**	1	---
Rural residential real estate	**---**	**---**	---	---
Total	**$ 1,221**	**$ 47**	$ 190	$ 15
Total impaired loans:				
Real estate mortgage	**$ 1,025**	**$ 42**	$ 64	$ 14
Production and intermediate-term	**107**	**5**	125	1
Agribusiness:				
Loans to cooperatives	**89**	**---**	1	---
Rural residential real estate	**---**	**---**	---	---
Total	**$ 1,221**	**$ 47**	$ 190	$ 15

	For the Nine Months Ended September 30, 2012		For the Nine Months Ended September 30, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 1,162**	**$ 55**	$ 92	$ 14
Production and intermediate-term	**205**	**12**	327	6
Agribusiness:				
Loans to cooperatives	**100**	**---**	1	---
Rural residential real estate	**---**	**2**	---	---
Total	**$ 1,467**	**$ 69**	$ 420	$ 20
Total impaired loans:				
Real estate mortgage	**$ 1,162**	**$ 55**	$ 92	$ 14
Production and intermediate-term	**205**	**12**	327	6
Agribusiness:				
Loans to cooperatives	**100**	**---**	1	---
Rural residential real estate	**---**	**2**	---	---
Total	**$ 1,467**	**$ 69**	$ 420	$ 20

The following tables provide an age analysis of past due loans (including accrued interest).

September 30, 2012	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 Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ ---	$ ---	$ ---	$ 275,649	$ 275,649	$ ---
Production and intermediate-term	---	41	41	135,675	135,716	---
Agribusiness	---	83	83	15,542	15,625	---
Rural residential real estate	---	---	---	1,435	1,435	---
Total	$ --	$ 124	$ 124	$ 428,301	$ 428,425	$ ---
December 31, 2011						
Real estate mortgage	$ 1,037	$ 390	$ 1,427	$ 243,947	$ 245,374	$ 390
Production and intermediate-term	22	287	309	127,927	128,236	---
Agribusiness	---	128	128	9,115	9,243	---
Rural residential real estate	---	---	---	4,149	4,149	---
Total	$ 1,059	$ 805	$ 1,864	$ 385,138	$ 387,002	$ 390

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Balance at June 30, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2012
Real estate mortgage	$ 169	$ ---	$ 42	$ (56)	$ 155
Production and intermediate-term	1,961	63	3	21	1,922
Agribusiness	135	---	---	7	142
Rural residential real estate	6	---	---	(4)	2
Total	$ 2,271	$ 63	$ 45	$ (32)	$ 2,221

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2012
Real estate mortgage	$ 54	$ 41	$ 42	$ 100	$ 155
Production and intermediate-term	2,018	112	24	(8)	1,922
Agribusiness	73	---	---	69	142
Rural residential real estate	4	---	---	(2)	2
Total	$ 2,149	$ 153	$ 66	$ 159	$ 2,221

	Balance at June 30, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2011
Real estate mortgage	$ 256	$ ---	$ ---	$ (54)	$ 202
Production and intermediate-term	1,793	15	---	52	1,830
Agribusiness	87	---	---	(9)	78
Rural residential real estate	5	---	---	(1)	4
Total	$ 2,141	$ 15	$ ---	$ (12)	$ 2,114

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses (Loan Loss Reversals)	Balance at September 30, 2011
Real estate mortgage	$ 188	$ ---	$ ---	$ 14	$ 202
Production and intermediate-term	1,828	51	80	(27)	1,830
Agribusiness	37	---	---	41	78
Rural residential real estate	3	---	---	1	4
Total	$ 2,056	$ 51	$ 80	$ 29	$ 2,114

	Allowance for Credit Losses Ending Balance September 30, 2012		Recorded Investments in Loans Outstanding Ending Balance September 30, 2012	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ ---	$ 155	$ 171	$ 275,478
Production and intermediate-term	---	1,922	44	135,672
Agribusiness	---	142	82	15,543
Rural residential real estate	---	2	---	1,435
Total	$ ---	$ 2,221	$ 297	$ 428,128

	Allowance for Credit Losses Ending Balance December 31, 2011		Recorded Investments in Loans Outstanding Ending Balance December 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ ---	$ 54	$ 390	$ 244,984
Production and intermediate-term	---	2,018	320	127,916
Agribusiness	---	73	128	9,115
Rural residential real estate	---	4	1	4,148
Total	$ ---	$ 2,149	$ 839	$ 386,163

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The

Association recorded no TDRs during the nine months ended September 30, 2012. The Association had no TDRs within the previous 12 months for which there were payment defaults during the period.

NOTE 3 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2011 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets held in nonqualified benefits trusts				
September 30, 2012	**$ 1**	**$ --**	**$ --**	**$ 1**
December 31, 2011	$ --	$ --	$ --	$ --

During the first nine months of 2012, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2012 or December 31, 2011.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value	Total Losses
September 30, 2012					
Loans	**$ —**	**$ —**	**$ 297**	**$ 297**	**$ 94**
December 31, 2011					
Loans	$ —	$ —	$ 32	$ 32	$ 39

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2012 or December 31, 2011.

Valuation Techniques

As more fully discussed in Note 2 to the 2011 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For certain loans evaluated for impairment under accounting guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

NOTE 4 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 8, 2012, which is the date the financial statements were issued, and no material subsequent events were identified.