FCSIC

Farm Credit System Insurance Corporation

STRATEGIC PLAN

FY 2024–2029

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MISSION

The Farm Credit System Insurance Corporation (FCSIC or the Corporation), a Government-controlled, independent entity, shall

- protect investors in insured Farm Credit System (System) obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (Insurance Fund),
- exercise its authorities to minimize Insurance Fund loss, and
- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

VALUES

Six core values guide us in accomplishing FCSIC's mission:

- **Integrity:** We follow the highest ethical and professional standards.
- **Competence:** We are a skilled, dedicated, and diverse workforce that strives to achieve outstanding results.
- **Teamwork:** We communicate and collaborate with one another and with other regulatory agencies.
- **Effectiveness:** We respond quickly and prudently to insurance risks.
- **Accountability:** We are accountable to each other and to our stakeholders to operate in a fiscally responsible and operationally effective manner.
- **Fairness:** We respect individual viewpoints and treat one another and our stakeholders with impartiality, respect, and fairness.

INTRODUCTION

FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. Government-controlled corporation. The Corporation's primary purpose is to insure the timely payment of principal and interest on notes, bonds and other obligations jointly issued on behalf of System banks. The System is a federally chartered network of cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers or harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. By insuring the repayment of insured debt securities to investors, the Corporation helps to maintain a dependable source of funds for the System's borrowers. Additionally, the Farm Credit Act of 1971, as amended, requires that the Corporation serve as the conservator or receiver for System banks and associations.

FCSIC operates with no annually appropriated funds. The Corporation maintains the Farm Credit Insurance Fund (Insurance Fund) and collects annual insurance premiums from each System bank. The Insurance Fund, grown by premiums and the income from the Corporation's investments, provides the funds to fulfill FCSIC's mission. FCSIC is governed by a three-member board of directors composed of the members of the Farm Credit Administration (FCA) Board. The Chairman of the Corporation's Board, however, must be a Board member other than the FCA Chairman.

FCSIC operates using a cost-efficient business model, maintaining a small core staff while outsourcing most of its support functions. Operating in this manner requires that we attract and retain highly motivated, versatile, and skilled employees. FCSIC employees report high levels of engagement and job satisfaction in annual surveys. Because of our lean staffing structure, recruitment of multi-skilled individuals and ongoing cross training are essential to ensure adequate backup exists in key corporate programs.

In addition to maximizing our employee resources, key to our success is our ability to effectively coordinate with FCA, other federal agency partners, and non-federal contractors to ensure necessary support for FCSIC programs and employees. Also vital is effective communication -- with FCA, other federal agencies, Congress, and System representatives -- and the ability to respond flexibly and quickly to changing conditions and regulatory and legislative initiatives that impact FCSIC and the Insurance Fund.

The *Foundations for Evidence-Based Policymaking Act of 2018* requires FCSIC to assess, as part of its strategic plan, the coverage, quality, methods, effectiveness, and independence of the statistics, evaluation, research, and analysis we use to effectuate those programs. In carrying out our programs, we rely almost exclusively on data owned and controlled by third parties. Additionally, with a very small staff, FCSIC management is aware of all of the data used by FCSIC employees. FCSIC management, led by FCSIC's Chief Data Officer (who primarily serves as FCSIC's Chief Risk Officer), continually assesses FCSIC's data needs and incorporates that into our strategic and annual planning.

FCSIC carries out its insurance program mission through three major areas: (1) Insurance Fund and financial management, (2) risk management, and (3) receivership, conservatorship, and assistance readiness.

Insurance Fund and Financial Management

The Corporation helps maintain public confidence in the System by insuring the System banks' debt obligations. Management of the Insurance Fund involves important tasks such as ensuring that premiums are at an adequate level to meet the Insurance Fund's Secure Base Amount (SBA), that the SBA is sufficient to fulfill insurance obligations, and that the Corporation maintains robust and dependable financial reporting and internal controls. The Insurance Fund is an asset of the United States government and can only be used by FCSIC for the purposes provided for in the Farm Credit Act.

As part of Insurance Fund and financial management the Corporation:

- establishes premium rates, and collects and audits insurance premiums, to maintain the Insurance Fund at the SBA;
- manages the investment portfolio to minimize loss exposure and secondarily seek to optimize the rate of return within approved parameters;
- prepares accurate and timely accounting and financial reports;
- maintains strong internal controls that are free of significant deficiencies and material weaknesses;
- contracts with third parties for essential support services;

- maintains preparedness to quickly hire competent staff and contractor resources to meet obligations in a System financial crisis;
- manages all payments that support program operations;
- ensures the Corporation is utilizing appropriate systems and mechanisms to effectively manage workflow, decisions, procedures, and policies; and,
- consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information.

Risk Management

The Corporation identifies, evaluates, and manages risks that could generate losses to the Insurance Fund. The Corporation:

- uses monitoring systems, financial models, and special examinations to analyze the insurance risks posed by System institutions and reports risk trends regularly to the Board of Directors and external auditor;
- monitors conditions in the general economy, capital markets, and agricultural and financial sectors that pose risk to the System, its investors, and the Insurance Fund;
- reviews System institution financial performance information, including FCA examination reports of System banks, large associations, and institutions identified by FCA as troubled and participates on FCA's Regulatory Enforcement Committee;
- quarterly evaluates the adequacy of the allowance for losses to the Insurance Fund;
- consults with FCA regarding changes in risks to the Insurance Fund resulting from proposed institution mergers;
- works with FCA on regulations and policies that mitigate risks to the Insurance Fund; and
- reviews funding requests of undercapitalized System banks.

Receivership, Conservatorship, and Assistance Readiness

When the FCA Board places a troubled System institution into either conservatorship or receivership, the Farm Credit Act requires FCSIC to serve as conservator or receiver of the troubled or failed institution. In addition, the FCA Board may appoint FCSIC as conservator or receiver of the Federal Agricultural Mortgage Corporation (FMAC); however, the Farm Credit Act specifically precludes use of the Insurance Fund to provide any support for FMAC.[1] As conservator, FCSIC would operate the institution as a going concern subject to oversight and regulation by FCA. As receiver, FCSIC would exercise its statutory fiduciary responsibilities to marshal the receivership estate's assets and recover the maximum amount possible under the law for the receivership's creditors. The Agriculture Improvement Act of 2018 clarified and updated FCSIC's statutory authorities to act as receiver or conservator for a System institution (with authorities and powers functionally equivalent to other

[1] Section 5.65(e) of the Farm Credit Act of 1971 (12 U.S.C. 2277a–14(e)).

federal financial institution receivers/conservators) and provided new authority for FCSIC to create, and FCA to charter, a System bridge bank.

The FCSIC Board, in its sole discretion, is also authorized under the Act to provide "stand-alone assistance" to a System institution to prevent placing an institution into receivership, to restore an institution to normal operation, or to stem financial contagion within the System that poses a risk to the Insurance Fund. The Act also authorizes FCSIC to provide assistance to facilitate a merger or consolidation of a troubled "qualifying" System institution with another System institution. All assistance must meet the statutory least-cost test and the means of providing assistance must be the least costly to the Insurance Fund of all possible alternatives available to the Corporation, including liquidation. FCSIC would determine the type and structure of assistance, enter into an agreement with the System institution(s) and monitor the effectiveness of the assistance.

The Corporation

- maintains the potential to manage receiverships and conservatorships, and oversee bridge banks;
- plans and trains for receivership, conservatorship, and financial assistance actions by focusing on activities and scenarios that are assumed most likely and would require an immediate response;
- monitors relevant legislation, regulations, legal cases, appraisal, and environmental issues;
- maintains relationships and formal agreements with other federal insurers that serve as conservator or receiver of banks, thrifts and credit unions, for ongoing training and support;
- maintains preparedness, coordinates with the System, and reviews requests for liquidity assistance in exigent market circumstances;
- reviews requests for assistance from troubled institutions; and
- maintains preparedness to quickly identify competent staff and contractor resources to meet receivership or conservatorship obligations.

Strategic Challenges

FCSIC believes that insurance risk remains low with little likelihood of a loss to the Insurance Fund in the near term. However, over the five-year period covered by this plan, FCSIC will likely face strategic challenges in fulfilling its mission. Challenges may arise from changing economic conditions, continuing changes in agriculture and financial markets, government policy changes, changes in the System, and internal operating factors.

The strategic challenges that may affect the Corporation are grouped into three broad risk areas: (1) external macro environment and policy factors, (2) System factors, and (3) internal factors. The first two categories of risks described below, if realized, could have a significant negative effect on the System's business, financial condition, and operations which could result in the System banks' inability to pay their insured debt on a timely basis, resulting in loss to the Insurance Fund. The third category includes risks that could have a significant negative impact on FCSIC's ability to effectively carry out its mission. We monitor these challenges on an ongoing basis. As conditions change, refinements of strategies are considered and implemented when appropriate.

External Macro Environment and Policy Factors

The macro environment and associated government policies directly affects financial markets and the performance of the financial institutions that comprise the Farm Credit System and therefore directly impacts FCSIC's risks associated with insuring System debt obligations. Specific strategic challenges to FCSIC include:

- **Geopolitical risks.** The geopolitical environment, whether from escalation of current tensions or new, unexpected events, can create significant risk to the agricultural economy. For example, the relationship between the U.S. and China could become more fragmented leading to deglobalization and a more regional economic order which could reduce U.S. agricultural exports to China and/or increase the cost for certain farm inputs due to trade impediments (e.g., increased tariffs). Extended continuation or escalation of the war in Ukraine could increase farm input costs from further global supply chain disruptions. And an escalation in geopolitical tension from either China or Russia could also increase risks of cyberwarfare.
- **Risks to the general economy.** The Federal Reserve has aggressively raised interest rates to curtail inflation, which could slow consumer and business spending, reduce U.S. exports, and weaken overall economic growth. Unemployment could increase, which could negatively reduce the prospects of off-farm income. Domestic demand for certain U.S. agricultural products could decline. Financial institutions could experience stress from higher funding costs, rising delinquency and loss rates, and greater interest rate risk.
- **Less favorable conditions in agriculture.** Since the COVID-19 pandemic, farm income has been very strong, driven by a broad rise in agricultural commodity prices as well as unprecedented levels of government support. However, production agriculture is a cyclical business that is influenced heavily by international and domestic demand for U.S. agricultural products and commodity prices. Volatile agricultural commodity prices combined with the increased costs of farm inputs (including interest rates) could have an adverse impact on the cash flow and profitability of certain System borrowers. Additionally, farm income could also be negatively impacted by changes in the U.S. government's support programs for agriculture, changes to trade agreements and policies, deteriorating economic conditions internationally, or an increase in the U.S. dollar's value. A sustained agriculture downturn could result in significant deterioration in the credit quality of the System's loan portfolio.
- **Potential adverse changes in the debt market.** The System is currently able to borrow money at very favorable rates; the System's success depends on its ability to access flexible, low-cost funding. A material adverse change in access to or cost of new debt, whether driven by external factors (such as change in GSE status or market disruption) or internal (credit or other System-centric issue) creates a higher likelihood of System bank default on outstanding insured debt.
- **Climate change.** System borrowers' productivity and income is directly impacted by changes in climate, including rising average temperatures, more frequent and severe global and domestic weather-related events, more forest and wildfires, heatwaves, untimely freezes, extreme flooding, and droughts. Longer term issues include water availability, cost of water, and reduced crop yields. These climate related impacts may adversely affect System institution business strategies, plans and

financial results. Over time, increased delinquency and default rates, and loan loss frequency and severity, could increase the risk of losses to the Insurance Fund.

- **Structural Government Budget Issues.** Since the COVID-19 pandemic, the U.S. government has run enormous federal deficits. If economic growth remains moderate and interest rates remain higher than recent historical trends, debt service cost could become the biggest budget item. Rating agencies have highlighted a steady deterioration of federal fiscal and debt governance over the last 20 years, including the repeated debt-limit standoffs and inability to agree to timely budgets, eroding confidence in fiscal management. The combination of these factors may influence financial markets, including agency debt issuers and investors. Pressure to reduce spending to return finances to a sustainable path or continued fiscal disfunction could reduce the government's ability and willingness to support the increasing costs of agriculture programs (e.g., crop insurance, disaster relief).
- **Technological Advancements including Artificial Intelligence (AI).** The rate of technological change continues to accelerate, particularly with new technologies like AI. While the promise of AI is a step function improvement in productivity, there could be meaningful unexpected impacts and disruption to the economy, agriculture, and financial services.

Farm Credit System Factors[2]

- **Maintaining strong bank capital levels**. System associations are dependent on System banks for their funding, which is primarily raised through the issuance of insured debt. Only the System banks are legally obligated to repay the debt insured by FCSIC. As stated in the Federal Farm Credit Banks Funding Corporation's disclosures, the insured Systemwide debt securities "are not the direct obligations of the [System] associations and, as a result, the capital of the associations may not be available to support" repayment of insured Systemwide debt securities. Therefore, the investors/creditors, and FCSIC, as insurer, can legally only look to the assets of the System banks for recovery. Substantial reduction of the banks' repayment capacity (which includes the effect of affiliated associations) – such as by materially reducing the amount or quality of capital held at the banks – could create a significant risk to FCSIC, the actuarial soundness of the Insurance Fund, and the ability of associations to continue to extend credit.
- **Large association concentration risk.** System associations currently are generally healthy, well-capitalized and effectively supervised by FCA, and as such the probability of an association default on a direct note is low. However, with fewer and larger associations, some associations are very large and pose a significant concentration risk to their funding banks. A default on a large association direct note could cause severe stress at the bank, exposing the Insurance Fund to losses. Accordingly, it is imperative for Insurance Fund solvency that there be sufficient risk mitigants in place to reduce the likelihood of a bank default that originates from a large association failure.

[2] Institutions of the System operate under the regulatory and supervisory authority of the Farm Credit Administration (FCA); FCSIC relies on FCA's oversight as a risk mitigant.

- **Operational failure at a System institution related to a control deficiency or cybersecurity breach**. A catastrophic cyber-attack could prevent a bank from processing payments, potentially causing a default on insured debt. Internal controls failures could also have severe impacts, including preventing the System from timely issuing financial statements, which may significantly impact the banks' cost of borrowing.
- **Inadequate governance at a System institution including failed business strategies or mismanagement of the organization**. Historically, more financial institutions have failed because of bad strategic decisions than because of credit problems. This includes bad investment decisions unrelated to their core lending business. Elevated interest rates, more complex asset-liability and investment management, and recent commercial bank stresses highlight such potential challenges. Since these decisions are usually classified as within 'business judgment,' these risks are harder to identify and quantify. Moreover, these decisions are often incremental, with the cumulative impacts not recognized in a timely manner.
- **Changes that impact System banks' ability to repay insured obligations, effectively supervise their associations, and serve as a source of strength to their districts.** Any System changes that alter the traditional bank-association relationship have the potential to weaken the banks' capability to repay the insured debt and to serve as a source of strength for their districts. Historically, System banks have served as a source of strength for their district by providing constructive supervision, expertise, financial and operational support to their affiliated associations when needed. If the banks reduce their influence over district operations, or do not have the financial or operational capacity to provide support to their affiliated associations, then it is more likely the Insurance Fund would be called upon to provide assistance.
- **Rapid Impact of Emerging and Unexpected Risks.** While traditional credit risk often has a meaningful runway to allow institutions to manage the risk well before substantial capital losses materialize, other risks may manifest themselves quickly. These risks could be financial, technological, or even pathological (whether affecting humans, livestock or crops.) Real time data, vigilance, and agility of all System stakeholders is critical. Unexpected risks or the inability to respond quickly and effectively could result in increased risk to the Insurance Fund.

Internal Factors

FCSIC faces several challenges that could have a significant negative impact on the Corporation's ability to effectively carry out its mission.

- **Maintaining independence.** Maintaining the Corporation's statutory role as an independent entity is crucial to its ability to objectively assess insurance risks, establish appropriate insurance premium rates, ensure the solvency of the Insurance Fund, and serve as conservator or receiver. The Corporation will continue to use private- and public-sector contractors to economize and enhance productivity in accordance with statutory authorities and Board policy statements. Ensuring independence while maintaining a cost-effective business model presents various challenges, including the ability of FCSIC to retain operational independence while using outside resources to meet its mission and comply with increasing government-wide mandates for federal agencies.
- **Data access.** FCSIC must have access to relevant data and continuously assess and update its risk tools and processes to ensure prompt identification and accurate analysis of emerging insurance risk.

- **Reliance on FCA.** The Corporation relies on FCA for accurate information the Corporation needs to determine premiums, assess insurance risk, and prepare for a conservatorship or receivership. Unlike the other federal insurers, FCSIC does not have direct supervisory authority over its insured banks. Therefore, FCSIC is reliant on FCA maintaining a robust examination, supervisory, and regulatory oversight program over the FCS in order to manage its insurance risks. Continued access to information and effective collaboration with FCA staff is vital to the Corporation's effectiveness.
- **Human resources.** FCSIC must address human resources challenges inherent with a small staff. Management and staff development and succession will be important considerations over the next five years (when many of FCSIC's staff are eligible to retire) to maintain the Corporation's effectiveness under its unique operating structure. FCSIC needs to attract, engage, and retain a highly skilled, diverse workforce and cultivate an inclusive environment. Additionally, FCSIC's cost-effective operating model impacts its ability to maintain continual readiness to act as conservator or receiver for a System institution. In the event of a System crisis or troubled System institution, the Corporation would need to rapidly upscale its human resources using all available hiring and contracting authorities.
- **Board composition.** FCSIC shares a board with the FCA (with a different chairman) and the composition of the Corporation's Board of Directors will change during the next five years.
- **Maintaining line of credit.** The Corporation diligently works to maintain its liquidity line with the U.S. Treasury's Federal Financing Bank (FFB) so it is available in situations where external market forces make normal debt market access extremely doubtful. However, continuation of the credit line is within the discretion of the FFB and may be subject to political factors outside of FCSIC's control.

PROGRAM AREAS

The Farm Credit System Insurance Corporation has three program areas. The strategic goals for each of these areas are presented in the table below.

Program Areas	Strategic Goals
Insurance Fund and Financial Management	Manage the Insurance Fund to maintain the SBA. Ensure effective internal controls over operations and financial reporting.
Risk Management	Monitor, evaluate, report, and mitigate risks that could generate losses to the Insurance Fund.
Receivership, Conservatorship and Assistance Readiness	Be prepared to act as receiver or conservator or to provide assistance if called upon.

PROGRAM AREA PERFORMANCE MEASURES

The Corporation has implemented performance measures to assist in the evaluation of the effectiveness of these strategic goals. The Government Performance and Results Act of 1993 (GPRA) requires all Federal government organizations to report on the results of program performance. Performance results are included in regular reports to the Board of Directors and in the Corporation's Annual Report. Some of these measures use management estimates that may be affected by the performance and condition of System institutions. Also, unforeseen events may have a material effect on performance measures over time.

Program Area 1: Insurance Fund and Financial Management
Building and Managing the Fund to Protect Investors

The solvency of the Insurance Fund depends in part on the Corporation using its authorities to adjust insurance premium assessments when appropriate and effectively managing assets to ensure investment returns are maximized, while maintaining appropriate liquidity to carry out its mission. Congress established a statutory requirement for the Insurance Fund to be maintained at a SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation in its sole discretion determines to be actuarially sound.[3]

The Corporation assesses the effectiveness of its performance in achieving this goal through the following:

- Reviewing, at least semiannually, the need for adjustments to insurance premium assessments.
- Measuring investment performance using reasonable qualitative and/or quantitative benchmarks.
- Maintaining the Insurance Fund at the statutory SBA, 2 percent of adjusted outstanding insured obligations. Maintaining the Insurance Fund at the SBA is affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions or growth in insured obligations exceeding FCSIC's ability to increase the Insurance Fund at the same rate because of statutory limits on premium assessments.
- Performing an annual assessment of the effectiveness of FCSIC's enterprise risk management and internal control systems in accordance with guidelines provided by Office of Management and Budget to implement the Federal Manager's Financial Integrity Act (FMFIA). This assessment supports management's assurance statement.
- Maintaining clean or unmodified audit opinions from our independent auditors, free from any material weaknesses.
- Developing and maintaining updated draft statements of work for business consulting and resolution activities, updated listings of vendors and consultants with resolution experience, and access to government contracting resources like the General Services Administration (GSA) System for Award Management (SAM) to ensure quick execution of new contracts during a resolution period.
- Participating in frequent meetings with third-party service providers, including FCA, to ensure contracted services remain capable of providing support to FCSIC, including executing key functions such as supporting expedited hiring activities.

[3] Adjusted insured obligations are equal to the aggregate amount of outstanding insured obligations adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments.

Program Area 2: Risk Management – Protecting the Fund from Losses
Protecting the Fund from Losses

Program effectiveness is measured by the extent that emerging problems are promptly detected and insurance losses minimized. This includes effective use of financial indicators to monitor conditions and trends, and effective analysis and reporting before any need to reserve for losses.

In accordance with generally accepted accounting principles, the Corporation must recognize an allowance for loss on its financial statements if a loss is probable and can be reasonably estimated.[4] Timely evaluation of the Insurance Fund's risk exposure is critical to the determination of steps needed to preserve the Insurance Fund's solvency. In accordance with the Corporation's Policy Statement Concerning Allowance for Insurance Fund Losses, management assesses the need for an allowance at least quarterly using criteria specified in FCSIC's Allowance for Loss procedure. The Corporation uses information obtained from FCA reports of examination and other source materials to identify risks to the Insurance Fund. Internal models and other analysis tools are used to manage identified risks and reduce insurance risk. If approved by the Board of Directors, the Corporation may independently examine and obtain additional information from System institutions.

Program Area 3: Receivership, Conservatorship, and Assistance Readiness

The Corporation is required to serve as receiver or conservator of System banks and associations when appointed by FCA. Additionally, the FCSIC Board may provide assistance to one or more System institutions to prevent placing an institution into receivership, restore an institution to normal operation, or stem financial contagion within the System. This goal requires that corporate readiness be maintained through periodic staff training, periodic review of potential strategies and procedures, and evaluation of potential resources available to ensure that sufficient qualified resources can be employed should the need arise.

The effectiveness of readiness efforts will be measured by the following:

- Maintaining a line of credit with the Federal Financing Bank to be available for use as additional FCSIC assistance to System banks in exigent market circumstances.
- Conducting training exercises with System banks and the Funding Corporation at least every two years regarding liquidity assistance procedures in exigent market circumstances and reviewing contact information and documentation annually.
- Timely reviewing and updating policies and procedures related to receiverships, conservatorships, and assistance in accordance with the Corporation's bylaws.
- Engaging with other federal insurers (e.g., FDIC, NCUA) for training, support, and sharing of best practices on at least an annual basis.
- Developing and maintaining a multi-year plan that identifies priority areas for receivership, conservatorship, and assistance readiness enhancement considering the stress scenarios that are

[4] A loss exposure that is judged to be possible or probable but cannot be reasonably estimated would be disclosed in a footnote to the Corporation's financial statements.

considered the most likely and would require an immediate response, consistent with FCSIC's available resources.

The effectiveness of receivership, conservatorship, and assistance operations, if required, will be measured by the following:

- Completing initial processing of all claims within a period to be specified in accordance with the size and complexity of the individual case.
- Operating costs as a percentage of total assets.
- Actual asset recovery returns as a percentage of net realizable asset values.
- Exit of a conservatorship within a period to be specified in accordance with the initial plan of conservatorship.
- Completing analysis, Board recommendations, and execution of approved assistance requests within a time period that allows the assistance to have the potential to be effective.
- Effectiveness of any such assistance to avoid additional claims on the Insurance Fund.

Strategic Goals and Objectives

Program Area 1: Insurance Fund and Financial Management

Strategic Goal 1: Manage the Insurance Fund to maintain the SBA in order to provide protection for investors and taxpayers against identified risks.

Congress established a statutory requirement for the Insurance Fund to be maintained at an SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation has determined to be actuarially sound. The Corporation uses the Dynamic Capital Adequacy Test model to assist in assessing an actuarially sound Insurance Fund level. FCSIC has maintained a 2 percent SBA since the inception of the Corporation and will not consider changing the SBA unless the 2 percent is determined *not* to be actuarially sound.

Strategic Objectives

1. Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.
2. Use actuarial and risk management tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.
3. Communicate accurate and easily understood information about the insurance program to Congress, the public, insured investors, federal agency partners, and System institutions.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

Strategic Objective 1: Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.

Means & Strategies

FCSIC maintains the viability of the Insurance Fund by prudently investing the Fund, monitoring and responding to changes in the Fund relative to the SBA, collecting premiums, and evaluating the Insurance Fund's management and performance. FCSIC regularly analyzes the growth or shrinkage of estimated insured obligations, the current assessment base, loss expectations, interest income earned on the Insurance Fund, and operating expenses. This information is used to determine future premium rates. These activities are conducted in accordance with the Board's Policy Statement Concerning Insurance Premiums.

External Factors

As discussed in the Strategic Challenges section above, projections for the Insurance Fund are subject to considerable uncertainty arising from the economic outlook and condition of the Farm Credit System. In addition, future premium revenues could diverge from projections depending on changes in the growth of insured obligations, while investment earnings and the market value of the investment portfolio can be impacted by changing market interest rates.

Strategic Objective 2: Use actuarial and risk management tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.

Means & Strategies

FCSIC uses an insurance risk model to estimate the likelihood the Insurance Fund will be sufficient to pay all simulated losses over a 10-year horizon (probability of Fund adequacy). Known as the Dynamic Capital Adequacy Test (DCAT), this actuarial loss model is a Monte Carlo simulation of Insurance Fund losses due to a System bank failure as a result of loan or investment losses. FCSIC will continue to use the DCAT for sensitivity testing to model the impact of various scenarios on the solvency of the Insurance Fund and periodically reviews the DCAT model to enhance the model's capabilities, improve controls and validate results. FCSIC uses a variety of risk management tools in addition to DCAT to supplement and enhance its assessment of the adequacy of the Insurance Fund.

External Factors

The DCAT does not model the reasons an institution defaulted but, instead, attempts to capture the overall likelihood as an explicit assumption and to evaluate the consequential loss pattern. The DCAT cannot predict the future, but it is a useful tool for evaluating the likelihood and amount of potential losses to the Insurance Fund.

Strategic Objective 3: Communicate accurate and easily understood information about the insurance program to Congress, the public, insured investors, federal agency partners, and System institutions.

Means & Strategies

FCSIC will continue to communicate the benefits of the insurance program to stakeholders through its website, Annual Report, periodic press releases, Congressional visits, presentations, and other efforts. We will coordinate with the Funding Corporation to ensure selling group members and investors are well informed. We will continue to identify and pursue dialogue with System leadership on issues of mutual concern and seek additional opportunities to expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation.

External Factors

Timely, accurate and understandable information is essential for effective communication to stakeholders and the public. FCSIC relies on partnerships with FCA, System institutions, and the Funding Corporation to effectively reach stakeholders.

Strategic Goal 2: Maintain effective internal controls and financial reporting.

The Insurance Fund has grown significantly since its inception. Internal controls and financial reporting are important to safeguard resources and maintain integrity in the information reported by FCSIC.

Strategic Objective 1: Obtain clean or unmodified audit opinions and a control environment free of material weaknesses.

Means & Strategies

FCSIC performs continuous internal control monitoring, evaluation, and testing. Annually an assessment of the effectiveness of FCSIC's enterprise risk management and internal control systems is performed. This process results in management's assurance statement on the effectiveness of internal controls and helps ensure we remain free from any significant or material internal control issues. FCSIC has received a clean or unmodified external audit opinion for 33 consecutive years.

External Factors

Requirements for audit, accounting, and internal controls are set by law, such as from the Federal Management's Financial Integrity Act (FMFIA), or by third parties such as the AICPA. OMB frequently issues guidance to implement laws such as OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* which provides guidance on implementing FMFIA. Generally accepted accounting principles and auditing standards are continually evolving.

Strategic Goal 3: Maximize effectiveness of contracting.

Outsourcing support functions is an essential part of FCSIC's operating model. Effective use of contracting authorities, under the supervision of FCSIC's financial management division, is integral to FCSIC's success.

Strategic Objective 1: Ensure FCSIC follows best practices in contracting including maintaining the capability to quickly engage third parties, including intergovernmental resources or contractors, as necessary to respond to a crisis situation.

Means & Strategies

FCSIC implements its Board Policy Statement Concerning Contracting through establishing and implementing procedures that incorporate government best practices. FCSIC reviews the performance of service organizations on a frequent basis through periodic meetings with service partners. FCSIC also reviews service auditor reports or other relevant reports from our partners, such as FCA's Federal Information Security Management Act of 2002 (FISMA) report, to ensure that internal controls at service organizations are appropriate.

External Factors

FCSIC does not have management control over third party contractors and may be subject to delays or failures in critical areas outside of our direct control, including information technology.

Program Area 2: Risk Management

Strategic Goal 4: Monitor, evaluate, report, and mitigate risks that could generate losses to the Insurance Fund.

FCSIC monitors and manages insurance risk to minimize the Insurance Fund's exposure to potential losses. In the event a System bank is unable to timely repay insured debt obligations for which it is primarily liable, the Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured obligations. FCSIC monitors and independently analyzes conditions in the general economy, capital markets, and agricultural and financial sectors to identify potential risks to the System and the Insurance Fund. FCSIC analyzes and evaluates the financial performance and condition of System institutions, maintains ongoing dialogue with FCA examiners, and reviews reports of examination. When necessary, the FCSIC Board of Directors authorizes special examinations at System institutions of concern. On a quarterly basis, FCSIC screens all System institutions against key performance criteria to identify institutions that may pose an insurance risk.

Strategic Objectives

1. Monitor conditions within and external to the System in order to anticipate and identify risks to the Insurance Fund, and ensure those risks are appropriately reflected in the setting of insurance premiums and the Corporation's financial statements.
2. Enhance the use of analytical models and other risk management tools and processes to develop more insightful analysis on trends and risks, including System growth, funding needs, condition, performance, structural risks, and sensitivities, as well as ad hoc analysis on current topics.
3. Leverage FCSIC's independent risk analysis by proactively raising awareness of identified risks to the Board and FCA and working with FCA on policies and regulations to mitigate those risks.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

Strategic Objective 1: Monitor conditions within and external to the System in order to anticipate and identify risks to the Insurance Fund, and ensure those risks are appropriately reflected in the setting of insurance premiums and the Corporation's financial statements.

Means & Strategies

FCSIC analyzes information from a variety of sources to monitor conditions in the general economy, capital markets, and agricultural and financial sectors that pose risk to the System, its investors, and the Insurance Fund. FCSIC regularly reviews supervisory information from the examinations conducted by FCA. FCSIC's monitoring and analysis of System institutions is focused on the four insured System banks and High Impact Associations, which we define as associations where severe stress may have a meaningful impact on the condition of its supervisory bank. This information is used in the premium determination process to assess the risk that the Insurance Fund may be used in the next 12 months. Annual premium rates are established by FCSIC's Board of Directors at the beginning of the year and reviewed and modified, as necessary, by the Board mid-year. Additionally, in accordance with the Corporation's Policy Statement Concerning Allowance for Insurance Fund Losses, management assesses the need for an allowance at least quarterly using criteria specified in FCSIC's Allowance for Loss procedure. FCSIC has the authority to conduct special examination activities for institutions if the Board of Directors considers it necessary.

External Factors

Projections for insurance risk are subject to considerable uncertainty arising from the economic outlook and conditions in the agricultural sector. Key risks include potential recession, the level of interest rates, the level of agricultural exports, commodity price volatility, input cost inflation, farmland values and adverse weather and other environmental conditions. Other System risks include continued growth in insured obligations, bank capital levels, large association concentration risk, potential structural changes in the System, changes in government support programs, and operational risk from cybersecurity or the implementation of new technologies.

Strategic Objective 2: Enhance the use of analytical models and other risk management tools and processes to develop more insightful analysis on trends and risks, including System growth, funding needs, condition, performance, structural risks, and sensitivities, as well as ad hoc analysis on current topics.

Means & Strategies

To effectively understand its risks, FCSIC needs to employ sophisticated analytics using the most current data to anticipate trends and identify new risk issues. In the current environment, new risks can manifest themselves very quickly. FCSIC uses a variety of analytical models and risk management tools and processes to identify the wide range of potential systemic risks to the System. FCSIC periodically reviews its allowance and Insurance Fund solvency procedures and models to make enhancements and identify different, richer ways of doing the analysis. For example, FCSIC develops new sensitivity cases for its DCAT model each year and uses the model to measure the impact of sensitivities or structural changes to the System. FCSIC also develops new, ad hoc analysis to examine new and current risk issues. FCSIC maintains ongoing contacts with other federal insurers and financial regulators to share information on emerging risks and risk management best practices. As appropriate, FCSIC engages outside resources to support these efforts.

Access to timely, accurate information is essential to effective risk management. The Farm Credit Act directs that FCSIC obtain information on System institutions from FCA. Access to information collected by FCA is a critical element of detecting the potential for Insurance Fund loss, minimizing duplication of effort, and reducing costs. FCSIC has access to robust data from FCA and tries to utilize that data to evaluate our insurance risk in creative ways that supplement rather than duplicate FCA analysis.

External Factors

As noted above, developing risks, particularly market or pathological events, can manifest themselves very quickly without time to develop appropriate measures or models. System data is generally not collected in real-time, and lags in data may result in FCSIC missing or misidentifying risks.

Strategic Objective 3: Leverage FCSIC's independent risk analysis by proactively raising awareness of identified risks to the Board and FCA and working with FCA on policies and regulations to mitigate those risks.

Means & Strategies

FCSIC's ability to mitigate identified risks to the Insurance Fund largely comes from the credibility and persuasiveness of its independent risk analysis. The Corporation has relatively modest regulatory authority, and its authority to conduct special examinations of System institutions requires FCSIC to leverage FCA's supervisory authority. Therefore, FCSIC focuses on working productively with FCA staff to mitigate risk to the Insurance Fund. FCSIC partners with FCA examination staff to explore institution specific risk issues, participates in joint FCA-FCSIC working groups, and consults with FCA on proposed mergers, capital actions, and other System applications. When FCSIC identifies key systemic and structural risks to the Insurance Fund, it strives to drive efforts to manage those risks by raising awareness, advocating for solutions, and working with FCA policy and examination staff to develop mitigating regulatory, policy, and supervisory guidance recommendations. Maintaining excellent working relationships with FCA staff is critical to the success of this objective.

External Factors

While closely allied, FCA is a different federal agency from FCSIC with different management, mission, and priorities. Mitigation of FCSIC's insurance risk may not always align with the priorities and broader mandate of FCA. Risks to the Insurance Fund may manifest themselves too fast for joint efforts with FCA to be effective.

Program Area 3: Receivership, Conservatorship, and Assistance Readiness

Strategic Goal 5: Be prepared to act as Receiver or Conservator or to provide assistance if called upon.

The Corporation is required to serve as receiver or conservator of System banks and associations when appointed by FCA. Additionally, the FCSIC Board may provide assistance to one or more System institutions to prevent the placement of an institution into receivership, restore an institution to normal operation, or stem financial contagion within the System. This goal requires that corporate readiness be maintained through periodic staff training, periodic review of potential strategies and procedures, and evaluation of potential resources available to ensure that sufficient qualified resources can be employed should the need arise.

Strategic Objectives

1. Consistent with FCSIC's efficient operating model, maintain readiness to act as receiver or conservator, or to provide assistance, focused on those activities and scenarios that are considered most likely and would require an immediate response.
2. Ensure that System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.
3. Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a System bank.
4. If appointed as receiver or conservator of a System institution, ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act, protect creditors, and are terminated in an orderly and timely manner.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

Strategic Objective 1: Consistent with FCSIC's efficient operating model, maintain readiness to act as receiver or conservator, or to provide assistance, focused on those activities and scenarios that are considered most likely and would require an immediate response.

Means & Strategies

The System has not experienced a bank or association failure in more than 30 years, and the Corporation has not been called upon to provide liquidity or other financial assistance during its existence. This is largely attributable to effective oversight and the System structure that incentives stronger institutions to support troubled institutions. However, conditions of an individual institution or the System overall may change and require FCSIC to act in these capacities. The Corporation maintains its readiness to act as receiver or conservator, or to provide assistance within its efficient operating model. FCSIC prioritizes its efforts on those activities and scenarios that are considered most likely and would require an immediate response. FCSIC maintains readiness by planning and training for receivership, conservatorship, and financial assistance actions, reviewing and updating policies and procedures, maintaining relationships and formal agreements with other federal insurers (e.g., FDIC and NCUA) for ongoing training, support and sharing of best practices, and monitoring relevant legislation, regulations, and developments in banking and asset management. FCSIC maintains preparedness to hire competent staff and contractor resources quickly to meet receivership or conservatorship obligations. FCSIC periodically assesses its readiness and reviews stress scenarios to identify priorities for readiness enhancement.

External Factors

Economic, market, environmental, or other stresses may lead to institutions requesting assistance from FCSIC and a severe economic or agricultural downturn could lead to institutions failing or being placed into conservatorship. In certain instances, these stresses may arise suddenly. Historically, System supervisory banks have provided support to troubled associations (and weaker institutions merged with stronger ones) without requiring FCSIC or the Insurance Fund. However, increased concentration in the System may make resolving troubled institutions within the System more challenging. Additionally, given the Corporation's efficient operating model, FCSIC would need to rapidly engage outside resources and/or temporary hiring to effectively operate a receivership or conservatorship, which may be challenging if there is not sufficient lead time or qualified resources available.

Strategic Objective 2: Ensure that Farm Credit System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.

Means & Strategies

Working with System banks, the Funding Corporation, and FCA, FCSIC has implemented procedures for providing short-term financial assistance to System banks (through the Funding Corporation) to provide liquidity in situations where normal debt market access has become extremely doubtful and System banks will be unable to sell liquidity holdings without taking a material loss. FCSIC conducts training exercises with the System banks and the Funding Corporation on a biennial basis. In addition, in 2013 FCSIC entered into an agreement with the Federal Financing Bank (FFB) for a line of credit to increase FCSIC's capacity (under specified terms and conditions) to provide assistance to System banks in exigent market circumstances that threaten the banks' ability to pay maturing debt obligations. The FFB is a government corporation managed by the U.S. Department of Treasury that advances funding to eligible federal agencies. The agreement provides for a short-term revolving credit facility of up to $10 billion.

External Factors

System liquidity may be affected by unforeseen external factors that make normal debt market access extremely doubtful. In addition, it is difficult to predict the causes or timing of such events with any degree of accuracy. A significant disruption of the debt markets may also affect the ability of institutions to generate liquidity through the sale of investment instruments held for that purpose.

Strategic Objective 3: Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a System bank.

Means & Strategies

As specified in the Farm Credit Act, FCSIC, in its sole discretion and on such terms and conditions as the Board of Directors may prescribe, may make loans to, purchase the assets or securities of, assume the liabilities of, or make contributions to, a System institution. These strategies would be conducted in accordance with the Board Policy Statement Concerning Assistance. The Corporation is authorized to provide assistance to a troubled System institution to prevent default, restore it to normal operations, or to facilitate a merger or consolidation with one or more other System institutions. The Corporation may also provide assistance to reduce risk to the Insurance Fund when severe financial conditions threaten the stability of one or more banks or banks possessing significant financial resources. This includes the liquidity assistance discussed above. All assistance must pass the statutory least-cost test to determine the least costly alternative to the Insurance Fund. In evaluating the need and form of assistance and making a least-cost determination, the Corporation would leverage its internal analysis, FCA examination reports, and, through its special examination authority, would collect any additional information necessary. For discretionary assistance provided to return an institution to viable self-sustaining operation, the Corporation must also evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer. In conjunction with any assistance, the Corporation would enter into an agreement with the System institution receiving assistance, and, in the case of an association, its supervisory bank, in order to reduce the risk to the Insurance Fund. The Corporation will use its examination authority to monitor compliance with the assistance agreement.

External Factors

Economic, market, environmental, or other stresses may lead to institutions requesting assistance from FCSIC. In certain instances, these stresses may arise suddenly and be unrelated to the condition or practices of the System. Additionally, the nature of System assets and the interrelationship among System institutions add complexity to making a least-cost determination.

Strategic Objective 4: If appointed as receiver or conservator of a System institution, ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act, protect creditors, and are terminated in an orderly and timely manner.

Means & Strategies

Under the Farm Credit Act, FCSIC, in its receivership capacity, manages the assets of institutions placed into receivership by the FCA Board to preserve the asset values and dispose of the assets as quickly as possible, consistent with the policy objective of maximizing the net return on those assets while mitigating the potential for serious adverse effects to the rest of the System. The oversight and prompt termination of receiverships preserve value for secured creditors, including System banks and other receivership claimants, by reducing overhead and other holding costs. FCSIC's authorities under the Act are intended to be functionally equivalent to the parallel authorities of the FDIC, which include the creation and operation of a bridge System bank.

As conservator, FCSIC would operate the System institution on a temporary basis until a final resolution is determined. Final resolution ranges from return to normal operations to a liquidating receivership. During conservatorship, the institution remains an operating System institution subject to FCA oversight. FCSIC as conservator would have authority to replace the institution's board and management.

External Factors

A severe economic or agricultural downturn could lead to institution failures and could affect the pace at which FCSIC is able to liquidate the receivership estate assets and terminate receiverships. Economic and other factors, such as extended litigation and problems resolving environmentally tainted receivership properties, might also delay termination of a receivership or conservatorship. Given the Corporation's efficient operating model, FCSIC would need to rapidly engage outside resources and/or hire temporary workers to effectively operate a receivership or conservatorship. If there is not sufficient lead time or qualified resources available, there could be material negative consequences, including the loss of recovery value, the inability to stabilize an institution in conservatorship, or contagion to other System institutions.

APPENDIX A: FCSIC'S STRATEGIC PLANNING PROCESS

Introduction

FCSIC is subject to the requirements of the Government Performance and Results Act (GPRA), as modified by the GPRA Modernization Act of 2010. In accordance with the requirements of these statutes, FCSIC reviews and updates its Strategic Plan every four years, publishes Annual Performance Plans and Performance Reports, and conducts program evaluations to assess whether the Corporation's programs are achieving their stated purposes. The Office of Management and Budget (OMB), in its Circular A-11, has issued implementing requirements for GPRA to the federal government. FCSIC has focused on complying with GPRA and OMB guidelines by adopting planning and reporting practices that recognize the Corporation's business model and streamlined staffing structure.

Annual Performance Plan and Report

FCSIC's Strategic Plan is implemented through annual performance plans. The annual plans identify our performance goals, indicators, and targets for each strategic objective. The Corporation submits an annual report to Congress that compares actual performance to the annual performance goals for the prior year. This report is also made available to FCSIC stakeholders and the public through FCSIC's website.

The Corporation's long-term strategic goals and objectives are expressed in outcome terms, and selected outcome measures are included in the Corporation's annual performance plans. However, many of the performance indicators in these annual plans are process measures (for example, regularly reporting on insurance risk). It is often difficult to establish a direct causal relationship between the Corporation's activities and the outcomes experienced. FCSIC continues to work to improve its performance measures.

Corporate Planning and Performance Management Process

FCSIC establishes performance goals annually through its planning and budgeting process. In formulating these performance goals, the Corporation considers the external economic environment, the condition of the agricultural industry (including potential risks), the condition of the System, projected workload requirements, and other corporate priorities. FCSIC plans may also be influenced by the results of program evaluations and management studies, prior-year performance results, and other factors. Based on this information, planning guidance is established by senior management, with input from program personnel.

After annual performance goals are established, a proposed annual corporate operating budget is developed, taking into account the financial, human capital, technological, and other resources required to accomplish FCSIC's core mission responsibilities and other annual performance goals. The Board of Directors approves the budget and the Annual Performance Plan.

Annual performance goals are communicated to employees. Staff prepares progress reports and senior management conducts performance reviews quarterly. The results of the reviews are provided to the FCSIC Board of Directors quarterly.

Stakeholder Consultation

During 2022-23, FCSIC sought and received informal input from various stakeholders and interested parties on issues affecting FCSIC's insurance program. FCSIC requested formal comment from stakeholders and the public on a draft of this strategic plan through a posting on FCSIC's website for a 21-day period.

Program Evaluations

Program evaluations are interdivisional, collaborative efforts, and involve management and staff from all affected divisions. Such participation is critical to fully understanding the program being evaluated. It also gives all staff a stake in the process. Division directors use the results of the program evaluations to assure the Chief Operating Officer and Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed, and internal controls are adequate. These results are also considered in strategic planning for FCSIC. During the period covered by this Strategic Plan, FCSIC will continue to perform risk-based reviews in each strategic area of the Corporation through the annual Federal Management Financial Integrity Act review process.