MEMORANDUM

FCSIC
FARM CREDIT SYSTEM INSURANCE CORPORATION

September 8, 2011

To: Chairman, Board of Directors
Chief Executive Officer
Each Farm Credit System Institution

From: Kenneth A. Spearman
Chairman

Subject: Premium Planning Guidance for 2012

As you know, the Food, Conservation, and Energy Act of 2008 (FCE Act) amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what FCSIC insures. The FCE Act imposes a premium assessment of 20 basis points on adjusted insured debt obligations with authority for the Board of Directors to reduce rates in its sole discretion. The FCE Act maintains a risk surcharge of 10 basis points on non-accrual loans and adds a surcharge of 10 basis points on other-than-temporarily impaired investments.

In addition, the FCE Act simplifies the formula for payments from the Farm Credit Insurance Fund (Insurance Fund) Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of any yearend excess Insurance Fund balances, when they may occur, to insured banks and Farm Credit System Financial Assistance Corporation stockholders.

Finally, the FCE Act reduces the total insured obligations that are used for calculating the secure base amount (SBA) and assessing premiums. The new assessment methodology allows the deduction of Federal government-guaranteed and state government-guaranteed investments from the adjusted insured obligations, resulting in a lower secure base amount. At July 30, 2011, the Farm Credit System (System) held $22.7 billion of government-guaranteed investments. Deducting the appropriate percentage of this amount lowered adjusted insured debt by $20.4 billion. In addition, the System held about $6.9 billion in Federal government-guaranteed and state government-guaranteed loans at July 30, 2011, resulting in a further reduction of $6.2 billion. Combined, these deductions are projected to lower the SBA by over $531 million.

The current level of the Insurance Fund relative to the 2 percent SBA, projected growth in insured debt and changes in Federal government-guaranteed loans and investments are the most important factors that the Board considered in its premium analysis. Through July, insured debt contracted by $2.9 billion to $184.6 billion, or -1.5 percent year-to-date. However, our recently completed survey of the five System banks and some associations indicated improved prospects for growth through

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yearend with estimates ranging from 0 to 5 percent over the remainder of 2011. For 2012, our survey produced a Systemwide weighted average growth estimate of 2 to 4 percent.

As of the end of July, the Insurance Fund was $155 million above the SBA. This amount can capitalize $7.8 billion of additional insured borrowings, or roughly a 4 percent increase in the level of debt outstanding at yearend. Unless growth increases significantly during the remaining five months of the year, it is likely the Insurance Fund will be above the SBA at yearend. After all yearend results are finalized, including System institutions reporting on their condition and performance, and any excess in the Insurance Fund is transferred to the AIRAs, the Board will consider exercising its authority under the statute to make payments from the AIRAs.

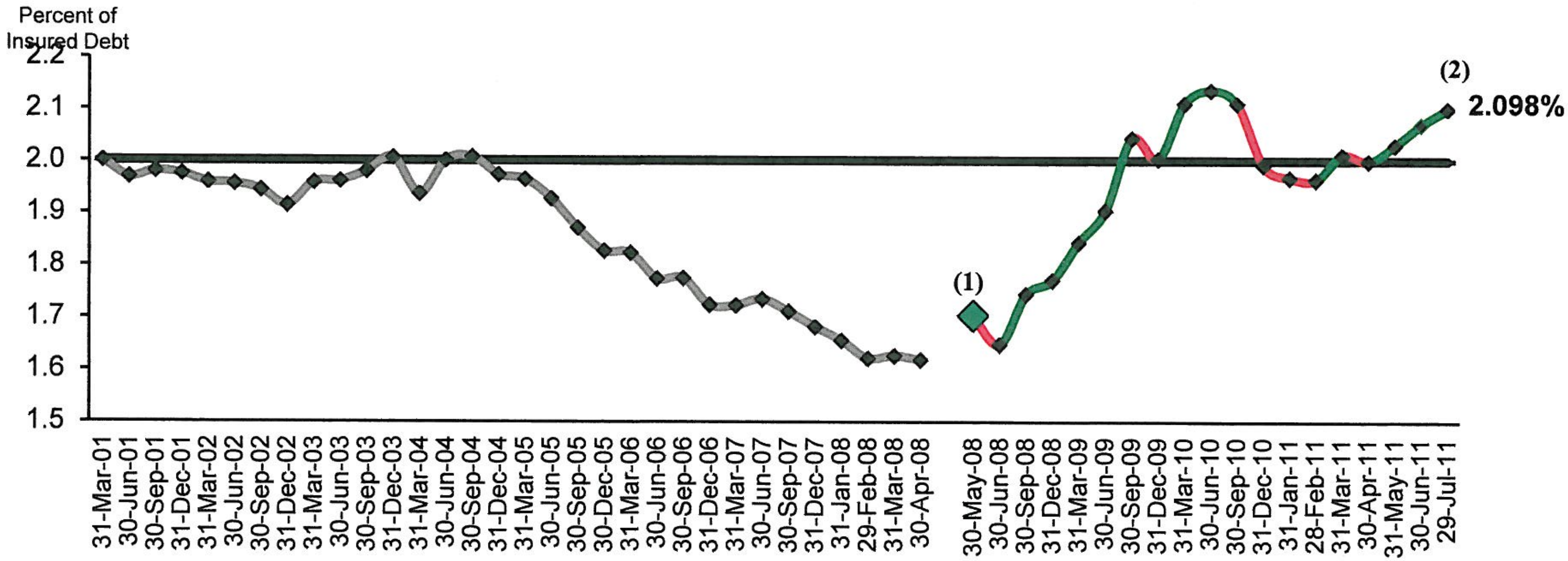
In consideration of these factors and presuming the Insurance Fund starts 2012 at the SBA, the Board has decided that, for planning purposes, the premium rate for 2012 will likely range from 4 to 6 basis points on adjusted insured debt. In addition, the 10 basis point premium on the average principal outstanding for non-accrual loans and the average amount outstanding for other-than-temporarily impaired investments will likely be continued. This level of premiums should allow the Insurance Fund to remain at the SBA as long as growth remains moderate in 2012.

The Board will make the premium decision for 2012 at its January meeting. Please feel free to contact FCSIC staff, if you have any questions.

Attachment

Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Based on Preliminary Data available at July 30, 2011



(1) A change in the secure base amount (SBA) calculation methodology requested by the Insurance Corporation was included in the Food, Conservation and Energy Act of 2008. The methodology allows the deduction of Federal and state-guaranteed investments from the SBA in a manner similar to that used for Federal and state-guaranteed loans.

(2) Insurance premiums are assessed with the objective of maintaining the SBA which is defined in the Farm Credit Act as 2% of adjusted insured obligations. At year-end 2009, additional excess funds above the SBA of $165.4 million were transferred to the Allocated Insurance Reserves Accounts (AIRAs). In February 2010, the $39.9 million that was transferred to the AIRAs in 2003 was paid to the accountholders. In April 2010, the $165.4 million that was transferred to the AIRAs in 2009 also was paid to the accountholders. The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit Banks and FAC stockholders.