FARM CREDIT SYSTEM INSURANCE CORPORATION
1501 Farm Credit Drive
McLean, VA 22102
(703) 883-4380
www.fcsic.gov

> > > > Protecting Investors

in Agriculture

and Rural America

Farm Credit System Insurance Corporation

2001 Annual Report

>>>> MISSION STATEMENT

Mission

AS AN INDEPENDENT ENTITY, THE FARM CREDIT SYSTEM INSURANCE CORPORATION SHALL:

- PROTECT INVESTORS IN INSURED FARM CREDIT SYSTEM OBLIGATIONS AND TAXPAYERS THROUGH SOUND ADMINISTRATION OF THE FARM CREDIT INSURANCE FUND;
- EXERCISE ITS AUTHORITIES TO MINIMIZE LOSS TO THE INSURANCE FUND; AND
- HELP ENSURE THE FUTURE OF A PERMANENT SYSTEM FOR DELIVERY OF CREDIT TO AGRICULTURAL BORROWERS.

CONTENTS

May 15, 2002

Gentlemen:

In accordance with the provisions of section 5.64(a) of the Farm Credit Act of 1971, as amended, the Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2001.

The report highlights the Corporation's role as the independent Federal corporation established to ensure the timely payment of principal and interest to investors in Farm Credit System debt securities. The balance in the Insurance Fund at December 31, 2001, was $1.53 billion. No insurance premiums were collected for 2001. The Corporation expects to incur $2.29 million in operating costs in 2002.

Sincerely,

Ann Jorgensen

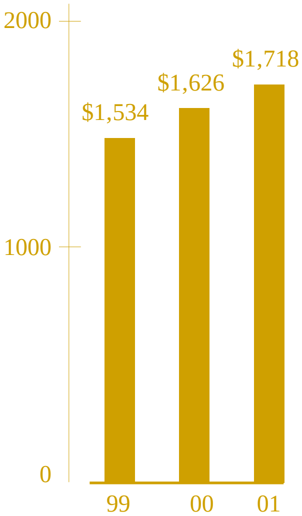
Ann Jorgensen
Chair

The President of the United States Senate
The Speaker of the United States House of Representatives

>>>> SELECTED FINANCIAL STATISTICS

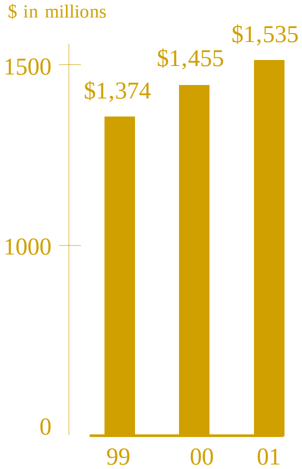
TOTAL ASSETS

$ in millions



INSURANCE FUND BALANCE

$ in millions



($ in millions)	2001	2000	1999
Total Assets	**$ 1,718**	$ 1,626	$ 1,534
Total Liabilities	**183**	171	160
Insurance Fund Balance	**1,535**	1,455	1,374
OPERATIONS:			
Revenues	**94.1**	93.8	127.2
Operating Expenses	**2.1**	1.8	1.6
Insurance Expense	**11.9**	11.1	10.4
Net Income	**80.1**	80.9	115.2
Insurance Fund as a Percentage of Adjusted Insured Debt	**1.98%**	1.98%	1.99%

> > > > INVESTOR PROTECTION AND THE FARM CREDIT SYSTEM

The Corporation's primary purpose, as defined by the Farm Credit Act of 1971 (the Act), is to ensure the repayment of investors who purchase the bonds and notes issued by the System's banks. Investors provide the funds the System lends to agriculture and rural America.

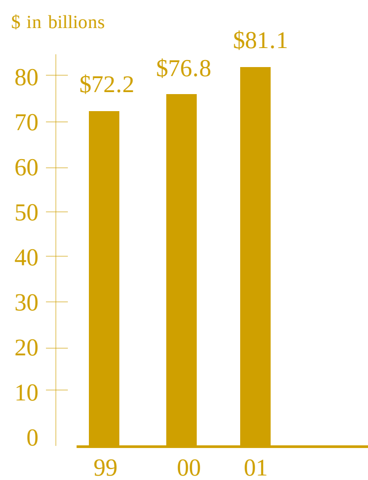
In 2001, System loan volume grew 10 percent to $82.6 billion. Asset quality remained sound at most institutions despite poor conditions in agriculture. Significant government assistance continued to stabilize farm income. On a combined basis, the System produced strong earnings and added to capital levels.

Farm Credit System Statistics

($ in billions)

	2001	2000	1999
Insured Debt Outstanding	**$ 81.1**	$ 76.8	$ 72.2
Farm Mortgage Loans	**37.7**	34.0	32.4
Agricultural Production Loans	**20.0**	17.5	16.7
Loans to Agricultural Cooperatives	**8.6**	9.5	8.7
International Loans	**2.8**	2.5	2.6
Loans to Rural Utilities	**7.3**	6.3	5.1
Rural Home Loans	**2.6**	2.0	1.5
Net Income	**1.79**	1.42	1.23
Nonperforming Assets as a percentage of Loans and Other Property	**1.2%**	1.2%	1.6%
Surplus (excluding Insurance Fund) as a percentage of Total Assets	**12.5%**	12.0%	11.6%

INSURED DEBT OUTSTANDING



>>>> Protecting Investors in Agriculture and Rural America

Help ensure the Future of a Credit System to serve Agriculture and Rural America

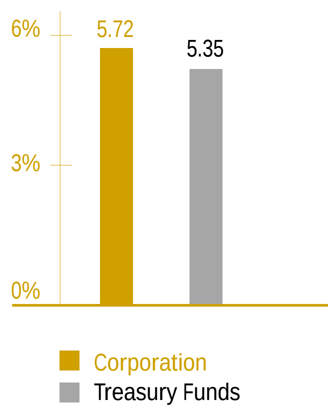
The Corporation has three broad goals and performance measures to evaluate the effectiveness of operations:

- Manage the Insurance Fund to maintain the 2 percent secure base amount.
- Detect, evaluate and manage risks to the Insurance Fund.
- Maintain the capability to manage receiverships or conservatorships.

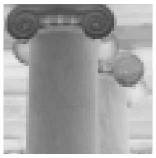
GOALS AND PERFORMANCE MEASURES

Performance Measures	2001 Results
INSURANCE FUND MANAGEMENT	
• Assess insurance premiums as necessary	Reviewed premium rates twice Approved assessing premiums in 2002
• Achieve investment return comparable with peer group of Treasury Bond Funds	See graph on the right
• Maintain the 2 percent secure base amount	Ranged from 1.97 to 2.0 percent throughout most of 2001, 1.98 percent at yearend
RISK MANAGEMENT	
• Detect risk by screening institutions	Evaluated System institutions Completed special analyses of new forms of capital and derivatives
• Identify institutions requiring special examinations	Participated in examinations of two System banks
• Evaluate potential insurance losses	Evaluated loss allowance quarterly
RECEIVERSHIP/CONSERVATORSHIP CAPABILITY	
• Complete processing of 90 percent of all claims in specified period	No current receivership/conservatorship activity
• Manage operating costs and asset recovery rates comparable with other Federal insurers	Corporate readiness maintained through training

AVERAGE INVESTMENT YIELD 2001



>>>> BOARD OF DIRECTORS



***The Farm Credit System Insurance Corporation (Corporation)** is managed by a three-member board of directors composed of the members of the Farm Credit Administration (FCA) Board. The Chair of the Corporation's Board of Directors, however, must be an FCA Board Member other than the Chair of the FCA Board. Currently, one position on the Board is vacant.*

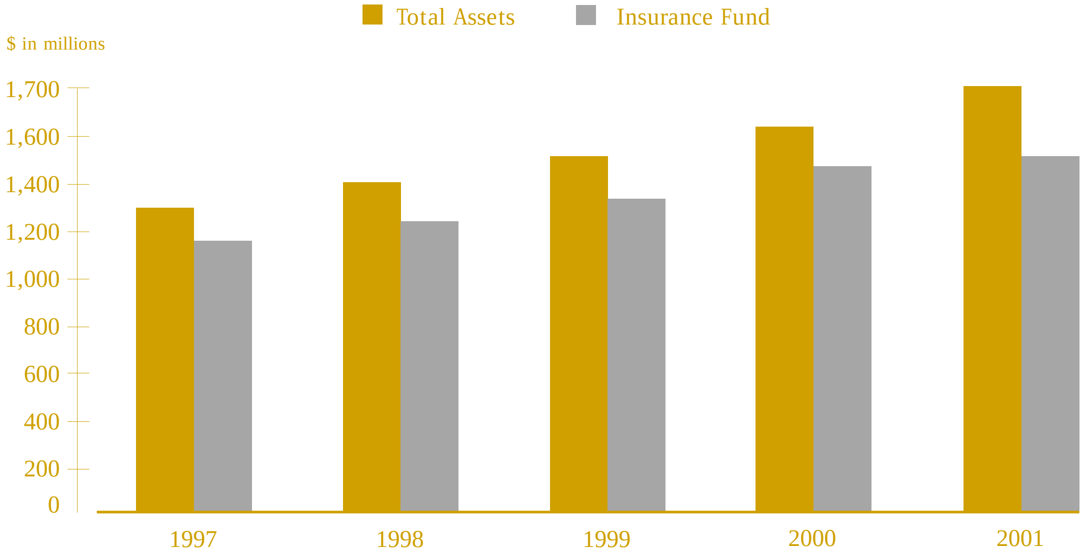
Ann Jorgensen became a member of the Corporation's Board in May 1997 and was elected as the Chair in January 2000. She brings to her position extensive experience in production agriculture and accounting. She started farming in partnership with her husband in 1963. Their farming enterprise now includes a cropping operation, Jorg-Anna Farms, and a hog operation, Timberland Hogs Ltd. She has worked as a tax accountant and as a licensed commodity broker. In 1981, she started Farm Home Offices, a mail order catalog company, which marketed farm management products to help farmers improve their financial and production management systems. She served on a number of governing boards for the State of Iowa, including six years as a member of the Board of Regents. The Board of Regents is responsible for the state's three universities, including the University of Iowa Hospital, a world-renowned teaching hospital, and its affiliated clinics. She was inducted into the Iowa Volunteer Hall of Fame in 1989. She and her husband were recognized by *Farm Futures* magazine in 1983 as the owners of one of the Top 10 Best Managed Farms. In 1997, she was one of the national agricultural leaders named by Alpha Zeta, the national honorary agricultural fraternity, to its Centennial Honor Role. She was named a member of the Farm Foundation's Bennett Agricultural Round Table in June 2000. This provides a forum for discussion and dialogue among agricultural, agribusiness, government, academic, and interest group leaders on issues of importance to agriculture and rural America. A native of Iowa, she holds a B.A. from the University of Iowa.

Michael M. Reyna became a member of the Corporation's Board in October 1998 and served as Chairman from November 1998 to January 2000, when he was designated by President Clinton as the Chairman of the Farm Credit Administration. Prior to joining the Board, he served as President Clinton's director of USDA Rural Development (formerly known as Farmers Home Administration) in California from November 1993 to October 1998. In this capacity, Mr. Reyna was responsible for growing and managing a diversified portfolio of housing, business, and infrastructure loans totaling more than $2.6 billion. He implemented a number of significant initiatives in California on behalf of the Clinton-Gore Administration, including the Northwest Economic Adjustment Initiative, the Rural Empowerment Zone-Enterprise Community program, the AmeriCorps program, and several Reinventing Government Initiatives. Previously, Mr. Reyna served as a principal advisor to the California State Legislature for 11 years, working on financial service industry regulation, and a wide range of issues including housing, economic development, local government finance and political reform. In the early 1980s, while serving as a private consultant to the Texas 2000 Project, an initiative of the Governor's Office of Budget and Planning, he developed and implemented a computer-based simulation model of the Texas economy which estimated employment and population trends through the year 2000. He was an appointed member of several local commissions, including the Sacramento City Planning Commission, of which he served as Chairman in 1993. Mr. Reyna holds a bachelor's degree in business administration from the University of Texas at Austin and a master's degree in public policy and administration from the LBJ School of Public Affairs at the University of Texas. He and his wife Karen, have two sons.

Strength

In 2001, the Fund grew to $1.53 billion, an increase of 6 percent. The Insurance Fund represents the Corporation's equity, the difference between its total assets of $1.72 billion and its total liabilities, including insurance obligations, of $183 million.

GROWTH IN THE INSURANCE FUND
(TOTAL ASSETS VS. INSURANCE FUND EQUITY)



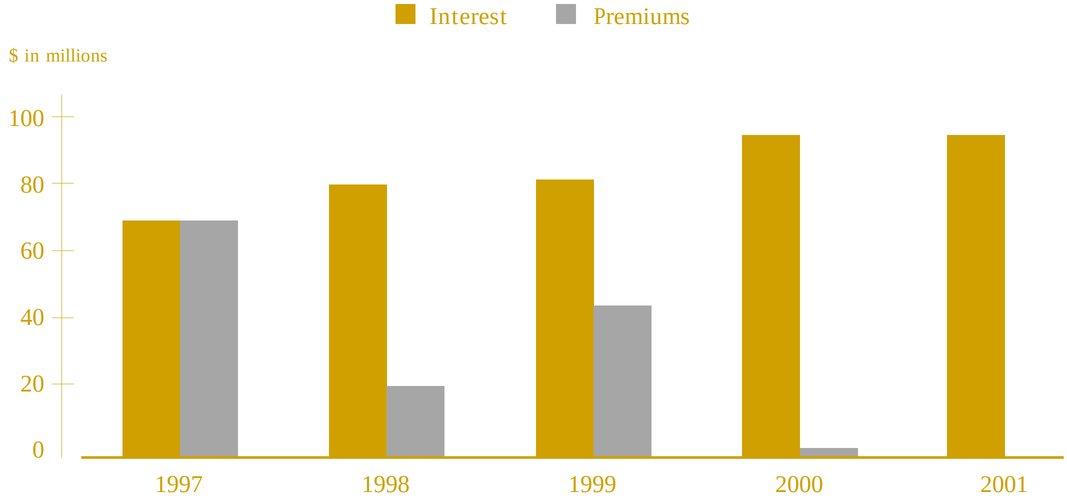
Revenues and Expenses

Net income was $80 million in 2001, a decrease of 1 percent from the previous year. The small decline in net income was a result of several factors. The absence of insurance premium revenues and higher expenses, including the accrual for an estimated insurance liability, were partially offset by increased investment income. The mix of corporate revenues has changed over the past several years with interest from investments rather than premiums now representing the primary source of revenue.

Expenses totaled $14 million in 2001. This included an expense of $12 million for the annual provision for the liability to repay the Farm Credit System Financial Assistance Corporation (FAC) for certain assistance related bonds which mature in 2005. See Note 5 to the financial statements.

Operating costs were $2.1 million. The Corporation's fixed costs for staff, travel, rent, and miscellaneous expenses were $1.5 million. The remaining expenses of $0.6 million were for contract services, of which $0.3 million was for the cost to convert to new accounting software during the year. The Corporation operates with a small core staff and utilizes contractors with specialized expertise when necessary. This approach keeps operating costs low while offering the flexibility to leverage resources. Operating costs during the year were 0.13 percent of average assets.

CORPORATION REVENUES 1997–2001



The Secure Base Amount

The secure base amount is 2 percent of outstanding insured obligations and was established by the Act. When the Insurance Fund is at or above this level, the Corporation is required to reduce insurance premium rates as necessary to maintain the Fund at the 2 percent level. The Insurance Fund began the year at 1.98 percent, attained 2 percent in the first quarter, then trended below due to growth in insured debt.

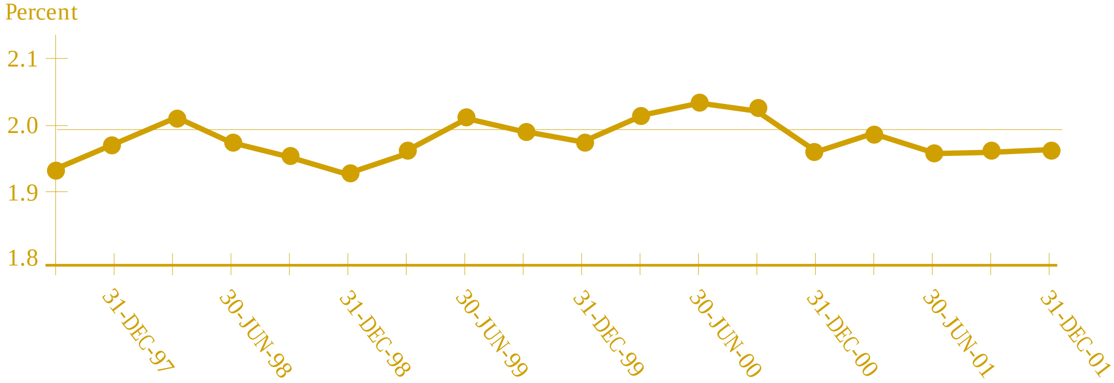
Premium Assessment

The Board reviews the need for premium assessments on a semiannual basis in September and March. Premiums may be assessed on four classes of loans:

- Accrual loans (non-government guaranteed balance) – from zero to 15 basis points;
- Nonaccrual loans – from zero to 25 basis points;
- Federal Government-guaranteed accrual loans – from zero to 1.5 basis points; and
- State government-guaranteed accrual loans – from zero to 3 basis points.

(See Note 4 to the Corporation's financial statements.)

INSURANCE FUND RELATIVE TO THE 2% SECURE BASE AMOUNT AT DECEMBER 31, 2001



Five factors are considered in setting premium rates:

- Level of the Insurance Fund relative to the secure base amount;
- Projected losses to the Insurance Fund;
- Condition of the System;
- Health of the agricultural economy; and
- Risk in the financial environment.

Premium rates for 2001 were set at zero for all loans at the September 2000 Board meeting when the Insurance Fund was above the 2 percent level. At its March 2001 review, the Board evaluated each of the policy factors and left premium rates at zero for the balance of the year. As a result, no premium revenues were accrued in 2001 compared with $1.0 million in 2000. Because the Insurance Fund continued to trend below the secure base during the year, the Board at its September review approved a resumption of insurance premiums beginning in January 2002. Premiums will be assessed on accrual loans at a rate of 3 basis points and on nonaccrual loans at a rate of 25 basis points. No premiums will be assessed on Federal or state government guaranteed loans.

Investments

Investments and cash grew 6 percent during the year to $1.69 billion at December 31, 2001. Funds are invested in U.S. Treasury securities in accordance with the Act and the Corporation's Investment Policy. The Policy's objectives seek the maximum return consistent with the Corporation's liquidity needs and a minimum exposure to loss of principal. The average portfolio yield for 2001 was 5.72 percent, down from 5.99 percent the prior year. The drop in investment yield resulted from the reinvestment of maturing investments in the lower interest rate environment that prevailed throughout the year.

The Corporation maintains an investment strategy of purchasing a ladder of maturities and holding investments to maturity. The Investment Policy provides for the portfolio to be divided into a liquidity pool and an investment pool. The purpose of the liquidity pool is to maintain some short-term investments while investing the balance of the portfolio in longer-term maturities of up to 10 years.

The chart below shows the balances and maturities of the liquidity pool and investment pool at December 31, 2001. The weighted average portfolio maturity at yearend was 3 years.

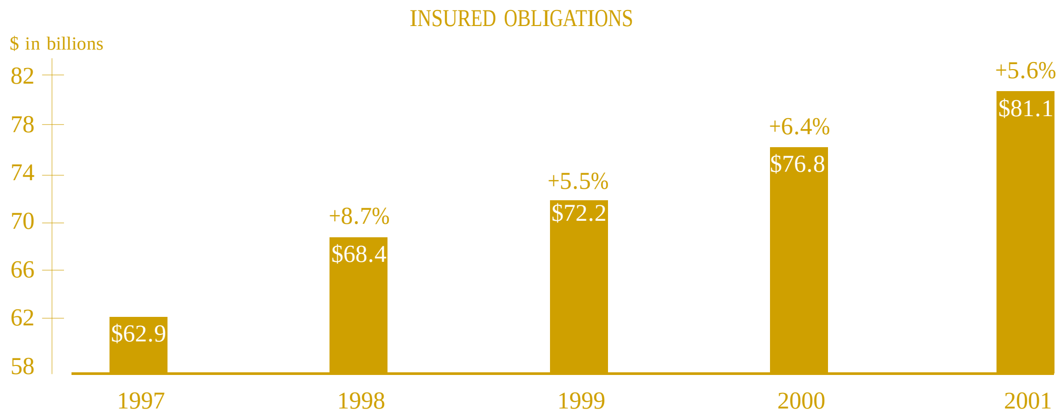
Insured and Other Obligations

During the year, insured obligations outstanding at System banks grew by 5.6 percent to $81 billion. Since 1997, insured debt outstanding has grown at an average annual rate of 6.5 percent. The Corporation insures Systemwide and Consolidated notes, bonds and other obligations issued under the Act. Insured obligations are issued to investors through the Federal Farm Credit Banks Funding Corporation on behalf of System banks.

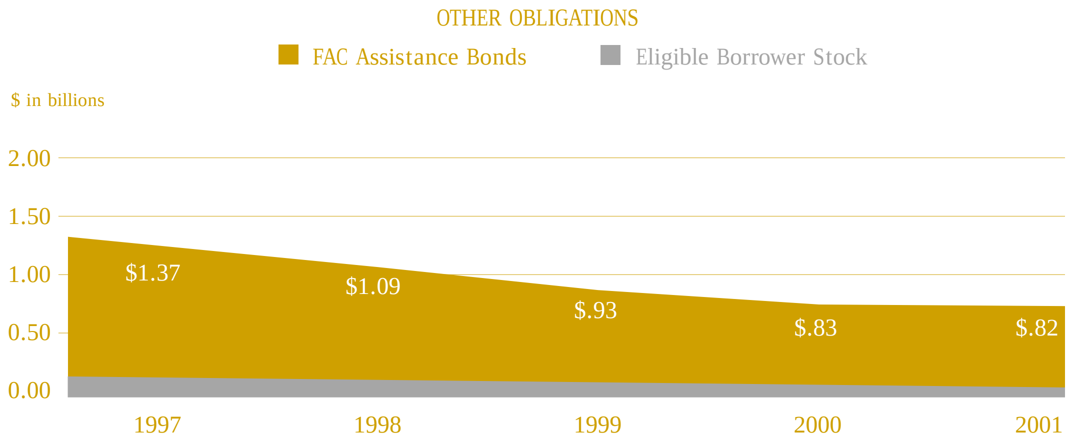
The Corporation is also required by statute to use the Insurance Fund to satisfy any defaults related to FAC-issued bonds and to ensure the retirement of eligible borrower stock. These obligations declined slightly in 2001, resulting from the continued retirement of eligible borrower stock. At yearend, eligible borrower stock outstanding at System institutions totaled $44 million, down from $54 million in 2000.

Investment Portfolio

		$ MILLIONS	% OF PORTFOLIO
LIQUIDITY POOL	Two Years or Less	$ 554	33
INVESTMENT POOL	Two Years to Five Years	883	52
	Five Years to Ten Years	253	15
TOTAL		$1,690	100%



The remaining issues of FAC bonds outstanding will mature in 2003 ($450 million) and 2005 ($325 million). System banks continued making annual payments to FAC to provide funds for the repayment of the remaining bonds. At December 31, 2001, the System had provided for the repayment of approximately $330 million of the $775 million of assistance bonds still outstanding. The funds for retirement of the remaining bonds will come from System banks, the FAC Trust Fund and the Insurance Fund. The Corporation's estimate of its liability to FAC at December 31, 2001, was $182 million. See Note 5 to financial statements.



>>>> Exercise Authorities to Minimize Insurance Losses

RISK

MANAGEMENT Confidence

The Corporation's program to identify and manage risk to the Insurance Fund minimizes the Fund's exposure to potential losses through early detection. Special examination procedures are used to evaluate the condition of weaker System institutions. In addition, the Corporation assesses risk exposure to the Insurance Fund through its ongoing review and analysis of the financial condition of System institutions, operation of analytical models, review of corporate actions approved by FCA for System institutions, and by serving as a nonvoting participant on FCA's Regulatory Enforcement Committee. During the year, the Corporation monitored trends in the System's structure and activities, including new forms of financing.

Corporation staff also monitor the legislative, judicial, regulatory, and economic trends that could affect the Insurance Fund. For 2002, USDA forecasts a modest increase in U.S. agricultural exports. However, most farm commodity prices are expected to remain weak as the U.S. and global economies slowly recover from the recession. The Corporation will closely watch the effect of these and other developments on System borrowers.

Financial Assistance and Receivership

The Insurance Corporation is authorized to provide assistance to a System institution to prevent default, restore it to normal operations, or to facilitate a merger or consolidation. At the present time, no assistance agreements are outstanding.

The Corporation also has statutory responsibility to serve as receiver or conservator for a System institution when appointed by the FCA. To fulfill this role and continue to operate with a small core staff, the Corporation uses outside contractors on a standby basis when necessary. This allows us to contain costs during periods of limited or no activity while providing access to the resources necessary should the need arise. At the present time there are no receiverships or conservatorships. The Corporation conducts periodic training to help its personnel maintain proficiencies should they be called upon to perform receivership responsibilities.

> > > > Protecting Investors in Agriculture and Rural America

INFORMATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1301 K Street, N.W. 800W
Washington DC 20005-3333
Telephone (202) 414 1000

Report of Independent Accountants

To the Board of Directors
Farm Credit System Insurance Corporation:

In our opinion, the accompanying balance sheets and the related statements of income and expenses and changes in the insurance fund, and cash flows present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation (the Corporation) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 4, 2002 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

February 4, 2002

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1301 K Street, N.W. 800W
Washington DC 20005-3333
Telephone (202) 414 1000

Report of Independent Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Farm Credit System Insurance Corporation

We have audited the financial statements of the Farm Credit System Insurance Corporation (the Corporation) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of the Corporation, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

February 4, 2002

Statements of Financial Condition as of December 31, 2001 and 2000

($ in thousands)

	2001	2000
ASSETS		
Cash and Cash Equivalents	$ 2,849	$ 139,840
Investments in U.S. Treasury Obligations (Note 3)	1,687,165	1,457,618
Accrued Interest Receivable	27,654	27,044
Premiums Receivable (Note 4)	—	1,040
Other Receivables	—	7
TOTAL ASSETS	**$ 1,717,668**	**$ 1,625,549**
LIABILITIES AND INSURANCE FUND		
Accounts Payable and Accrued Expenses (Note 7)	$ 332	$ 199
Liability for Estimated Insurance Obligations (Note 5)	182,434	170,499
Total Liabilities	182,766	170,698
Farm Credit Insurance Fund	1,534,902	1,454,851
TOTAL LIABILITIES AND INSURANCE FUND	**$ 1,717,668**	**$ 1,625,549**

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

Statements of Income and Expenses and Changes in Insurance Fund for the Years Ended December 31, 2001 and 2000

($ in thousands)

	2001	2000
INCOME		
Premiums (Note 4)	$ —	$ 1,040
Interest Income	94,112	92,776
Other Income	1	13
TOTAL INCOME	**$ 94,113**	**$ 93,829**
EXPENSES		
Administrative Operating Expenses (Note 7)	$ 2,127	$ 1,797
Provision for Estimated Insurance Obligations (Note 5)	11,935	11,154
NET INCOME	**$ 80,051**	**$ 80,878**
Farm Credit Insurance Fund, Beginning of Year	**1,454,851**	**1,373,973**
Farm Credit Insurance Fund, End of Year	**$ 1,534,902**	**$ 1,454,851**

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

Statements of Cash Flows
for the Years Ended December 31, 2001 and 2000
($ in thousands)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 80,051	$ 80,878
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
(Increase) in Accrued Interest Receivable	(610)	(990)
Decrease in Premiums Receivable	1,040	44,456
Net Amortization and Accretion of Investments	19,094	16,211
Decrease (Increase) in Other Receivables	7	(4)
Increase (Decrease) in Accounts Payable and Accrued Expenses	133	(22)
Increase in Liability for Estimated Insurance Obligations	11,935	11,154
NET CASH PROVIDED BY OPERATING ACTIVITIES	**111,650**	**151,683**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Purchase of U.S. Treasury Obligations	(561,230)	(234,916)
Proceeds from Maturity of U.S. Treasury Obligations	312,589	217,567
Net Cash Used in Investing Activities	**(248,641)**	**(17,349)**
Net Change in Cash and Cash Equivalents	(136,991)	134,334
Cash and Cash Equivalents, Beginning of Year	139,840	5,506
Cash and Cash Equivalents, End of Year	$ **2,849**	$ **139,840**

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

Note 1 — Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Farm Credit System Insurance Corporation (Corporation) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2001, there were seven insured System banks and 114 direct lender associations.

The Corporation is managed by a board of directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank;
2. Satisfy, pursuant to section 6.26(d)(3) of the Act, defaults by System banks on obligations related to the issuance of U.S. Treasury-guaranteed bonds by the Farm Credit System Financial Assistance Corporation (FAC) (FAC bonds) (see Note 5); and
3. Ensure the retirement of eligible borrower stock at par value.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

The balances outstanding at December 31, 2001, for each of the components of the Corporation's insurance responsibilities were $81 billion of insured obligations, $775 million of FAC bonds (of which $330 million in repayments have been provided for), and $44 million of eligible borrower stock.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4(2) of the Act.

Under section 5.63 of the Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Note 2 — Summary of Significant Accounting Policies

Accounting Principles and Reporting Practices—The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2001, the Corporation held $2.8 million in overnight Treasury certificates maturing on January 2, 2002, with an investment rate of 1.63 percent.

Investments in U.S. Treasury Obligations—Section 5.62 of the Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with the Statement of Financial Accounting Standard (SFAS) No. 115 and carries them at amortized cost. Premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective issues. Fair value is estimated based on quoted market prices for those or similar instruments.

Liability for Estimated Insurance Obligations—The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks. (Also see Note 5.)

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

Premiums—Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31 of the year subsequent to the year in which they are earned.

Retirement Plan—All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

The Corporation's contribution during 2001, to the CSRS plan was 8.5 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee.

Retirement plan expenses amounted to $122,782 in 2001 and $107,851 in 2000.

Note 3 — Investments

At December 31, 2001, and at December 31, 2000, investments in U.S. Treasury obligations consisted of the following:
($ in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2001				
U.S. Treasury Notes	$ 1,687,165	$ 69,565	($ 2,684)	$ 1,754,046
December 31, 2000				
U.S. Treasury Notes	$ 1,457,618	$ 31,783	($ 1,535)	$ 1,487,866

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2001, by contractual maturity, are shown below.

($ in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$ 283,392	$ 287,976
Due after one year through five years	1,151,258	1,206,844
Due after five years through 10 years	252,515	259,226
	$ 1,687,165	$ 1,754,046

Note 4 — Premiums, the Secure Base and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Act is an insured System bank and may be required to pay premiums to the Corporation.

The Act establishes the range of insurance premium rates that the Corporation's Board may assess for any calendar year based on four classes of an insured bank's loan assets. The asset classes and the range that may be assessed for each are: (1) average annual accrual loans outstanding (other than the guaranteed portions of Government-guaranteed accrual loans) for the year may be from zero to 0.0015; (2) average annual nonaccrual loans outstanding may be from zero to 0.0025; (3) average annual portions of Federal Government-guaranteed accrual loans may be from zero to 0.00015; and (4) average annual portions of state government-guaranteed accrual loans may be from zero to 0.0003.

Insurance premium rates for the first half of 2001 were set at the Board's September 2000 meeting at zero for all loan classes. In March 2001, the Corporation's Board approved maintaining premium rates at zero for the second half of 2001. In September 2001, the Corporation's Board approved an assessment for 2002 of 3 basis points for accrual loans and 25 basis points for nonaccrual loans. Insurance premium rates are reviewed semiannually in March and September.

The Act sets a base amount for the Insurance Fund to achieve. The statutory secure base amount is equivalent to 2 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on Government-guaranteed loans in accrual status) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the amount of the Insurance Fund exceeds the secure base amount, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

The Insurance Fund was below the secure base amount during most of 2001, due to growth in insured obligations during the year. At December 31, 2001, the Insurance Fund was 1.98 percent of adjusted insured obligations outstanding.

A 1996 amendment to the Act requires the Corporation to establish reserve accounts for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year the Insurance Fund is at the secure base amount, the Corporation is to segregate any excess balances into these allocated insurance reserve accounts (AIRAs). In 1999, the Corporation's Board adopted a Policy Statement on the Secure Base Amount and Allocated Insurance Reserve Accounts which provides guidelines for implementing this statutory authority. At December 31, 2001, because the Insurance Fund was below the 2 percent secure base amount, there were no excess balances to allocate.

Note 5 — Financial Assistance to System Banks and Estimated Insurance Obligations

The 1987 Act required that the FCA charter the Farm Credit System Assistance Board (Assistance Board) and the FAC (see Note 1) to carry out a program of financial assistance to the Farm Credit System. In order to raise funds to provide this assistance, the FAC had the authority to issue debt obligations with a maturity of 15 years. During 1988 to 1992, the FAC issued $1.26 billion in bonds. These funds were used to provide assistance to certain System banks experiencing financial difficulty and for other statutory authorized purposes.

Financial Assistance to Certain System Banks

During the period from 1988 to 1992, assistance was provided to four open banks through the purchase by the FAC of $419 million in preferred stock issued by these institutions. Similar assistance totaling $374 million was provided to the Federal Land Bank of Jackson in Receivership to facilitate its closing and liquidation. Subject to Assistance Board approval, these assistance funds were used by the FAC to purchase preferred stock issued by an institution experiencing financial difficulty.

Prior to the maturity of the related 15-year debt obligations, each institution can redeem its preferred stock, pursuant to Section 6.26 of the Act, so as to allow the FAC to pay the principal of the maturing obligation. While an institution that issues preferred stock to the FAC is primarily responsible for providing funds for payment of the FAC bonds (through redemption of the preferred stock purchased with the proceeds of the FAC bonds), the institution may be prohibited from redeeming, or may elect not to redeem, the preferred stock pursuant to

section 6.26 of the Act. If this occurs, then the FAC must use funds from its trust fund, to the extent available, to retire the debt. The FAC Trust Fund (Trust Fund) represents the funds received from System institutions' purchase of stock in the FAC. The Trust Fund totaled approximately $123 million and $115 million at December 31, 2001 and 2000, respectively. If the Trust Fund is not sufficient to retire the debt, then the Corporation must purchase preferred stock from the FAC to provide funds to retire such debt. If the Corporation does not have sufficient funds, the U.S. Treasury must retire the debt. If this should occur, the Corporation is required to repay the U.S. Treasury as funds become available from the payment of premiums. At December 31, 2001, the only preferred stock held by the FAC was associated with the assistance provided to the Federal Land Bank of Jackson.

On May 20, 1988, the FCA placed the Federal Land Bank of Jackson and the Federal Land Bank Association of Jackson in receivership (collectively the FLBJR) and appointed a receiver to liquidate their assets. As of April 27, 1990, the FCA, the Receiver of the FLBJR, the FAC, the System banks, the Assistance Board, and the Corporation entered into an agreement which called for the FAC to issue 15-year U.S. Treasury-guaranteed bonds to purchase preferred stock in the FLBJR. Upon the maturity in 2005 of the FAC bonds used to purchase preferred stock in the FLBJR, the Corporation will provide funds to repay the principal of these debt obligations, to the extent that the Trust Fund is not sufficient for such purpose. In January 1995, the FLBJR was terminated by the FCA and the receiver was discharged after transferring the remaining receivership assets to the FAC.

Estimated Insurance Obligation

The Corporation estimated the present value of its liability to provide funds for payment of the $374 million non-callable 15-year maturing debt to be approximately $182 million and $170 million at December 31, 2001 and 2000, respectively. This liability is reflected in the accompanying statements of financial condition. The present value of this obligation is based on a discount rate of 7 percent to maturity, which was established at the time this liability was originally recorded. In accordance with SFAS No. 107, the fair value of this liability has been estimated by management using discount rates based upon U.S. Treasury securities of similar durations (4.0 percent for 2001 and 5.1 percent for 2000). The fair value was

approximately $200 million and $184 million as of December 31, 2001 and 2000, respectively. Provisions for changes in the Corporation's liability are reflected in the statements of income and expenses in the amount of $11.9 million and $11.2 million for the years ended December 31, 2001 and 2000, respectively.

The Corporation cannot predict the effects of future events upon System operations and upon the amount of the Trust Fund that will ultimately be available to reduce the Corporation's liability for FLBJR-related FAC bonds. The Corporation will annually reassess the likelihood of earlier use of the Trust Fund, changes in Trust Fund earnings, and other assumptions underlying its estimate of the liability for FLBJR-related FAC bonds.

Other Financial Assistance Provided to System Institutions by the FAC

The Farm Credit Banks and Associations Safety and Soundness Act of 1992 (1992 Act) expanded the Corporation's responsibility to insure defaults by System institutions on payments related to other assistance funded by FAC bonds. These FAC bonds, aggregating $454 million, were issued to pay System Capital Preservation Agreement accruals, to retire eligible borrower stock of certain liquidating System institutions, and to pay operating expenses of the Assistance Board.

Previously, the Corporation had only been required: (1) to satisfy defaults on the repayment of Treasury-paid interest; and (2) to purchase the preferred stock of an assisted institution when the institution did not retire the stock at the maturity of the FAC bonds issued to purchase it. The 1992 Act made the Corporation responsible for defaults by System institutions on obligations related to the remaining $454 million of FAC bonds and related interest if such amounts cannot be recovered from defaulting institutions by the FAC or the Treasury, as the case may be, within 12 months.

The 1992 Act also expanded the potential uses of the Trust Fund to satisfy System institution defaults on the principal and interest of other FAC obligations and required System banks to make annual annuity payments to the FAC to provide funds for the retirement of the Capital Preservation Agreement-related FAC bonds aggregating $417 million and Treasury-paid interest at maturity. The Corporation is also required to satisfy defaults on the annual payments to the FAC to permit the repayment of Treasury-paid interest. During 1992 through 2001, all System banks made

their annual annuity payments as scheduled. The Corporation is not aware of any events or circumstances which will prevent System banks from meeting their FAC obligations.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Other than obligations that have occurred as a result of resolving the FLBJR, as described above, management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Early Redemption of Certain FAC Bonds

In November 1998, April 1999, and September 2000, System banks provided the necessary funds to allow the FAC to call and retire early $486 million of the $1.26 billion in FAC bonds issued during 1988 to 1992 (see Note 5, paragraph 1). Repayment of the remaining FAC bonds in accordance with the Act is being provided for by System banks and the Insurance Corporation.

Note 6 — Operating Lease

On November 20, 1997, the Corporation executed a new six-year lease with the Farm Credit System Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $95,020 for 2002 and $98,134 for 2003. The Corporation recorded lease expenses (including operating cost assessments) of $99,175 and $95,357 for 2001 and 2000, respectively.

Note 7 — Related Parties

The Corporation purchases services from the FCA under an Inter-Agency Agreement. These include examination and administrative support services. The Corporation had payables due to the FCA of $100,350 at December 31, 2001, and $58,086 at December 31, 2000. The Corporation purchased services for 2001 which totaled $535,075 compared with $220,595 for 2000. Included in 2001 purchased services is $350,000 for reimbursement of conversion costs incurred by the FCA in implementing a new financial management system that FCA used to provide accounting services to the Corporation.

The Corporation provided financial advisory assistance to the FCA under a related Inter-Agency Agreement, recognizing revenue in 2001 of $1,106 and in 2000 of $13,430. At December 31, 2001, and 2000, the Corporation had a receivable from the FCA for $369 and $7,709 respectively.

Income and Expenses
Farm Credit System Insurance Corporation By Year
($ in thousands)

	INCOME		EXPENSES		NET INCOME
	Premiums	Investment	Provision for Insurance Obligations	Administrative and Operating Expenses	Changes in Insurance Fund
1989	$ 65,000	$ 16,041	—	$ 118	$ 80,923
1990	$ 72,000	$ 25,705	$ 140,000	$ 243	($ 42,538)
1991	$ 77,463	$ 31,483	$ 15,555	$ 953	$ 92,438
1992	$ 73,902	$ 37,198	$ 12,062	$ 1,200	$ 97,838
1993	$ 74,100	$ 41,277	($ 39,444)[1]	$ 1,278	$ 153,543
1994	$ 76,526	$ 46,389	$ 8,890	$ 1,482	$ 112,543
1995	$ 79,394	$ 54,688	($ 14,329)[2]	$ 1,379	$ 147,032
1996	$ 85,736	$ 61,471	$ 8,509	$ 1,469	$ 137,229
1997	$ 71,242	$ 71,088	$ 9,105	$ 1,511	$ 131,714
1998	$ 19,972	$ 79,545	$ 9,743	$ 1,525	$ 88,249
1999	$ 45,496	$ 81,719	$ 10,424	$ 1,631	$ 115,203
2000	$ 1,040	$ 92,776	$ 11,154	$ 1,797	$ 80,878
2001	$ 0	$ 94,112	$ 11,935	$ 2,127	$ 80,051

1 In 1993, the FAC Trust Fund was initially considered available to pay a portion of the Insurance Corporation's FAC obligation for assistance to the FLB of Jackson.

2 In 1995, this provision was adjusted to reflect a change in the FAC Trust Fund's investment strategy and the termination of the FLB Jackson receivership making available additional funds to reduce the Insurance Corporation's related FAC obligation.

> > > > CORPORATE OFFICERS

Mary Creedon Connelly	Chief Operating Officer
Dennis M. Pittman	Director of Risk Management
Alan J. Glenn	Chief Financial Officer
Dorothy L. Nichols	General Counsel
C. Richard Pfitzinger	Asset Assurance Manager
Kelly Mikel Williams	Secretary to the Board

> > > > REFERENCES

Copies of Farm Credit System Annual Reports to Investors and Quarterly and Annual Information Statements may be obtained from:

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
(201) 200-8000

Copies of the Annual Performance and Accountability Reports of the Farm Credit Administration (FCA) may be obtained from:

Office of Congressional and
Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4056

Production of the 2001 Annual Report of the Farm Credit System Insurance Corporation coordinated by Anna Lacey with assistance from Regena Rose and Christine Quinn.