

MEMORANDUM



September 13, 2012

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

From: Kenneth A. Spearman 
Chairman

Subject: Premium Planning Guidance for 2013

At its meeting today, the Farm Credit System Insurance Corporation's Board of Directors considered the likely level of premium rates for 2013. The Federal Farm Credit Banks Funding Corporation reports that insured debt obligations increased by 4.2 percent during the first seven months of 2012. Due to this slightly higher than anticipated growth, the Farm Credit Insurance Fund (Insurance Fund) was approximately \$53 million below the secure base amount (SBA) at July 31, 2012.

Based on our recent survey of Farm Credit System banks and associations, we expect a moderate rate of growth in 2013 of 2 to 6 percent. As a result, the Board of Directors has decided that, for planning purposes, the insurance premium rate on adjusted insured debt will likely range from 7 to 9 basis points for 2013. In addition, the assessment of an additional 10 basis points for nonaccrual loans and other-than-temporarily impaired investments will likely be continued.

The Board considered the following factors in providing guidance on premiums:

- Current level of the Insurance Fund and projections for growth in insured obligations;
- Likelihood and probable amount of any losses to the Insurance Fund;
- Financial condition of the Farm Credit System banks and associations;
- Health and prospects for the agricultural economy; and,
- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities and derivatives.

At July 31, 2012, insured debt was approximately \$191.3 billion, up \$7.7 billion from yearend 2011. The change in bank debt levels during the first seven months of 2012 ranged from negative 1.6 percent to 7.1 percent at the four banks.

In view of the quarterly allowance for insurance loss analysis, we consider the System to be fundamentally safe and sound. The System continues to report strong earnings primarily from the banks' ability to reprice debt at favorable rates in the low interest rate environment. The credit quality of the System's loan portfolio remains strong, the quality and quantity of bank liquidity is sufficient, and capital levels at most System institutions continue to increase. Credit problems continue to exist at a few smaller associations, but we do not believe they pose material risk to the Insurance Fund.

The outlook for the System remains generally favorable. Several System institutions have reported increased competition, which has put some pressure on margins. Moreover, should interest rates increase, the positive impact from repricing will likely diminish and could reduce earnings throughout the System. The System may also be impacted by rapidly changing developments in the U.S. and global economies and by the ongoing drought.

The Board of Directors will make the premium decision for 2013 at its January meeting. If relevant factors change, premium levels may be adjusted outside the guidance range to maintain the SBA.

If you have questions concerning these matters please contact Rick Pfitzinger, FCSIC's Chief Financial Officer, at 703-883-4388 or pfitzingerR@fcsic.gov.

Attachment: Trend Analysis of Outstanding Insured Obligations

**Trend Analysis of Outstanding Insured Obligations
Preliminary Results - 12 Months Ending July 31, 2012
(\$ in Millions)**

BANK	31-Jul 2012	30-Jun 2012	6/30/12 to 7/31/12		YEAR TO DATE-2012				ROLLING 12 MONTH 7/11 to 7/12		
			\$ Change to 31-Jul	% Change to 31-Jul	31-Dec 2011	\$ Change from 31-Dec	% Change. from 31-Dec	% Change. Annualized	31-Jul 2011	31-Jul 2012	12 Month Change
AGFIRST	26,600.8	26,416.9	183.9	0.7%	27,033.8	(433.0)	-1.6%	-2.7%	27,462.9	26,600.8	-3.1%
AGRIBANK	71,508.5	70,023.0	1,485.5	2.1%	67,447.2	4,061.3	6.0%	10.3%	65,780.2	71,508.5	8.7%
COBANK /1	79,607.7	79,518.4	89.3	0.1%	76,413.8	3,193.9	4.2%	7.2%	78,496.2	79,607.7	1.4%
TEXAS FCB	13,549.3	13,559.3	(10.0)	-0.1%	12,645.5	903.8	7.1%	12.3%	12,883.6	13,549.3	5.2%
TOTAL OBLIGATIONS /2	\$ 191,266.3	189,517.6	1,748.7	0.92%	\$ 183,540.3	7,726.0	4.2%	7.2%	\$ 184,622.9	\$ 191,266.3	3.6%

1/ U.S. AgBank merged with CoBank on January 1, 2012, so the results are presented on a combined basis.

2/ Monthly data is based on the Debt Obligations at par as provided by the Funding Corporation, Quarter-end data is based on the Call Reports.

SOURCES: Funding Corporation System Debt Obligations Report for Monthly Debt Data
Call Report Data is quarterly.