FCSIC

FARM CREDIT SYSTEM INSURANCE CORPORATION

Chairman's Message

September 13, 2010

I am pleased to present FCSIC's Annual Performance Plan for fiscal year 2011-2012, which was approved by the Board of Directors on September 8, 2010. The Annual Performance Plan is derived from FCSIC's five-year Strategic Plan (FY 2010-2015), which was approved by the Board of Directors on June 10, 2010 and can be found on our website.

The Annual Performance Plan has been updated in accordance with the requirements of the Office of Management and Budget's Circular No. A-11. The Plan is organized by program area and provides goals, performance measures, and objectives used to evaluate FCSIC's activities during the current fiscal year. FCSIC reports on its progress against the performance goals in its annual reports.

The current economic turmoil reminds us of the importance of access to the capital markets for Farm Credit System debt issuances. Maintaining investor confidence is critical and FCSIC's strategic goal of protecting investors from loss without recourse to a joint and several liability call is as relevant today as it was when FCSIC was created in the aftermath of agricultural crisis of the eighties.

Kenneth A. Spearman
Chairman

McLean, Virginia 22102
(703) 883-4380

FCSIC

FARM CREDIT SYSTEM INSURANCE CORPORATION

ANNUAL PERFORMANCE PLAN FY 2011-2012

September 8, 2010

INTRODUCTION

The Farm Credit System Insurance Corporation (Corporation or FCSIC) was established by the Agricultural Credit Act of 1987 (1987 Act) as an independent U.S. Government-controlled corporation. The 1987 Act provided for all Farm Credit System (System or FCS) banks to be insured. The Corporation's primary purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of Farm Credit System banks. The System is a privately owned, nationwide financial cooperative that lends to agriculture and rural America. By ensuring the repayment of System debt securities to investors, the Corporation helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

The Corporation operates with no appropriated funds. The Corporation collects insurance premiums from each System bank that issues insured obligations. These premiums and the income from the Corporation's investments provide the necessary funds to fulfill its mission. In May 2008, the Food, Conservation, and Energy Act amended the Farm Credit Act to generally assess the Corporation's premiums on outstanding insured obligations and authorized the Corporation to collect an increased range of premiums.

At the Corporation's inception, Congress voiced its view that the Corporation should, to the extent practicable, avoid duplication of effort and minimize costs. Since 1993, the Corporation's business model has been to operate with a small core staff and use the assistance of private and public sector contractors to leverage its efforts. The Corporation's Board of Directors and management have adopted this model as a cost-effective and efficient way to use available expertise, services and resources to accomplish its mission.

MISSION STATEMENT

As an independent entity, the Corporation shall:

- Protect investors in insured System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (FCIF or 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.

ANNUAL PERFORMANCE PLAN

The Corporation's Annual Performance Plan (Performance Plan) is derived from its five-year Strategic Plan (FY 2011–2015). The Performance Plan is organized by program area and provides focus to the goals, objectives and performance measures used to evaluate the Corporation's activities during the current year. As with the Strategic Plan, the Corporation's mission and key assumptions guide development of the Annual Plan. Progress towards program goals is periodically reported to the Board of Directors (at least quarterly) and is summarized in the Corporation's Annual Report, which is delivered to Congress and placed on the Corporation's website after the calendar year ends.

Strategic Goal	Strategic Objectives	High Priority Performance Goals
Investors in insured debt are protected from loss without recourse to a joint and several liability call.	The Farm Credit Insurance Fund (FCIF) remains strong and adequately financed.	Maintain the FCIF at the statutory 2 percent secure base amount.
	The FCSIC promptly identifies and responds to potential risks to the FCIF.	Identify and address risks to the FCIF.
		Disseminate data and analyses on issues to the FCSIC Board, the public, and other stakeholders.
		Effectively administer temporary financial assistance programs subject to the statutory least cost requirements.
	The FCSIC resolves failure of FCS institutions in the manner least-costly to the FCIF.	Market failing institutions to qualified and interested potential bidders.
	The public, insured investors and FCS institutions have access to accurate and easily understood information about the FCSIC insurance program.	Using the FCSIC website, annual report and other opportunities, provide educational information to insured institutions and their investors to help them understand the benefits of the insurance program.

CORE PROGRAM ACTIVITIES

On a continual basis, the Corporation performs a number of core activities that are essential to the achievement of its mission. The following is a summary of these activities categorized by program area:

- ***Insurance Fund Management*** **--** The Corporation helps maintain public confidence in the System by insuring the System Banks' debt obligations. The Corporation:

- Sets premium rates, collects and audits insurance premiums;
- Manages the Corporation's $3.1 billion investment portfolio to maintain the Insurance Fund at the 2 percent secure base amount;
- Consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information;
- Oversees the Corporation's accounting and financial reporting function; and
- Manages Corporation payments that support program operations.

- ***Risk Management --*** The Corporation evaluates risk to the Insurance Fund from Farm Credit Administration (FCA) supervised institutions including the insured banks and the larger and more complex associations. The Corporation:
  - Uses monitoring systems, financial models and special examinations to analyze and report risk trends regularly to the Board and external auditor;
  - Monitors conditions in the capital markets and agricultural industry that can adversely impact System banks and their affiliated associations;
  - Reviews FCA examination reports of institutions that are larger, more complex and/or have deteriorating FIRS ratings and participates on the FCA enforcement committee;
  - Evaluates the need for Allowances for Insurance Fund Losses quarterly;
  - Consults with FCA regarding risks resulting from mergers; and
  - Reviews funding requests of undercapitalized System banks and regulatory corporate approvals.

- ***Receivership and Conservatorship --*** If a System bank or association fails, the Corporation would be appointed conservator or receiver. As conservator, it would operate the institution as a going concern. As receiver, it would marshal the receivership estate's assets and recover the maximum amount possible for the receivership's creditors under the law. Currently, there are no conservatorships or receiverships. The Corporation:
  - Maintains the capability to manage receiverships and conservatorships;
  - Plans and trains for potential receiver or conservator actions;
  - Monitors legislation, legal cases, appraisal and environmental issues; and
  - Consults with other Federal insurers that serve as conservator or receiver.

PROGRAM EVALUATION

The Board of Directors provides policy direction and oversight of the Corporation's operations. An independent accounting firm evaluates financial results annually. This includes a review of the Corporation's financial statements and the effectiveness of internal controls. To evaluate program activities, periodic operational reviews are performed. In addition, the General Accountability Office (GAO) performs a separate annual review of the Corporation's financial results and, at their discretion, program performance. These reviews are communicated to the Board. Recommendations arising from the annual audit and periodic operational reviews are integrated into the Strategic Plan.

INSURANCE FUND MANAGEMENT

GOAL: *Manage the Insurance Fund to maintain the secure base amount at the level necessary to provide adequate protection for investors and taxpayers against identified risks.*

Congress established a statutory requirement for the Insurance Fund to be maintained at a secure base amount (SBA) equal to 2 percent of adjusted insured obligations. Maintaining this goal may be affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions. The Corporation assesses its performance in achieving this goal by the following performance measures:

PERFORMANCE MEASURES

- Adjusting the insurance premiums semi-annually in order to maintain the Insurance Fund at the statutory secure base amount. Historic performance to the 2 percent SBA target is reported to the Board and the public quarterly.

- Tracking the investment portfolio yield and benchmarking performance with similarly structured public and private sector funds quarterly. Reporting the results to the Board and to the public in the Annual Report.

- Managing the investments in accordance with the Board's policy to provide sufficient liquidity to protect investors in the System's debt securities. Reporting the composition of the portfolio to the Board and the public quarterly.

    - At least 20 percent of the Insurance Fund is to be invested in a liquidity pool of securities with a maximum of 2 years to maturity.

    - No more than 25 percent of the remaining investment pool may be invested in securities with maturities of 5 years or greater.

ACTIONS:

1. Manage the insurance program through premium collections and refunds to achieve and maintain the secure base amount:

- Monitor System growth and periodically calculate the 2 percent secure base amount.
  Monthly

- Report to the Board on the level of the Insurance Fund monthly, or more frequently, if required.
  At Least Monthly

- Report on insured and other obligations to the Board of Directors at scheduled Board meetings by providing the Board with:

  - Rolling 12-month insured obligation report;
  - Rolling 12-month SBA calculation;
  - Rolling 10-year historical Insurance Fund relative to the 2 percent SBA; and
  - Year-to-date Insurance Fund relative to the 2 percent SBA.

  Quarterly

- Review other Federal insurance agencies' programs regarding premium rates and studies.
  Ongoing

2. Review policy statements concerning the Insurance Fund and premiums.

- Evaluate the FCSIC Policy Statement on the Secure Base Amount (SBA) and Allocated Insurance Reserves Accounts (AIRAs) and submit to Board for review and approval.
  2011

- Review the premium adjustment policy and submit to Board for review and approval.
  2011

3. Manage the investment program to meet the requirements of the Board's policy statement and ensure adequate liquidity while optimizing investment returns.

- Report results to the Board quarterly using defined metrics.
  Quarterly

4. Enhance the Corporation's investment program and modify as necessary.

- Test performance benchmarks.
- Promote training opportunities.
- Enrich reporting to Investment Committee by refining attribution analysis of investment alternatives.
- Utilize investment intelligence sources such as Bloomberg, Bond Edge and other tools.

- Evaluate and review the cost effectiveness of alternative investments consistent with program goal and Board's investment policy.

Ongoing

5. To enhance FCSIC's ability to deal with changing circumstances, pursue initiatives (including possible legislative option), to ensure that System banks have adequate temporary liquidity in situations where external market forces make normal debt market access difficult or impossible.

2011

6. Monitor trends in financial disclosure including those of the other GSEs and regulated financial institutions.

- Monitor the statutory and regulatory initiatives for Fannie Mae and Freddie Mac, and any changes for the Federal Housing Finance Administration (FHFA).

Ongoing

- Continue consultation with the Funding Corporation regarding the presentation of the Insurance Fund in the combined financial statements of System banks.

Quarterly

7. Maintain Farm Credit System Financial Assistance Corporation (FAC) shareholder list and update annually.

Annually

RISK MANAGEMENT

GOAL: *Monitor, evaluate, and report risks that could generate losses to the Insurance Fund or result in a resolution.*

PERFORMANCE MEASURES

Protecting the Fund from Losses: Program effectiveness is measured by the extent that problems are promptly detected and insurance losses are minimized. Since the Corporation became operational in 1993, there have been no Farm Credit System institution failures that caused loss to the Insurance Fund. However, losses may occur in the future. Timely evaluation and mitigation of the Insurance Fund's risk exposure is critical to minimizing losses.

In periods of probable or actual insurance claims, the ratio of estimated losses as a percentage of actual losses is the measure of the Corporation's ability to assess prospective loss exposure. Management uses criteria specified in its Allowance for Loss procedure and generally accepted accounting principles as guidance for determining when and how much to record for estimated insurance loss reserves.

Risk is identified by a quarterly review and analysis of all institutions using the benchmarks and criteria adopted by the Board in the Allowance for Insurance Fund Loss procedures. Other sources to assist identification of risk are:

- Institution actions approved by FCA;
- Reports of examination prepared by the Office of Examination; and
- Special examinations conducted to assess insurance risk posed by weaker System institutions.

Assistance Authority: The Corporation is authorized to provide assistance to a System institution to prevent default, restore normal operations, or to facilitate a merger or consolidation. Any assistance must be the "least costly approach" of all alternatives available. A cost test analysis is performed using the data obtained from each special examination to estimate the liquidation value of a troubled institution. To provide assistance to an open bank, the Corporation must first evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer. There are presently no active assistance agreements.

Periodic Reporting: A System Performance Report is prepared for the Board of Directors on a quarterly basis. The report will advise the Board on condition and performance at:

- Each insured bank;
- Largest associations; and
- Specific institutions posing higher risk to the Insurance Fund.

The Corporation reports annually results of Insurance Fund solvency modeling. Reports on specialized topics are prepared as needed.

ACTIONS:

1. Report to the Board on FCS conditions and trends that could impact insurance risk.
Quarterly

2. Analyze and recommend Allowances for Insurance Fund Losses in accordance with criteria established in the Board-approved procedures.
Quarterly

3. Update insurance risk model scenarios at least annually to evaluate trends in Insurance Fund solvency and revalidate assumptions. Continue evaluation of the insurance risk model as an actuarial tool to provide additional protection to System investors (including better incorporating risk from investment assets).
June 2011
June 2012

4. Consult with FCA regarding funding requests from undercapitalized System banks and restructuring requests from banks and large associations.
As Required

5. Evaluate the effect of alternative forms of System financing and capital instruments (e.g., preferred stock, subordinated debt) on the Insurance Fund. Review offering circulars for appropriateness of disclosures concerning the Insurance Fund.
Ongoing

6. Work with FCA to improve communications and coordination to develop better data access in the following areas:

   - Meet with field staff of the bank and market risk division, and the association exam division periodically;
   - CRS (Consolidated Reporting System) and LARS (Loan Accounting and Reporting System) databases, economic modeling, and other systems under development (shared large asset database);
   - Oversight and Examination database sponsored by FCA's Office of Examination; and
   - Conduct information sharing meetings with FCA on implementation of any new data systems.

Ongoing

7. Maintain contacts with other financial regulators to share information on emerging risks and risk management processes.
Ongoing

8. Provide analysis and input to semi-annual rate review for Board insurance premium decision.
May 2011

December 2011

9. Work with Farm Credit System to improve data available for future cost test evaluations required to use financial assistance authority.

    - Evaluate and test feasible options to complete cost tests and meet other resolutions needs.

December 2011

10. In recognition of the importance of Systemwide agreements that establish uniform standards of performance (CIPA and MAA), monitor and evaluate prospective changes.

Ongoing

RECEIVERSHIP AND CONSERVATORSHIP

GOAL: *Maintain the capability to effectively manage receiverships or conservatorships.*

RECEIVERSHIP CAPABILITY

The Corporation has a statutory responsibility to serve as receiver or conservator when appointed by the Farm Credit Administration. This goal requires that corporate readiness be maintained, through periodic staff training and evaluation of contractors' capabilities, to ensure that qualified resources can be employed should the need arise.

PERFORMANCE MEASURES: The effectiveness of receivership operations will be measured by completing the initial notice to creditors promptly and processing of all insured claims in accordance with regulations. Completion will be defined as the processing of 90 percent of all claims. Other performance measures include operating costs as a percentage of total assets and actual asset recovery return as a percentage of net realizable asset values using FDIC comparable metrics. These metrics will be tracked, and reported to the Board.

Currently, there are no receiverships or conservatorships in the Farm Credit System.

ACTIONS:

1. Monitor and plan for potential conservator/receivership activity.

    - Test pre-resolution exam procedures using FCSIC and FCA staff
    - Use contractors to develop staffing plan for large associations.

    Ongoing

2. Use contractors to develop materials and documents for alternative resolution scenarios, including targeted legal documents, to increase readiness of FCSIC to perform resolutions that may be required

    December 2011

3. Pursue a legislative initiative to update resolution authorities of FCSIC. Utilize law firm contract resources to assist in the preparation of a legislative proposal based on the existing statutory provisions governing FDIC's conservatorships and receiverships.

    June 2010-2011

4. Monitor legislation, regulations, legal cases, and environmental issues that could affect receivership and conservatorship operations.

    Ongoing

5. Monitor developments at other Federal insurers in receivership management.

    Ongoing

CORPORATE MISSION SUPPORT

The Corporation recognizes that it must effectively manage its resources to achieve its strategic and performance goals. Resource management facilitates all mission critical activities. It includes effective communication, cooperation with FCA and other agencies and responding to external legislative and regulatory initiatives affecting the Corporation. The Corporation's most important resource is its core staff of 10. It strives to attract and retain highly motivated and skilled employees. It leverages its resources by purchasing support services from the FCA and other contractors to ensure the cost-effective administration of its programs. Purchased services include examination support, Congressional and public affairs support, personnel, financial and operational audit, accounting, network management, and consulting services.

PERFORMANCE MEASURES

Effective management of corporate resources is measured by the Corporation achieving its performance goals. Additional specific measures of resource management include:

- Operating within the Board-approved budget. The Corporation's expenses are paid from the investment earnings on the Insurance Fund. The Corporation's operating budget for 2011 totals $4 million (58 percent for personnel costs and 29 percent for public and private contract services).

- Obtaining an unqualified audit opinion from the independent public accounting firm hired by the Corporation's Audit Committee and a favorable review from the GAO on internal controls and financial reporting for the combined Government financial statements.

- Achieving positive results from the Corporation's human capital survey which measures employee satisfaction with their work experiences and their leadership.

ACTIONS:

1. In cooperation with the Funding Corporation, communicate benefits of insurance program to stakeholders.

- Continue to identify and implement methods to reach out to selling groups and investors;
- 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.

Ongoing

2. Review progress reports on the annual plan and report to the Board at least quarterly. After the year ends, submit the Corporation's Annual Report to Congress that compares actual performance to annual performance goals.

Quarterly

3. Monitor and evaluate FCA initiatives that affect the Corporation and provide input during their development. (For example, regulations governing investments, capital, lending authority.)

As Necessary

4. Review and update corporate policies during the strategic planning cycle. The review should include: (a) the continued need for the policy; (b) the impact of the policy on stakeholders; and (c) whether the policy is written in "plain English." Policies to be reviewed in FY 2010-2011 are:

- Environmental Policy; **December 2010**
- Equal Employment Opportunity; and **April 2011**
- Strategic Planning Policy; **June 2011**
- Assistance Policy. **September 2011**

5. Monitor legislative initiatives that affect the System, FCA, and the Corporation.

As Necessary

6. Promote continuous learning and staff development, including staff cross-training and team building to ensure adequate backup in key corporate programs.

Annually

7. Evaluate results of the Corporation's human capital survey to improve our workplace where appropriate.

Annually

8. Maintain and improve essential information technology and the FCSIC website with the assistance of FCA IT staff.

Ongoing

9. Review the Corporation's electronic and paper files and records to:

- Ensure the organizational structure in use continues to be effective; and
- Update electronic files and procedures so they are consistent with paper files and provide guidance to staff on using the electronic filing system.

Ongoing

10. Prepare required financial reports and monitor changes to Federal reporting requirements for Treasury and OMB, including:

- SF-224 Statement of Transactions – Reports monthly deposit and disbursement transactions to Treasury.

  Monthly

- Annual Audit.

  January

- Intragovernmental Fiduciary Confirmation System (IFCS).

  Quarterly

- Intragovernmental Reporting and Analysis System (IRAS) - Combines quarterly intragovernmental trial balance data extracts and GFRS data.

  Quarterly

- The Treasury Report on Receivables (TROR).

  Quarterly

- Federal Agencies' Centralized Trial-Balanced System (FACTS) II - Collects the preclosing adjusted trial balance using the standard general ledger accounts.

  Quarterly

- GAO Annual Audit.

  August

- Federal Managers' Financial Integrity Act - Reviews the Corporation's internal controls to give assurance that the management systems in place conform to the standards pursuant to the FMFIA.

  September-October

- Governmentwide Financial Report System (GFRS) - Collects the Corporation's closing package information and links its audited financial statements to the Financial Report of the United States.

  November

- Perform Agreed-Upon Procedures Required by OMB - Related to fiscal yearend budgetary reporting.

  November

- Federal Agencies' Centralized Trial-Balanced System (FACTS) I.

  November

- MAX A-11 - Forwards the Corporation's financial data to the Office of Management and Budget for inclusion in the President's Budget.

  December

11. Evaluate contractor performance and services obtained.

- Receivership/Conservatorship Resources.

  Quarterly

- Legal Service.

  Quarterly

- Prompt Payment Report.

  Monthly

- Bureau of Public Debt Administrative Resource Center (ARC) for financial management services support.

July

- Audit Services.

September

- SAS 70 Report – ARC and Federal Investment for the investment program Branch review external audits of organizations that provide contracted services.

August

12. Monitor and review travel and purchase card programs.

- Annual Charge Card Management Plan.

January

- Annual credit card usage (narrative and data reports).

February

13. Review and update the Corporation's Disaster Recovery Plan to ensure effective continuity of operations.

2012