Memorandum FCSIC

Farm Credit System Insurance Corporation

January 22, 2010

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

From: Kenneth A. Spearman
Chairman

Subject: Premiums for 2010 and Allocated Insurance Reserves Accounts Payment

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved the insurance premium rates for 2010. As suggested in our September premium guidance, we are projecting moderate growth in insured obligations for 2010 (3 to 5 percent). This range comports with the growth rates obtained from the five Farm Credit System banks in our recent survey. As a result, the Board of Directors is reducing the insurance premium assessment rate on adjusted insured debt to 10 basis points for 2010. The Board has decided to continue assessing 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Board considered the following factors in setting 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.

The Farm Credit Administration's Office of Examination reports that the overall System financial condition and performance remain fundamentally sound although its operating environment has become markedly more risky in recent months. Based on the Corporation's most recent allowance for loss review of all banks and associations, the Corporation concluded that no allowances are recommended at this time.

Based on preliminary results reported by the Federal Farm Credit Banks Funding Corporation through December 31, 2009, insured debt remained nearly unchanged during the year. At December 31, 2009 insured debt was approximately $176.11 billion, down $17 million from yearend 2008. The change in bank debt levels in 2009 ranged from (7.5) percent to 3.8 percent at the five banks. The five year growth rate from 2005 through 2009 has averaged 12.4 percent annually.

As a result of the Corporation's use of the new premium authorities and slower than anticipated growth in adjusted insured obligations, the Insurance Fund finished 2009 above the 2 percent secure base amount (SBA). Based on preliminary results, at December 31, 2009 the unallocated Insurance Fund level relative to the SBA was 2.09 percent of insured debt outstanding or $132 million above the SBA. After final yearend results are available, the Corporation will allocate the excess amount (estimated $132 million less the required deduction of FCSIC's 2010 operating expenses of $3.86 million and other adjustments including those arising from yearend call report information, resolution of outstanding premium audit issues and completion of the Corporation's 2009 financial audit) to the AIRAs.[1]

You will recall that at yearend 2003, $39.9 million was transferred to the AIRAs. This amount is in addition to the excess described above occurring at yearend 2009. These funds were not paid to the AIRAs accountholders because the Insurance Fund has ended each subsequent year below the SBA. However, the size of the estimated excess for 2009 allows the Board to pay those funds to the accountholders at this time. Payment is conditioned upon the receipt of the 2009 premium payments from the banks, which is scheduled to occur on January 29, 2010, and that no event occurs prior to payment that would require use of the Insurance Fund. A schedule of the anticipated payments is attached.

After all yearend results are finalized, including System institutions reporting on their condition and performance, and the excess in the Insurance Fund is transferred to the AIRAs, the Board will consider exercising its authority under the statute to make additional payments from the AIRAs.

The current troubled financial environment in agriculture is posing challenges for the System and its borrowers. These include volatile farm commodity and farm input prices; stress to specific agricultural sectors, including ethanol, dairy, hogs, poultry, timber and reduced debt servicing ability by many farm families and rural residents due

[1] The Farm Credit Act of 1971, as amended (the Act), provides that if, at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, then FCSIC shall allocate to the AIRAs the excess amount less the amount that FCSIC, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations for the immediately succeeding calendar year. The FCSIC has discretion concerning payments from the AIRAs. The Act provides in part that, "As soon as practicable during each calendar year, the Corporation may . . . pay to each insured System bank, in a manner determined by the Corporation, an amount equal to the balance in the [AIRA] of the System bank." The Act further provides that as soon as practicable during each calendar year, the Corporation may pay to each System bank and association holding FAC stock a proportionate share of the balance in the AIRA established for holders of FAC stock.

to the rising level of unemployment and diminished non-farm income. As a result, System asset quality has deteriorated and capital levels are stressed at a growing number of institutions.

The Board will meet again in June 2010 to review premium rates.

Attachments: Schedule of anticipated AIRAs payments

Attachment 1

Detail for Amounts Currently in AIRAs

	AIRA Amount
FAC Stockholders in aggregate (10% of Allocable Amount)	3,988,843
Farm Credit Bank of Texas	2,779,339
AgriBank, FCB	12,022,474
CoBank	9,681,998
US AgBank, FCB	5,808,564
AgFirst, Farm Credit Bank	5,607,214
	$ 39,888,432

FAC Stockholder Current AIRA
Account Detail

Allocation of FAC Stockholder Account	Shares	Ratio	Amount
Farm Credit Bank of Texas	2,487,975	22%	888,634
AgriBank, FCB	2,812,507	25%	1,004,547
CoBank	712,660	6%	254,542
US AgBank, FCB	1,727,833	16%	617,133
AgFirst District Associations Holding FAC Stock (see detail on next slide)	3,426,889	31%	1,223,987
Totals	11,167,864	100%	$ 3,988,843

AgFirst District Associations
FAC Stockholders Account Detail

	Number of Shares	FAC Allocation Amount
MidAtlantic (Includes Valley Farm Credit shares)	770,209	275,097
FC of the Virginias	571,525	204,132
Colonial Farm Crdit	448,912	160,339
Chattanooga	257,737	92,056
Puerto Rico Farm credit	243,042	86,808
Jackson Purchase	221,845	79,237
AgChoice Farm Credit	210,042	75,021
Central Kentucky	201,347	71,915
AgGeorgia Farm Credit	106,773	38,136
Ag Credit	97,918	34,974
AgCarolina	94,692	33,821
Carolina Farm Credit	83,163	29,703
AgSouth Farm Credit	77,850	27,806
ArborOne	41,834	14,942
	3,426,889	**$ 1,223,987**