

NEWS RELEASE



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Farm Credit System Insurance Corporation Seeks Comments on Draft Strategic Plan

McLEAN, Va., October 22, 2015 — The Farm Credit System Insurance Corporation Board of Directors invites the public to review and comment on a draft of FCSIC's strategic plan for 2016 to 2021. The plan will be open for public comment until Nov. 11, 2015.

A copy of the plan can be downloaded from FCSIC's website at www.fcsic.gov. Comments may be submitted by mail to Rick Pfitzinger, Farm Credit System Insurance Corporation, 1501 Farm Credit Drive, McLean, VA 22102, or by email to pfitzingerr@fcsic.gov.

The draft strategic plan is being issued for public comment in accordance with the Government Performance and Results Act of 1993, which requires agencies to consult with Congress, and solicit and consider the views and suggestions of those potentially affected by, or with an interest in, an agency's strategic plan.

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The Farm Credit System Insurance Corporation, an independent U.S. government-controlled corporation, ensures the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of Farm Credit System banks.

Note: FCSIC news releases are available on the Internet. Access the FCSIC website at www.fcsic.gov.



STRATEGIC PLAN

FY 2016-2021

October 22, 2015

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Mission

The Farm Credit System Insurance Corporation (FCSIC or the Corporation), a Government-controlled, independent entity, shall:

- protect investors in insured Farm Credit System (System) obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (Insurance Fund),
- exercise its authorities to minimize Insurance Fund loss, and
- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

Values

Six core values guide us in accomplishing FCSIC's mission:

1. *Integrity*
 - We follow the highest ethical and professional standards.
2. *Competence*
 - We are a skilled, dedicated and diverse workforce that strives to achieve outstanding results.
3. *Teamwork*
 - We communicate and collaborate with one another and with other regulatory agencies.
4. *Effectiveness*
 - We respond quickly and prudently to insurance risks.
5. *Accountability*
 - We are accountable to each other and to our stakeholders to operate in a fiscally responsible and operationally effective manner.
6. *Fairness*
 - We respect individual viewpoints and treat one another and our stakeholders with impartiality, respect and fairness.

Introduction

FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. Government-controlled corporation. 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 System banks. The System is a federally chartered network of cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers or harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. By ensuring the repayment of insured debt securities to investors, the Corporation helps to maintain a dependable source of funds for the System's borrowers. The Farm Credit Act of 1971, as amended (Act), requires that the Corporation serve as the conservator or receiver for System banks and associations.

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 funds to fulfill its mission. The Corporation is managed by a three-member board of directors composed of the members of the Farm Credit Administration (FCA) Board. The Chairman of the Corporation's Board, however, must be a Board member other than the FCA Chairman.

The Corporation recognizes that it must effectively manage its resources to achieve its strategic and performance goals. Resource management facilitates all mission critical activities. This 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. We strive to attract and retain highly motivated and skilled employees. A portion of FCSIC's current workforce will transition into retirement over the next decade, while the need for employees with advanced technical skills continues to increase. Recruitment of multi-skilled individuals and ongoing cross training are essential to ensure adequate backup exists in key corporate programs. We leverage our resources by purchasing support services from FCA and other contractors to ensure the cost-effective administration of our programs.

FCSIC carries out its mission through three major program areas: 1) insurance fund management, 2) risk management and 3) receivership and conservatorship management.

- **Insurance Fund Management** -- The Corporation helps maintain public confidence in the System by insuring the System banks' debt obligations. The Corporation:
 - Establishes premium rates, collects and audits insurance premiums;
 - Manages the investment portfolio to maintain the Insurance Fund at the secure base amount (SBA);
 - Consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information;
 - Oversees the accounting and financial reporting function; and
 - Manages all payments that support program operations.
- **Risk Management** -- The Corporation identifies, evaluates and manages risks that could generate losses to the Insurance Fund. The Corporation:
 - Uses monitoring systems, financial models and special examinations to analyze the insurance risks posed by System institutions and reports risk trends regularly to the Board of Directors and external auditor;
 - Monitors conditions in the general economy, capital markets, and agricultural and financial sectors that can pose risk to the System, the investors, and the Insurance Fund;
 - Reviews System institution financial information, including FCA examination reports of System banks, larger, more complex associations, and/or institutions that have deteriorating Financial Institution Rating System (FIRS) ratings and participates on FCA's Regulatory Enforcement Committee;
 - Evaluates the adequacy of the allowance for losses to the Insurance Fund quarterly;
 - Consults with FCA regarding changes in risks to the Insurance Fund resulting from proposed institution mergers;

- Reviews funding requests of undercapitalized System banks; and
- Reviews requests for assistance from troubled institutions, when received.
- **Receivership and Conservatorship** – When the FCA Board places a troubled System institution into either conservatorship or receivership, the Act requires FCSIC to serve as conservator or receiver of the troubled or failed institution. In addition, the FCA Board may appoint FCSIC as conservator or receiver of the Federal Agricultural Mortgage Corporation. As conservator, FCSIC would operate the institution as a going concern subject to oversight and regulation by FCA. As receiver, FCSIC would exercise its statutory fiduciary responsibilities to marshal the receivership estate’s assets and recover the maximum amount possible under the law for the receivership’s creditors. 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 relevant legislation, regulations, legal cases, appraisal and environmental issues; and
 - Consults with other Federal insurers that serve as conservator or receiver of banks, thrifts and credit unions, to maintain familiarity with current practices.

Over the period covered by this plan, FCSIC will face strategic challenges in each of these major programs due to changing economic conditions, continuing changes in agriculture and financial markets, government policy changes and changes in the System. The strategic challenges that may affect the Corporation’s programs are grouped into four broad areas: (1) Agricultural and Financial Market Factors; (2) Government Policy Factors; (3) System Factors; and (4) Internal Factors. We monitor these challenges on an ongoing basis. As conditions change, refinements of strategies are considered and implemented when appropriate.

Strategic Challenges

Agricultural and Financial Market Factors

- Access to adequate capital for agricultural borrowers continues to be important as agriculture becomes even more productive to respond to explosive world population growth.
- Agricultural exports continue to be an important, but volatile, component of farm income.
- Commodity prices may exert pressure on operating margins and producer debt levels.
- Technical innovations in agriculture may present opportunities as well as new forms of risk. In addition, there may be opportunities to fund alternative energy sources.
- The trend toward value-added agriculture and vertical integration of the production/delivery systems will continue.
- Farmland price volatility may pose additional risk to the Insurance Fund.
- Farm debt levels will be influenced by the direction of interest rates and there is potential for more market volatility, less market liquidity and higher interest rates.
- Risk management practices of farmers are becoming more critical as direct Government payments have been eliminated and commodity markets remain volatile.

- Adverse weather, other environmental conditions and food safety concerns will continue to pose risks to agricultural lenders.
- Expansion of non-traditional business processes such as automated credit scoring, internet delivery systems and electronic banking continue to pose both new opportunities and risks for financial service providers.
- Threats to cyber-security will likely increase as financial institutions continue to implement Internet-based commerce and mobile systems for their customers.
- Expansion of non-loan assets by financial institutions, such as investments, that are intended to provide greater diversification to reduce risk, may increase risk if poorly managed.
- There may be a significant impact caused by rising interest rates as the Federal Reserve unwinds its highly accommodative monetary policy that supported markets and kept interest rates low since 2008.
- Financial reform has reduced leverage in the financial system, financial institutions are subject to higher capital requirements and regulators have increased vigilance to ensure financial institutions maintain acceptable leverage ratios.
- The Conservatorship of Fannie Mae and Freddie Mac has resulted in a structural shift in the Agency debt market changing investors' approach to buying GSE debt.
- There has been a significant reduction in GSE debt outstanding since 2008 and fewer dealers participating in the GSE debt market. If, as anticipated, the System's percentage of outstanding GSE debt continues to increase, the System may face new challenges when issuing obligations.
- Broker-dealers have reduced their inventories of fixed-income securities and the expectation for further reductions could reduce market liquidity, affecting both the issuance of System obligations and liquidity.
- Regulators, investors and credit rating agencies will require higher quality liquidity from institutions that regularly access the capital markets.
- Funding costs for the System have remained low in conjunction with historically low Treasury yields, but as the economy improves, funding costs may rise, especially on the long-end of the yield curve.

Government Policy Factors

- The trade imbalance and Federal fiscal deficits will influence financial markets, including agency debt issuers and investors.
- Environmental regulation and climate change will continue to influence agriculture and may increase costs.
- Federal policy towards Government Sponsored Enterprises (GSEs) may affect future agency market liquidity and funding costs.
- Federal policy towards large financial institutions will continue to affect derivatives and other credit markets that regularly involve System institutions.
- The 2014 Farm Bill introduced new forms of commodity support that may affect farm incomes; federal policy moved away from traditional price and income support to a model that relies on crop insurance as the primary risk management tool.
- The government's ability to manage food safety risks, as well as animal and plant diseases, may affect agriculture's profitability.
- Farm Services Agency and other United States Department of Agriculture programs will continue to benefit farmers/ranchers who are not yet able to qualify for loans from System

institutions as well as provide a means for System institutions to better serve the needs of young, beginning, and small farmers as well as specialty farmers.

- Congress has modernized other Federal insurers' receivership/conservatorship authorities, while FCSIC's receivership/conservatorship authorities have not been substantially updated since enacted.

System Factors

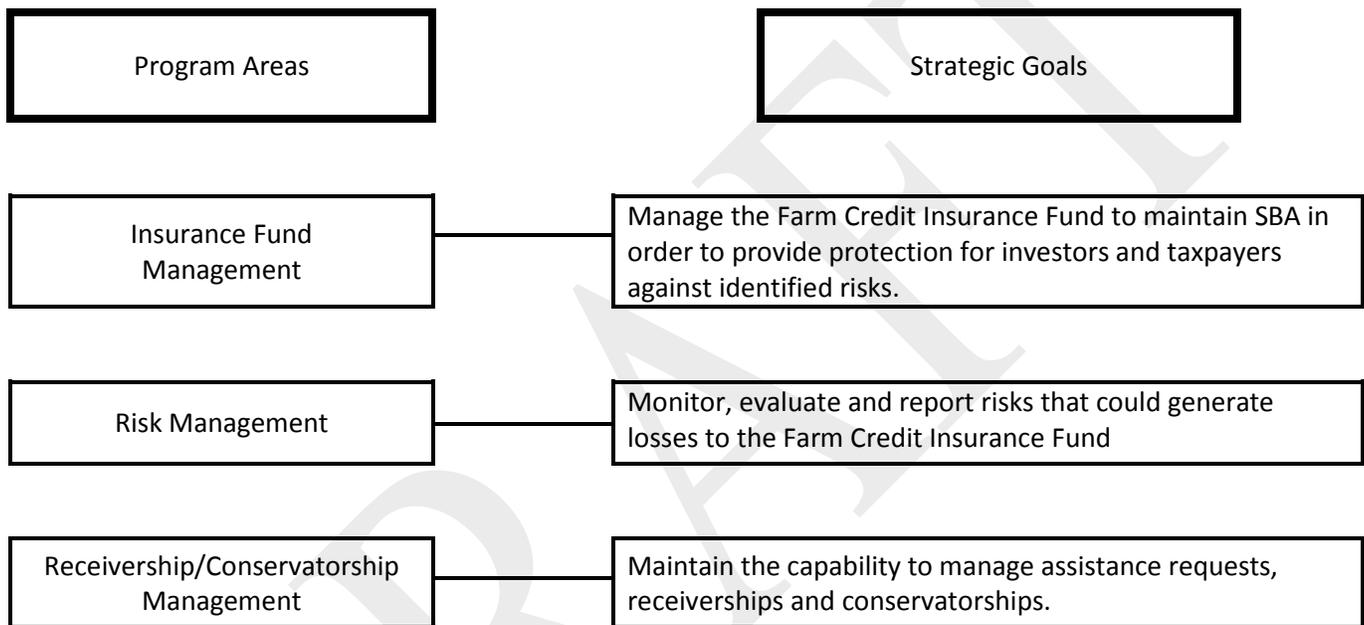
- Continued System institution consolidation and/or strategic alignment may affect the risk of insuring System debt.
- Consolidation in agriculture has resulted in larger borrowers running sophisticated operations, bringing increased concentration risk and requiring more technology.
- Competition will continue to exert pressure on the System.
- Use of complex financial instruments by System institutions and borrowers may increase the complexity of risk evaluation for institutions, regulators and the Corporation.
- To meet changing borrower needs, System institutions will offer an array of financial services and products. New services and products may require the Corporation to obtain specialized expertise to evaluate the effects of these services and products on the insurance program.
- Continued System mission-related investment activities, including through Rural Business Investment Companies, enable the System to provide needed capital for rural infrastructure and business ventures but may also create new risks for System institutions.
- The System's long-time voluntary risk management programs, including the Market Access and the Contractual Interbank Performance Agreements, may be revisited.
- System growth has averaged five percent per year over the past five years. If growth continues, the System will need to ensure internal resources and controls keep pace with expansion.
- Bank and association capital, the Insurance Fund and joint and several liability continue to play important roles in maintaining investor confidence.
- System banks have improved the quality of their liquidity portfolios by purchasing short-term U.S. Treasury securities and other debt securities with explicit U.S. Government guarantees.

Internal Factors

- Maintaining the Corporation's perspective as an independent entity is crucial to its ability to objectively assess insurance risks, establish appropriate insurance premium rates and serve as conservator or receiver.
- Prompt identification of emerging insurance risk requires continuously reviewing risk tools and processes so they remain effective.
- The Corporation will continue to use private and public sector contractors to economize and enhance productivity in accordance with statutory authorities and Board policy statements.
- The Corporation relies on FCA for information the Corporation needs to determine premiums, assess insurance risk and prepare for a conservatorship or receivership; therefore, continued access to information and collaboration with FCA staff is vital to the Corporation's effectiveness.
- Management and staff succession will be an important consideration over the next five years.
- The composition of the Corporation's Board of Directors will change during the next five years.
- The Corporation will work to maintain its back-up liquidity line with the U.S. Treasury's Federal Financing Bank (FFB) so it is available in situations where external market forces make normal debt market access extremely doubtful.

MAJOR PROGRAMS

The Farm Credit System Insurance Corporation has three major program areas. The strategic goals for each of these programs are presented in the diagram below.



Linkage of Strategic Goals and Performance Measures

The Corporation has implemented performance measures to assist in the evaluation of the effectiveness of these strategic goals. The Government Performance and Results Act of 1993 (GPRA) requires all Federal government organizations to report on the results of program performance. Performance results are included in regular reports to the Board of Directors and in the Corporation’s Annual Report. Some of these measures use management estimates that may be affected by the performance and condition of System institutions. Also, unforeseen events may have a material effect on performance measures over time.

Performance Measures – Farm Credit Insurance Fund Management, Building and Managing the Fund to Protect Investors

The solvency of the Insurance Fund depends in part on the Corporation using its authorities to adjust insurance premium assessments when appropriate and effectively managing assets to ensure investment returns are maximized, while maintaining appropriate liquidity to carry out its mission. Congress established a statutory requirement for the Insurance Fund to be maintained at a SBA equal to 2 percent

of adjusted insured obligations or such other percentage as the Corporation in its sole discretion determines to be actuarially sound.¹

The Corporation assesses the effectiveness of its performance in achieving this goal through the following:

- Reviewing semiannually the need for adjustments to insurance premium assessments;
- Measuring investment performance by comparing the portfolio's average yield with peer investment funds, which have similar investment parameters for quality and maturity; and
- Maintaining the Insurance Fund at the statutory SBA, 2 percent of adjusted outstanding insured obligations.

Maintaining the Insurance Fund at the SBA may be affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions or growth in insured obligations exceeding FCSIC's ability to increase the Insurance Fund at the same rate because of statutory limits on premium assessments.

Performance Measures – Risk Management, Protecting the Fund from Losses

Program effectiveness is measured by the extent that emerging problems are promptly detected and insurance losses are minimized. This includes the effective use of financial indicators to monitor conditions and trends and effective analysis and reporting before any need to reserve for losses.

In periods of probable or actual insurance claims, the ratio of estimated losses, as a percentage of actual losses, is an indicator of the Corporation's ability to assess prospective loss exposure. Management uses criteria specified in FCSIC's Allowance for Loss procedure and the Financial Accounting Standards Board's Accounting Standards Topic 450 - Contingencies as guidance.² Timely evaluation of the Insurance Fund's risk exposure is critical to the determination of steps needed to preserve the Insurance Fund's solvency. The Corporation utilizes information obtained from FCA reports of examination and other source materials to identify risks to the Insurance Fund. Internal models and other analysis tools are used to manage identified risks and reduce insurance risk. If approved by the Board of Directors, the Corporation may independently examine and obtain additional information from System institutions.

Performance Measures – Receivership/Conservatorship Management

The Corporation is required to serve as receiver or conservator of System banks and associations when appointed by FCA. This goal requires that corporate readiness be maintained, through periodic staff training and evaluation of contractors' capabilities, to ensure that sufficient qualified resources can be employed should the need arise.

¹ Adjusted insured obligations are equal to the aggregate amount of outstanding insured obligations adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments.

² Financial Accounting Standards Board's Accounting Standards Topic 450, Contingencies, provides guidance regarding recording allowances for loss and impairment of assets.

The effectiveness of receivership operations will be measured by:

- Completing initial processing of all claims within a period to be specified in accordance with the size and complexity of the individual case;
- Operating costs as a percentage of total assets; and
- Actual asset recovery returns as a percentage of net realizable asset values.

Resource Needs

The Corporation operates with a small core staff. This core group leverages its resources by purchasing support services from FCA and other contractors to ensure cost-effective administration of its programs. Support services purchased from FCA and other contractors include examination support, Congressional and public affairs support, personnel, financial and operational audit, accounting, actuarial support, investment analysis, network management and other administrative and technical services as needed.

Program Evaluation

The Board of Directors reviews program activities and results on an ongoing basis. The Corporation has adopted a Policy on Internal Controls and Audit Coverage that requires an independent accounting firm to audit financial and operating results. The Board serves as the Audit Committee in overseeing the execution of the policy. An Audit Charter (updated in 2011) provides a framework for the committee's oversight responsibilities. To evaluate the effectiveness of program activities, periodic operational reviews are performed. Recommendations arising from the annual audit and periodic operational reviews are incorporated into the Annual Performance Plan.

Strategic Goals and Objectives

Program Area: Farm Credit Insurance Fund Management

Program Description

Congress established a statutory requirement for the Insurance Fund to be maintained at a SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation has determined to be actuarially sound. The Corporation utilizes a Dynamic Capital Adequacy Test model to assist in assessing an actuarially sound Insurance Fund level. The Corporation does not anticipate establishing an alternative SBA during the term of this Strategic Plan.

Strategic Goal: Manage the Farm Credit Insurance Fund to maintain the SBA in order to provide protection for investors and taxpayers against identified risks.

Strategic Objectives

1. Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.

2. Utilize actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.
3. Ensure that System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.
4. Communicate accurate and easily understood information about the insurance program to the public, insured investors and System institutions.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

1. **Manage the Farm Credit Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.**

Means & Strategies: FCSIC maintains the viability of the Insurance Fund by prudently investing the Fund, monitoring and responding to changes in the Fund relative to the SBA, collecting premiums and evaluating the Insurance Fund's management and performance. FCSIC regularly analyzes the growth or shrinkage of estimated insured obligations, the current assessment base, loss expectations, interest income earned on the Insurance Fund and operating expenses. This information is used to determine future premium rates. These activities are conducted in accordance with the Board's Policy Statement Concerning Adjustments to Insurance Premiums.

External Factors: Projections for the Insurance Fund are subject to considerable uncertainty arising from the economic outlook. Key risks include the impact of rising interest rates as they return to more normal levels, fiscal challenges at the Federal, state and local levels and global economic risks. A slowdown in the U.S. economic recovery or in the agricultural economy could result in unforeseen institution failures. In addition, future premium and interest revenues could diverge from projections depending on changes in the growth of insured obligations and investment earnings.

2. **Utilize actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.**

Means & Strategies: FCSIC currently utilizes an insurance risk model to estimate the likelihood the Insurance Fund will be sufficient to pay all simulated losses over a 10-year horizon (Probability of Fund Adequacy). Known as the Dynamic Capital Adequacy Test (DCAT), this actuarial loss model is a Monte Carlo simulation of Insurance Fund losses due to a System bank failure. FCSIC will continue expanding the capabilities of the DCAT as an actuarial tool to provide additional insurance protection to System investors. This will include refinements to better address all risk exposures at System institutions including the addition of updated default and loss given default metrics as needed.

External Factors: The DCAT is not an attempt to model the reasons why an institution defaulted but, instead, attempts to capture the overall likelihood as an explicit assumption and to evaluate the consequential loss pattern. The DCAT cannot predict the future but it is a useful tool for evaluating the likelihood and amount of potential losses to the Insurance Fund.

3. Ensure that Farm Credit System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.

Means & Strategies: FCSIC is currently working with System banks and the Funding Corporation to develop improved strategies and procedures to enhance liquidity in situations where normal debt market access has become extremely doubtful. This could include financial assistance from FCSIC to System banks until market conditions improve (See page 14 for additional information). In addition, in 2013 FCSIC entered into an agreement with FFB for a line of credit to serve as a liquidity backstop for FCSIC under specified terms and conditions. FFB is a government corporation within the U.S. Department of Treasury that advances funding to eligible Federal agencies. The agreement provides for a short-term revolving credit facility of up to \$10 billion and is renewable annually.

External Factors: System liquidity may be affected by unforeseen external factors that make normal debt market access extremely doubtful. In addition, it is difficult to predict the causes or timing of such events with any degree of accuracy. A significant disruption of the debt markets may also affect the ability of institutions to generate liquidity through the sale of instruments held for that purpose.

4. Communicate accurate and easily understood information about the insurance program to the public, insured investors and System institutions.

Means & Strategies: FCSIC will continue to communicate the benefits of the insurance program to stakeholders through its website, Annual Report, periodic press releases and other efforts. In cooperation with the Funding Corporation, we will continue to reach out to selling group members and investors. We will 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.

External Factors: Timely, accurate and understandable information is essential for effective communication to stakeholders and the public. In times of financial stress, the demand for information about FCSIC's insurance coverage could temporarily exceed the Corporation's capacity to provide such information. In such cases, FCSIC would augment staff resources for this function as quickly as possible.

Program Area: Risk Management

Strategic Goal: Monitor, evaluate and report risks that could generate losses to the Farm Credit Insurance Fund.

Program Description

FCSIC monitors and manages insurance risk to minimize the Insurance Fund's exposure to potential losses. In the event a System bank is unable to timely pay insured debt securities for which it is primarily liable, the Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured obligations. FCSIC analyzes and evaluates the financial performance and condition of System institutions, maintains ongoing dialogue with FCA examiners and reviews reports of examination. When necessary, the FCSIC Board of Directors authorizes special examinations at System institutions of concern. On a quarterly basis,

FCSIC screens all System institutions against key performance criteria to identify those institutions that may pose an increasing insurance risk.

Strategic Objectives

1. Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Insurance Fund. Conduct trend analysis on the System's growth, funding needs, condition and performance and regularly report to the Board of Directors on identified risk exposures.
2. Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates.
3. Consult with FCA on funding requests from undercapitalized System banks and restructuring requests from banks and large associations.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

- 1. Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Farm Credit Insurance Fund. Conduct trend analysis on the System's growth, funding needs, condition and performance. Regularly report on identified risk exposures.**

Means & Strategies: FCSIC's analysis of insurance risk focuses on a quarterly review of the four insured System banks and the larger System associations. The Corporation monitors these institutions on an ongoing basis, particularly those institutions with more than \$1 billion in assets. FCSIC regularly reviews supervisory information from the examinations conducted by FCA as well as information from a variety of external data sources to identify and report on newly identified areas of risk. In addition, FCSIC has the authority to conduct special examination activities for institutions if the Board of Directors considers it necessary. The results of these reviews are reported to the Board of Directors quarterly and incorporated into FCSIC's quarterly Insurance Risk Analysis and Allowance for Loss report, which is shared with the Corporation's external auditor. Over the next three years, FCSIC will continue to incorporate lessons learned from the recent financial crisis, identify potential new risks that emerge and respond quickly to such issues. To help incorporate lessons learned from the recent financial crisis, FCSIC will maintain contacts with other Federal insurers and financial regulators to share information on emerging risks and risk management best practices.

Access to timely, accurate information is essential to effective risk management. The Act provides that FCSIC obtain information on System institutions from FCA. Access to information collected by FCA is a critical element of detecting the potential for Insurance Fund loss, minimizing duplication of effort and reducing costs. This includes the loan database project, which identifies shared System assets and customers. The Corporation will continue to work cooperatively with FCA and the System to maintain access to and share information to support the monitoring and evaluation of risk to the Insurance Fund and investors. FCA documents and information are protected under interagency information sharing agreements between FCSIC and FCA.

Another area that will receive increased attention is interest rate risk. An extended period of historically low interest rates and tightening net interest margins have created incentives for institutions to reach for

yield by extending portfolio durations. Given the uncertain direction and timing of changes in market interest rates, FCSIC will continue to monitor this area.

External Factors: Projections for insurance risk are subject to considerable uncertainty arising from the economic outlook. Also, because of the potential magnitude of the default, there is no assurance that amounts in the Insurance Fund will be sufficient in the event of a default by a bank. If the available amounts in the Insurance Fund were exhausted, the provisions of joint and several liability would be invoked. Key risks include changes in the lending environment including increased competition; farmland and other collateral price volatility; continued growth in the amount of insured obligations; structural changes in the System; expansion of non-loan assets such as investments; untested government support programs; smaller balance sheets at dealers; information limitations; the implementation of new technologies; cyber security risks; the impact of rising interest rates as they return to more normal levels; and major changes in the agricultural economy and general economic conditions.

2. Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates.

Means & Strategies: FCSIC currently analyzes information from a variety of sources to monitor conditions in the agricultural and financial sectors. This information is used in the premium determination process and for assessing risk to the Insurance Fund. Annual premium rates are established in January by FCSIC's Board of Directors and reviewed at the Board's second quarter meeting. In addition, the Board of Directors provides guidance to System banks on the likely range of premiums for the coming year at their third quarter meeting.

External Factors: Key risks include changes in the level of agricultural exports; commodity prices that exert pressure on operating margins, inflation and producer debt levels; technical innovations in agriculture that present both opportunities and risks; opportunities to fund alternative energy sources; continued vertical integration of agricultural production/delivery systems; adverse weather and other environmental conditions as well as food safety concerns; and expansion of non-traditional business processes such as automated credit scoring, internet delivery systems and electronic banking.

Program Area: Receivership/Conservatorship

Strategic Goal: Maintain the capability to manage assistance requests, receiverships and conservatorships.

Program Description

FCSIC is authorized by the Act to grant financial assistance to a System bank or association to prevent placing the institution in receivership; to restore the institution to normal operation; or to reduce the risk to the Corporation posed by the institution when severe financial conditions threaten the stability of a significant number of System institutions or of insured System banks possessing significant financial resources. Assistance may also be provided to facilitate the merger or consolidation of a qualifying System institution. In a liquidity crisis, if a System bank cannot obtain needed financing, FCSIC has authority to provide discretionary financial assistance. If a System institution were to need assistance, the Corporation would first have to ensure that the proposed assistance is the least costly means for

resolving the problem. By law, FCSIC may not provide financial assistance if the cost of liquidation is lower than providing assistance.

When FCA places a System bank or association into receivership or conservatorship, the Corporation has the statutory responsibility to serve as receiver or conservator for that institution. This 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. To keep pace with conditions in the System and maintain its readiness to protect insured investors, FCSIC prepares and maintains contingency plans to address a variety of institution failure scenarios and conducts simulations to test its plans.

Strategic Objectives

1. Subject to the provisions of the Act, including the least cost test, provide assistance when appropriate to a troubled System bank or association.
2. Ensure receiverships are managed to fulfill the purposes of the Act, protect creditors and are terminated in an orderly and timely manner.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

1. **Subject to the provisions of the Act, including the least cost test, provide assistance when appropriate to a troubled System bank or association.**

Means & Strategies: As specified in the Act, FCSIC, in its sole discretion and on such terms and conditions as the Board of Directors may prescribe, may make loans to, purchase the assets or securities of, assume the liabilities of, or make contributions to, a System bank or association. These strategies would be conducted in accordance with the Board Policy Statement Concerning Assistance. The Corporation is authorized to provide assistance to a troubled System institution to prevent default, restore it to normal operations, or to facilitate a merger or consolidation with one or more other System institutions. The Corporation may also provide assistance to reduce risk to the Insurance Fund when severe financial conditions threaten the stability of one or more banks or banks possessing significant financial resources. All assistance must pass the statutory least-cost test to determine the least costly alternative to the Insurance Fund. In making a least-cost determination, the Corporation, through its special examination authority, would collect any information necessary to perform the least-cost test. For discretionary assistance provided to return an institution to viable self-sustaining operation, the Corporation must also evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer.

External Factors: Economic, market, environmental or other stresses may lead to institutions requesting assistance from FCSIC. In certain instances, these stresses may arise suddenly and be unrelated to the condition or practices of the System.

2. **Ensure receiverships are managed to protect creditors and terminated in an orderly and timely manner.**

Means & Strategies: Under the Act, FCSIC in its receivership capacity manages the assets of institutions placed into receivership by the FCA Board to preserve the asset values and dispose of the

assets as quickly as possible, consistent with the policy objective of maximizing the net return on those assets while minimizing disruption to the agricultural community. The oversight and prompt termination of receiverships preserve value for secured creditors, including System banks and other receivership claimants by reducing overhead and other holding costs. By quickly distributing the assets of a failed institution to private parties, including other System institutions, FCSIC maximizes net recoveries and minimizes disruption to the agricultural community.

We continue to pursue a legislative initiative to strengthen our resolution authorities, including our receivership and conservatorship powers. These changes would improve our ability to protect investors, creditors and shareholders. Also, ensuring that we have express statutory authority comparable to other Federal receivers and conservators would likely reduce the costs of resolving a failed or troubled System institution.

External Factors: A severe economic or agricultural downturn could lead to institution failures and could affect the pace at which FCSIC is able to liquidate the receivership estate assets and terminate receiverships. Economic and other factors, such as extended litigation and problems resolving environmentally tainted receivership properties, might also delay termination of a receivership.

APPENDIX A

FCSIC's Strategic Planning Process

- **Introduction**

FCSIC is subject to the requirements of the Government Performance and Results Act (GPRA) as modified by the GPRA Modernization Act of 2010. In accordance with the requirements of these statutes, FCSIC reviews and updates its Strategic Plan every three years, publishes Annual Performance Plans and Performance Reports and conducts program evaluations to assess whether the Corporation's programs are achieving their stated purposes. The Office of Management and Budget (OMB), in its Circular A-11, has issued implementing requirements for GPRA to the Federal government. FCSIC has focused on complying with GPRA and OMB guidelines by adopting planning and reporting practices that recognize the Corporation's business model and streamlined staffing structure.

- **Annual Performance Plan and Report**

FCSIC's Strategic Plan is implemented through annual performance plans. The annual plans identify our performance goals, indicators and targets for each strategic objective. The Corporation submits its Annual Report to Congress each year that compares actual performance to the annual performance goals for the prior year. This report is also made available to FCSIC stakeholders and the public through FCSIC's website.

The Corporation's long-term strategic goals and objectives are expressed in outcome terms and selected outcome measures are included in the Corporation's annual performance plans. However, many of the performance indicators in these annual plans are process measures (for example, regularly reporting on insurance risk). It is often difficult to establish a direct causal relationship between the Corporation's activities and the outcomes experienced. FCSIC continues to work to improve its performance measures.

- **Corporate Planning and Performance Management Process**

FCSIC establishes performance goals annually through our planning and budgeting process. In formulating these performance goals, the Corporation considers the external economic environment, the condition of the agricultural industry (including potential risks), the condition of the System, projected workload requirements and other corporate priorities. FCSIC plans may also be influenced by the results of program evaluations and management studies, prior year performance results and other factors. Based on this information, planning guidance is established by senior management with input from program personnel.

After annual performance goals are established, a proposed annual corporate operating budget is developed, taking into account the financial, human capital, technological and other resources required to accomplish FCSIC's core mission responsibilities and other annual performance goals. The Board of Directors approves the budget and the Annual Performance Plan.

Annual performance goals are communicated to employees. Staff prepares progress reports and senior management conducts performance reviews quarterly. The results of the reviews are provided to the FCSIC Board of Directors quarterly.

- **Stakeholder Consultation**

FCSIC requested comment from stakeholders and the public on a draft of this strategic plan through a posting on FCSIC's website for a 21-day period beginning October 22, 2015. All comments and suggestions will be carefully reviewed and changes made to the plan where appropriate.

- **Program Evaluations**

Program evaluations are interdivisional, collaborative efforts and they involve management and staff from all affected divisions. Such participation is critical to fully understanding the program being evaluated. It also gives all staff a stake in the process. Division directors use the results of the program evaluations to assure the Chief Operating Officer and Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed and internal controls are adequate. These results are also considered in strategic planning for FCSIC. During the period covered by this Strategic Plan, FCSIC will continue to perform risk-based reviews in each strategic area of the Corporation through the annual Federal Management Financial Integrity Act review process.