

## MEMORANDUM



September 11, 2014

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

From: Kenneth A. Spearman  
Chairman

A handwritten signature in blue ink, which appears to read 'Kenneth A. Spearman', is written over the printed name of the sender.

Subject: Premium Planning Guidance for 2015

At its meeting today, the Farm Credit System Insurance Corporation's Board of Directors considered the likely level of premium rates for 2015. Insured debt obligations, as reported by the Federal Farm Credit Banks Funding Corporation, increased by 2 percent during the first seven months of 2014. Based on preliminary results, at July 31, 2014, the Farm Credit Insurance Fund (Insurance Fund) was approximately 1.98% of the adjusted insured debt, or \$40 million below the 2% secure base amount (SBA).

Based on our recent survey of Farm Credit System banks and associations, we expect a moderate rate of growth in 2015 of 4 to 6 percent for adjusted insured debt. 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 10 to 12 basis points for 2015. 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, 2014, insured debt was approximately \$211.1 billion, up \$4.19 billion from yearend 2013. The change in bank debt levels during the first seven months of 2014 ranged from negative 1.2 percent to 3.7 percent at the four banks. However, in our recent survey participants estimated growth of about 2.7% for the remainder of 2014.

In view of our quarterly allowance for insurance loss analysis, we consider the System to be fundamentally safe and sound. The System continues to report strong earnings, 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 associations, but we do not believe they pose material risk to the Insurance Fund.

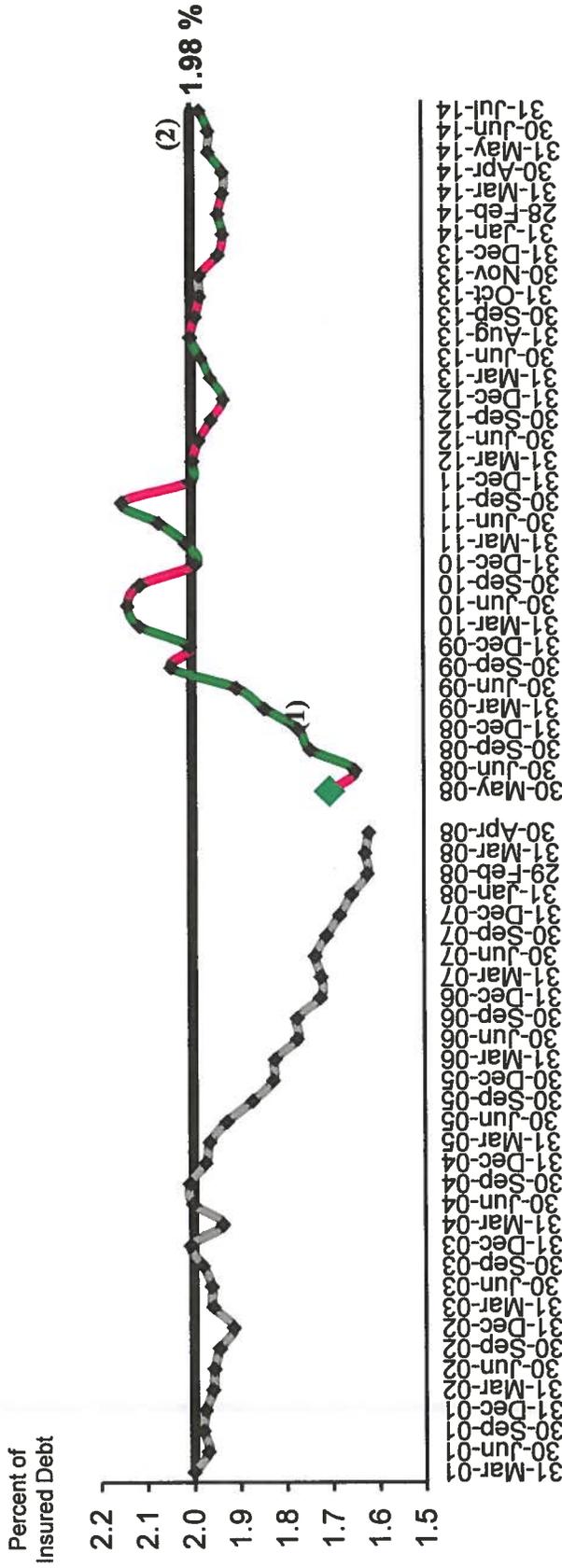
The outlook for the System remains generally favorable. Some System institutions have reported increased competition, which has put pressure on margins.

The Board of Directors will make the premium decision for 2015 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 Emily Dean, FCSIC's Chief Financial Officer, at 703-883-4387 or [deanew@fcsic.gov](mailto:deanew@fcsic.gov).

Attachment: Trend of Secured Base Percentage

# Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount July 31, 2014



(1) A change in the secure base amount (SBA) calculation methodology requested by the Insurance Corporation was included in the Food, Conservation and Energy Act of 2008. The methodology allows the deduction of Federal and state-guaranteed investments from the SBA in a manner similar to that used for Federal and state-guaranteed loans.

(2) Insurance premiums are assessed with the objective of maintaining the SBA which is defined in the Farm Credit Act as 2% of adjusted insured obligations. At year-end 2009, additional excess funds above the SBA of \$165.4 million were transferred to the Allocated Insurance Reserves Accounts (AIRAs). In February 2010, the \$39.9 million that was transferred to the AIRAs in 2003 was paid to the accountholders. In April 2010, the \$165.4 million that was transferred to the AIRAs in 2009 also was paid to the accountholders. The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit Banks and FAC stockholders. At year-end 2011, excess funds above the SBA of \$222 million were transferred to the AIRAs and paid to the accountholders in May 2012.