MEMORANDUM

FCSIC
FARM CREDIT SYSTEM INSURANCE CORPORATION

September 10, 2009

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

From: Nancy C. Pellett
Chairman

Nancy Pellett

Subject: Premium Planning Guidance for 2010

As you know, the Farm Credit System Insurance Corporation (FCSIC) requested that Congress update its insurance premium authorities. The Food, Conservation, and Energy Act of 2008 (Farm Bill) amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what FCSIC insures. The Farm Bill imposes a premium assessment of 20 basis points on adjusted insured debt obligations with authority for the Board of Directors to reduce rates in its sole discretion. The amendments maintain a risk surcharge of 10 basis points on non-accrual loans and add a surcharge of 10 basis points on other-than-temporarily impaired investments.

In addition, the amendments simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of any yearend excess Insurance Fund balances, when they may occur, to insured banks and Farm Credit System Financial Assistance Corporation stockholders.

Finally, the amendments reduce the total insured obligations that are used for calculating the secure base amount (SBA) and assessing premiums. The new assessment methodology allows the deduction of Federal and state-guaranteed investments from the adjusted insured obligations resulting in a lower secure base amount. At August 31, 2009 the Farm Credit System (System) held just under $14.5 billion of government-guaranteed investments. Deducting 90 percent of this amount, or $13 billion, lowered the SBA. In addition, the System held over $6.6 billion in Federal and state guaranteed loans at August 2009, resulting in a further reduction of $5.96 billion. Combined, these deductions are projected to lower the secure base amount, and lower premiums, by over $379 million (see Attachment 1).

The current level of the Insurance Fund relative to the 2 percent SBA, projected growth in insured debt and the increased turbulence in the System's financial environment are the most important factors that the Board considered in its premium analysis. Through August, insured debt grew by just over $544.8 million to $176.7 billion, or 0.3 percent year-to-date.

McLean, Virginia 22102
(703) 883-4380

Slow System growth combined with the statutory changes discussed above, have allowed the Insurance Fund to make significant progress back towards the statutory 2 percent SBA. As of the end of August, the unallocated Insurance Fund remains $34 million below the SBA. Unless growth increases significantly during the remaining 4 months of 2009, it is likely the unallocated Insurance Fund will reach the SBA before yearend. This is an important milestone because the Insurance Fund has not been at the SBA since 2004 (see Attachment 2).

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, cattle, hogs, poultry, and dairy; and, reduced debt servicing ability by many farm families and rural residents due to the rising level of unemployment and diminished non-farm income. As a result, System asset quality has deteriorated some and capital levels are stressed at a growing number of institutions.

In consideration of these factors, the Board has decided that, for planning purposes, the premium rate for 2010 will likely range from 8 to 10 basis points on adjusted insured debt. In addition, the 10 basis point premium on the average principal outstanding for non-accrual loans and the average amount outstanding for other-than-temporarily impaired investments will likely be continued. This level of premiums should allow the Insurance Fund to remain at the SBA as long as growth remains moderate in 2010.

If growth in insured debt changes significantly between now and yearend, the Board has the flexibility to adjust premium rates and will make the premium decision for 2010 at its January meeting. Please feel free to contact FCSIC staff if you would like to discuss the new premium authorities or have any questions.

Attachments

Secure Base Amount Calculation August 31, 2009

Includes $18.96 billion in deductions

DEBT OUTSTANDING	FINAL 6/30/2008	FINAL 9/30/2008	FINAL 12/31/2008	FINAL 3/31/2009	FINAL 6/30/2009	EST. 7/31/2009	EST. 8/31/2009
Principal	174,954	173,127	176,125	177,133	179,025	177,360	176,670
Interest	1,380	1,362	1,297	1,172	1,111	1,111	1,111
Less:1/							
90% Fed. Guar. Loans	(3,810)	(4,237)	(5,337)	(5,730)	(5,939)	(5,939)	(5,939)
80% State Guar. Loans	(16)	(16)	(20)	(19)	(19)	(19)	(19)
90% Fed. Guar. Investments ($14,451)	(8,296)	(9,493)	(9,748)	(11,752)	(13,006)	(13,006)	(13,006)
ADJ. INSURED DEBT	164,212	160,743	162,317	160,804	161,172	159,507	158,817
SECURE BASE AMOUNT (2%)	3,284	3,215	3,246	3,216	3,223	3,190	3,176
UNALLOCATED INSURANCE FUND BALANCE	2,706	2,804	2,875	2,963	3,069	3,104	3,142
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	2,746	2,844	2,915	3,003	3,109	3,144	3,182
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	1.648%	1.744%	1.771%	1.843%	1.904%	1.946%	1.978%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	1.672%	1.769%	1.796%	1.867%	1.929%	1.971%	2.004%

Assumptions:

System–wide Debt Outstanding Source:

FCA Call Reports (quarter-end)

Funding Corporation for interim months

Accrued Interest Payable:

Quarterly amounts are from the Call Reports.

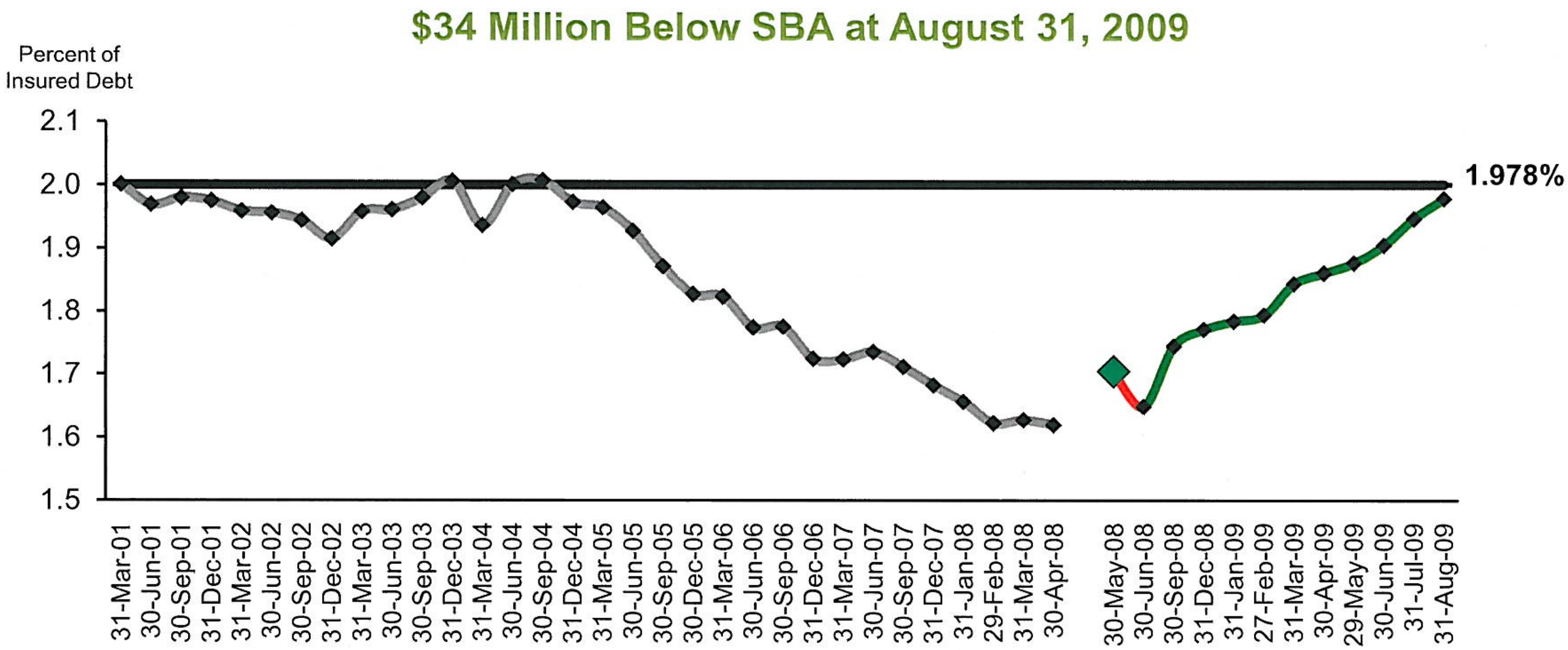
Monthly amount for Accrued Interest Payable is an estimate for System-wide bonds only.

Discount Note interest is included in the par balance reported by the Funding Corporation.

Federal and state-guaranteed loans, and guaranteed investments balances are most recent quarter-end.

Attachment 1

Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount



* 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 new 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.

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 yearend excess funds above the SBA are transferred to the Allocated Insurance Reserves Accounts (AIRAs). The current $39.89 million 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.

Attachment 2