FCSIC

FARM CREDIT SYSTEM INSURANCE CORPORATION

STRATEGIC PLAN
FY 2010-2015

DRAFT

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I. 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) 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 System banks. The Farm Credit System is a nationwide system of cooperatively owned banks and affiliated associations that serve borrowers and related entities in the agricultural sector. 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.

II. Mission Statement and Assumptions

Mission Statement

As an independent entity, the Farm Credit System Insurance Corporation shall:

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

Strategic Plan Assumptions

Key External Factors

External factors affecting the Corporation's insurance program are grouped in three broad areas: (1) Conditions in Agricultural and Financial Markets; (2) Government Policy Factors; and (3) Farm Credit System Factors. These factors are monitored on an ongoing basis. As conditions change, refinements of strategies are considered.

1. Conditions in Agricultural and Financial Markets

- Agricultural exports will continue to be an important, but volatile, component of farm income.
- Commodity prices will continue to exert pressure on operating margins, inflation and producer debt levels.
- There may be increased opportunities to fund advanced biofuels (from crop and timber residue and new cellulosic crops) but at a fairly high degree of uncertainty and risk for lenders.
- The trend toward value-added agriculture and vertical integration of the production/delivery systems will continue.
- Farm land price volatility may pose additional risk to the Insurance Fund.
- Farm debt levels will be influenced by the trend in direct Government payments and the direction of interest rates.
- Risk management practices of farmers are becoming more critical as direct Government payments will be under pressure and commodity markets remain quite volatile.
- Adverse weather and other environmental conditions as well as 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.
- Technical innovations in agriculture, including bioscience and genetic engineering, present opportunities and new forms of risk.
- Expansion of non-traditional business by financial institutions, such as investments and syndications will increase risk.
- Since mid-2007, a deep and lingering economic downturn has overlapped significant disruptions in the credit markets, creating a much more challenging environment for the Farm Credit System.
- Financial institutions will be required to hold more quality capital and reduce leverage.
- Investors and credit rating agencies are requiring higher quality liquidity from institutions that regularly access the capital markets.

2. Government Policy Factors

- The trade imbalance and Federal fiscal deficits will influence financial markets, including agency debt issuers and investors.
- Environmental regulation, and global warming, 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 may affect securitization and other credit markets that the Farm Credit System is involved in regularly.
- Government payments to farmers will likely continue; however, payment levels may be vulnerable due to increasing budget deficits and competing national priorities. Government farm programs may change to favor conservation and the agriculture industry more broadly.
- The Government’s ability to manage food safety risks and public perceptions may affect agriculture’s profitability.

3. Farm Credit System Factors

- System institutions may continue to consolidate and strategically realign territories and operations.
- Competition from an increasing variety of sources will exert pressure on the System.
- More institutions will enter strategic alliances both within and outside the System.
- Financial pressures and market intricacies have increased the use and types of financial instruments by System institutions and borrowers. These instruments may increase the complexity of risk evaluation for transactions, institutions and regulators.
- Like other financial institutions, System institutions offer an array of financial services and products. These new services and products, which include investment activities, will require the Corporation to acquire increasingly more specialized expertise.
- The System’s long-time voluntary risk management programs, including the Market Access and the Contractual Interbank Performance Agreements, may be revisited in the future.
- The current risk environment continues to pose challenges to credit quality and capital.
- Rapid growth over the past five years in the Farm Credit System has increased risk because internal resources and controls have not kept pace.
- Bank and association capital, the Insurance Fund, and Joint and Several Liability continue to play important roles in maintaining investor confidence.

Key Internal Factors

- The Corporation's objective is to maintain the Insurance Fund at the statutory secure base level.
- The Corporation will consider pursuing changes in FCSIC resolution authorities and capabilities to ensure effectiveness.
- Significant structural changes in the System or other factors may require reevaluation of the structure of the insurance program.
- In the spirit of the Office of Management and Budget's (OMB) Circular A-76, the Corporation will continue to use private and public sector contractors to economize and enhance productivity.
- Corporation staff will continue to collaborate with Farm Credit Administration (FCA) staff to promote efficiency and 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 explore ways to ensure adequate temporary liquidity for Farm Credit System banks in situations where external market forces make normal debt market access difficult or impossible.

III. Program Goals

The Corporation's mandate to insure the timely payment of principal and interest on insured Farm Credit System debt securities and to serve as receiver or conservator results in three fundamental program areas:

- Building and managing the Insurance Fund to protect investors;
- Detecting, evaluating, and managing insurance risk; and
- Maintaining the capability to act as receiver or conservator should the need arise.

Each of these program area-related goals and strategies can be found in Section VII, "Program Strategies." Activities related to corporate mission support are shown separately to reflect their contributions to all three program goals.

IV. Linkage of Program Goals and Performance Measures

The Corporation has implemented performance measures to assist in the evaluation of the effectiveness of these program goals. The Government Performance and Results Act of 1993 (GPRA) requires all Federal Government organizations to report on the results of program performance. Performance goals and information are included in regular reports to the Board of Directors and are summarized in the Corporation's Annual Report.

These performance measures may require future refinement. Some of the measures use management estimates that may be affected by the performance and condition of Farm Credit System institutions. Also, unforeseen events may have a material effect on performance measures over time.

PERFORMANCE MEASURES – BUILDING AND MANAGING THE FUND TO PROTECT INVESTORS

The solvency of the Insurance Fund depends on the Corporation using its authorities to adjust insurance premium assessments when appropriate and effectively manage all 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 secure base amount (SBA) equal to 2 percent of outstanding insured obligations or such other percentage as the Corporation in its sole discretion determines to be actuarially sound.

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 secure base amount, 2 percent of outstanding insured obligations, or such other percentage as the Corporation in its sole discretion determines to be actuarially sound.

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 Farm Credit System institutions.

PERFORMANCE MEASURES – 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 its Allowance for Loss procedure and Financial Accounting Standard No. 5 as guidance.[1] Timely evaluation of the Fund's risk exposure is critical to the determination of steps needed to preserve the Fund's solvency. The Corporation utilizes Farm Credit Administration examiners and reports to evaluate risks to the Insurance Fund. The Corporation may independently examine and require information from System institutions.

PERFORMANCE MEASURES – RECEIVERSHIP/CONSERVATORSHIP

The Corporation is required to serve as receiver or conservator of System banks and associations 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.

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.

V. Resource Needs

The Corporation operates with a small core staff. This core group leverages its resources by purchasing support services from the FCA and contractors to ensure cost-effective administration of its programs. Support services purchased from the FCA and other contractors include examination support, personnel, audit, accounting and other administrative and technical services.

VI. 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 was adopted in 1999 to provide 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 Strategic Plan.

[1]Financial Accounting Standard Number 5, Accounting for Contingencies, provides guidance regarding recording allowances for loss and impairment of assets.

VII. Program Strategies

A. Program Area: Insurance Fund Management

GOAL: MANAGE THE INSURANCE FUND TO MAINTAIN THE SECURE BASE AMOUNT IN ORDER TO PROVIDE PROTECTION FOR INVESTORS AND TAXPAYERS AGAINST IDENTIFIED RISKS.

STRATEGIES AND ACTIONS

1. Manage the investment program to ensure adequate liquidity while optimizing investment returns.

   Quarterly or as required

2. Manage issues related to Corporation authorities for premium collection, refunds, and determination of the Insurance Fund's secure base amount. Execute the Board Policy on Adjustment of Insurance Premiums.

   Semiannually
   January and June

3. Continue expanding the capabilities of the insurance risk model as an actuarial tool to provide additional insurance protection to System investors. Consider refinements to better address all risk exposures at System institutions.

   Ongoing

4. Pursue initiatives (including possible legislative options), to ensure that Farm Credit System banks have adequate temporary liquidity in situations where external market forces make normal debt market access difficult or impossible.

   2010

5. Review the Corporation's Investment Policy.

   2010

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

   - Monitor the statutory and regulatory initiatives for Fannie Mae and Freddie Mac.

     Ongoing

   - Continue quarterly consultation with the Federal Farm Credit Banks Funding Corporation regarding the presentation of the Insurance Fund in the combined financial statements of System banks.

     Quarterly

   - In response to the ongoing financial crisis, monitor FDIC regulation development and other actions.

     Ongoing

7. Refine the Corporation's Policy Statement on the Secure Base Amount and Allocated Insurance Reserves Accounts to reflect the legislative changes resulting from the 2008 Farm Bill.
   2011

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

B. Program Area: Risk Analysis/Management

GOAL: MONITOR, EVALUATE, AND REPORT RISKS THAT COULD GENERATE LOSSES TO THE INSURANCE FUND.

STRATEGIES AND ACTIONS

1. Consult with FCA regarding funding requests from any undercapitalized System banks and restructuring requests from banks and large associations.
   As required

2. Analyze and recommend Allowances for Insurance Fund Losses in accordance with criteria established in the Corporation's policy.
   Quarterly

3. Evaluate the effect of emerging alternative forms of System financing and capital instruments (e.g., preferred stock, subordinated debt) on the Insurance Fund.
   Ongoing

4. Work with FCA to share information and develop better data access in the following areas:
   - Institutions' loan databases — Ongoing
   - CRS/LARS databases, economic modeling, i.e. Basel II — Ongoing
   - Large borrower concentrations throughout the System — Ongoing
   - New organizational structures — Ongoing

5. Review and adjust, as appropriate, the array of financial and other information collected from System banks and selected large associations.
   2012

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

7. Update the Corporation's insurance risk model and evaluate trends in Insurance Fund adequacy.
   Annually

8. Report to the Board the System conditions and trends that may impact insurance risk.
Quarterly

9. Study trends in the System's balance sheet, particularly asset-backed investments and large syndicated loans, to determine whether they have resulted in different risks to the Insurance Fund.
Annually

10. Review the risk management program (including the Allowance for Loss Procedure) to determine whether additional tools will improve assessment of Fund adequacy.
2013

C. Program Area: Receivership/Conservatorship

GOAL: MAINTAIN CAPABILITY TO MANAGE POTENTIAL RECEIVERSHIPS/CONSERVATORSHIPS.

STRATEGIES AND ACTIONS

1. Monitor legislation, regulations, legal cases, and environmental issues that could impact receivership/conservatorship operations.
Ongoing

2. Monitor and plan for potential conservator/receivership activity. Execute special examinations at System institutions with high risk profiles.
Ongoing

3. Conduct periodic training to maintain staff's proficiency in conservator/receivership operations.
Periodically

4. Utilize public and private sector contractor capabilities to provide resolution support.
Ongoing

5. Monitor developments of other Federal insurers in conservator/receivership management.
Ongoing

6. Revise the Type I and II, Pre-Resolution Special Examination Guidelines in view of changes in System structure and new lines of business. Also consider the need for changes to procedures resulting from other corporate activities.
2010 and as necessary

7. Coordinate with FCA as necessary on pre-resolution activities requiring FCSIC involvement.
As necessary

8. Pursue a legislative initiative to enhance FCSIC resolution authorities, including its receivership and conservatorship powers.

   2010-2011

D. Program Area: Corporate Mission Support

GOAL: MISSION SUPPORT ENCOMPASSES SEVERAL KEY OBJECTIVES INCLUDING:

- Responding effectively to external legislative and regulatory initiatives affecting the Corporation,
- Communicating with stakeholders, and
- Managing human and other resources to achieve the Corporation's mission in a cost-efficient manner.

STRATEGIES AND ACTIONS

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

   As necessary

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

   - Continue to reach out to the selling group and investors; and
   - Identify and pursue dialogue with System leadership on issues of mutual concern.

   Ongoing

3. Expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation.

   Ongoing

4. Continue staff cross-training and versatility to ensure adequate back up in key corporate programs.

   Annually

5. Monitor FCA initiatives that affect the Corporation and provide input during their development.

   As necessary

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

   Ongoing

7. Update technology risks and opportunities for data sharing with System institutions, including the Funding Corporation.

   2010-2011

8. Use contractor resources to effectively leverage staff efforts.

Ongoing

9. Update the personnel succession/transition strategy for the Corporation and evaluate alternatives for meeting the Corporation's ongoing needs.

2011

10. Review all Board-approved policies during the strategic planning cycle. This will include but is not limited to:

    - A review of the continued need for the policy;
    - The impact of the policy on stakeholders; and
    - Whether the policy is written in "plain language."

2010-2014

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

2012

12. Evaluate cost-effective alternatives for obtaining accounting and financial reporting services for the Corporation.

2011