



**ANNUAL
PERFORMANCE
PLAN
FY 2015-2016**

September 4, 2014

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 or FCS) 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 FCS banks. The System is a nationwide network of privately owned financial cooperatives that lend to agriculture and rural America. By ensuring the repayment of System debt securities to investors, the Corporation helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

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 necessary funds to fulfill its mission.

Since 1993, the Corporation's business model has been to operate with a small core staff and use the assistance of private and public sector contractors to leverage its efforts. The Corporation's Board of Directors (Board) and management have adopted this model as a cost-effective and efficient way to use available expertise, services and resources to accomplish its mission.

MISSION STATEMENT

As an independent entity, the Corporation shall:

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

ANNUAL PERFORMANCE PLAN

The Corporation's Annual Performance Plan (Performance Plan) is derived from its five-year Strategic Plan (FY 2010–2015). The Performance Plan is organized by program area and provides focus to the goals, objectives and performance measures used to evaluate the Corporation's activities during the current year. As with the Strategic Plan, the Corporation's mission and key assumptions guide development of the Performance Plan. Progress towards program goals is periodically reported to the Board (at least quarterly) and is summarized in the Corporation's Annual Report, which is delivered to Congress and placed on the Corporation's website after the calendar year ends.

Strategic Goal	Strategic Objectives	High Priority Performance Goals
Investors in insured debt are protected from loss without recourse to a joint and several liability call.	The FCIF remains strong and adequately financed.	Maintain the FCIF at the statutory 2 percent secure base amount (SBA).
	The FCSIC promptly identifies and responds to potential risks to the FCIF.	Identify and address risks to the FCIF.
		Disseminate data and analyses on issues to the Board, the public, and other stakeholders.
		Effectively administer temporary financial assistance programs subject to the statutory least-cost requirements.
	The FCSIC resolves failure of FCS institutions in the manner least costly to the FCIF.	Market failing institutions to qualified and interested potential bidders.
	The public, insured investors and FCS institutions have access to accurate and easily understood information about the FCSIC insurance program.	Using the FCSIC website, Annual Report and other opportunities, provide educational information to insured institutions and their investors to help them understand the benefits of the insurance program.

CORE PROGRAM ACTIVITIES

On a continual basis, the Corporation performs a number of core activities that are essential to the achievement of its mission. The following is a summary of these activities categorized by program area:

- **Insurance Fund Management** -- The Corporation helps maintain public confidence in the System by insuring the banks' debt obligations. The Corporation:
 - Sets premium rates, collects and audits insurance premiums;

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- Manages the Corporation's \$3.6 billion investment portfolio to maintain the Insurance Fund at the 2 percent SBA;
 - Consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information;
 - Oversees the Corporation's accounting and financial reporting function; and
 - Manages Corporation payments that support program operations.
- ***Risk Management*** – The Corporation evaluates risk to the Insurance Fund. The Corporation:
 - Uses monitoring systems, financial models and special examinations to analyze the performance and condition of System institutions and report risk trends regularly to the Board and external auditor;
 - Monitors conditions in the general economy, capital markets, and agricultural and financial sectors that can pose risk to the Insurance Fund;
 - Reviews Farm Credit Administration (FCA) examination reports of System banks, larger, more complex associations, and/or institutions that have deteriorating FIRS ratings, and participates on the FCA enforcement committee;
 - Evaluates the adequacy of the allowance for the Insurance Fund quarterly;
 - Consults with FCA regarding risks resulting from mergers; and
 - Reviews funding requests of undercapitalized System banks and regulatory corporate approvals.
 - ***Receivership and Conservatorship*** – If a System bank or association fails, the Corporation would be appointed conservator or receiver. As conservator, it would operate the institution as a going concern. As receiver, it would 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 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.
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PROGRAM EVALUATION

The Board provides policy direction and oversight of the Corporation's operations. An independent accounting firm evaluates financial results annually. This includes a review of the Corporation's financial statements and the effectiveness of internal controls. To evaluate program activities, periodic operational reviews are performed. In addition, the Government Accountability Office (GAO) performs a separate annual review of the Corporation's financial results and, at their discretion, program performance. These reviews are communicated to the Board. Recommendations arising from the annual audit and periodic operational reviews are integrated into the planning process.

INSURANCE FUND MANAGEMENT

GOAL: Manage the Insurance Fund to maintain the SBA at the level necessary to provide adequate protection for investors and taxpayers against identified risks.

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 does not anticipate establishing an alternative SBA during the term of this Annual Plan). Maintaining this goal may be affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions. The Corporation assesses its performance in achieving this goal by the following performance measures.

PERFORMANCE MEASURES

- Adjusting the insurance premiums semi-annually in order to maintain the Insurance Fund at the statutory SBA. Historic performance to the 2 percent SBA target is reported to the Board and the public quarterly.
- Tracking the investment portfolio yield and benchmarking performance with similarly structured public and private sector funds quarterly. Reporting the results to the Board and to the public in the Annual Report.
- Managing the investments in accordance with the Board's policy to provide sufficient liquidity to protect investors in the System's insured obligations. Reporting the composition of the portfolio to the Board and the public quarterly.
 - At least 20 percent of the Insurance Fund is to be invested in a liquidity pool of securities with a maximum of 2 years to maturity.
 - No more than 25 percent of the remaining investment pool may be invested in securities with maturities of 5 years or greater.

ACTIONS:

1. Manage the insurance program through premium collections, refunds, and determination of the Insurance Fund's SBA. Execute the Board's Policy Statement Concerning Adjustments to the Insurance Premiums:
 - Monitor System growth and periodically calculate the 2 percent SBA. **Monthly**
 - Report to the Board on the level of the Insurance Fund monthly, or more frequently, if required. **At Least Monthly**
 - Report on insured and other obligations at scheduled Board meetings by providing the Board with:
 - Rolling 12-month insured obligation report;
 - Rolling 12-month SBA calculation;
 - Rolling 10-year historical Insurance Fund relative to the 2 percent SBA; and
 - Year-to-date Insurance Fund relative to the 2 percent SBA.**Quarterly**
 - Review other Federal insurance agencies' programs regarding premium rates and studies. **Ongoing**
 - Perform an annual review of a sample of the System banks' premium certified statements. **Annually**
 2. Manage the investment program to meet the requirements of the Board's policy statement and ensure adequate liquidity while optimizing investment returns.
 - Report results to the Board quarterly using defined metrics. **Quarterly**
 3. Enhance the Corporation's investment program and modify as necessary.
 - Utilize investment intelligence sources such as Bloomberg and other tools.
 - Test performance benchmarks.
 - Promote training opportunities.
 - Enrich reporting to Investment Committee by refining analysis of investment alternatives.
 - Evaluate the cost effectiveness of Treasury's new floating-rate notes as an investment alternative, especially compared to TIPS. **Ongoing**
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4. Maintain periodic contact with Treasury's Federal Financing Bank to provide information in support of the FCSIC intragovernmental credit facility for use as assistance in exigent market circumstances.

Semiannually

5. Respond to investment program recommendations from the 2014 investment program and operations assessment.

- Discuss investment trade execution procedures with FCSIC's independent auditor.

December 2014

- Undertake a cost/benefit analysis to evaluate whether the current investment amortization software should be upgraded or replaced with another system.

February 2015

- Consult with Federal Deposit Insurance Corporation (FDIC) and FCSIC's independent auditor on the merits of establishing a reserve in stressed scenarios.

December 2014

- As part of the periodic review of the Board's Investment Policy, study the 5-10 year investment limit and offer recommended changes if necessary.

May 2015

- Study adding additional benchmarks to expand the Insurance Fund's performance metrics.

July 2015

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

- Monitor the statutory and regulatory initiatives for Fannie Mae and Freddie Mac, and any changes for the Federal Housing Finance Administration (FHFA).

Ongoing

- Continue consultation with the Funding Corporation regarding the presentation of the Insurance Fund in the combined financial statements of System banks.

Quarterly

- Monitor the FDIC's regulation development and other actions.

Quarterly

7. Maintain the Farm Credit System Financial Assistance Corporation (FAC) shareholder list.

Annually

RISK MANAGEMENT

GOAL: Monitor, evaluate, and report risks that could generate losses to the Insurance Fund or result in a resolution.

PERFORMANCE MEASURES

Identify and address risk to the Insurance Fund: Program effectiveness is measured by the extent that problems are promptly detected and insurance losses are minimized. Since the Corporation became operational in 1993, there have been no System institution failures that caused a loss to the Insurance Fund. However, losses may occur in the future. Timely evaluation and mitigation of the Insurance Fund's risk exposure is critical to minimizing losses.

In periods of probable or actual insurance claims, the ratio of estimated losses as a percentage of actual losses is the measure of the Corporation's ability to assess prospective loss exposure. Management uses criteria specified in its Allowance for Insurance Fund Loss procedure and Generally Accepted Accounting Principles (GAAP) as guidance for determining when and how much to record for estimated insurance loss reserves.

Insurance risk is identified by a quarterly review and analysis of System institutions using the benchmarks and criteria adopted by the Board in the Allowance for Insurance Fund Loss procedures. Other sources to assist identification of risk are:

- Published System reports to stockholders and bond investors;
- System institution actions approved by FCA's enforcement committee;
- Reports of examination, FIRS reports, and other documents prepared by FCA's Office of Examination (OE);
- Special examinations conducted to assess insurance risk posed by troubled System institutions; and
- Government entities, news agencies, and other sources that supply information on the general economy, capital markets, and agricultural and financial sectors.

Assistance Authority: 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. In making a least-cost determination, the Corporation, through its special examination authority, would collect any information as is necessary to perform the least-cost test. Moreover, regarding stand-alone assistance, the Corporation must evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer. There are presently no active assistance agreements.

Periodic Reporting: A confidential System Performance Report is prepared for the Board on a quarterly basis. The report advises the Board on the condition and performance (including emerging risks) at:

- Each insured bank;
- Largest associations; and
- Specific institutions posing higher risk to the Insurance Fund.

The Corporation reports annually results of Insurance Fund solvency modeling. Reports on specialized topics are prepared as needed.

ACTIONS:

1. Report to the Board on FCS conditions and trends that could impact insurance risk.
Quarterly
2. Produce Allowance for Insurance Fund Loss Reports to evaluate the adequacy of the allowance for the Insurance Fund in accordance with the Corporation's policies and procedures. Recommend allowances to the Board if needed.
Quarterly
3. Update the current insurance risk model at least annually and revalidate assumptions.
4. Evaluate future modeling alternatives to assess Insurance Fund adequacy.
 - Evaluate alternatives for incorporating risk from System banks' investment assets into the insurance risk model.
January 2015
5. Consult with FCA regarding funding requests from undercapitalized System banks and restructuring requests from banks and large associations.
As Required
6. Evaluate the effect of alternative forms of System financing and capital instruments (e.g., preferred stock, subordinated debt) on the Insurance Fund. Review offering circulars for appropriateness of disclosures concerning the Insurance Fund.
Ongoing
7. Develop procedures for providing FCSIC assistance, including use of the Federal Financing Bank credit facility, when external market forces make normal debt market access difficult or impossible.
June 2015
8. Work cooperatively with FCA to maintain access to and share information to support the monitoring and evaluation of risk to the Insurance Fund. Access to information collected by FCA, including the examination staff, is a critical element of detecting the potential for Insurance Fund loss. FCA documents and information are protected under the interagency information sharing agreement and the supplemental interim agreement

between FCSIC and the FCA. The scope of information collected includes but isn't limited to:

- Periodic meetings with OE divisions and staff to discuss condition and performance of System institutions;
- Examination reports, FIRS reports, System institution documents (e.g. business plans, general financing agreements, etc.);
- Communications between System institutions and the FCA regarding the examination and ongoing monitoring of the performance and condition of institutions;
- Regulatory Enforcement Committee documents;
- Reports regarding liquidity, collateral, counterparty exposure, Contractual Interbank Performance Agreement, rating agency actions; and
- Agency information databases including the Consolidated Reporting System (CRS) and developing Loan Database.

Ongoing

9. Maintain contacts with other Federal insurers and financial regulators to share information on emerging risks and risk management processes.

Ongoing

10. Provide analysis and input to semi-annual rate review for Board insurance premium decision.

May/December

11. Continue to work with the System to improve the data available to estimate the liquidation value of an institution in relation to the Corporation's financial assistance authority.

Ongoing

- Evaluate and test feasible options to satisfy the statutory least cost test requirements and other resolution needs.

August 2015

12. Monitor and evaluate prospective changes in Systemwide agreements that establish uniform standards of performance (e.g., CIPA and MAA).

Ongoing

13. Review and provide timely feedback to the FCSIC Board on regulations (e.g., investments, capital and liquidity) that could impact the Insurance Fund.

Ongoing

14. Respond to the risk management recommendations from the 2014 investment program and operations assessment.

- Develop a more formal process for providing updated insurance risk information to the Investment Committee prior to each meeting.

February 2015

- Determine whether a monitoring template should be developed to better assess liquidity risk in the banks' investment portfolios.

September 2015

RECEIVERSHIP AND CONSERVATORSHIP

GOAL: Maintain the capability to effectively manage receiverships or conservatorships.

RECEIVERSHIP CAPABILITY

The Corporation has a statutory responsibility to serve as receiver or conservator when appointed by the FCA. 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.

PERFORMANCE MEASURES

The effectiveness of receivership operations will be measured by completing the initial notice to creditors promptly and processing of all insured claims in accordance with regulations. Completion will be defined as the processing of 90 percent of all claims. Other performance measures include operating costs as a percentage of total assets and actual asset recovery return as a percentage of net realizable asset values using FDIC comparable metrics. These metrics will be tracked and reported to the Board.

Currently, there are no receiverships or conservatorships in the Farm Credit System.

ACTIONS:

1. Continue pursuing legislative action to update FCSIC resolution authorities. **Ongoing**
2. Develop model legal documents for alternative resolution scenarios, including receiverships and conservatorships. **March 2016**
3. Continue to plan for potential conservator/receivership activity. Evaluate resolution procedures for a large system bank. **September 2015**
4. Monitor legislation, regulations, legal cases, and environmental issues that could affect receivership and conservatorship operations. **Ongoing**
5. Monitor developments at other Federal insurers in conservator/receivership management. **Ongoing**

6. Respond to the conservator/receivership recommendation from the 2014 investment program and operations assessment.
 - Review current policies and procedures for the resolution of an institution in receivership or conservatorship to ensure that adequate measures are included to manage institution investment holdings.

May 2015

CORPORATE MISSION SUPPORT

The Corporation recognizes that it must effectively manage its resources to achieve its strategic and performance goals. Resource management facilitates all mission critical activities. It 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 of 11. It strives to attract and retain highly motivated and skilled employees. It leverages its resources by purchasing support services from the FCA and other contractors to ensure the cost-effective administration of its programs. Purchased services include examination support, Congressional and public affairs support, personnel, financial and operational audit, accounting, network management, and consulting services.

PERFORMANCE MEASURES

Effective management of corporate resources is measured by the Corporation's success in achieving its performance goals. Additional specific measures of resource management include:

- Operating within the Board-approved budget. The Corporation's expenses are paid from the investment earnings on the Insurance Fund. The Corporation operating budget for 2015 totals \$4.0 million (63.7 percent for personnel costs and 25.5 percent for public and private contract services).
- Obtaining an unqualified audit opinion from the independent public accounting firm hired by the Corporation's Audit Committee and a favorable review from the GAO on internal controls and financial reporting for the combined Government financial statements.
- Achieving positive results from the Corporation's Federal Employee Viewpoint Survey which measures employee satisfaction with their work experiences and their leadership.

ACTIONS:

1. In cooperation with the Funding Corporation, communicate the benefits of the insurance program to stakeholders.
 - Continue to identify and implement methods to reach out to selling group members and investors;
 - Continue to identify and pursue dialogue with System leadership on issues of mutual concern; and

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- Seek additional opportunities to expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation. **Ongoing**

 - 2. Review progress reports on the Performance Plan and report to the Board at least quarterly. **Quarterly**

 - 3. At year-end, submit the Corporation's Annual Report to Congress that compares actual performance to annual performance goals. **Annually**

 - 4. Review and update corporate policies during the strategic planning cycle. The review should include: (a) the continued need for the policy; (b) the impact of the policy on stakeholders; and (c) whether the policy is written in "plain English." Policies to be reviewed in FY 2015-2016 are:
 - Policy Statement on Receivership and Conservatorship Counsel; **March 2015**
 - Allowance for Loan Loss Policy; **March 2015**
 - Appraisal Policy; **June 2015**
 - Examination Policy; **October 2014**
 - Alternative Means of Dispute Resolution; **December 2015**
 - Insurance of Assets; and **January 2016**
 - Environmental Hazards Assessment. **January 2016**

 - 5. Monitor legislative initiatives that affect the System, FCA, and the Corporation. **As Necessary**

 - 6. Promote continuous learning and staff development, including staff cross-training and team building to ensure adequate backup in key corporate programs. **Annually**
 - Review existing job responsibilities and procedures to ensure an effective backup exists for all critical functions. **March 2015**

 - 7. Evaluate results of the Corporation's Federal Employee Viewpoint Survey to improve our workplace where appropriate. **Annually**

 - 8. Enhance digital communications by updating the design and content of the FCSIC website to modernize and incorporate recommendations resulting from development of the FCSIC Crisis Communication Plan. **October 2015**
 - Review and update the FCSIC Crisis Communication Plan, as necessary. **Annually**

 - 9. Maintain the Corporation's electronic and paper files and records to:
 - Ensure the organizational structure in use continues to be effective; and
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- Update electronic files and procedures so they are consistent with paper files and provide guidance to staff on using the electronic filing system.

Ongoing

10. Prepare required financial reports and monitor changes to Federal reporting requirements for significant agencies as specified by Treasury and OMB, including:

- SF-224 Statement of Transactions – Reports monthly deposit and disbursement transactions to Treasury.

Monthly

- Annual Audit.

January

- Intragovernmental Fiduciary Confirmation System (IFCS).

Quarterly

- Intragovernmental Material Difference Reports and Reconciliations - for proprietary adjusted trial balance data with breakdown of trading partner information.

Quarterly

- The Treasury Report on Receivables (TROR).

Quarterly

- Federal Agencies' Centralized Trial-Balanced System for budgetary reporting (FACTS II).

Quarterly & Selected Months

- GAO Annual Audit.

September

- Federal Managers' Financial Integrity Act - Reviews the Corporation's internal controls to give assurance that the management systems in place conform to the standards pursuant to the FMFIA.

September-October

- Government-wide Financial Report System (GFRS) - Collects the Corporation's closing package information and links its audited financial statements to the Financial Report of the United States.

November

- Perform Agreed-Upon Procedures Required by OMB - Related to fiscal yearend budgetary reporting.

November

- Federal Agencies' Centralized Trial-Balanced System for adjusted trail balance data using proprietary standard general ledger accounts (FACTS I).

November

- MAX A-11 - Forwards the Corporation's financial data to the Office of Management and Budget for inclusion in the President's Budget.

December

11. Evaluate contractor performance and services obtained, including:

- Receivership/Conservatorship Resources; **As Needed**
- Legal Service; **As Needed**
- Prompt Payment Report; **Monthly**
- Bureau of the Fiscal Service Administrative Resource Center (ARC) for financial management services support; and **September**
- Audit Services. **September**
- SAS 70 Report – ARC and Federal Investment for the investment program Branch review external audits of organizations that provide contracted services. **November**

12. Monitor and review travel and purchase card programs.

- Annual Charge Card Management Plan. **January**
- Annual credit card usage (narrative and data reports). **February**

13. Update the Corporation's Disaster Recovery Plan to ensure effective continuity of operations, including a devolution plan. **April 2015**

14. Review and update the Corporation's Strategic Plan. **2015**



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Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Annual Performance Plan for FY 2015-2016

BM-11-SEP-14-02

Effective Date: 11-SEP-14

Source of Authority: Section 5.58 of the Farm Credit Act of 1971, as amended (Act), 12 U.S.C. 2277a-7; Bylaws of the Corporation, Article II, section 3, and Article VIII; Policy Statement on Strategic Planning (BM-24-APR-12-02) dated April 24, 2012.

THE FCSIC BOARD HEREBY:

Approves the Corporation's Annual Performance Plan for FY 2015-2016.

DATED THIS 11th DAY OF SEPTEMBER 2014

BY ORDER OF THE BOARD

Dale L. Aultman
Secretary to the Board