FCSIC
Farm Credit System Insurance Corporation

June 13, 2019

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

From: Jeffery S. Hall
Chairman

Subject: Mid-Year 2019 Premium Rate Review

At its June meeting, the Insurance Corporation's Board of Directors voted to maintain the insurance premium assessment rate on adjusted insured debt at 9 basis points for the remainder of the year. We believe maintaining the 9 basis point rate is prudent and will allow the Insurance Fund to remain near or at the required 2 percent target at year-end based on anticipated growth of insured debt. In addition, the Board has decided to continue assessing 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

Insured debt reported by the Federal Farm Credit Banks Funding Corporation through May 31, 2019 was $282.1 billion, up from $281.5 billion at year-end 2018. Using preliminary results, at May 31, 2019 the Farm Credit Insurance Fund (Insurance Fund) was 2.05 percent of adjusted insured debt or $120 million above the 2 percent secure base amount (SBA) (See Attachment A). At year-end 2018, the Insurance Fund was 2.03 percent of adjusted insured debt or $71 million above the SBA. In March 2019, the Board disbursed $66.1 million to the account holders of the Allocated Insurance Reserve Accounts (See Attachment B).

Based on our May survey, System banks anticipate growth in insured debt of 2.3 percent in 2019, which is slightly below the 2.7 percent growth projected by System institutions in January 2019. We note, however, that growth in insured debt has averaged 6.4 percent annually from 2014 through 2018.

The Board considered the following factors in setting 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.

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In addition to growth, the other factor influencing the level of adjusted insured debt is the level of deductions (i.e. government-guaranteed loans and investments). At March 31, 2019, the total deduction for full faith and credit loans and investments was $38.3 billion. These deductions lowered the SBA by $766 million.

The Corporation's allowance for insurance fund loss review for the period ending March 31, 2019, concluded that insurance risk remains low and the likelihood of a loss to the Insurance Fund is remote. The insured banks continue to have reliable access to the debt capital markets. They remain well-capitalized, with ample liquidity, adequate asset quality and sufficient earnings. Some associations are experiencing credit deterioration, especially in cash grains and dairy, but their overall asset quality remains adequate and they continue to produce sufficient earnings and remain well-capitalized. Credit deterioration is expected to continue in certain sectors from commodity price volatility, tariffs, and/or environmental factors. Earnings may also diminish at some System institutions from increased competition and the current inverted yield curve environment. However, despite these challenges, we believe the System is well-positioned to appropriately adjust to changes in its operating environment to remain competitive and profitable in 2019.

The Board plans to meet again in September 2019 to review the status of the Insurance Fund and projections for the likely level of premium rates for 2020.

If you have any questions concerning this matter, please contact FCSIC's Chief Financial Officer, Andrew Grimaldi, at grimaldia@fcsic.gov or (703) 883-4383.

Attachment A: Preliminary Secure Base Amount Calculation
Attachment B: Preliminary Trend of Unallocated Insurance Fund

Preliminary Secure Base Amount Calculation

Results as of May 31, 2019

($ in Millions)

	FINAL				PRELIMINARY
DEBT OUTSTANDING	**6/30/2018**	**9/30/2018**	**12/31/2018**	**3/31/2019**	**5/31/2019**
Principal	269,060	268,646	281,528	281,073	282,106
Interest	875	991	1,015	1,093	1,093
Total Principal and Interest	269,935	269,637	282,543	282,166	283,199
Less:					
90% Fed. Guar. Loans	(5,446)	(5,685)	(5,708)	(6,892)	(6,892)
80% State Guar. Loans	(23)	(21)	(20)	(19)	(19)
90% Fed. Guar. Investments	(32,318)	(31,366)	(32,641)	(31,340)	(31,340)
80% State Guar. Investments	-	-			
Total Deductions	(37,787)	(37,072)	(38,369)	(38,251)	(38,251)
ADJ. INSURED DEBT	232,148	232,565	244,174	243,915	244,948
SECURE BASE AMOUNT (2%)	4,643	4,651	4,883	4,878	4,899
UNALLOCATED INSURANCE FUND BALANCE*	4,811	4,881	4,888	4,965	5,019
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	4,811	4,881	4,954	4,965	5,019
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	2.07%	2.10%	2.00%	2.04%	2.05%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	2.07%	2.10%	2.03%	2.04%	2.05%

Assumptions:

Source of Systemwide Debt Outstanding:

Quarter-end data: FCA call reports which include amortization of premiums and discounts

Monthly and preliminary quarter-end data: Funding Corporation Systemwide debt obligations report at par value

Accrued Interest Payable:

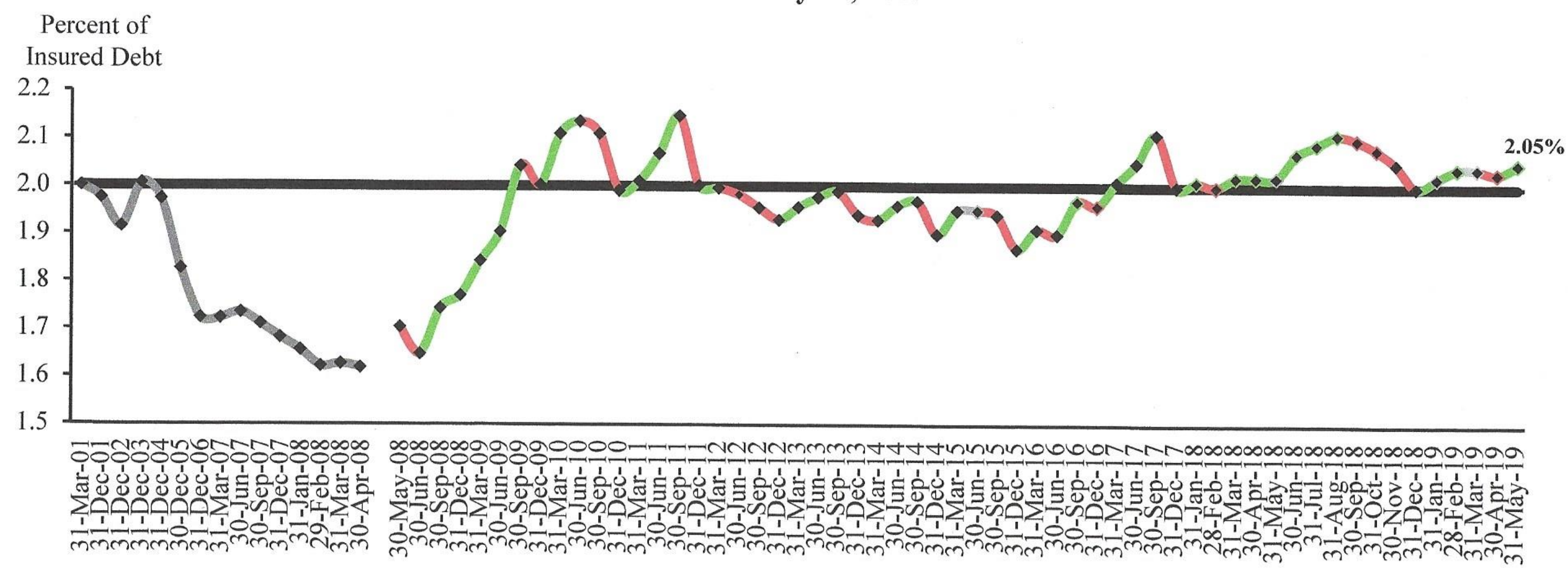
Quarterly amounts are from call report data.

Monthly amounts for Accrued Interest Payable are estimates for Systemwide bonds only.

Federal and state government-guaranteed loans, and government-guaranteed investment balances are based on most recent quarter-end final data.

Attachment A

Preliminary Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount May 31, 2019



(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) At year-end, based on a statutory formula, excess funds above the SBA may be transferred to Allocated Insurance Reserve Accounts (AIRAs). The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Insurance Corporation disburses payment to the accountholders (Farm Credit Banks and FAC stockholders). In four distributions between February 2010 and March 2018, $603.0 million in excess funds were paid to accountholders. The FAC stockholders have been fully reimbursed and no further allocation will be made to this AIRA account.

Attachment B