



June 14, 2018

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

From: Jeffery S. Hall
Chairman

A handwritten signature in blue ink, appearing to read "Jeffery S. Hall", is written over the printed name and title.

Subject: Mid-Year 2018 Premium 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, 2018 was \$271.5 billion, up from \$265.3 billion at year-end 2017. Using preliminary results, at May 31, 2018 the Farm Credit Insurance Fund (Insurance Fund) was 2.02 percent of adjusted insured debt or \$52 million above the 2 percent secure base amount (SBA) (See Attachment A). At year-end 2017, the Insurance Fund was 2.08 percent of adjusted insured debt or \$180 million above the SBA. In March 2018, the Board disbursed \$175.8 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 3.0 percent in 2018, which is slightly above the 2.9 percent growth projected by System institutions in January 2018. We note, however, that growth in insured debt has averaged 6.16 percent annually from 2013 through 2017.

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). Deductions from the SBA increased significantly since the passage of the Food, Conservation, and Energy Act of 2008, which permits the deduction of a portion of performing federal government-guaranteed and state government-guaranteed investments that are backed by the full faith and credit of the United States or one of the states. Prior to passage, at March 31, 2008, full faith and credit loan deductions totaled \$3.4 billion. At March 31, 2018, the total deduction for full faith and credit loans and investments was \$35.6 billion. These deductions lowered the SBA by \$712 million.

The Corporation's most recent allowance for loss review of all banks and associations concluded that no allowances are recommended at this time. Overall, the System remains fundamentally safe and sound and liquidity risk to the Insurance Fund remains low. The current agricultural lending environment is increasingly competitive and earnings may diminish as net interest margin compresses, but FCSIC believes the System is well-positioned to appropriately adjust to changes in its operating environment to remain competitive and profitable through 2018.

The Board plans to meet again in September 2018 to review the status of the Insurance Fund and projections for the likely level of premium rates for 2019.

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, 2018

(\$ in Millions)

DEBT OUTSTANDING	FINAL				PRELIMINARY
	6/30/2017	9/30/2017	12/31/2017	3/31/2018	5/31/2018
Principal	258,461	257,920	265,278	269,563	271,521
Interest	653	733	730	845	845
Total Principal and Interest	259,114	258,653	266,008	270,408	272,366
Less:					
90% Fed. Guar. Loans	(5,449)	(5,392)	(5,300)	(5,196)	(5,196)
80% State Guar. Loans	(23)	(23)	(21)	(22)	(22)
90% Fed. Guar. Investments	(27,177)	(27,915)	(27,303)	(30,382)	(30,382)
80% State Guar. Investments	-	-	-	-	-
Total Deductions	(32,649)	(33,330)	(32,624)	(35,600)	(35,600)
ADJ. INSURED DEBT	226,465	225,323	233,384	234,808	236,766
SECURE BASE AMOUNT (2%)	4,529	4,506	4,668	4,696	4,735
UNALLOCATED INSURANCE FUND BALANCE*	4,651	4,747	4,672	4,741	4,787
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	4,651	4,747	4,848	4,741	4,787
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	2.05%	2.11%	2.00%	2.02%	2.02%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	2.05%	2.11%	2.08%	2.02%	2.02%

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:

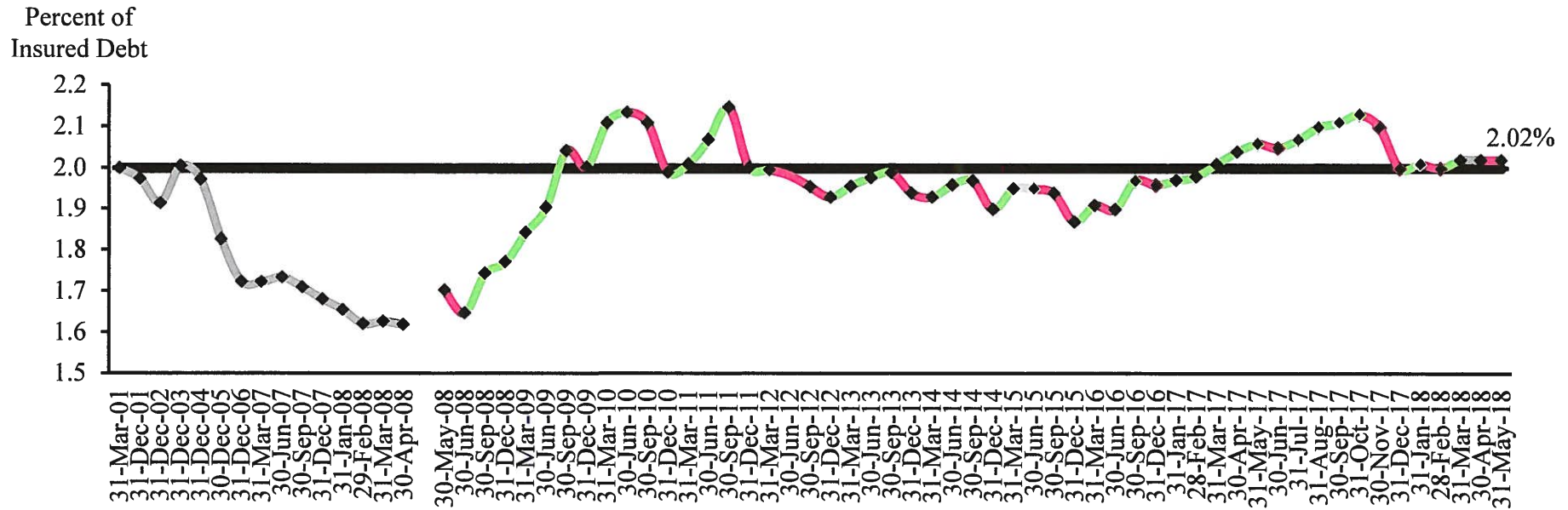
Quarterly amounts are from call report data.

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.

* The Unallocated Insurance Fund Balance finished 2017 at 2.08 percent prior to the allocation of \$176 million to the Allocated Insurance Reserves Accounts (AIRAs).

**Preliminary Trend of the Unallocated Insurance Fund
Relative to the 2% Secure Base Amount
May 31, 2018**



- (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, \$603.3 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.