January 28, 2021

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

From: Jeffery S. Hall  
Chairman

Subject: Board Approves Premiums Rates for 2021

The Farm Credit System Insurance Corporation (Corporation or FCSIC) board has approved an insurance premium assessment rate on adjusted insured debt of 16 basis points for 2021. The board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The System banks most recent call report data indicates that outstanding insured debt obligations increased by 9.9 percent ($28.9 billion) from $293.4 billion at year-end 2019 to $322.3 billion at year-end 2020. Based on the System data, at December 31, 2020 the unallocated Insurance Fund was at 1.93 percent, or $186 million below the 2.0 percent secure base amount (SBA).

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.
- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities and derivatives.

On September 24, 2020, I issued a memorandum indicating that the board of directors had decided that, for planning purposes, the insurance premium rate on adjusted insured debt would likely range from 9 to 12 basis points for 2021. At that time, the System banks reported to us that they expected full year growth during 2020 to be 5.7 percent. As noted above, the actual growth ended up being significantly more than projected, with full year growth at 9.9 percent. The unusual and unanticipated additional growth during 2020 has meant that the Insurance Fund starts the new year below the statutory secure base amount by $186 million.
Over the past five years, insured debt has grown an average of about 6.0 percent annually. Assuming this growth rate for 2021, a premium rate of 16 basis points on adjusted insured obligations will allow the Insurance Fund to be at the secure base of 2.0 percent of total adjusted insured debt at December 31, 2021.

The board will meet again in June 2021 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, premium rates may need to change.

If you have questions concerning these matters please contact Andrew Grimaldi, FCSIC’s Chief Financial Officer, at 703-883-4383 or grimaldia@fcsic.gov.

Attachment 1: Final Trend Analysis of Outstanding Insured Obligations
Attachment 2: Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
# Final Trend Analysis of Outstanding Insured Obligations

## 12 Months Ending December 31, 2020

### Dollars in Millions

<table>
<thead>
<tr>
<th>Bank</th>
<th>31-Dec 2020</th>
<th>30-Nov 2020</th>
<th>$ Change to 31-Dec</th>
<th>% Change to 31-Dec</th>
<th>31-Dec 2019</th>
<th>$ Change from 31-Dec 2019</th>
<th>% Change from 31-Dec 2019</th>
<th>% Change Annualized</th>
<th>31-Dec 2019</th>
<th>31-Dec 2020</th>
<th>12 Month Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Obligations</td>
<td>$322,319.9</td>
<td>$316,146.3</td>
<td>$6,173.6</td>
<td>2.0%</td>
<td>$293,366.9</td>
<td>$28,953.0</td>
<td>9.9%</td>
<td>9.9%</td>
<td>$293,366.9</td>
<td>$322,319.9</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

Source: System bank call reports (principal balances)
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.

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 Farm Credit Banks.