MEMORANDUM

FARM CREDIT SYSTEM INSURANCE CORPORATION

January 18, 2018

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

From: Jeffery S. Hall
Chairman

Subject: Board Approves Premium Reduction for 2018

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved an insurance premium assessment rate on adjusted insured debt of 9 basis points for 2018, a decrease of 6 basis points from the 15 basis point premium charge in 2017. The Board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Federal Farm Credit Banks Funding Corporation reports that outstanding insured debt obligations increased by 2.9 percent ($7.6 billion) from $257.8 billion at yearend 2016 to $265.4 billion at yearend 2017. Based on preliminary results, at December 31, 2017 the unallocated Insurance Fund was at 2.08 percent, or $192 million above the 2 percent secure base amount (SBA). FCSIC is required, after deducting its operating expenses, to transfer funds in excess of the SBA to Allocated Insurance Reserve Accounts established for each System bank and for holders of Financial Assistance Corporation stock (System banks and certain System associations). After all yearend results are finalized, including reports of System institutions on their condition and performance, the Board will consider using its discretionary authority under the Farm Credit Act to make payments from the AIRAs.

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.[1]

On September 19, 2017, 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 11 basis points for 2018. On a weighted average basis, the anticipated 2018 growth rate provided by System banks in January 2018 is 2.87 percent, slightly lower than the 3.55 percent estimate in September 2017.

Over the past five years, insured debt has grown an average of 6.16 percent annually. An accrual rate of 9 basis points on adjusted insured obligations will allow the Insurance Fund to achieve the SBA at a 6 percent growth rate.

The Board will meet again in June 2018 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, premium levels may need to change.

If you have questions concerning these matters please contact Emily Dean, FCSIC's Chief Financial Officer, at 703-883-4387 or deanew@fcsic.gov.

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

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[1]The Farm Credit Administration's Office of Examination reports that while the overall financial condition and performance of the System remains fundamentally sound, U.S. agriculture has entered a period of lower net farm income that may lead to lower farmland values, and certain sectors may become financially stressed. The broader risk environment also remains elevated due to uncertain global economic conditions. The Corporation's most recent allowance for loss review of all banks and associations concluded that no allowances are recommended at this time.

Preliminary Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2017

($ in Millions)

			11/30/17 to 12/31/17		YEAR TO DATE 2017				12/31/16 to 12/31/17		
BANK	31-Dec 2017	30-Nov 2017	$ Change to 31-Dec	% Change to 31-Dec	31-Dec 2016	$ Change from 31-Dec	% Change from 31-Dec	% Change Annualized	31-Dec 2016	31-Dec 2017	12 Month Change
AGFIRST	29,814.2	29,458.2	356.0	1.2%	29,408.4	405.8	1.4%	1.4%	29,408.4	29,814.2	1.4%
AGRIBANK	97,342.1	96,407.9	934.2	1.0%	95,699.2	1,642.9	1.7%	1.7%	95,699.2	97,342.1	1.7%
COBANK	117,296.6	115,021.6	2,275.0	2.0%	113,332.0	3,964.6	3.5%	3.5%	113,332.0	117,296.6	3.5%
TEXAS FCB	20,980.8	20,709.8	271.0	1.3%	19,390.7	1,590.1	8.2%	8.2%	19,390.7	20,980.8	8.2%
TOTAL OBLIGATIONS *	$ 265,433.7	$ 261,597.5	3,836.2	1.5%	$ 257,830.3	7,603.4	2.9%	2.9%	$ 257,830.3	$ 265,433.7	2.9%

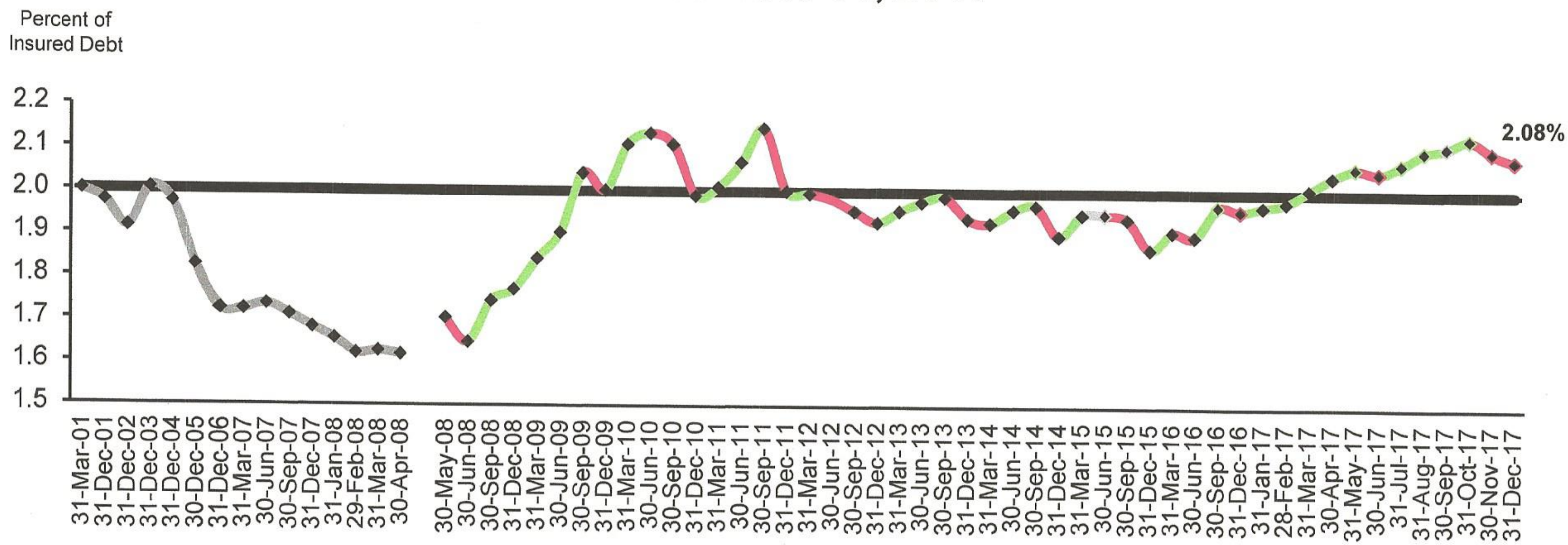
* Source

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

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

ATTACHMENT 1

Preliminary Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
December 31, 2017



(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) Insurance premiums are assessed with the objective of maintaining the SBA which is defined in the Farm Credit Act as 2% of adjusted insured obligations. At year-end 2009, additional excess funds above the SBA of $165.4 million were transferred to the Allocated Insurance Reserves Accounts (AIRAs). In February 2010, the $39.9 million that was transferred to the AIRAs in 2003 was paid to the accountholders. In April 2010, the $165.4 million that was transferred to the AIRAs in 2009 also was paid to the accountholders. The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit Banks and FAC stockholders. At year-end 2011, excess funds above the SBA of $222 million were transferred to the AIRAs and paid to the accountholders in May 2012.

ATTACHMENT 2