Farm Credit System Insurance Corporation

June 17, 2021

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

From: Jeffery S. Hall
Chairman

Subject: Mid-Year 2021 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 16 basis points for the remainder of the year. We believe that maintaining the insurance premium assessment rate at 16 basis points is prudent and will allow the Insurance Fund to reach 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.

The principal on outstanding insured obligations reported by the Federal Farm Credit Banks Funding Corporation through May 31, 2021 was $331.1 billion, up 2.7 percent from $322.3 billion at year-end 2020. Using preliminary results, at May 31, 2021 the Farm Credit Insurance Fund (Insurance Fund) was 1.96 percent of adjusted insured debt or $116 million below the 2 percent secure base amount (SBA) (See Attachment A and B).

Based on our May survey, System banks anticipate growth in insured debt of 6.6 percent in 2021. This estimate is slightly higher than the historical 5-year average growth rate of 5.8 percent. We reviewed the banks estimates and the historical 5-year average and believe that targeting Systemwide growth at 6.0 percent continues to be appropriate.

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, another factor influencing the level of adjusted insured debt is the level of deductions (i.e. government-guaranteed loans and investments). At March 31, 2021, the total deduction for full faith and credit loans and investments was $42.7 billion. These deductions lowered the SBA by $854 million.

The Corporation's allowance for insurance fund loss review for the period ending March 31, 2021, concluded that insurance risk remains low and the likelihood of a loss to the Insurance Fund is remote. The insured banks remain well-capitalized, with ample liquidity, adequate asset quality and sufficient earnings.

The board plans to meet again in September 2021 to review the status of the Insurance Fund and review projections for the likely level of premium rates for 2022.

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, 2021
Dollars in Millions

Debt Outstanding	Final 6/30/2020	Final 9/30/2020	Final 12/31/2020	Final 3/31/2021	Preliminary 5/31/2021
Principal	309,751	308,666	322,320	327,480	331,122
Interest	786	697	672	613	613
Total Principal and Interest	310,537	309,363	322,992	328,093	331,735
Less:					
90% Federal Government-Guaranteed Loans	(8,674)	(8,698)	(8,520)	(8,897)	(8,897)
80% State Government-Guaranteed Loans	(23)	(23)	(21)	(21)	(21)
90% Federal Government-Guaranteed Investments	(35,816)	(34,102)	(32,429)	(33,795)	(33,795)
80% State Government-Guaranteed Investments					
Total Deductions	(44,513)	(42,823)	(40,970)	(42,713)	(42,713)
Adjusted Insured Debt	266,024	266,540	282,022	285,380	289,022
Secure Base Amount 2%	5,320	5,331	5,640	5,708	5,780
Unallocated Insurance Fund Balance	5,280	5,367	5,454	5,580	5,664
Unallocated and Allocated Insurance Fund Balance	5,280	5,367	5,454	5,580	5,664
Amount Over (Under) the SBA	(40)	36	(186)	(128)	(116)
Unallocated Insurance Fund as a % of Adjusted Insured Debt	1.98%	2.01%	1.93%	1.96%	1.96%
Unallocated and Allocated Insurance Fund as a % of Adjusted Insured Debt	1.98%	2.01%	1.93%	1.96%	1.96%

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:

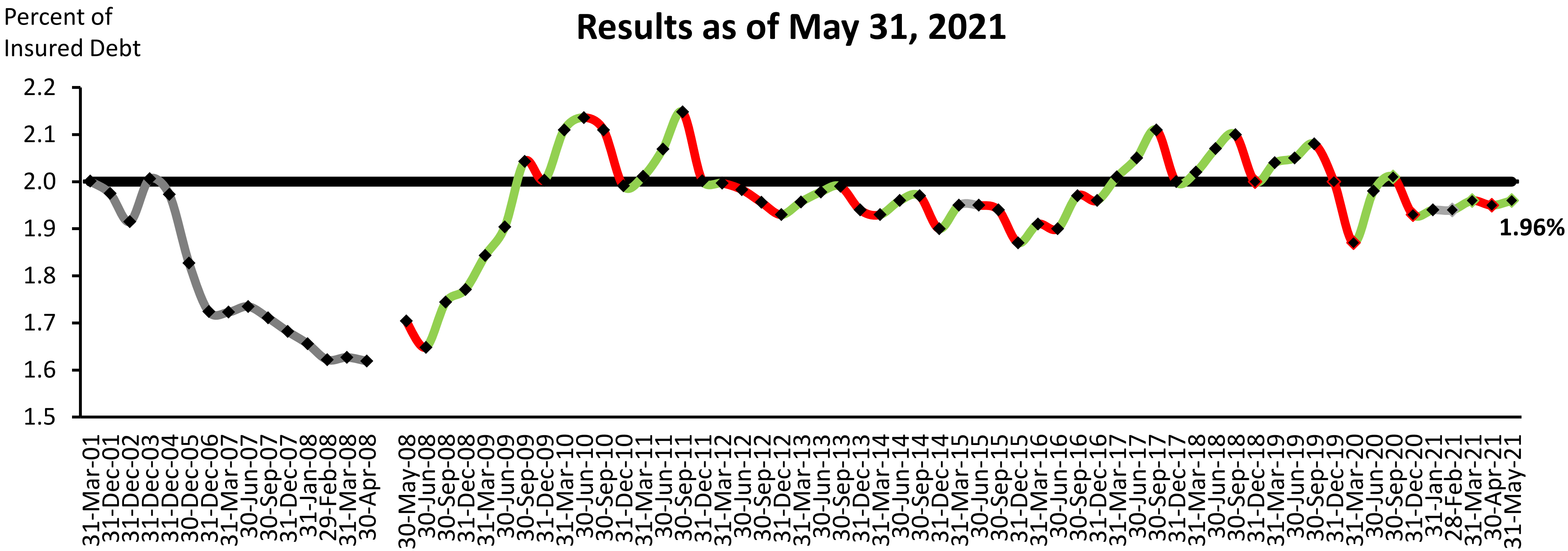
Quarterly amounts are from call report data.

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
Results as of May 31, 2021



(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 Farm Credit Banks.

Attachment B