June 8, 2017

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

From: Jeffery S. Hall
Chairman

Subject: Mid-Year 2017 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 15 basis points for the remainder of the year. We believe maintaining the 15 basis point rate is prudent and will allow the Insurance Fund to remain near or at the required 2 percent target at yearend 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, 2017 was $257.3 billion, down from $257.8 billion at year-end 2016. Using preliminary results, at May 31, 2017 the Farm Credit Insurance Fund (Insurance Fund) was 2.06 percent of adjusted insured debt or $125 million above the 2 percent secure base amount (SBA). This is a positive change to yearend 2016 results when the Insurance Fund was 1.96 percent of adjusted insured debt or $88 million below the SBA (See Attachment A).

Based on our May survey, System banks anticipate growth in insured debt of 4.6 percent in 2017, which is a decrease from the 5 percent growth projected by System institutions in January 2017. We note, however, that growth in insured debt has averaged 7.04 percent annually from 2012 through 2016.

The Board considers 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,

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

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, 2017, the total deduction for full faith and credit loans and investments was $33.3 billion. These deductions lowered the SBA by $666 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 2017.

The Board plans to meet again in September 2017 to review the status of the Insurance Fund and projections for the likely level of premium rates for 2018.

If you have any questions concerning this matter please contact FCSIC's Chief Financial Officer, Emily Dean, at deanew@fcsic.gov or (703) 883-4387.

Attachment A: Preliminary Secure Base Amount Calculation

Preliminary Secure Base Amount Calculation

Results as of May 31, 2017

($ in Millions)

	FINAL				PRELIMINARY
DEBT OUTSTANDING	6/30/2016	9/30/2016	12/31/2016	3/31/2017	5/31/2017
Principal	254,476	251,910	257,830	258,977	257,269
Interest	575	597	602	663	663
Total Principal and Interest	**255,051**	**252,507**	**258,432**	**259,640**	**257,932**
Less:					
90% Fed. Guar. Loans	(5,470)	(5,393)	(5,285)	(5,330)	(5,330)
80% State Guar. Loans	(26)	(24)	(21)	(21)	(21)
90% Fed. Guar. Investments	(26,358)	(26,788)	(26,088)	(27,968)	(27,968)
80% State Guar. Investments	-	-	-	-	-
Total Deductions	**(31,854)**	**(32,205)**	**(31,394)**	**(33,319)**	**(33,319)**
ADJ. INSURED DEBT	**223,197**	**220,302**	**227,038**	**226,321**	**224,613**
SECURE BASE AMOUNT (2%)	4,464	4,406	4,541	4,526	4,492
UNALLOCATED INSURANCE FUND BALANCE	4,234	4,343	4,453	4,552	4,617
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	4,234	4,343	4,453	4,552	4,617
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	**1.897%**	**1.971%**	**1.961%**	**2.011%**	**2.056%**
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	**1.897%**	**1.971%**	**1.961%**	**2.011%**	**2.056%**

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