FCSIC

Farm Credit System Insurance Corporation

June 8, 2022

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

From: Jeffery S. Hall
Chairman

Subject: Mid-Year 2022 Premium Rate Accrual Review

At its June meeting, the Insurance Corporation's Board of Directors voted to increase the insurance premium accrual assessment rate on Systemwide adjusted insured debt from 16 basis points to 20 basis points. The change will be applied retroactively and will apply to the entire calendar year. In January, when the premium accrual was originally set, the banks projected less than 2 percent growth for the full calendar year. By the end of May 2022, the System had already grown by 6.8 percent (16.3 percent annualized), more than triple the banks' projected full year amount. Increasing the insurance premium assessment rate to 20 basis points is necessary during this time of high growth in order to target the Farm Credit Insurance Fund (Insurance Fund) balance to the statutory secure base amount (SBA) of 2.0 percent. Even at 20 basis points, we anticipate the Insurance Fund to finish 2022 below the 2 percent SBA based on current and anticipated growth levels. In addition, the board has voted to maintain the current assessment of 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, 2022, was $376.6 billion, up 6.8 percent from $352.7 billion at year-end 2021. Using preliminary results, at May 31, 2022, the Insurance Fund was 1.90 percent of adjusted insured debt or $327 million below the 2 percent secure base amount (See Attachment A and B).

Based on our May survey, System banks anticipate growth in insured debt of 10.2 percent in 2022. This estimate is significantly higher than the historical 5-year average growth rate of 6.5 percent. However, over the past two years the banks have grown 9.9 and 9.4 percent, respectively. The full year growth for 2022 is trending significantly higher (16.3%). We reviewed the banks estimates and the growth during the last 2 years and believe that targeting Systemwide growth of at least 10 percent is appropriate.

In setting premiums, the board's objective is to achieve and maintain the statutory secure base amount of 2 percent in the Insurance Fund. The review focuses on the current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount based on expected growth in Systemwide insured obligations. The review also examines the risk that the Insurance

Fund will need to be used in the next 12 months, and includes analyzing the condition of the System, the health of the agricultural economy, and risks in the financial environment.

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, 2022, the total deduction for full faith and credit loans and investments was $51.6 billion. These deductions lowered the SBA by $1,032 million.

The Corporation's allowance for insurance fund loss review for the period ending March 31, 2022, 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.

Extreme volatility in insured debt growth from year-to-year has made it difficult to project the growth rate and consequently provide accurate premium rate guidance for the upcoming year. Providing reasonably accurate projections in September is particularly challenging because System debt growth during the last quarter of the calendar year typically accounts for more than 75 percent of the year's total annual growth.

Therefore, based on System bank feedback and the inherent impediments to providing accurate estimates by September, the FCSIC Board will no longer be providing projected premium rate range guidance in September. However, to better assist the banks with their budgeting process, the board has directed FCSIC staff to work with the banks to provide periodic estimates from October to December of where the Insurance Fund will likely be under various growth scenarios so that the banks can estimate their own accruals based on their own best estimates of Systemwide debt growth and the statutory requirement to target the Insurance Fund to end the calendar year at the secure base amount of 2 percent. FCSIC staff will also continue to aggregate bank estimates of Systemwide debt and provide other useful data or information, including possible forecasts or projections of Systemwide debt, to assist the banks with their budgeting process.

FCSIC staff will also continue to work with the banks on potential improvements to the rate setting process. For 2023, we will obtain bank growth estimates in January and set an accrual rate estimate after final year-end numbers have been reported by the banks. The board is committed to ensuring the Insurance Fund remains at the secure base amount of 2 percent, so adjustments to the accrual rate will continue to be reviewed throughout the year as circumstances dictate.[1]

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

[1] Section 5.55(a) of the Farm Credit Act, as amended, provides that for any calendar year in which the Insurance Fund does not exceed the secure base amount, the premium due from any insured System bank shall be equal to 20 basis points of the adjusted amount of the "average outstanding insured obligations issued by the bank for the calendar year" (plus a 10 basis points surcharge for nonaccrual loans and other-than-temporarily impaired investments). Section 5.55(a)(3) of the Act gives FCSIC, in its sole discretion, authority to uniformly reduce the percentage charged to each System bank below the statutory 20 basis points.

Preliminary Secure Base Amount Calculation
Results as of May 31, 2022
Dollars in Millions

Debt Outstanding	Final				Preliminary
	6/30/2021	9/30/2021	12/31/2021	3/31/2022	5/31/2022
Principal	328,626	328,838	352,744	371,947	376,635
Interest	624	620	638	700	700
Total Principal and Interest	329,250	329,458	353,382	372,647	377,335
Less:					
90% Federal Government-Guaranteed Loans	(8,467)	(7,902)	(7,789)	(7,892)	(7,892)
80% State Government-Guaranteed Loans	(20)	(25)	(17)	(16)	(16)
90% Federal Government-Guaranteed Investments	(37,404)	(37,766)	(44,918)	(43,688)	(43,688)
80% State Government-Guaranteed Investments					
Total Deductions	(45,891)	(45,693)	(52,724)	(51,596)	(51,596)
Adjusted Insured Debt	283,359	283,765	300,658	321,051	325,739
Secure Base Amount 2%	5,667	5,675	6,013	6,421	6,515
Unallocated Insurance Fund Balance	5,707	5,833	5,960	6,095	6,188
Unallocated and Allocated Insurance Fund Balance	5,707	5,833	5,960	6,095	6,188
Amount Over (Under) the SBA	40	158	(53)	(326)	(327)
Unallocated Insurance Fund as a % of Adjusted Insured Debt	2.01%	2.06%	1.98%	1.90%	1.90%
Unallocated and Allocated Insurance Fund as a % of Adjusted Insured Debt	2.01%	2.06%	1.98%	1.90%	1.90%

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:

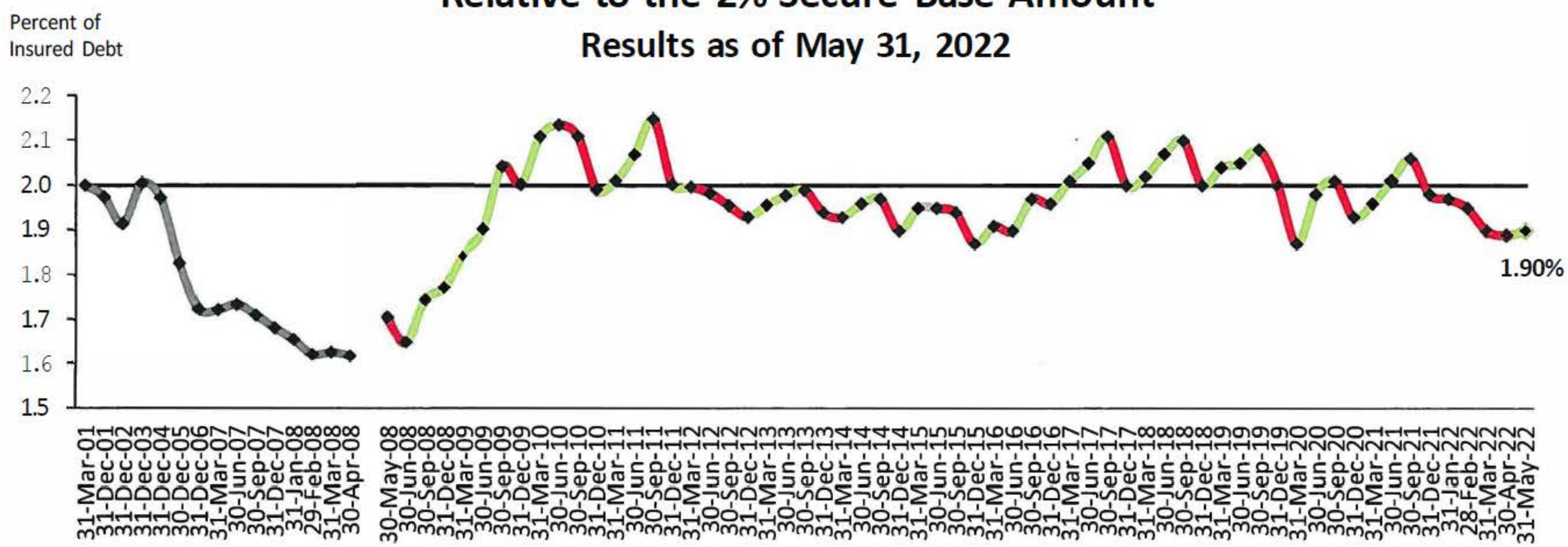
Quarterly amounts are from call report data.

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, 2022



(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