Farm Credit System Insurance Corporation

June 25, 2020

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

From: Jeffery S. Hall
Chairman

Subject: Mid-Year 2020 Premium Rate Review

At its June meeting, the Insurance Corporation's Board of Directors voted to increase the insurance premium assessment rate on adjusted insured debt from 8 basis points to 11 basis points starting in July 2020 and for the remainder of the year. We believe that increasing the insurance premium assessment rate to 11 basis points is prudent and will allow the Insurance Fund to remain near or at 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.

In January, the System estimated that insured debt would increase modestly during 2020. Insured debt reported by the Federal Farm Credit Banks Funding Corporation through May 31, 2020 was \$312.1 billion, up 6.4 percent from \$293.4 billion at year-end 2019. Using preliminary results, at May 31, 2020 the Farm Credit Insurance Fund (Insurance Fund) was 1.91 percent of adjusted insured debt or \$258 million below the 2 percent secure base amount (SBA) (See Attachment A and B).

Based on our June survey, System banks and large associations anticipate growth in insured debt of 5.7 percent and 6.0 percent, respectively, in 2020. These estimates are slightly higher than the 5-year historical average growth rate of 5.5 percent and significantly above the 1.3 percent growth estimated by the banks in January.

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, 2020, the total deduction for full faith and credit loans and investments was $37.3 billion. These deductions lowered the SBA by $746 million.

The Corporation's allowance for insurance fund loss review for the period ending March 31, 2020, 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. However, the pandemic caused by COVID-19 has had a profound and far-reaching impact on the U.S economy and agriculture and the overall impact of the pandemic on agricultural producers remains uncertain.

The Board plans to meet again in September 2020 to review the status of the Insurance Fund and review projections for the likely level of premium rates for 2021.

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, 2020
Dollars in Millions

DEBT OUTSTANDING	Final 6/30/2019	Final 9/30/2019	Final 12/31/2019	Final 3/31/2020	Preliminary 5/31/2020
Principal	283,367	282,640	293,367	314,386	312,146
Interest	1,032	1,043	1,011	875	875
Total Principal and Interest	**284,399**	**283,683**	**294,378**	**315,261**	**313,021**
Less:					
90% Fed. Guar. Loans	(7,039)	(7,282)	(7,206)	(7,223)	(7,223)
80% State Guar. Loans	(18)	(18)	(17)	(17)	(17)
90% Fed. Guar. Investments	(31,711)	(30,665)	(30,462)	(30,036)	(30,036)
80% State Guar. Investments					
Total Deductions	**(38,768)**	**(37,965)**	**(37,685)**	**(37,276)**	**(37,276)**
ADJ. INSURED DEBT	**245,631**	**245,718**	**256,693**	**277,985**	**275,745**
SECURE BASE AMOUNT (2%)	4,913	4,914	5,134	5,560	5,515
UNALLOCATED INSURANCE FUND BALANCE*	5,046	5,122	5,138	5,211	5,257
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	5,046	5,122	5,201	5,211	5,257
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	**2.05%**	**2.08%**	**2.00%**	**1.87%**	**1.91%**
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	**2.05%**	**2.08%**	**2.03%**	**1.87%**	**1.91%**

Assumptions:

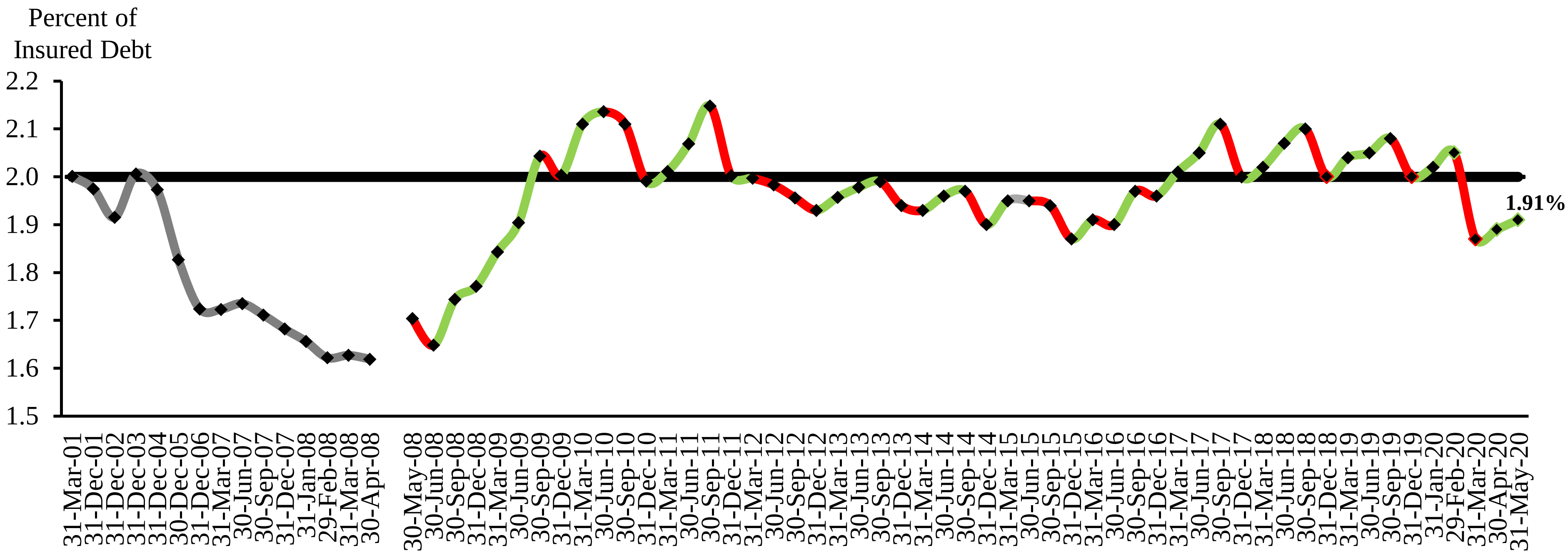
Source of Systemwide Debt Outstanding:
Quarter-end data: FCA call reports which include amortization of premiums and discounts
Monthly and preliminary quarter-end data: Funding Corporation Systemwide debt obligations report at par value

Attachment A

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.

Preliminary Trend of the Unallocated Insurance Fund
Relative to the 2% Secure Base Amount
May 31, 2020



(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 accountholders (Farm Credit Banks and FAC stockholders). In four distributions between February 2010 and March 2019, $603 million in excess funds were paid to accountholders. As of March 2018, the FAC stockholders were fully reimbursed and so no further allocation were made to this AIRA account. In March 2019, $66 million in excess funds were distributed to the remaining accountholders.

Attachment B