Statement by Jeffery S. Hall
Chairman of the FCSIC Board of Directors
Farm Credit System Insurance Corporation Board Meeting
June 8, 2022

As chairman of the board of directors of the Farm Credit System Insurance Corporation, I have two announcements today, one regarding the premiums for 2022 and the other regarding the guidance that FCSIC provides the banks to help with their budget planning each September.

Premium rates to increase for 2022

The board has decided to increase the premium rate on adjusted insured debt obligations to 20 basis points for 2022. This rate will apply retroactively for the entire 2022 premium billing cycle.

We determined that the increase would be necessary to maintain the Farm Credit Insurance Fund at the 2% secure base amount. The Farm Credit Act requires that the Insurance Fund maintain a secure base amount of 2% of adjusted insured debt — or such other percentage as the corporation determines is actuarily sound. The corporation periodically hires a qualified third party to confirm that the 2% secure base amount remains actuarily sound. Based on the statute and the latest independent review, the FCSIC board has determined that 2% of outstanding debt continues to be an appropriate target.

Although the System has historically experienced steady growth and prosperity, its growth rate in 2020 and 2021 was particularly strong. It exceeded expectations both years by growing at an annual rate of 9%, and it's on track to exceed expectations again in 2022 and surpass the growth rate for the past two years. Because premium payments and accruals to the Insurance Fund have not kept pace with these growth rates, increasing the premium rate for 2022 is necessary to maintain the secure base amount. Maintaining an actuarily sound secure base amount is critical to protecting investors and fulfilling FCSIC's statutory mission.

We recognize that adjusting premium rates can be a challenge for a System bank's budget process, but we also firmly believe that this premium increase is critical, particularly in good times such as these. Targeting a 2% secure base amount is not only a statutory imperative; it is vital to maintaining confidence in this unique system of reliable and affordable credit for America's farmers, ranchers, and rural communities.

FCSIC staff to work with System banks on growth projections

The FCSIC board has also decided to change its approach to helping banks with their budget planning. For the past several years, every September the FCSIC board has issued a guidance range for premium rates. However, extreme volatility in insured debt growth from year to year has made it difficult to project the growth rate and provide accurate premium rate guidance for the coming year. Providing 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% of the year's total annual growth.

Therefore, based on System bank feedback and the difficulties of providing accurate estimates by September, the FCSIC board will no longer provide projected premium rate range guidance. Instead, to help the banks with their budget planning, the board has directed FCSIC staff to provide periodic estimates of where the Insurance Fund will likely be under various growth scenarios. FCSIC staff will also aggregate bank estimates of Systemwide debt and provide other useful information.

With this information, the banks can themselves estimate the future premium assessments that will be necessary to achieve the 2% secure base amount at calendar year-end. Meanwhile, FCSIC staff will continue to work with the banks to improve the process of setting premium assessment rates.

FCSIC's important role in agriculture

As chairman of FCSIC for these past six years, I am proud of the work FCSIC does in managing the Insurance Fund. Congress created FCSIC following the agricultural credit crisis of the early 1980s. For 30 years, the corporation has increased confidence in the Farm Credit System by reducing risk to investors in Farm Credit System debt obligations.

Credit rating agencies consistently cite the Insurance Fund as a positive and important element in the rating of the System. The System's GSE status, the robust capital levels of its institutions, and a fully funded Insurance Fund all help to ensure reliable and affordable credit for America's farmers, ranchers, agriculturally related businesses and rural America.