MEMORANDUM

FCSIC

FARM CREDIT SYSTEM INSURANCE CORPORATION

September 22, 2016

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

From: Dallas P. Tonsager
Chairman

Subject: Premium Projections for 2017

At its meeting today, the Farm Credit System Insurance Corporation's Board of Directors reviewed the status of the Farm Credit Insurance Fund (Insurance Fund) and projections for the likely level of premium rates for 2017. The Farm Credit Act directs FCSIC to collect annual premiums equal to 20 basis points (.20%) of outstanding adjusted insured obligations while authorizing the Corporation, in its sole discretion, to uniformly reduce the premiums charged to System banks.[1] As you know, we consider five factors in determining premiums;[2] however, our review often focuses on the level of the Insurance Fund to the 2 percent secure base amount (SBA) and the projected growth in insured debt outstanding.

Based on preliminary results, at August 31, 2016, the Insurance Fund was approximately 1.96% of the adjusted insured debt obligations, or $97 million below the 2 percent SBA. At August 31, 2016, insured debt was approximately $251.2 billion, representing an increase of 3.3 percent during the first eight months of 2016 or 4.9 percent when annualized. However, in our recent survey participants estimated a combined growth of near 7.5 percent for 2016. Growth in insured debt outstanding increased 8.8 percent for 2014 and 8.0 percent for 2015. Also, during the past 12 calendar months, insured debt obligations increased by 10.5 percent.

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[1] FCSIC is required by statute to maintain the Insurance Fund at a "secure base amount" of 2 percent of the aggregate outstanding obligations of insured System banks — adjusted downward to provide System banks credit for holding government-guaranteed loans and investments – or such other percentage the Corporation determines to be actuarially sound to maintain the Insurance Fund taking into account the risk of insuring the System obligations. To date, the Corporation has not determined any other amount to be actuarially sound and therefore is required to maintain 2 percent of adjusted insured debt obligations in the Insurance Fund.

[2] The Board considers the following factors in determining premiums: 1.) Current level of the Insurance Fund and projections for growth in insured obligations; 2.) Likelihood and probable amount of any losses to the Insurance Fund; 3.) Financial condition of the Farm Credit System banks and associations; 4.) Health and prospects for the agricultural economy; and 5.) Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities.

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In making a growth projection for 2017, the FCSIC Board is mindful that the U.S. agricultural economy is in a period of deflation. The strong dollar has weighed on exports. Grain and soybean prices are at their lowest levels in several years as record crops are likely this fall. The livestock sector is benefiting from low feed costs, but increases in supply and sluggish demand are putting pressure on meat and dairy prices, which has squeezed profitability. These factors make projections for 2017 even more difficult.

Because we anticipate that insured debt outstanding will continue to grow and the Insurance Fund remains $97 million below the SBA, the Board of Directors believes that, for planning purposes, it would be prudent for System banks to anticipate a 20 basis point insurance premium rate on adjusted insured debt for 2017. Should growth of insured debt decline during the remainder of 2016 or anticipated growth be adjusted downward, premium rates will likely be set at less than 20 basis points. For example, if growth in insured debt outstanding is at or slightly above bank estimates but growth in 2017 is projected to drop to 5 percent, the Board may determine an 18 basis point insurance premium rate is sufficient to meet the SBA. In any case, we anticipate continuing the assessment of an additional 10 basis points for nonaccrual loans and other-than-temporarily impaired investments.

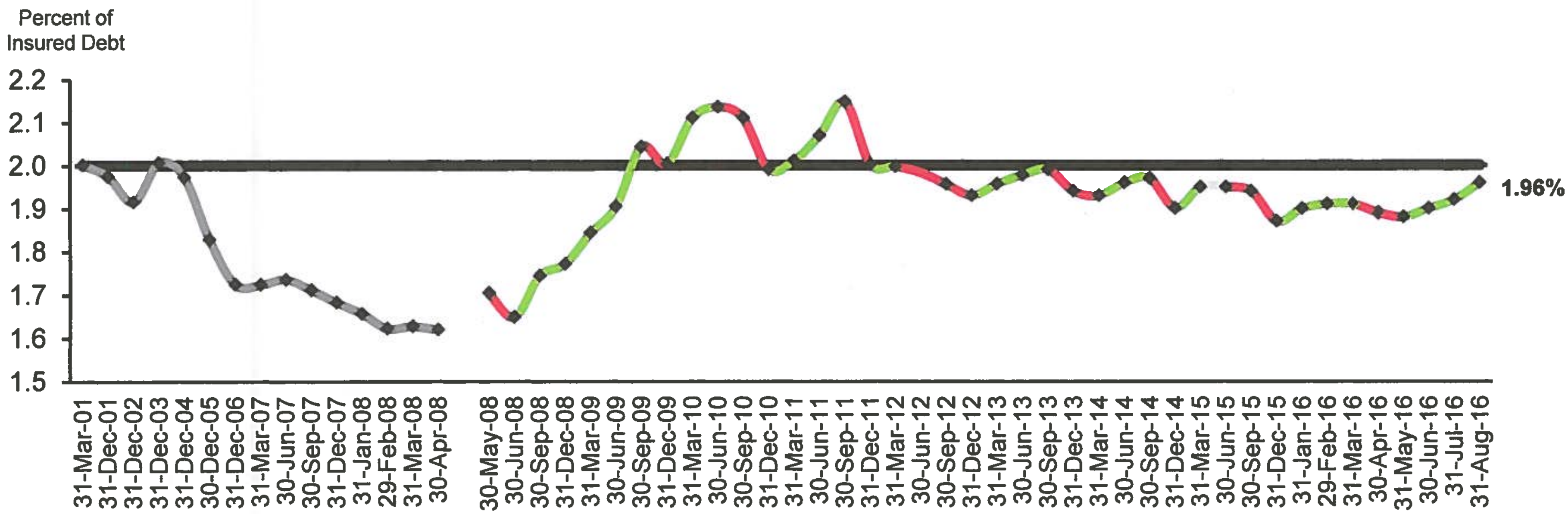
As evidenced by our quarterly allowance for insurance loss analysis, we consider the System to be fundamentally safe and sound. The System continues to report strong earnings, the credit quality of the System's loan portfolio remains strong, the quality and quantity of bank liquidity is sufficient, and capital levels at most System institutions continue to increase. Credit problems continue to exist at a few associations, but we do not believe they pose material risk to the Insurance Fund.

The Board of Directors will make the premium decision for 2017 at its January meeting. At that time, the Board will take into account updated information on insured debt growth, projected growth and all of the other relevant factors affecting the System banks in determining premium rates.

If you have questions concerning these matters please contact Emily Dean, FCSIC's Chief Financial Officer, at 703-883-4387 or deanew@fcsic.gov.

Attachment: Trend of Secured Base Percentage

Preliminary Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
August 31, 2016



(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) Insurance premiums are assessed with the objective of maintaining the SBA which is defined in the Farm Credit Act as 2% of adjusted insured obligations. At year-end 2009, additional excess funds above the SBA of $165.4 million were transferred to the Allocated Insurance Reserves Accounts (AIRAs). In February 2010, the $39.9 million that was transferred to the AIRAs in 2003 was paid to the accountholders. In April 2010, the $165.4 million that was transferred to the AIRAs in 2009 also was paid to the accountholders. The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit Banks and FAC stockholders. At year-end 2011, excess funds above the SBA of $222 million were transferred to the AIRAs and paid to the accountholders in May 2012.