MEMORANDUM

Farm Credit System Insurance Corporation

September 14, 2021

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

From: Jeffery S. Hall
Chairman

Subject: 2022 Projected Premium Rate Range – 10 to 13 basis points

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 2022. The Farm Credit Act directs FCSIC to collect annual premiums equal to 20 basis points of outstanding adjusted insured obligations while authorizing the Corporation, in its sole discretion, to uniformly reduce the premiums charged to System banks.[1] The Board concluded that based on FCSIC's staff best estimates for growth this year and next, the projected premium rate range for 2022, at this time, is expected to be 10 to 13 basis points.

The principal amount of insured debt reported by the Federal Farm Credit Banks Funding Corporation through August 31, 2021 was $327.6 billion, up from $322.3 billion at year-end 2020, an increase of $5.3 million (1.6 percent). Using these preliminary amounts, at August 31, 2021, the Insurance Fund was 2.05 percent of adjusted insured debt or $144 million above the 2 percent secure base amount (SBA).[2]

Based on responses to our August survey, System banks reported that they anticipate growth of insured debt of 4.6 percent in 2021, which is 2 percent lower than the amount projected by System institutions in May 2021. The survey information also indicated estimated growth rates for 2022 ranging from 3.1 percent to 8.8 percent, with a weighted average growth estimate of 5.0 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] If the Insurance Fund exceeds the secure base amount at the end of any calendar year, FCSIC allocates those amounts, minus operating expenses and insurance obligations, to "allocated insurance reserve accounts" (AIRAs) established for the benefit of the System banks and holders of Financial Assistance Corporation stock (System banks and certain System associations) in accordance with the formula found at 12 U.S.C. § 2277a-4 (section 5.55 of the Farm Credit Act). Once FCSIC determines that the allocation is appropriate and that the funds in the AIRAs are not otherwise needed, FCSIC may pay the amounts in the AIRAs to the account holders.

1501 Farm Credit Drive
McLean, Virginia 22102
(703) 883-4380

We note, however, that growth in insured debt has historically averaged 5.8 percent annually from 2016 through 2020.

The Board considers the following factors when 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.

The Corporation's allowance for insurance fund loss review for the period ending June 30, 2021, concluded that insurance risk remains low and the likelihood of a loss to the Insurance Fund is remote. U.S. agriculture has improved remarkably since mid-2020. The outlook for many producers is positive due to continued low interest rates, higher commodity prices and strong demand for U.S. agricultural products. Credit quality in the System has materially improved. The insured banks remain well-capitalized, with ample liquidity, adequate asset quality and sufficient earnings.

We anticipate that insured debt outstanding will continue to grow in 2021; however, the Insurance Fund may be above the SBA at year-end. After all year-end results are finalized, including System institutions reporting on their condition and performance, and any excess in the Insurance Fund is transferred to the AIRAs, the board will consider exercising its authority under the statute to make payments from the AIRAs (see Attachment A, footnote 2).

Because we anticipate that in the beginning of 2022 the SBA percentage will continue to be at the statutory 2 percent, the board of directors believes that, for planning purposes, it would be prudent for System banks to anticipate a premium rate of between 10 and 13 basis points to cover growth in insured debt for 2022. Also, the assessment of an additional 10 basis points for nonaccrual loans and other-than-temporarily impaired investments will likely be continued.

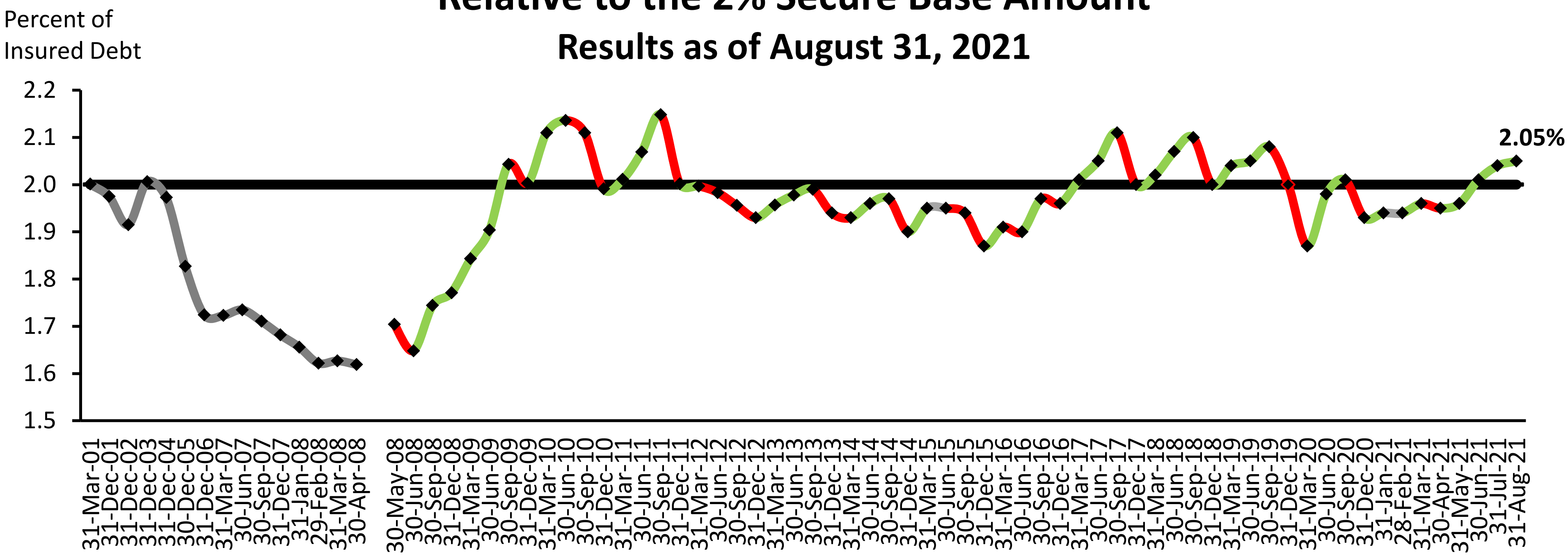
The board of directors will make the premium decision for 2022 at its January meeting. At that time, the Board will take into account updated information on insured debt growth, projected growth and all of the other relevant factors affecting the System banks in determining premium rates.

If you have 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 Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Preliminary Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Results as of August 31, 2021



(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 A