MEMORANDUM

Farm Credit System Insurance Corporation

January 27, 2022

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

From: Jeffery S. Hall
Chairman

Subject: Board Approves Premiums Rates for 2022

The Farm Credit System Insurance Corporation (Corporation or FCSIC) board has approved an insurance premium assessment rate on adjusted insured debt of 16 basis points for 2022. The board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Federal Farm Credit Banks Funding Corporation reports that outstanding insured debt obligations increased by 9.5 percent ($30.6 billion) from $322.3 billion at year-end 2020 to $352.9 billion at year-end 2021. Based on preliminary results at December 31, 2021, the unallocated Insurance Fund was at 1.93 percent, or $201 million below the 2.0 percent secure base amount (SBA).

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.
- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities and derivatives.

On September 14, 2021, I issued a memorandum indicating that the board of directors had decided that, for planning purposes, the insurance premium rate on adjusted insured debt would likely range from 10 to 13 basis points for 2022. At that time, the System banks reported to us that they expected full year growth during 2021 to be 4.6 percent. As noted above, the actual growth ended up being significantly more than projected, with full year growth at 9.5 percent. The unanticipated additional growth during 2021 resulted in the Insurance Fund starting the new year below the statutory 2 percent secure base amount by $201 million (based on preliminary results).

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Over the past five years, insured debt has grown an average of about 6.5 percent annually. Assuming this growth rate for 2022, a premium rate of 16 basis points on adjusted insured obligations will allow the Insurance Fund to cover the anticipated growth in 2022 and recoup more than half of the shortfall in the secure base amount experienced in 2021. With 6.5 percent growth in 2022, we estimate that the Insurance Fund will be at 1.98 percent of total adjusted insured debt, or $67 million below the secure base amount, at December 31, 2022. We believe that recouping the shortfall over a longer period will allow System banks time to better plan for potential future premium increases and does not create undo risk as the System is currently well capitalized and the risk of loss to Insurance Fund in the near term is remote.

The board will meet again in June 2022 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, or if there is a significant change in projected growth, premium rates may need to be adjusted.

Please contact Andrew Grimaldi, FCSIC's Chief Financial Officer, at 703-883-4383 or grimaldia@fcsic.gov if you have any questions.

Attachment A: Preliminary Trend Analysis of Outstanding Insured Obligations
Attachment B: Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Preliminary Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2021

Dollars in Millions

Bank	31-Dec 2021	Month to Month Change 30-Nov 2021	$ Change to 31-Dec	% Change to 31-Dec	Year to Date Change 31-Dec 2020	$ Change from 31-Dec	% Change from 31-Dec
Total Principal on Outstanding Insured Obligations *	$352,905.9	$340,879.4	$12,026.5	3.5%	$322,319.9	$30,586.0	9.5%

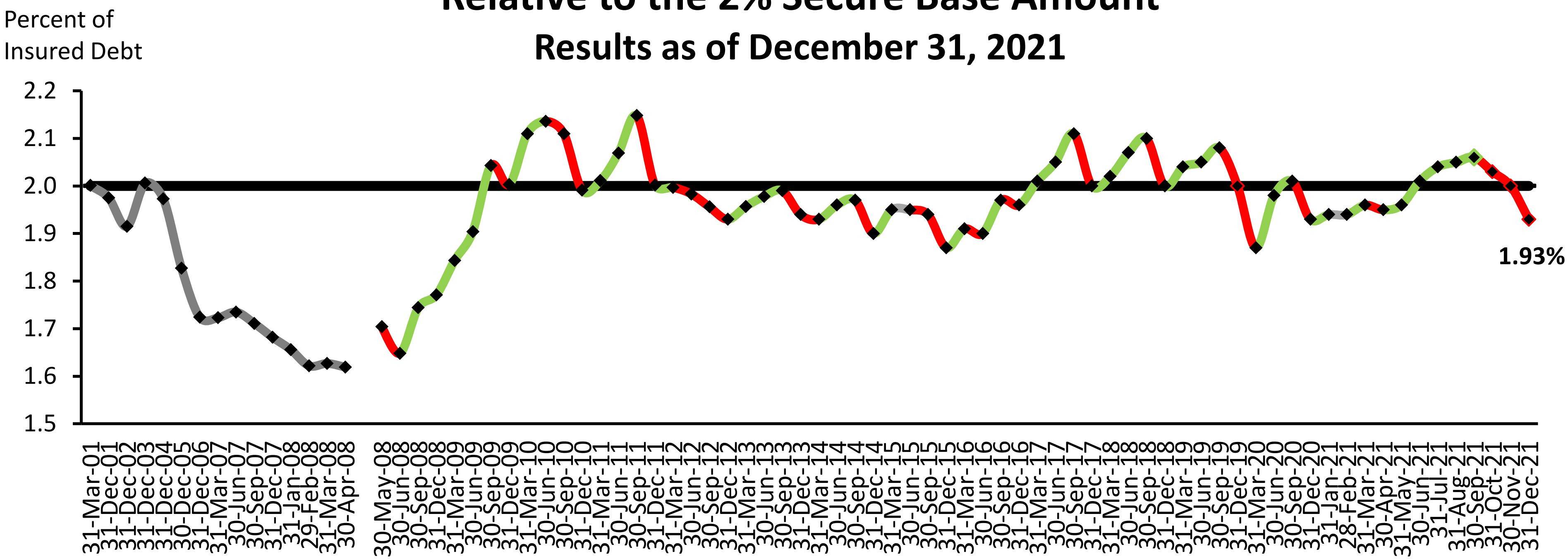
* Source

Quarter-end data: FCA call reports which include amortization of premiums and discounts.

Monthly and preliminary quarter-end data: Funding Corporation system debt obligations report at par value.

Attachment A

Preliminary Trend of the Unallocated Insurance Fund
Relative to the 2% Secure Base Amount
Results as of December 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 B