**MEMORANDUM**

FCSIC
Farm Credit System Insurance Corporation

September 19, 2018

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

From: Jeffery S. Hall
Chairman

Subject: Premium Projection Range for 2019 – 7 to 10 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 2019. The Farm Credit Act directs FCSIC to collect annual premiums equal to 20 basis points (0.20%) of outstanding adjusted insured obligations while authorizing the Corporation, in its sole discretion, to uniformly reduce the premiums charged to System banks.[1]

Insured debt reported by the Federal Farm Credit Banks Funding Corporation through August 31, 2018 was $267.2 billion, up from $265.3 billion at year-end 2017, an increase of $1.9 billion (0.7 percent). Using preliminary results, at August 31, 2018 the Insurance Fund was 2.11 percent of adjusted insured debt or $253 million above the 2 percent secure base amount (SBA)[2].

Based on our August survey, System banks anticipate growth in insured debt of 2.7 percent in 2018, which is a slight decrease from the 2.9 percent growth projected by System institutions in January 2018. The survey also includes estimated growth rates for 2019 ranging from 2.1 percent to 5.8

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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 System banks 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.

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percent, with a weighted average growth estimate of 3.3 percent. We note, however, that growth in insured debt has averaged 6.16 percent annually from 2013 through 2017, with growth in nearly every month from September through December.

The Board considers 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.

The Corporation's June 2018 quarterly allowance for loss review for all banks and associations concluded that no losses to the Insurance Fund were probable at this time. Overall, the System remains fundamentally safe and sound and liquidity risk to the Insurance Fund remains low. The current agricultural lending environment is increasingly competitive and earnings may diminish as net interest margin compresses. Credit quality ratios remain strong overall and FCSIC staff believes the System is well-positioned to appropriately adjust to changes in its operating environment to remain competitive and profitable in 2018 and 2019.

We anticipate that insured debt outstanding will continue to grow in 2018; 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 footnote 2).

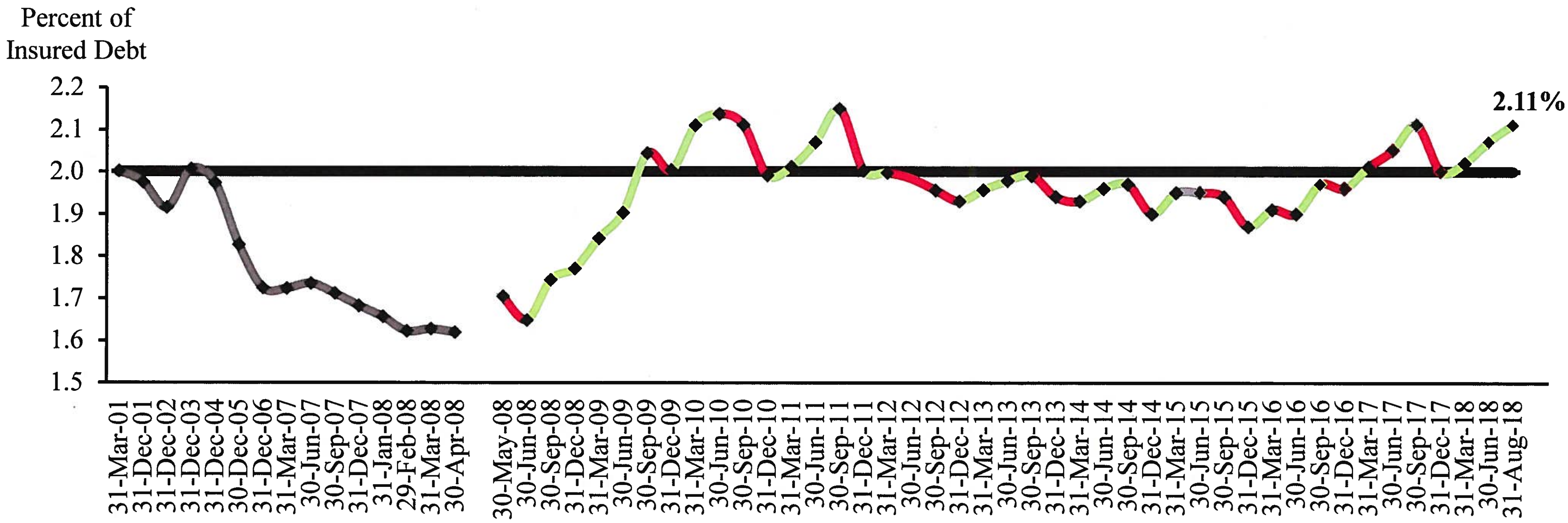
Because we anticipate that in the beginning of 2019 the SBA percentage will be at the statutory 2 percent, the Board of Directors believes that, for planning purposes, it would be prudent for System banks to anticipate a premium rate of between 7 and 10 basis points to cover growth in insured debt for 2019. 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 2019 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: Trend of Secure Base Percentage

## Preliminary Trend of the Unallocated Insurance Fund
## Relative to the 2% Secure Base Amount
## August 31, 2018




(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 2018, $603.0 million in excess funds were paid to accountholders. The FAC stockholders have been fully reimbursed and no further allocation will be made to this AIRA account.