



**DRAFT**

# **STRATEGIC PLAN**

## **FY 2020–2025**



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## MISSION

The Farm Credit System Insurance Corporation (FCSIC or the Corporation), a Government-controlled, independent entity, shall

- protect investors in insured Farm Credit System (System) obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (Insurance Fund),
- exercise its authorities to minimize Insurance Fund loss, and
- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

## VALUES

Six core values guide us in accomplishing FCSIC’s mission:

- **Integrity:** We follow the highest ethical and professional standards.
- **Competence:** We are a skilled, dedicated and diverse workforce that strives to achieve outstanding results.
- **Teamwork:** We communicate and collaborate with one another and with other regulatory agencies.
- **Effectiveness:** We respond quickly and prudently to insurance risks.
- **Accountability:** We are accountable to each other and to our stakeholders to operate in a fiscally responsible and operationally effective manner.
- **Fairness:** We respect individual viewpoints and treat one another and our stakeholders with impartiality, respect and fairness.

## INTRODUCTION

FCSIC was established by the Agricultural Credit Act of 1987 as an independent U.S. Government-controlled corporation. The Corporation’s primary purpose is to insure the timely payment of principal and interest on insured notes, bonds and other obligations issued on behalf of System banks. The System is a federally chartered network of cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers or harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. By insuring the repayment of insured debt securities to investors, the Corporation helps to maintain a dependable source of funds for the System’s borrowers. The Farm Credit Act of 1971, as amended, requires that the Corporation serve as the conservator or receiver for System banks and associations.

The Corporation operates with no annually appropriated funds. The Corporation collects insurance premiums from each System bank that issues insured obligations. These premiums and the income from the Corporation’s investments provide the funds to fulfill its mission. The Corporation is managed by a three-member board of directors composed of the members of the Farm Credit Administration (FCA) Board. The Chairman of the Corporation’s Board, however, must be a Board member other than the FCA Chairman.

The Corporation recognizes that it must effectively manage its resources to achieve its strategic and performance goals. This includes effective communication and coordination with FCA and other federal agencies on matters affecting the Corporation. Additionally, we respond to legislative and regulatory initiatives affecting the Corporation.

The Corporation’s most important resource is its core staff. We strive to attract and retain highly motivated and skilled employees. A portion of FCSIC’s current workforce will transition into retirement over the next decade, while the need for employees with advanced technical skills continues to increase. Because of our lean staffing structure, recruitment of multi-skilled individuals and ongoing cross training are essential to ensure adequate backup exists in key corporate programs. We leverage our resources by purchasing support services from FCA and other contractors to ensure the cost-effective administration of our programs.

FCSIC carries out its mission through three major program areas: (1) Insurance Fund management, (2) risk management, and (3) receivership and conservatorship management.

### **Insurance Fund Management**

The Corporation helps maintain public confidence in the System by insuring the System banks’ debt obligations. The Insurance Fund represents FCSIC’s equity, the difference between total assets and total liabilities, including insurance obligations. The Corporation

- establishes premium rates, collects and audits insurance premiums;
- manages the investment portfolio to maintain the Insurance Fund at the secure base amount (SBA);
- consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information;
- oversees the accounting and financial reporting function; and
- manages all payments that support program operations.

### **Risk Management**

The Corporation identifies, evaluates and manages risks that could generate losses to the Insurance Fund. The Corporation:

- uses monitoring systems, financial models and special examinations to analyze the insurance risks posed by System institutions and reports risk trends regularly to the Board of Directors and external auditor;
- monitors conditions in the general economy, capital markets, and agricultural and financial sectors that pose risk to the System, its investors, and the Insurance Fund;
- reviews System institution financial performance information, including FCA examination reports of System banks, large associations, and institutions identified by FCA as troubled and participates on FCA’s Regulatory Enforcement Committee;
- evaluates the adequacy of the allowance for losses to the Insurance Fund quarterly;
- consults with FCA regarding changes in risks to the Insurance Fund resulting from proposed institution mergers;
- reviews funding requests of undercapitalized System banks; and
- reviews requests for assistance from troubled institutions.

### **Receivership and Conservatorship**

When the FCA Board places a troubled System institution into either conservatorship or receivership, the Farm Credit Act requires FCSIC to serve as conservator or receiver of the troubled or failed institution. In addition, the FCA Board may appoint FCSIC as conservator or receiver of the Federal Agricultural Mortgage Corporation. As conservator, FCSIC would operate the institution as a going concern subject to oversight and regulation by FCA. As receiver, FCSIC would exercise its statutory fiduciary responsibilities to marshal the receivership estate’s assets and recover the maximum amount possible under the law for the receivership’s creditors. The Agriculture Improvement Act of 2018 clarified and updated FCSIC’s statutory authorities to act as receiver or conservator for a System institution and provided new authority for FCSIC to create, and FCA to charter, a System bridge bank. The 2018 legislation will improve our ability to protect investors and reduce resolution costs. Currently, there are no conservatorships, receiverships, or bridge banks. The Corporation

- maintains the capability to manage receiverships and conservatorships, and oversee bridge banks;
- plans and trains for potential resolution actions;
- monitors relevant legislation, regulations, legal cases, appraisal and environmental issues; and
- consults with other federal insurers that serve as conservator or receiver of banks, thrifts and credit unions, to maintain familiarity with current best practices.

## STRATEGIC CHALLENGES

Over the period covered by this plan, FCSIC will face strategic challenges in each of these major programs because of changing economic conditions, continuing changes in agriculture and financial markets, government policy changes, and changes in the System. The strategic challenges that may affect the Corporation’s programs are grouped into four broad areas: (1) agricultural and financial market factors, (2) government policy factors, (3) System factors, and (4) internal factors. We monitor these challenges on an ongoing basis. As conditions change, refinements of strategies are considered and implemented when appropriate.

### Agricultural and General Economic Factors

The performance of the agricultural and broader financial markets directly affects the performance of the financial institutions that comprise the Farm Credit System and therefore directly impacts FCSIC’s risks associated with insuring System debt obligations. Specific strategic challenges to FCSIC include:

- **Continuing adversity in the agricultural sector.** While the System remains well positioned despite the prolonged downturn in agriculture, the potential remains for further deterioration. The downturn is likely to continue through the near term with continued low commodity prices; this is exacerbated by trade issues but may also reflect a return to more historically ‘normal’ commodity prices. A prolonged period of stress in agriculture will further erode farmers’ equity as they increase use of debt to fund their operations. Additionally, a further material drop in agricultural land values could challenge the financial status of farmers and their lenders.
- **Potential adverse changes in the debt market.** The System is currently able to borrow money at very favorable rates; the System’s success depends on its ability to access flexible, low-cost funding. A material adverse change in access to or cost of new debt, whether driven by external factors (such as change in GSE status or market disruption) or internal (credit or other System-centric issue) creates a higher likelihood of System bank default on outstanding insured debt.
- **Adverse environmental conditions.** Agricultural producers and their lenders are routinely challenged by drought, flooding and other adverse weather conditions. USDA and other researchers have concluded that climate change is exacerbating severe weather events and will likely affect yields and the nutritional value of certain crops. Animal disease outbreaks and food safety concerns present unpredictable risk to agricultural producers and lenders.
- **Risks in the general economy.** As of July 2019, the United States was still experiencing one of the longest recorded economic expansions in its history (albeit with modest growth). However, many economists believe that the economy will slow during the rest of 2019 and expect a recession in the general economy within the next 1-2 years, which would adversely affect (already pressured) agricultural producers. Conditions in the general economy directly affect System lenders because many of the System’s borrowers rely on off-farm income and the markets for certain agricultural products are driven by consumer demand.

### Government Policy Factors

- Continuing or new trade tariffs on agricultural products may impact agriculture’s profitability.
- Increasing federal fiscal deficits will influence financial markets, including agency debt issuers and investors.
- Environmental regulation and climate change will continue to influence agriculture and may increase costs for producers and lenders.
- Federal policy towards GSEs may affect future agency market liquidity and funding costs.
- Federal policy towards large financial institutions will continue to affect derivatives and other credit markets that regularly conduct business with System institutions.
- The government’s ability to manage food safety risks, as well as animal and plant diseases, may affect agriculture’s profitability.
- The Farm Services Agency and other United States Department of Agriculture programs will continue to benefit farmers and ranchers who are not yet able to qualify for loans from System institutions, as well as provide a means for System institutions to better serve the needs of young, beginning, and small farmers, as well as specialty farmers.
- The expected phase-out of LIBOR (London Interbank Offered Rate) after December 31, 2021, may affect the value of and return on Systemwide debt securities.
- Government cybersecurity requirements will increase, which may increase costs for FCSIC and for System institutions.
- Government policies related to renewable fuels may affect demand for agricultural products and services.
- Federal monetary policy related to interest rate shifts may cause periods of market volatility and affect asset valuations and earnings.

### Farm Credit System Factors

- **Maintaining strong bank capital levels.** Only the System banks are legally obligated to repay the debt insured by FCSIC. As stated in the Federal Farm Credit Banks Funding Corporation’s disclosures, the insured Systemwide debt securities “are not the direct obligations of the [System] associations and, as a result, the capital of the associations may not be available to support” repayment of insured Systemwide debt securities. Therefore, the investors/creditors – and FCSIC, as insurer -- can legally only look to the assets of the System banks for recovery. Any reduction of the banks’ repayment capacity – such as by materially reducing the amount or quality of capital held at the banks – creates a significant risk to FCSIC and may require an increase in the level of the Insurance Fund in order for the Fund to remain actuarially sound taking into account the increased risk to the Fund.

- **Operational failure at a System institution related to a control deficiency or cybersecurity breach.** A catastrophic cyber-attack could prevent a bank from processing payments, potentially causing a default on insured debt. Internal controls failures could also have severe impacts, including preventing the System from timely issuing financial statements, which may significantly impact the banks’ cost of borrowing.
- **Inadequate governance at a System institution including failed business strategies or mismanagement of the organization.** Historically, more financial institutions have failed because of bad strategic decisions than because of credit problems. This includes bad investment decisions unrelated to their core lending business. Since these decisions are usually classified as within ‘business judgment,’ these risks are harder to identify and quantify. Moreover, these decisions are often incremental, with the cumulative impacts not recognized in a timely manner.
- **Structural changes that weaken the role of System banks.** System structural changes that alter the bank-association supervisory relationship have the potential to weaken the banks’ capability to repay the insured debt and to serve as a source of strength for their districts. Historically, System banks have provided assistance to their affiliated associations when needed, by purchasing troubled assets or otherwise providing financial or operational support. If the banks do not have the financial or operational capacity to provide support, then it is far more likely the Insurance Fund would be called upon to provide assistance.
- **Customer technology demands that put increasing pressure on System institutions.** Remaining competitive with new technology and ensuring security of existing systems will pose increasing challenges for System institutions.
- **Competitiveness in a consolidating agricultural market.** Continuing consolidation in agriculture is resulting in fewer, larger borrowers, resulting in increased concentration risk and driving some associations to grow larger to serve these borrowers. Fewer and larger associations also create concentration risk for the System banks as lenders to those larger associations. In certain geographic regions, fewer available customers will create significant challenges to generate sufficient earnings.
- **Attracting and serving new entrants to agriculture.** The System may need to incentivize additional lending to new entrants to farming in order to develop new customers and meet the statutory mandate to serve young, beginning and small farmers.



**Internal Factors**

Maintaining the Corporation’s role as an independent entity is crucial to its ability to objectively assess insurance risks, establish appropriate insurance premium rates, ensure the solvency of the Insurance Fund, and serve as conservator or receiver.

- Prompt identification of emerging insurance risk requires continuously reviewing risk tools and processes so they remain effective.
- The Corporation will continue to use private- and public-sector contractors to economize and enhance productivity in accordance with statutory authorities and Board policy statements.
- The Corporation relies on FCA for information the Corporation needs to determine premiums, assess insurance risk, and prepare for a conservatorship or receivership; therefore, continued access to information and collaboration with FCA staff is vital to the Corporation’s effectiveness.
- Management and staff development and succession will be important considerations over the next five years to maintain the Corporation’s unique operating structure. To operate our streamlined and effective organization FCSIC needs to attract, engage and retain a highly-skilled, diverse workforce and cultivate an inclusive environment.
- The composition of the Corporation’s Board of Directors will change during the next five years.
- The Corporation will work to maintain its liquidity line with the U.S. Treasury’s Federal Financing Bank (FFB) so it is available in situations where external market forces make normal debt market access extremely doubtful.

**MAJOR PROGRAMS**

The Farm Credit System Insurance Corporation has three major program areas. The strategic goals for each of these programs are presented in the table below.

Program Areas	Strategic Goals
Insurance Fund Management	Manage the Farm Credit Insurance Fund to maintain the SBA in order to provide protection for investors and taxpayers against identified risks.
Risk Management	Monitor, evaluate and report risks that could generate losses to the Farm Credit Insurance Fund.
Receivership/Conservatorship	Effectively manage assistance requests, receiverships and conservatorships.

## **LINKAGE OF STRATEGIC GOALS AND PERFORMANCE MEASURES**

The Corporation has implemented performance measures to assist in the evaluation of the effectiveness of these strategic goals. The Government Performance and Results Act of 1993 (GPRA) requires all Federal government organizations to report on the results of program performance. Performance results are included in regular reports to the Board of Directors and in the Corporation’s Annual Report. Some of these measures use management estimates that may be affected by the performance and condition of System institutions. Also, unforeseen events may have a material effect on performance measures over time.

### **Performance Measure 1: Farm Credit Insurance Fund Management— Building and Managing the Fund to Protect Investors**

The solvency of the Insurance Fund depends in part on the Corporation using its authorities to adjust insurance premium assessments when appropriate and effectively managing assets to ensure investment returns are maximized, while maintaining appropriate liquidity to carry out its mission. Congress established a statutory requirement for the Insurance Fund to be maintained at an SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation in its sole discretion determines to be actuarially sound.<sup>1</sup>

The Corporation assesses the effectiveness of its performance in achieving this goal through the following:

- Reviewing semiannually the need for adjustments to insurance premium assessments.
- Measuring investment performance by comparing the portfolio’s average yield with peer investment funds, which have similar investment parameters for quality and maturity.
- Maintaining the Insurance Fund at the statutory SBA, 2 percent of adjusted outstanding insured obligations.

Maintaining the Insurance Fund at the SBA may be affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions or growth in insured obligations exceeding FCSIC’s ability to increase the Insurance Fund at the same rate because of statutory limits on premium assessments.

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<sup>1</sup> Adjusted insured obligations are equal to the aggregate amount of outstanding insured obligations adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments.

**Performance Measure 2: Risk Management—Protecting the Fund from Losses**

Program effectiveness is measured by the extent that emerging problems are promptly detected and insurance losses are minimized. This includes the effective use of financial indicators to monitor conditions and trends, and effective analysis and reporting before any need to reserve for losses.

In periods of probable or actual insurance claims, the ratio of estimated losses as a percentage of actual losses is an indicator of the Corporation’s ability to assess prospective loss exposure. Management uses criteria specified in FCSIC’s Allowance for Loss procedure and the Financial Accounting Standards Board’s Accounting Standards Topic 450, Contingencies, as guidance.<sup>2</sup> Timely evaluation of the Insurance Fund’s risk exposure is critical to the determination of steps needed to preserve the Insurance Fund’s solvency. The Corporation uses information obtained from FCA reports of examination and other source materials to identify risks to the Insurance Fund. Internal models and other analysis tools are used to manage identified risks and reduce insurance risk. If approved by the Board of Directors, the Corporation may independently examine and obtain additional information from System institutions.

**Performance Measure 3: Receivership/Conservatorship Management**

The Corporation is required to serve as receiver or conservator of System banks and associations when appointed by FCA. This goal requires that corporate readiness be maintained through periodic staff training and evaluation of contractors’ capabilities to ensure that sufficient qualified resources can be employed should the need arise.

The effectiveness of receivership operations will be measured by the following:

- Completing initial processing of all claims within a period to be specified in accordance with the size and complexity of the individual case.
- Operating costs as a percentage of total assets.
- Actual asset recovery returns as a percentage of net realizable asset values.

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<sup>2</sup>Financial Accounting Standards Board’s Accounting Standards Topic 450, Contingencies, provides guidance regarding recording allowances for loss and impairment of assets.

## **OTHER EVALUATIONS OF EFFECTIVENESS**

### **Ongoing-Program Evaluation**

The Board of Directors reviews program activities and results on an ongoing basis. The Corporation has adopted a Policy on Internal Controls and Audit Coverage that requires an independent accounting firm to audit financial and operating results. The Board serves as the Audit Committee in overseeing the execution of the policy. An audit charter (updated in 2017) provides a framework for the committee’s oversight responsibilities. To evaluate the effectiveness of program activities, periodic operational reviews are performed. Recommendations arising from the annual audit and periodic operational reviews are incorporated into the Annual Performance Plan.

### **Workforce and Resource Management**

The Corporation operates with a small core staff. This core group leverages its resources by purchasing support services from FCA and other contractors to ensure cost-effective administration of its programs. Support services purchased from FCA and other contractors include examination support, congressional and public affairs support, personnel, financial and operational audit, accounting, actuarial support, investment analysis, network management, and other administrative and technical services as needed.

FCSIC’s success is dependent on maintaining a diverse, effective, and highly-skilled workforce. Much of FCSIC’s current workforce will be eligible to retire over the next five years. In addition, FCSIC’s streamlined, collaborative operating approach requires a significant level of cross-training. To address these challenges, we will continue to focus on recruiting, retaining, and training a diverse staff with the right mix of skills and expertise. We will continue to hire from a diverse pool of qualified applicants for all job announcements. We will also continue to promote diversity, awareness, inclusion, and mutual respect within our workforce so that every staff member has an equal opportunity to contribute and succeed. In addition, FCSIC will continue to annually review, and update as needed, our policy concerning equal employment opportunity and diversity.

## **STRATEGIC GOALS AND OBJECTIVES**

### **Program Area 1: Farm Credit Insurance Fund Management**

***Strategic Goal 1: Manage the Farm Credit Insurance Fund to maintain the SBA in order to provide protection for investors and taxpayers against identified risks.***

Congress established a statutory requirement for the Insurance Fund to be maintained at an SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation has determined to be actuarially sound. The Corporation uses the Dynamic Capital Adequacy Test model to assist in assessing an actuarially sound Insurance Fund level. The Corporation does not anticipate establishing an alternative SBA during the term of this Strategic Plan.

#### ***Strategic Objectives***

1. Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.
2. Use actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.
3. Ensure that System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.
4. Communicate accurate and easily understood information about the insurance program to the public, insured investors, and System institutions.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

***Manage the Farm Credit Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims.***

#### **Means & Strategies**

FCSIC maintains the viability of the Insurance Fund by prudently investing the Fund, monitoring and responding to changes in the Fund relative to the SBA, collecting premiums, and evaluating the Insurance Fund's management and performance. FCSIC regularly analyzes the growth or shrinkage of estimated insured obligations, the current assessment base, loss expectations, interest income earned on the Insurance Fund, and operating expenses. This information is used to determine future premium rates. These activities are conducted in accordance with the Board's Policy Statement Concerning Adjustments to Insurance Premiums.

#### **External Factors**

Projections for the Insurance Fund are subject to considerable uncertainty arising from the economic outlook. Key risks include the impact of rising interest rates as they return to more normal levels; fiscal challenges at the federal, state and local levels; and global

economic risks. A slowdown in the U.S. economic recovery or in the agricultural economy could result in unforeseen institution failures. In addition, future premium and interest revenues could diverge from projections depending on changes in the growth of insured obligations and investment earnings.

***Strategic Objective 2: Use actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund.***

*Means & Strategies*

FCSIC uses an insurance risk model to estimate the likelihood the Insurance Fund will be sufficient to pay all simulated losses over a 10-year horizon (probability of Fund adequacy). Known as the Dynamic Capital Adequacy Test (DCAT), this actuarial loss model is a Monte Carlo simulation of Insurance Fund losses due to a System bank failure as a result of loan or investment losses. In 2016, FCSIC worked with its actuarial consultant to update the model's assumptions with data through 2015, expanding the model's capabilities as an actuarial tool to provide additional insurance protection to System investors. FCSIC will continue to use the DCAT for sensitivity testing to model the impact of various scenarios on the solvency of the Insurance Fund.

*External Factors*

The DCAT does not model the reasons an institution defaulted but, instead, attempts to capture the overall likelihood as an explicit assumption and to evaluate the consequential loss pattern. The DCAT cannot predict the future, but it is a useful tool for evaluating the likelihood and amount of potential losses to the Insurance Fund.

***Strategic Objective 3: Ensure that Farm Credit System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful.***

*Means & Strategies*

Working with System banks, the Funding Corporation, and FCA, FCSIC has implemented procedures for providing short-term financial assistance to System banks (through the Funding Corporation) to provide liquidity in situations where normal debt market access has become extremely doubtful. In addition, in 2013 FCSIC entered into an agreement with the Federal Financing Bank (FFB) for a line of credit to serve as a liquidity backstop for FCSIC under specified terms and conditions that allow FCSIC to provide additional financial assistance to System banks. The FFB is a government corporation within the U.S. Department of Treasury that advances funding to eligible federal agencies. The agreement provides for a short-term revolving credit facility of up to \$10 billion and is renewable annually.

*External Factors*

System liquidity may be affected by unforeseen external factors that make normal debt market access extremely doubtful. In addition, it is difficult to predict the causes or timing of such events with any degree of accuracy. A significant disruption of the debt

markets may also affect the ability of institutions to generate liquidity through the sale of investment instruments held for that purpose.

***Strategic Objective 4: Communicate accurate and easily understood information about the insurance program to the public, insured investors, and System institutions.***

*Means & Strategies*

FCSIC will continue to communicate the benefits of the insurance program to stakeholders through its website, Annual Report, periodic press releases, and other efforts. In cooperation with the Funding Corporation, we will continue to reach out to selling group members and investors. We will continue to identify and pursue dialogue with System leadership on issues of mutual concern and seek additional opportunities to expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation.

*External Factors*

Timely, accurate and understandable information is essential for effective communication to stakeholders and the public. In times of financial stress, the demand for information about FCSIC’s insurance coverage could temporarily exceed the Corporation’s capacity to provide such information. In such cases, FCSIC would augment staff resources for this function as quickly as possible.

**Program Area 2: Risk Management**

***Strategic Goal 2: Monitor, evaluate and report risks that could generate losses to the Farm Credit Insurance Fund.***

FCSIC monitors and manages insurance risk to minimize the Insurance Fund’s exposure to potential losses. In the event a System bank is unable to timely repay insured debt obligations for which it is primarily liable, the Corporation must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the insured obligations. FCSIC analyzes and evaluates the financial performance and condition of System institutions, maintains ongoing dialogue with FCA examiners and reviews reports of examination. When necessary, the FCSIC Board of Directors authorizes special examinations at System institutions of concern. On a quarterly basis, FCSIC screens all System institutions against key performance criteria to identify those institutions that may pose an increasing insurance risk.

*Strategic Objectives*

1. Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Insurance Fund. Conduct trend analysis on the System’s growth, funding needs, condition and performance. Regularly report to the Board of Directors on identified risk exposures.
2. Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

***Strategic Objective 1: Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Farm Credit Insurance Fund. Conduct trend analysis on the System’s growth, funding needs, condition and performance. Regularly report to the Board of Directors on identified risk exposures.***

Means & Strategies

FCSIC’s analysis of insurance risk focuses on a quarterly review of the four insured System banks and the larger System associations. The Corporation monitors these institutions on an ongoing basis, particularly those institutions with more than \$1 billion in assets. FCSIC regularly reviews supervisory information from the examinations conducted by FCA, as well as information from a variety of external data sources, to identify and report on newly identified areas of risk. In addition, FCSIC has the authority to conduct special examination activities for institutions if the Board of Directors considers it necessary. The results of these reviews are reported to the Board of Directors quarterly and incorporated into FCSIC’s quarterly Insurance Risk Analysis and Allowance for Loss report, which is shared with the Corporation’s external auditor. FCSIC will continue to incorporate lessons learned from the recent financial crisis, identify potential new risks that emerge, and respond quickly to such issues. FCSIC will maintain ongoing contacts with other federal insurers and financial regulators to share information on emerging risks and risk management best practices.

Access to timely, accurate information is essential to effective risk management. The Farm Credit Act provides that FCSIC obtain information on System institutions from FCA. Access to information collected by FCA is a critical element of detecting the potential for Insurance Fund loss, minimizing duplication of effort, and reducing costs. The Corporation will continue to work cooperatively with FCA and the System to maintain access and share information to support the monitoring and evaluation of risk to the Insurance Fund and investors. FCA documents and information are protected under interagency information sharing agreements between FCSIC and FCA.

Another area that will continue to receive increased attention is interest rate risk. An extended period of historically low interest rates and tightening net interest margins has created incentives for institutions to reach for yield. Given the uncertain direction and timing of changes in market rates, FCSIC will continue to monitor the area.



External Factors

Projections for insurance risk are subject to considerable uncertainty arising from the economic outlook. Also, because of the potential magnitude of the default, there is no assurance that amounts in the Insurance Fund will be sufficient in the event of a default by a bank. If the available amounts in the Insurance Fund were exhausted, the provisions of joint and several liability would be invoked. Key risks include increased competition, farmland and other collateral price volatility, continued growth in the amount of insured obligations, structural changes in the System, expansion of non-loan assets such as investments, changes in government support programs, information limitations, the implementation of new technologies, cybersecurity risks, the impact of changing interest rates, and major changes in the agricultural economy and general economic conditions.

***Strategic Objective 2: Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates.***

Means & Strategies

FCSIC currently analyzes information from a variety of sources to monitor conditions in the agricultural and financial sectors. This information is used in the premium determination process and for assessing risk to the Insurance Fund. Annual premium rates are established in January by FCSIC’s Board of Directors and reviewed at the Board’s second quarter meeting. In addition, at its third-quarter meeting, the Board of Directors provides guidance to System banks on the likely range of premiums for the coming year.

External Factors

Key risks include changes in the level of agricultural exports; commodity prices that exert pressure on operating margins, inflation and producer debt levels; technical innovations in agriculture that present both opportunities and risks; continued vertical integration of agricultural production and delivery systems; adverse weather and other environmental conditions as well as food safety concerns; and expansion of processes such as automated credit scoring, internet delivery systems, and electronic banking.

**Program Area 3: Receivership/Conservatorship**

***Strategic Goal 3: Effectively manage assistance requests, receiverships and conservatorships.***

FCSIC is authorized by the Farm Credit Act to grant financial assistance to a System bank or association to prevent placing the institution in receivership, to restore the institution to normal operation, or to reduce the risk to the Corporation posed by the institution when severe financial conditions threaten the stability of a significant number of System institutions or the stability of insured System banks possessing significant financial resources. Assistance may also be provided to facilitate the merger or consolidation of a qualifying System institution. In a liquidity crisis, if a System bank cannot obtain needed financing, FCSIC has authority to provide discretionary financial assistance. If a System institution were to need assistance, the Corporation would first have to ensure that the proposed assistance is the least costly means for resolving the problem. By law, FCSIC may not provide financial assistance if the cost of liquidation is lower than providing assistance.

When FCA places a System bank or association into receivership or conservatorship, the Corporation has the statutory responsibility to serve as receiver or conservator for that institution. This requires that corporate readiness be maintained, through periodic staff training and evaluation of contractors' capabilities, to ensure that qualified resources can be employed should the need arise. To keep pace with conditions in the System and maintain its readiness to protect insured investors, FCSIC prepares and maintains contingency plans to address a variety of institution failure scenarios and conducts simulations to test its plans.

***Strategic Objectives***

1. Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a troubled System bank or association.
2. Ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act, protect creditors, and are terminated in an orderly and timely manner.

The means and strategies used to achieve these strategic objectives and the external factors that could affect their achievement are described below.

***Strategic Objective 1: Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a troubled System bank or association.***

*Means & Strategies*

As specified in the Farm Credit Act, FCSIC, in its sole discretion and on such terms and conditions as the Board of Directors may prescribe, may make loans to, purchase the assets or securities of, assume the liabilities of, or make contributions to, a System bank or association. These strategies would be conducted in accordance with the Board Policy Statement Concerning Assistance. The Corporation is authorized to provide assistance to a troubled System institution to prevent default, restore it to normal operations, or to facilitate a merger or consolidation with one or more other System institutions. The Corporation may also provide assistance to reduce risk to the Insurance Fund when severe financial conditions threaten the stability of one or more banks or banks possessing significant financial resources. This includes the liquidity assistance discussed above. All assistance must pass the statutory least-cost test to determine the least costly alternative to the Insurance Fund. In making a least-cost determination, the Corporation, through its special examination authority, would collect any information necessary to perform the least-cost test. For discretionary assistance provided to return an institution to viable self-sustaining operation, the Corporation must also evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer.

*External Factors*

Economic, market, environmental or other stresses may lead to institutions requesting assistance from FCSIC. In certain instances, these stresses may arise suddenly and be unrelated to the condition or practices of the System. Additionally, the nature of System assets and the interrelationship among System institutions add complexity to making a least-cost determination.

***Strategic Objective 2: Ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act, protect creditors, and are terminated in an orderly and timely manner.***

*Means & Strategies*

Under the Farm Credit Act, FCSIC in its receivership capacity manages the assets of institutions placed into receivership by the FCA Board to preserve the asset values and dispose of the assets as quickly as possible, consistent with the policy objective of maximizing the net return on those assets while minimizing disruption to the agricultural community. The oversight and prompt termination of receiverships preserve value for secured creditors, including System banks and other receivership claimants by reducing overhead and other holding costs. By quickly distributing the assets of a failed institution to private parties, including other System institutions, FCSIC maximizes net recoveries and minimizes disruption to the agricultural community.

As conservator, FCSIC would operate the System institution on a temporary basis until a final resolution is determined. Final resolution ranges from return to normal operations to a liquidating receivership. During conservatorship, the institution remains an operating System institution subject to FCA oversight. FCSIC as conservator would have authority to replace the institution’s board and management.

In December 2018, Congress enacted the Agriculture Improvement Act of 2018 (2018 Farm Bill), which includes provisions clarifying and updating FCSIC’s authorities to act as conservator or receiver of a System institution. The legislative updates are based on comparable provisions of the Federal Deposit Insurance Act. The House Conference Report stated that Congress: “intend for the authorities of the Corporation to be functionally equivalent to the parallel authorities of the Federal Deposit Insurance Corporation.” We will review and make any necessary changes to our rules and policies needed to effectively implement our new statutory authorities. Additionally, we maintain regular contact with the other federal insurers to ensure we are following best practices and can access available and relevant resources.

*External Factors*

A severe economic or agricultural downturn could lead to institution failures and could affect the pace at which FCSIC is able to liquidate the receivership estate assets and terminate receiverships. Economic and other factors, such as extended litigation and problems resolving environmentally tainted receivership properties, might also delay termination of a receivership or conservatorship.

## **Appendix A: FCSIC’s Strategic Planning Process**

### **Introduction**

FCSIC is subject to the requirements of the Government Performance and Results Act (GPRA), as modified by the GPRA Modernization Act of 2010. In accordance with the requirements of these statutes, FCSIC reviews and updates its Strategic Plan every three years, publishes Annual Performance Plans and Performance Reports, and conducts program evaluations to assess whether the Corporation’s programs are achieving their stated purposes. The Office of Management and Budget (OMB), in its Circular A-11, has issued implementing requirements for GPRA to the federal government. FCSIC has focused on complying with GPRA and OMB guidelines by adopting planning and reporting practices that recognize the Corporation’s business model and streamlined staffing structure.

### **Annual Performance Plan and Report**

FCSIC’s Strategic Plan is implemented through annual performance plans. The annual plans identify our performance goals, indicators, and targets for each strategic objective. The Corporation submits an annual report to Congress each year that compares actual performance to the annual performance goals for the prior year. This report is also made available to FCSIC stakeholders and the public through FCSIC’s website.

The Corporation’s long-term strategic goals and objectives are expressed in outcome terms, and selected outcome measures are included in the Corporation’s Annual Performance Plans. However, many of the performance indicators in these annual plans are process measures (for example, regularly reporting on insurance risk). It is often difficult to establish a direct causal relationship between the Corporation’s activities and the outcomes experienced. FCSIC continues to work to improve its performance measures.

### **Corporate Planning and Performance Management Process**

FCSIC establishes performance goals annually through its planning and budgeting process. In formulating these performance goals, the Corporation considers the external economic environment, the condition of the agricultural industry (including potential risks), the condition of the System, projected workload requirements, and other corporate priorities. FCSIC plans may also be influenced by the results of program evaluations and management studies, prior-year performance results and other factors. Based on this information, planning guidance is established by senior management, with input from program personnel.

After annual performance goals are established, a proposed annual corporate operating budget is developed, taking into account the financial, human capital, technological and other resources required to accomplish FCSIC’s core mission responsibilities and other annual performance goals. The Board of Directors approves the budget and the Annual Performance Plan.

Annual performance goals are communicated to employees. Staff prepares progress reports and senior management conducts performance reviews quarterly. The results of the reviews are provided to the FCSIC Board of Directors quarterly.

**Stakeholder Consultation**

FCSIC requested comment from stakeholders and the public on a draft of this strategic plan through a posting on FCSIC’s website for a 21-day period beginning August XX, 2019. All comments and suggestions will be carefully reviewed, and changes will be made to the plan if deemed appropriate.

**Program Evaluations**

Program evaluations are interdivisional, collaborative efforts, and they involve management and staff from all affected divisions. Such participation is critical to fully understanding the program being evaluated. It also gives all staff a stake in the process. Division directors use the results of the program evaluations to assure the Chief Operating Officer and Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed, and internal controls are adequate. These results are also considered in strategic planning for FCSIC. During the period covered by this Strategic Plan, FCSIC will continue to perform risk-based reviews in each strategic area of the Corporation through the annual Federal Management Financial Integrity Act review process.

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