FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY STATEMENT CONCERNING INSURANCE PREMIUMS

Background:

The Farm Credit Act of 1971, as amended (Act) established the Farm Credit System Insurance Corporation (FCSIC or Corporation) to, among other things, insure the timely payment of principal and interest on Farm Credit System obligations.[1] Section 5.55 of the Act mandates that the Corporation build and manage the Farm Credit Insurance Fund (Insurance Fund) to attain and maintain a secure base amount (SBA), defined as 2 percent of the aggregate outstanding insured obligations of all insured System banks (excluding a percentage of State and Federally guaranteed loans and investments) or such other percentage of the aggregate amount as the Corporation in its sole discretion determines is actuarially sound. The Farm Credit System Reform Act of 1996[2], amended section 5.55 of the Act to establish in the Insurance Fund an Allocated Insurance Reserves Account (AIRA) for the benefit of each insured System bank and an AIRA for the Farm Credit System Financial Assistance Corporation (FAC) stockholders; allocate any excess balances above the SBA to these AIRAs; and make partial distributions of the excess funds in the AIRAs. Congress, by enactment of the Food, Conservation, and Energy Act of 2008 (FCE Act),[3] amended the provisions of the Act that govern FCSIC premiums, the SBA, and AIRAs to incorporate the Corporation's recommendations concerning calculation of premiums and the SBA, and the simplification of the provisions governing AIRAs. In 2009 the Corporation adopted final regulations implementing the amended provisions of the Act governing FCSIC premiums, the SBA and AIRAs.[4]

Section 5.55(a) of the Act provides that for any calendar year in which the Insurance Fund does not exceed the secure base amount, the premium due from any insured System bank shall be equal to 20 basis points (0.2%) of the adjusted amount of the "average outstanding insured obligations issued by the bank for the calendar year" (plus a 10 basis points (0.1%) surcharge for nonaccrual loans and other-than-temporarily impaired investments). Section 5.55(a)(3) of the Act gives FCSIC, in its sole discretion, authority to uniformly reduce the percentage charged to each System bank below the statutory 20 basis points.

Applicability:

The Act and FCSIC rules govern the calculation of the secure base amount, the determination of any excess above the SBA, the method for allocating any excess to the AIRAs, and the method for making payments from the AIRAs to accountholders.

This policy statement will govern how and when FCSIC will use its statutory discretion to reduce premiums below the statutory 20 basis points and to adjust premiums in response to changing conditions.

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[1] The Agricultural Credit Act of 1987, Pub. L. No. 100-233 (1988), amended the Farm Credit Act of 1971 to establish the Farm Credit System Insurance Corporation. (12 USC §§ 2277a-1 et seq.)
[2] Pub. L. No. 104-105, 110 Stat. 162 (1996).
[3] Pub. L. No. 110-234, Pub. L. No. 110-246, 122 Stat. 1651 (2008).
[4] *See* 12 C.F.R. §§ 1410.3 – 1410.7.

Policy Statement:

The Corporation's Board of Directors (Board) will review the premium assessment schedule at least semiannually in order to determine whether to exercise its discretion to adjust the premium assessments in response to changing conditions. The Board may reduce the premiums when conditions warrant and raise premiums to the statutory level if, for example, the amount of insured obligations increases, or the Insurance Fund suffers a significant loss or if bank capital or collateral decreases significantly before the secure base amount is achieved.

As a basis for its decision the Board will consider the following:

1. The current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount in light of potential growth;

2. The likelihood and probable amount of any losses to the Insurance Fund;

3. The overall condition of the Farm Credit System, including the level and quality of capital, earnings, asset growth, asset quality, loss allowance levels, asset liability management, as well as the collateral ratios of the five banks;

4. The health and prospects for the agricultural economy, including the potential impact of governmental farm policy and the effect of the globalization of agriculture on opportunities and competition for U.S. producers; and

5. The risks in the financial environment that may cause a problem, even when there is no imminent threat, such as volatility in the level of interest rates, the use of sophisticated investment securities and derivative instruments, and increasing competition from non-System financial institutions.

In its review of the premium assessments, the Board will consider multiple scenarios that reflect the impact of potential growth in Farm Credit System debt levels on the time required to achieve the secure base amount. The Corporation will strive to maintain the secure base amount while the Farm Credit System is in good health. The premium on adjusted average outstanding insured obligations will be set between zero and the statutory rate of 20 basis points. The Board will not reduce the 10 basis points premium on the average principal outstanding on loans in nonaccrual status and the average amount outstanding of other than temporarily impaired investments to continue providing an incentive for sound credit extension and administration and sound investment policy.

DATED THIS 26th DAY OF JANUARY, 2017

BY ORDER OF THE BOARD OF DIRECTORS

Dale L. Aultman BM26-JAN-17-04

Dale L. Aultman
Secretary to the Board