



**ANNUAL
PERFORMANCE
PLAN
FY 2019-2020**

October 1, 2018

The Farm Credit System Insurance Corporation (Corporation or FCSIC) was established by the Agricultural Credit Act of 1987 (1987 Act) as an independent U.S. Government-controlled corporation. The 1987 Act provided for all Farm Credit System (System or FCS) banks to be insured. The Corporation's primary purpose is to ensure the timely payment of principal and interest on insured notes, bonds, and other obligations issued on behalf of FCS banks. The System is a nationwide network of privately owned financial cooperatives that lend to agriculture and rural America. By insuring repayment of System debt securities, the Corporation helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

FCSIC is managed by a three-member board of directors comprising the same three individuals who compose the Farm Credit Administration (FCA) board. However, the same member may not serve as chairman of both entities. The Corporation operates with no appropriated funds. It collects insurance premiums from each System bank that issues insured obligations. These premiums and the income from the Corporation's investments provide the necessary funds to fulfill its mission.

Since 1993, the Corporation's business model has been to operate with a small core staff and use the assistance of private and public-sector contractors to leverage its efforts. The Corporation's board of directors (board) and management have adopted this model as a cost-effective and efficient way to use available expertise, services and resources to accomplish its mission.

MISSION STATEMENT

As an independent entity, the Corporation shall:

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

Values

Six *core values* guide us in accomplishing our 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.

ANNUAL PERFORMANCE PLAN

The Corporation's Annual Performance Plan (Performance Plan) is derived from its Strategic Plan (FY 2016–2021). The Performance Plan is organized by program area and provides focus to the goals, objectives and performance measures used to evaluate the Corporation's activities during the current year. As with the Strategic Plan, the Corporation's mission and key assumptions guide development of the Performance Plan. Management reports throughout the year to the board on program goal progress and issues the Corporation's Annual Report to Congress summarizing program goal achievements.

| Strategic Goal | Strategic Objectives | High Priority Performance Goals |
|--|---|--|
| Investors in insured debt are protected from loss without need for a joint and several liability call. | The FCIF remains strong and adequately financed. | Maintain the FCIF at the statutory 2 percent secure base amount (SBA). |
| | FCSIC promptly identifies and responds to potential risks to the FCIF. | Identify and address risks to the FCIF. |
| | | Disseminate data and analyses on risk issues to the board, the public, and other stakeholders. |
| | | Effectively administer temporary financial assistance programs subject to the statutory least-cost requirements. |
| | FCSIC resolves failure of FCS institutions in the manner least costly to the FCIF. | Market failed institutions' assets in accordance with board approved policy. |
| | The public, insured investors and FCS institutions have access to accurate and easily understood information about the FCSIC insurance program. | Using the FCSIC website, annual report and other opportunities, provide educational information to insured institutions and their investors to help them understand the insurance program. |

CORE PROGRAM ACTIVITIES

The Corporation continually performs multiple core activities essential to the achievement of its mission. The following is a summary of these activities categorized by program area:

- ***Insurance Fund Management*** -- The Corporation helps maintain public confidence in the System by insuring the banks' debt obligations. The Corporation:
 - sets premium rates, collects and audits insurance premiums;
 - manages the Corporation's \$4.7 billion investment portfolio to maintain the Insurance Fund at the 2 percent SBA;
 - consults with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding disclosure of System financial information;
 - oversees the Corporation's accounting and financial reporting function; and
 - manages Corporation payments that support program operations.

- ***Risk Management*** -- The Corporation evaluates risk to the Insurance Fund. FCSIC:
 - uses monitoring systems, financial models and special examinations to analyze the performance and condition of System institutions and reports risk trends regularly to the board and external auditor;
 - monitors conditions in the general economy, capital markets, and agricultural and financial sectors that can pose risk to the System, investors, and the Insurance Fund;
 - reviews FCA examination reports of System banks, larger, more complex associations, and/or institutions that have deteriorating Financial Institution Rating System (FIRS) ratings, and participates as a nonvoting member on the FCA enforcement committee;
 - evaluates the adequacy of the allowance for the Insurance Fund;
 - consults with FCA regarding risks resulting from mergers;
 - reviews funding requests of undercapitalized System banks and regulatory corporate approvals; and
 - evaluates requests for assistance from troubled institutions, when received.

- ***Receivership and Conservatorship*** -- If a System bank or association is troubled or fails, the Corporation may be appointed conservator or receiver. As conservator, it would operate the institution as a going concern. As receiver, it would marshal the receivership estate's assets and recover the maximum amount possible for the receivership's creditors. Currently, there are no conservatorships or receiverships. The Corporation:
 - maintains the capability to manage receiverships and conservatorships;
 - plans and trains for potential receiver or conservator actions;
 - monitors legislation, regulations, legal cases, appraisal and environmental issues; and
 - consults with other Federal insurers that serve as conservator or receiver of financial institutions.

PROGRAM EVALUATION

The board provides policy direction and oversight of the Corporation's operations. An independent accounting firm audits the Corporation's financial statements twice annually. This includes audits of the Corporation's calendar year-end financial statements and the effectiveness

of internal controls over financial reporting. Also, in coordination with the Government Accountability Office (GAO), the independent accounting firm audits material line items of the Corporation's financial statements for inclusion into the Combined Financial Statements of the United States Government. To evaluate program activities, periodic operational reviews are performed. The results of these reviews are communicated to the board. Recommendations arising from the annual audit and periodic operational reviews are integrated into the planning process.

INSURANCE FUND MANAGEMENT

GOAL: Manage the Insurance Fund to maintain the SBA at the level necessary to provide adequate protection for investors and taxpayers against identified risks.

Congress established a statutory requirement for the Insurance Fund to be maintained at a SBA equal to 2 percent of adjusted insured obligations or such other percentage as the Corporation has determined to be actuarially sound. Maintaining this goal may be affected by events beyond the control of the Corporation such as insurance losses that arise from troubled System institutions. The Corporation assesses its performance in achieving this goal by the following performance measures.

PERFORMANCE MEASURES

- Adjusting the insurance premiums semi-annually in order to maintain the Insurance Fund at the statutory SBA. Historic performance to the 2 percent SBA target is reported quarterly to the board and public.
- Tracking the investment portfolio yield and benchmarking performance with similarly structured public and private sector funds quarterly. Reporting the results to the board and to the public in the Annual Report.
- Managing investments in accordance with the board's policy to provide sufficient liquidity to protect investors holding the System's insured obligations.
- Reporting the composition of the portfolio to the board and the public quarterly.
 - At least 20 percent of the Insurance Fund is to be invested in securities with a maximum of 2 years to maturity.
 - No more than 20 percent of the Insurance Fund may be invested in securities with maturities of 5 years or greater.

ACTIONS:

1. Manage the insurance program through premium collections, refunds, and determination of the Insurance Fund's SBA.
 - Monitor System growth and calculate the 2 percent SBA.
 - Report to the board on the level of the Insurance Fund.

- Report on insured and other obligations by providing the board with the:
 - rolling 12-month insured obligation report;
 - rolling 12-month SBA calculation;
 - rolling 10-year historical Insurance Fund relative to the 2 percent SBA; and
 - year-to-date Insurance Fund relative to the 2 percent SBA.

Monthly
 - Review other Federal insurance agencies' programs regarding premium rates and loss experience

Ongoing
 - Review the System banks' premium certified statements.

Annually
2. Execute the Board's Policy Statement Concerning Adjustments to the Insurance Premium by providing analysis for the board's premium review and decision.
- June/September/January**
3. Manage the investment program to meet the requirements of the board's policy statement and ensure adequate liquidity while optimizing investment returns.
- Report results to the board.

Quarterly
4. Enhance the Corporation's investment program and modify as necessary.
- Utilize investment intelligence sources such as Bloomberg and FedInvest
 - Test performance benchmarks
 - Promote training opportunities
 - Enrich reporting to FCSIC's Investment Committee by refining analysis of investment alternatives
 - Evaluate new issuances offered by the United States Treasury as they arise to determine if purchase would improve portfolio optimization or hedge against inflation
- Ongoing**
5. Utilize a third-party expert to assess investment approach and strategy.
- Work with a consultant to review the investment program to ensure continued adherence to investment best practices. The project may include a review of the investment procedures, strategy, decision making, execution process and performance metrics.

March 2020
6. Maintain contact with Treasury's Federal Financing Bank to provide information in support of the FCSIC intragovernmental credit facility for use as assistance in exigent market circumstances.
- Ongoing**

7. Consult with the Funding Corporation on the presentation of the Insurance Fund in the combined financial statements of System banks.

Quarterly

8. Monitor pertinent statutory and regulatory changes affecting other Government-sponsored Enterprises (GSEs) and regulated financial institutions, including initiatives for Fannie Mae and Freddie Mac, and any changes for the Federal Housing Finance Administration (FHFA).

Ongoing

RISK MANAGEMENT

***GOAL:** Monitor, evaluate, and report risks that could generate losses to the Insurance Fund or result in a resolution.*

PERFORMANCE MEASURES

Identify and address risk to the Insurance Fund: Program effectiveness is measured by the extent that problems are promptly detected and insurance losses are minimized. Since the Corporation became operational in 1993, there have been no System institution failures that caused a loss to the Insurance Fund. However, losses may occur in the future. Timely evaluation and mitigation of the Insurance Fund's risk exposure is critical to minimizing losses.

In periods of probable or actual insurance claims, the ratio of estimated losses as a percentage of actual losses is the measure of the Corporation's ability to assess prospective loss exposure. Management developed a procedure that meets the requirements of the Corporation's Policy Statement Concerning the Allowance for Insurance Fund Losses and Generally Accepted Accounting Principles (GAAP). The procedure includes a detailed methodology with specific criteria for assessing the probability of losses to the Insurance Fund and reasonably estimating losses that are identified as probable. Insurance risk is identified by a quarterly review and analysis of System institutions using the benchmarks and criteria in the procedure. Other sources used to assist in identifying risk include:

- published System reports to stockholders and bond investors;
- Consolidated Reporting System (CRS) and Loans II data;
- System institution actions approved by FCA;
- reports of examination, FIRS reports, and other documents prepared by FCA's Office of Examination (OE);
- special examinations conducted to assess insurance risk posed by troubled System institutions; and
- government entities, news agencies, and other sources that supply information on the general economy, capital markets, and agricultural and financial sectors.

Assistance Authority: The Corporation is authorized to provide assistance, including liquidity assistance, to a 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. All assistance must pass the statutory least-cost test. In making a least-cost determination, the

Corporation, through its special examination authority, would collect any information necessary to perform the least-cost test.

Generally, the least-cost test is a four-step process governed by the Corporation's Policy Statement Concerning Assistance. The first step is to determine the estimated liquidation value of the requesting institution. The estimated liquidation value is the present value of the troubled institution's assets, adjusted using a reasonable discount rate. The second step is to estimate whether the liquidation of the troubled institution creates a loss to the Insurance Fund. The Insurance Fund was primarily established to insure the timely payment of principal and interest on insured System debt obligations. A loss to the Insurance Fund occurs when a System bank defaults and FCSIC makes a payment. Accordingly, to meet the least-cost test, FCSIC must be able to reasonably estimate whether the troubled institution's failure will result in a bank being unable to pay an insured debt obligation. The third step is to determine the type and amount of assistance. The cost of providing assistance will depend on the structure of the assistance (examples include loans, guarantees, asset purchases, assumption of liabilities and contributions). The final step is to compare the cost of liquidation to the cost of providing the requested assistance. If the cost to the Insurance Fund of providing the assistance is estimated to be lower than the cost of liquidating the troubled institution, the board, in its discretion, may provide assistance to the troubled institution.

Periodic Reporting: A confidential System Performance Report is prepared for the board on a quarterly basis. The report advises the board on:

- each insured bank;
- largest associations;
- specific institutions posing higher risk to the Insurance Fund; and
- current and emerging risks that may affect the Insurance Program.

The Corporation annually reports the results of Insurance Fund solvency modeling. Other reports on specialized topics are prepared as needed.

ACTIONS:

1. Report to the board on FCS conditions and trends that could impact insurance risk. **Quarterly**
2. Produce the Insurance Risk Analysis and Allowance Loss Report to evaluate the adequacy of the allowance for the Insurance Fund in accordance with the Corporation's policies and procedures. Recommend allowances to the board if needed. **Quarterly**
3. Enhance the risk management dashboards to automate additional processes and improve the timely identification of risks to the insurance fund. **December 2019**
4. Monitor and plan for potential assistance to troubled institutions, and conservator/receivership activities. In accordance with the board's policy statement, execute special examinations at System institutions with high risk profiles. Ensure close cooperation and coordination

between FCA and FCSIC to facilitate the best possible outcomes for troubled System institutions per board policy.

Ongoing

5. Develop and conduct a receivership planning workshop with other financial insurers.
July 2019
6. Consult with FCA regarding funding requests from undercapitalized System banks and restructuring requests from banks and large associations.
As Required
7. Coordinate with FCA on pre-resolution activities requiring FCSIC involvement.
As Required
8. Work cooperatively with FCA to maintain access to and share information to support the monitoring and evaluation of risk to the Insurance Fund. Access to information collected by FCA is a critical element of detecting the potential for Insurance Fund loss. FCA documents and information are protected under interagency information sharing agreements between FCSIC and FCA. The scope of information gathered includes:
 - discussions with OE staff on System condition and performance;
 - examination reports, FIRS reports, System institution documents (e.g. business plans, general financing agreements, etc.);
 - communications between System institutions and FCA regarding examination and ongoing monitoring of the institution's performance;
 - Regulatory Enforcement Committee documents;
 - reports regarding liquidity, collateral, counterparty exposure, Contractual Interbank Performance Agreement, rating agency actions; and
 - FCA information databases including the CRS and Loans Database.**Ongoing**
9. Maintain contacts with other Federal insurers and financial regulators to share information on emerging risks and risk management processes.
Ongoing
10. Provide analysis and input to insurance rate review for the board's insurance premium decisions.
June/September/January
11. Update the least-cost analysis process based on 2018 review of best practices.
August 2019
12. Monitor and evaluate prospective changes in Systemwide agreements that establish uniform standards of performance (e.g., Contractual Interbank Performance Agreement and Market Access Agreement).
Ongoing

13. Review and provide timely feedback to the board on regulations (e.g., investments, capital and liquidity) that could impact the Insurance Fund.

Ongoing

14. Work with the Federal Financing Bank to renew FCSIC's credit facility.

Annually in September

15. Review, revise and test procedures, if necessary, for providing FCSIC assistance in exigent market circumstances.

Annually

RECEIVERSHIP AND CONSERVATORSHIP

***GOAL:** Maintain the capability to effectively manage receiverships or conservatorships.*

RECEIVERSHIP CAPABILITY

The Corporation has a statutory responsibility to serve as receiver or conservator when appointed by the FCA. This goal 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.

PERFORMANCE MEASURES

The effectiveness of receivership operations will be measured by completing the initial notice to creditors promptly and processing of all insured claims in accordance with regulations. Completion will be defined as the processing of 90 percent of all claims. Other performance measures include operating costs as a percentage of total assets and actual asset recovery return as a percentage of net realizable asset values using FDIC comparable metrics. These metrics will be tracked and reported to the board.

Currently, there are no receiverships or conservatorships in the Farm Credit System.

ACTIONS:

1. Continue pursuing legislative action to update FCSIC resolution authorities.

Ongoing

2. Maintain and update legal documents for alternative resolution scenarios, including receiverships and conservatorships.

Ongoing

3. Identify and evaluate governmental and non-governmental resources available to assist FCSIC in the conduct of a receivership or conservatorship.

Ongoing

4. Enhance and test procedures for resolving a failed large system institution that results in Insurance Fund liability or Corporation involvement as conservator, including strategies that will help mitigate potential losses to the Fund.
 - Conduct a simulation to test procedures for dealing with a large, failed institution. The test will include identification of resource needs, including staffing levels, skills and information needed to efficiently resolve a failed institution.
 - Consider the need for changes to procedures resulting from this review.

November 2020
5. Monitor legislation, regulations, legal cases, and environmental issues that could affect receivership and conservatorship operations.

Ongoing
6. Monitor developments at other Federal insurers in conservator/receivership management.

Ongoing

CORPORATE MISSION SUPPORT

The Corporation recognizes that it must effectively manage its resources to achieve its strategic and performance goals. Resource management facilitates all mission critical activities. It includes effective communication, cooperation with FCA and other agencies and responding to external legislative and regulatory initiatives affecting the Corporation. The Corporation's most important resource is its core staff of 11. It strives to attract and retain highly motivated and skilled employees. It leverages its resources by purchasing support services from the FCA and other contractors to ensure the cost-effective administration of its programs. Purchased services include examination support, Congressional and public affairs support, personnel, financial and operational audit, accounting, actuarial services, investment analysis, network management, and other technical consulting services.

PERFORMANCE MEASURES

Effective management of corporate resources is measured by the Corporation's success in achieving its performance goals. Additional specific measures of resource management include:

- operating within the board-approved budget. The Corporation's expenses are paid from the investment earnings on the Insurance Fund. The Corporation's operating budgets for 2019 and 2020 are \$4.3 million and \$4.4 million, respectively (68 percent for personnel costs and 23 percent for public and private contract services);
- obtaining an unqualified audit opinion from the independent public accounting firm hired by the Corporation's Audit Committee and a favorable opinion on the effectiveness of the Corporation's internal controls over financial reporting for the Corporation's calendar yearend financial statements;
- obtaining an unqualified audit opinion from the independent public accounting firm hired by the Corporation's Audit Committee for a material line item audit on the Corporation's financial statements as of September 30. The audited financial statements are included in

the Combined Financial Statements of United States Government which are audited by GAO; and

- achieving positive results from the Corporation’s Federal Employee Viewpoint Survey which measures employee satisfaction with their work experiences and their leadership.

ACTIONS:

1. In cooperation with the Funding Corporation, communicate the benefits of the insurance program to stakeholders.

- Continue to identify and implement methods to reach out to selling group members and investors
- Continue to identify and pursue dialogue with System leadership on issues of mutual concern
- Seek additional opportunities to expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation

Ongoing

2. Review progress reports on the Performance Plan and report to the board.

Quarterly

3. Post unaudited statements of financial position and income/expense to the Corporation’s website no later than 45 days after quarter-end.

Quarterly

4. Strengthen internal controls by reducing manually created spreadsheets and using automated workflows.

Ongoing

5. After year-end, submit the Corporation’s Annual Report to Congress that compares actual performance to annual performance goals.

Annually

6. Update strategic plan.

August 2019

7. Review and update corporate policies during the strategic planning cycle. The review should include: (a) the continued need for the policy; (b) the impact of the policy on stakeholders; and (c) whether the policy is written in “plain English.” Policies to be reviewed in FY 2019-2020 are:

- Addressing FCSIC Examination Authorities

October 2019

- Addressing Dual Board Governance Structure **October 2019**
 - Concerning Contracting **October 2019**
 - Investments **January 2020**
 - Receivership and Conservatorship Counsel **September 2020**
8. Monitor legislative initiatives that affect the System, FCA, and the Corporation. **Ongoing**
9. Promote continuous learning and staff development, including staff cross-training and team building to ensure adequate backup in key corporate programs. **Ongoing**
10. Evaluate results of the Corporation’s Federal Employee Viewpoint Survey to improve our workplace where appropriate. **Annually**
11. Continue to enhance digital communications by updating the design and content of the FCSIC website. **Ongoing**
12. Review and update the FCSIC Crisis Communication Plan, as necessary, so FCSIC is prepared to provide stakeholders with useful and timely information in a crisis. **Annually**
13. Safeguard the Corporation’s electronic and paper files and records by:
- Maintaining a designated position to act as the official over records retention
 - Confirming the organizational structure in use remains effective
 - Ensuring electronic files and procedures are consistent with paper files
 - Providing guidance to staff on using the electronic filing system
- Ongoing**
14. Prepare required financial reports and monitor changes to Federal reporting requirements for significant agencies as specified by Treasury and OMB, including:
- SF-224 Statement of Transactions – Reports deposit and disbursement transactions to Treasury **Monthly**

- Government-wide Treasury Account Symbol (GTAS) Adjusted Trial Balance System using proprietary and budgetary standard general ledger accounts (formerly FACTS I and FACTS II) **Monthly**
 - Intragovernmental Material Difference Reports and Reconciliations **Quarterly**
 - The Treasury Report on Receivables (TROR) **Quarterly**
 - Data Act Reporting **Quarterly**
 - Federal Managers' Financial Integrity Act - Reviews the Corporation's internal controls to give assurance that the management systems in place conform to the standards pursuant to FMFIA **November**
 - Government-wide Financial Report System (GFRS) - Collects the Corporation's closing package information and links its audited financial statements to the Financial Report of the United States **November**
 - Government Fiscal Year Material Line Item Audit **November**
 - MAX A-11 - Forwards the Corporation's financial data to the Office of Management and Budget for inclusion in the President's Budget **December**
 - Calendar Year-end GAAP Audit **Annually**
 - Internal Control Audit **Annually**
 - MAX Collects for various budget data requests (BDRs) **Ongoing**
 - Federal Real Property Inventory Reporting **December**
15. Evaluate contractor performance and services obtained, including:
- Receivership/Conservatorship Resources **As Needed**

- Legal Service **As Needed**

 - Prompt Payment Report **Monthly**

 - SSAE-18 Report - Bureau of the Fiscal Service Administrative Resource Center (ARC) for financial management services support **November**

 - SSAE-18 Report – Bureau of the Public Debt Federal Investment Branch (FIB) **November**

 - SSAE-18 Report – National Finance Center **November**

 - FISMA Reporting – Farm Credit Administration **November**
16. Monitor and review travel and purchase card programs.
- Charge Card Management Plan **Annually**

 - Credit card usage - data reports **Annually**

 - Credit card usage - narrative **Biannually**