MEMORANDUM

FCSIC

FARM CREDIT SYSTEM INSURANCE CORPORATION

June 10, 2009

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

From: Nancy C. Pellett *Nancy C. Pellett*
Chairman

Subject: Premium Rate Review

As you know, the Farm Credit System Insurance Corporation (FCSIC) requested that Congress update its insurance premium authorities. The Food, Conservation, and Energy Act of 2008 (Farm Bill) amends the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what FCSIC insures. The Farm Bill imposes a premium assessment of 20 basis points on adjusted insured debt obligations with authority for the Board of Directors to reduce rates in its sole discretion. The amendments maintain a risk surcharge of 10 basis points on non-accrual loans and add a surcharge of 10 basis points on other-than-temporarily impaired investments.

In addition, the amendments simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of any yearend excess Insurance Fund balances, when they may occur, to insured banks and the Financial Assistance Corporation stockholders.

Finally, the amendments reduce the total insured obligations that are used for calculating the secure base amount (SBA) and assessing premiums. The new assessment methodology allows the deduction of Federal and state-guaranteed investments from the adjusted insured obligations resulting in a lower secure base amount. The System has approximately $13.1 billion of government-guaranteed investments. Deducting 90 percent of this amount, or $11.75 billion, lowered the SBA. In addition, the System has approximately $6.39 billion in Federal and state guaranteed loans, resulting in a further reduction of $5.75 billion. These deductions improved the Insurance Fund relative to the level of outstanding adjusted insured debt by about 18 basis points. (See Attachment 1.)

The current level of the Insurance Fund relative to the 2 percent SBA, projected growth in insured debt and the increased turbulence in the financial environment are the most important factors that the Board considered in its premium analysis. Through May, insured debt grew by just over $1.97 billion to $178.1 billion, or 1.1 percent year-to-date.

Slower System growth combined with the improvements discussed above, have allowed the Insurance Fund to make significant progress back towards the statutory 2 percent secure base amount. However, as of the end of May, the total Insurance Fund (including the AIRAs) remains $160 million below the SBA. It is important to remember that the Insurance Fund has not been at the SBA since 2004. (See Attachment 2.)

While the System continues to have good credit quality and adequate capital, it and its borrowers face a number of risks. These include volatile farm commodity and farm input prices; stress to specific agricultural sectors, including ethanol, cattle, hogs, poultry, and dairy; and, reduced debt servicing ability by many farm families and rural residents due to the rising level of unemployment and diminished non-farm income. As a result, System asset quality has deteriorated recently due to this challenging economic environment.

In consideration of these factors, the Board has decided to continue the 20 basis points premium rate on adjusted insured debt established in the Farm Bill for the second half of 2009. In addition, the 10 basis point premium will also be continued on the average principal outstanding for non-accrual loans and the average amount outstanding for other-than-temporarily impaired investments.

If growth in insured debt changes significantly between now and yearend, the Board has the flexibility to adjust premium rates for 2009. As we did last year, the Board will provide premium guidance for 2010 financial planning after our September meeting.

Please feel free to contact FCSIC staff if you would like to discuss the new premium authorities or have any questions.

Attachments

Attachment 1

SECURE BASE AMOUNT CALCULATION

As of May 29, 2009

($ in Millions)

	FINAL					FINAL	ESTIMATE
DEBT OUTSTANDING	12/31/2007	3/31/2008	6/30/2008	9/30/2008	12/31/2008	3/31/2009	5/29/2009
Principal	153,941	163,850	174,954	173,127	176,125	177,133	178,098
Interest	1,400	1,294	1,380	1,362	1,297	1,172	1,172
Less: 1/							
90% Fed. Guar. Loans	(3,255)	(3,356)	(3,810)	(4,237)	(5,337)	(5,730)	(5,730)
80% State Guar. Loans	(18)	(17)	(16)	(16)	(20)	(19)	(19)
90% Fed. Guar. Investments ($13,058)			(8,296)	(9,493)	(9,748)	(11,752)	(11,752)
ADJ. INSURED DEBT	152,069	161,771	164,212	160,743	162,317	160,804	161,769
SECURE BASE AMOUNT (2%)	3,041	3,235	3,284	3,215	3,246	3,216	3,235
UNALLOCATED INSURANCE FUND BALANCE	2,558	2,632	2,706	2,804	2,875	2,963	3,035
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	2,598	2,672	2,746	2,844	2,915	3,003	3,075
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	1.682%	1.627%	1.648%	1.744%	1.771%	1.843%	1.876%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	1.708%	1.652%	1.672%	1.769%	1.796%	1.867%	1.901%

Assumptions:

System-wide Debt outstanding Source:

FCA Call Reports (Quarter End)

Funding Corporation for interim months.

Accrued Interest Payable:

Quarterly amounts are from the Call Reports.

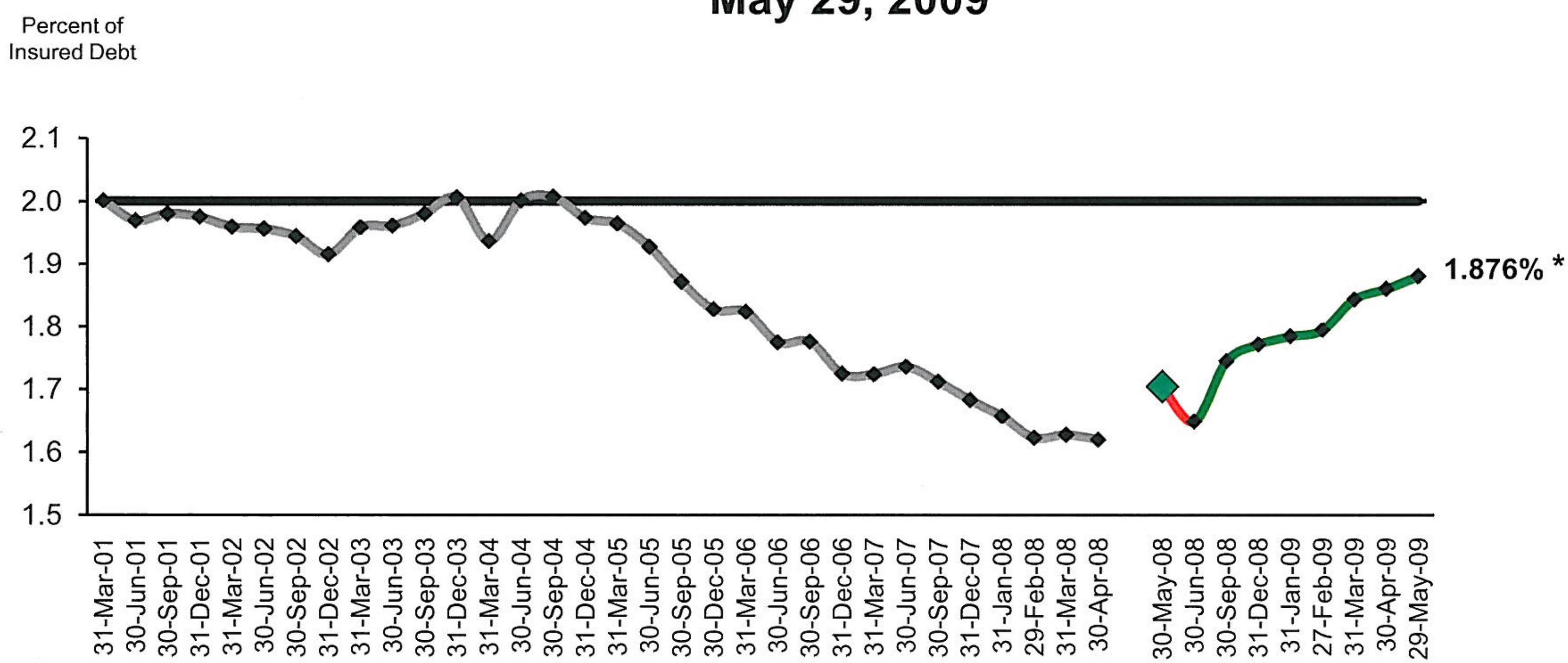
Monthly amount for Accrued Interest Payable is an estimate for Systemwide bonds only.

Discount Note interest is included in the par balance reported by the Funding Corporation.

Federal and state guaranteed loans, and government guaranteed investments balances are most recent quarter-end.

Attachment 2

Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
May 29, 2009



* 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 new 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.

Insurance premiums are assessed with the objective of maintaining the SBA which is defined in the Farm Credit Act as 2% of adjusted insured obligations. At yearend excess funds above the SBA are transferred to the Allocated Insurance Reserves Accounts (AIRAs). The current $39.89 million AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit Banks and FAC stockholders.