



FARM CREDIT SYSTEM INSURANCE CORPORATION

**ANNUAL PERFORMANCE
PLAN
FY 2008-2009**

September 13, 2007



INTRODUCTION

The Farm Credit System Insurance Corporation (Corporation) 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) 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 Farm Credit System banks. The System is a privately owned, nationwide financial cooperative that lends to agriculture and rural America. By ensuring the repayment of System debt securities to investors, the Corporation helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

The Corporation operates with no 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 necessary funds to fulfill 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;
- 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.

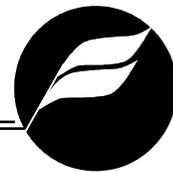
ANNUAL PERFORMANCE PLAN

The Corporation's Annual Performance Plan (Performance Plan) is derived from its five-year Strategic Plan (FY 2007–2012). 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 financial year. As with the Strategic Plan, the Corporation's mission and key assumptions guide development of the Annual Plan. Progress towards program goals is periodically reported to the Board of Directors and is summarized in the Corporation's Annual Report.

PROGRAM GOALS

The Corporation's activities are organized into three program areas:

- Building and managing the Insurance Fund to protect investors;
- Detecting, evaluating, and managing risk; and
- Maintaining the capability to act as receiver or conservator should the need arise.



CORE RECURRING ACTIVITIES

On a continual basis, the Corporation performs a number of core activities that are essential to the achievement of its mission. The following is a summary of these activities categorized by program area:

- **Insurance Fund Management** – Setting premium rates, collecting and auditing insurance premiums, and managing the Corporation’s \$2.4 billion investment portfolio. The latter includes the investment of approximately \$250 million in cash flows annually. Consultation with the Federal Farm Credit Banks Funding Corporation (Funding Corporation) regarding the disclosure of System financial information. Managing contractual arrangements that ensure the accessibility of resources to support program operations. Oversight of the Corporation’s accounting and financial reporting function. Strategic and operational planning and performance reporting.
- **Risk Management** – Evaluating risk to the Insurance Fund through monitoring systems, financial models and special examinations. Monitoring trends and conditions in the capital markets and agricultural industry that can adversely impact System banks and their affiliated associations. Reviewing Farm Credit Administration (FCA) examination reports of System institutions that are larger, more complex and/or have deteriorating FIRS ratings. Consulting with other governmental and industry insurance organizations (FDIC, NCUA, SIPC, etc) on emerging issues and trends on a periodic basis. Quarterly review of the need for Allowances for Insurance Fund Losses. Consulting with FCA regarding potential risks resulting from mergers, review of funding requests of undercapitalized System banks, and regulatory changes.
- **Receivership and Conservatorship** – Maintaining the capability to manage receiverships and conservatorships. Planning and training for potential receiver or conservator actions. Monitoring legislation, legal cases, appraisal and environmental issues, as well as the actions of other Federal insurers.

PROGRAM EVALUATION

The Board of Directors provides policy direction and oversight of the Corporation’s operations. An independent accounting firm evaluates financial results annually. This includes a review of the Corporation’s financial statements and the effectiveness of internal controls. To evaluate program activities, periodic operational reviews are performed. Recommendations arising from the annual audit and periodic operational reviews are integrated into the Strategic Plan.



INSURANCE FUND MANAGEMENT

GOAL: *Manage the Insurance Fund to maintain the secure base amount at a level necessary to provide adequate protection for investors and taxpayers against identified risks.*

PERFORMANCE MEASURES:

The Corporation ensures the viability of the Insurance Fund by:

- Adjusting insurance premium rates as necessary;
- Managing assets to maximize returns; and
- Maintaining sufficient liquidity to carry out its mission to protect investors in the System's debt securities.

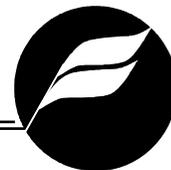
Congress established a statutory requirement for the Insurance Fund to be maintained at a secure base amount equal to 2 percent of outstanding insured obligations. The Corporation assesses its performance in achieving this goal by:

- 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; and
- Maintaining the Fund at the statutory secure base amount, 2 percent of outstanding insured obligations. This goal may be affected by events beyond the control of the Corporation such as high growth or insurance losses that arise from troubled Farm Credit System institutions.

ACTIONS:

1. Manage premium collections, refunds, and the secure base amount:

- Monitor System growth to determine the secure base amount. **Monthly**
- Perform a semiannual review of whether to adjust insurance premiums in accordance with Board policy.
January and June 2008
January and June 2009
- Review other Federal insurance agencies programs regarding premium rates and studies. **Ongoing**



2. Continue the legislative initiative to amend the Farm Credit Act of 1971 (Act).
 - Base premiums on insured Farm Credit System debt outstanding rather than loans.
 - Give the Corporation authority to charge a wider range of premiums.
 - If Congress amends the Act, consider revising the Corporation's regulations and policy statements, including Insurance Premiums and Secure Base Amount and Allocated Insurance Reserves Accounts.

2008

 3. Manage the investment program to ensure adequate liquidity while optimizing investment returns.

Quarterly

 4. Review the Corporation's Investment program and modify as necessary to implement the recommendations of Evaluation Associates.
 - Test proposed performance benchmarks
 - Enhance training
 - Review reporting to Investment Committee

**December
2008**

 5. Monitor trends in financial disclosure including those of the other GSEs and regulated financial institutions:
 - Monitor the statutory and regulatory initiatives for Fannie Mae and Freddie Mac, and any changes for the Office of Federal Housing Enterprise Oversight.

2008

 - Continue quarterly consultation with the Funding Corporation regarding the presentation of the Insurance Fund in the combined financial statements of System banks.

Quarterly

 6. Maintain Financial Assistance Corporation (FAC) shareholder list and update annually.

2008-2009
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RISK MANAGEMENT

GOAL: Monitor, evaluate, and report risks that could generate losses to the Insurance Fund.

PERFORMANCE MEASURES:

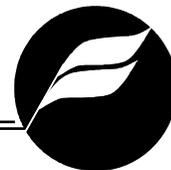
Protecting the Fund from Losses. Program effectiveness is measured by the extent that problems are promptly detected and insurance losses are minimized. This includes the effective use of financial indicators to monitor conditions and trends before any need to reserve for losses.

In periods of probable or actual insurance claims, the ratio of estimated losses as a percentage of actual losses is one indicator of the Corporation's ability to assess prospective loss exposure. Management uses criteria specified in its Allowance for Loss procedure and Financial Accounting Standard No. 5 as guidance for determining when and how much to record for estimated insurance loss reserves. Timely evaluation of the Fund's risk exposure is critical to preserving its viability.

- **Detect Risk to the Insurance Fund:** Risk is identified by the ongoing review and analysis of:
 - 1) The financial condition of System institutions;
 - 2) Institution actions approved by FCA;
 - 3) Reports of Examination; and
 - 4) Actions of FCA's enforcement committee (have served as non-voting member).
- **Quantify Risk to the Insurance Fund:** Special examinations are conducted to assess insurance risk posed by weaker System institutions.
- **Evaluation of Risk:** Monitoring systems and analytical processes, including models, are used to measure changing levels of insurance risk. The Allowance for Losses procedure, performed on a quarterly basis, is used to evaluate the likelihood of Insurance Fund losses.

Assistance Authority. The Corporation is authorized to provide assistance to a System institution to prevent default, restore normal operations, or to facilitate a merger or consolidation. Any assistance must be the "least costly approach" of all alternatives available. A cost test analysis is performed using the data obtained from each special examination to estimate the liquidation value of a troubled institution. To provide assistance to an open bank, the Corporation must first evaluate the adequacy of the institution's management and approve the continued service of any director or senior officer. There are presently no active assistance agreements.

Periodic Reporting: A System Performance Report is prepared for the Board of Directors on a quarterly basis. Reports on specialized topics are prepared as needed.

**ACTIONS:**

1. Report to the Board the FCS conditions and trends that could impact insurance risk.
Quarterly
2. Analyze and recommend Allowances for Insurance Fund Losses in accordance with criteria established in the Corporation's procedures.
Quarterly
3. Continue evaluation of the insurance risk model as an actuarial tool to provide additional insurance protection to System investors. Update model data at least annually to evaluate trends in Insurance Fund solvency and revalidate assumptions.
**June 2008
June 2009**
4. Work with Farm Credit System to explore modeling enhancements or alternatives to improve accuracy of insurance risk model.
2008
5. Consult with FCA regarding funding requests from undercapitalized System banks and restructuring requests from banks and large associations.
As Required
6. Evaluate the effect of emerging alternative forms of System financing and capital instruments (e.g, preferred stock, subordinated debt) on the Insurance Fund.
Ongoing
7. Work with FCA to share information and develop better data access in the following areas:
 - CRS (Consolidated Reporting System) and LARS (Loan Accounting and Reporting System) databases, economic modeling, and other systems under development;
 - Oversight and Examination database sponsored by FCA's Office of Examination; and
 - Conduct information sharing meetings with FCA on implementation of any new data systems.**Ongoing**
8. Maintain contacts with other financial regulators to share information on emerging risks and risk management processes.
Ongoing



9. Evaluate alternative approaches for performing statutory cost test requirement at complex Farm Credit institutions with large numbers of assets which have unconventional pricing, terms and conditions (including irregular repayment terms and administered rate loan programs).

- Identify the number of institutions with significant volume and numbers of these assets.
- Evaluate alternative options for how FCSIC should address valuing these assets and recommend changes to the Cost Test program. Evaluate independent contractors as a source of asset pricing.
- Test most feasible options by performing a special on-site review of institution(s) with large amounts of these loans, collecting sufficient data to price the loans.

March 2009



CORPORATE MISSION SUPPORT

Corporate mission support involves providing the resources necessary to achieve the Corporation's performance goals. It includes responding to external legislative and regulatory initiatives affecting the Corporation and communicating with stakeholders regarding the purpose and benefits provided by the Corporation.

The Corporation, operating with a core staff of 10, 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, personnel, financial and operational audit, accounting, and network management.

ACTIONS:

1. In cooperation with the Funding Corporation, communicate benefits of insurance program to stakeholders.
 - Identify and implement methods to reach out to selling groups and investors;
 - Identify and pursue dialogue with System leadership on issues of mutual concern; and
 - Expand contacts and information sharing with other organizations that have knowledge in areas that can benefit the Corporation.

2008-2009
2. Monitor FCA initiatives that affect the Corporation and provide input during their development.

As required
3. Periodically review Corporate Mission Support 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".
 - Control of Accountable Property **January 2008**
 - Equal Employment Opportunity **April 2008**
 - Alternative Means of Dispute Resolution **September 2008**
4. Monitor legislative initiatives that affect the System, FCA, and the Corporation.
 - Evaluate proposals that could affect the Corporation's statutory responsibilities and/or reporting requirements.

As Necessary

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5. Continue staff cross-training and versatility to ensure adequate back up in key corporate programs.



Annually

6. Develop, as a follow up to the December 2006 Continuity of Operations review, an offsite location that can be used to continue to invest funds not otherwise employed in overnights until FCSIC personnel can take control of this function.

March 2008

7. In recognition of the importance of Systemwide agreements that establish uniform standards of performance (CIPA and MAA), monitor and evaluate prospective changes.

Ongoing

8. Redesign and update FCSIC website. Solicit input from stakeholders regarding website content. Select an experienced contractor for site design. Test prototype before live conversion.

April 2009

9. Review the Corporation's electronic and paper files and records to:

- Ensure the organizational structure in use continues to be effective;
- Update electronic files and procedures so they are consistent with paper files and provide guidance to staff on using the electronic filing system.

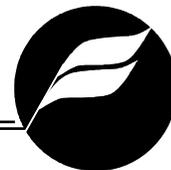
March 2008

April 2009

10. Develop or contract specialized training that can support:

- Staff and the Board in today's more complex financial environment e.g., outside speakers on credit derivatives or synthetic securities; and
- Strategic leadership and team building.

2008-2009



11. Prepare required financial reports and monitor changes to Federal reporting requirements for Treasury and OMB, including

- SF-224 STATEMENT OF TRANSACTIONS Monthly
REPORTS MONTHLY DEPOSIT AND DISBURSEMENT TRANSACTIONS TO TREASURY
- PWC – ANNUAL AUDIT January
- INTRAGOVERNMENTAL REPORTING AND ANALYSIS SYSTEM (IRAS) Quarterly
COMBINES QUARTERLY INTRAGOVERNMENTAL TRIAL BALANCE DATA
EXTRACTS AND GFRS DATA.
- THE TREASURY REPORT ON RECEIVABLES (TROR) Quarterly
- FEDERAL AGENCIES' CENTRALIZED TRIAL-BALANCED SYSTEM (FACTS) II Quarterly
COLLECTS THE PRECLOSING ADJUSTED TRIAL BALANCE USING THE STANDARD
GENERAL LEDGER ACCOUNTS.
- GAO ANNUAL AUDIT July
- FEDERAL MANAGERS FINANCIAL INTEGRITY ACT September-October
REVIEWS THE CORPORATION'S INTERNAL CONTROLS TO GIVE ASSURANCE THAT THE
MANAGEMENT SYSTEMS IN PLACE CONFIRM TO THE STANDARDS PURSUANT TO THE FMFIA
- GOVERNMENTWIDE FINANCIAL REPORT SYSTEM (GFRS) November
COLLECTS THE CORPORATION'S CLOSING PACKAGE INFORMATION AND LINKS ITS
AUDITED FINANCIAL STATEMENT TO THE FINANCIAL REPORT OF THE UNITED STATES
- PWC – AGREED UPON PROCEDURES November
- FEDERAL AGENCIES' CENTRALIZED TRIAL-BALANCED SYSTEM (FACTS) I November
- MAX A-11 December
FORWARDS THE CORPORATION'S FINANCIAL DATA TO THE OFFICE OF MANAGEMENT
AND BUDGET FOR INCLUSION IN THE PRESIDENT'S BUDGET

12. Evaluate services obtained and contractor performance.

- PROMPT PAYMENT REPORT Monthly
- REVIEW CONTRACT WITH BUREAU OF PUBLIC DEBT July
- SAS 70 REPORT – ADMINISTRATIVE RESOURCE CENTER AND FEDERAL INVESTMENT BRANCH August
REVIEW EXTERNAL AUDITS OF ORGANIZATIONS THAT PROVIDE CONTRACTED SERVICES

13. Monitor and review Travel and Purchase Card Programs.

- ANNUAL CHARGE CARD MANAGEMENT PLAN January
- ANNUAL CREDIT CARD USAGE (NARRATIVE AND DATA REPORTS) February

14. Recontract with external accounting firm for audit services.

August 2008

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 Farm Credit Administration. 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 initial processing of all insured claims within a specified period. 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.

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

ACTIONS:

1. Monitor and plan for potential conservator/receivership activity. **Ongoing**
2. Monitor legislation, regulations, legal cases, and environmental issues that could affect receivership and conservatorship operations. **Ongoing**
3. Monitor developments at other Federal insurers in receivership management. **Ongoing**
4. Implement recommendations from the Default Scenario and Response Options workgroup:
 - Develop staffing plan for potential receivership;
 - Identify funding strategies for various resolution options;
 - Develop guidelines for liquidating FCSIC investment portfolio securities to respond to a receivership/conservatorship;
 - Review sources for specialized expertise;
 - Identify a coordination group to focus on readiness and periodic training; and
 - Develop and execute simulation of an event to promote readiness.

March 2009



5. Survey public and private sector contractor capabilities to provide receivership support. This survey will provide a list of possible business firms and individuals that could be appointed receivership agents and contractors.

December 2008

6. Review the Type II, Pre-Resolution Special Examination Guidelines in view of changes in FCS structure and new lines of business.

- This review should include a field test of the current procedures to identify any potential modifications. The field test should be conducted by FCA examination staff that has been identified by FCSIC to receive ongoing receivership readiness training. **February 2009**
- Consider the need for changes to procedures resulting from this review. **July 2009**

7. Periodically review all Corporation policies for receiverships and conservatorships. The review should recommend any appropriate changes to conform to best practices and 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”.

- Use of Outside Counsel **March 2008**
- Appraisal Policy **June 2008**
- Environmental Policy **September 2008**
- Assistance Policy **December 2008**