



**FARM CREDIT SYSTEM INSURANCE CORPORATION**

**ANNUAL PERFORMANCE  
PLAN  
FY 2009-2010**

**September 11, 2008**



## INTRODUCTION

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 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. In May 2008, the Food, Conservation, and Energy Act amended the Farm Credit Act to generally assess the Corporation's premiums on outstanding insured obligations and authorized the Corporation to collect an increased range of premiums.

## 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.

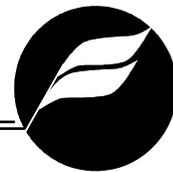
## ANNUAL PERFORMANCE PLAN

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:

- Build and manage the Insurance Fund to protect investors;
- Detect, evaluate, and manage risk; and
- Maintain 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 \$2.7 billion investment portfolio. The latter includes the investment of approximately \$300 million in revenues 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:

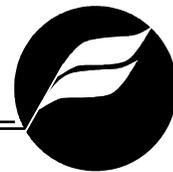
**1.** Manage the insurance program through premium collections and refunds to achieve and maintain the secure base amount:

- Monitor System growth and periodically calculate the 2% secure base amount. **Monthly**
- Perform semiannual reviews of whether to adjust insurance premiums in accordance with Board policy.

**January and June 2009**  
**January and June 2010**

- Review other Federal insurance agencies programs regarding premium rates and studies.

**Ongoing**



2. Implement applicable provisions of the Food, Conservation, and Energy Act's (Farm Bill) amendments of the Farm Credit Act of 1971, as amended.
- Revise Certified Statement forms. **November 2008**
  - Amend the FCSIC Policy Statement on the Secure Base Amount (SBA) and Allocated Insurance Reserves Accounts (AIRA). **2009**
  - Amend the FCSIC Policy Statement on Adjustments to the Insurance Premiums. **2009**
  - Implement new premium authority by publishing guidance and amending premium regulations. **2010**
3. Manage the investment program to ensure adequate liquidity while optimizing investment returns. **Ongoing**
4. Enhance the Corporation's investment program and modify as necessary to implement the recommendations of Evaluation Associates.
- Test performance benchmarks
  - Promote training opportunities
  - Enrich reporting to Investment Committee by including additional attribution analysis of investment alternatives
  - Expand investment intelligence sources of the Committee by using Bloomberg and other tools
  - Evaluate and review the cost effectiveness of alternative investments such as Government National Mortgage Association (GNMA) guaranteed securities and Treasury Inflation-Protected Securities (TIPS).
- December 2009**
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 Federal Housing Finance Administration (FHFA). **2009**
  - Continue 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. **2009-2010**



## RISK MANAGEMENT

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

### PERFORMANCE MEASURES:

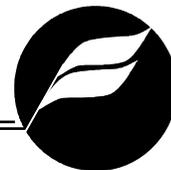
**Protecting the Fund from Losses:** Program effectiveness is measured by the extent that problems are promptly detected and insurance losses are minimized. This includes the effective use of financial indicators to monitor conditions and trends before any need to reserve for losses.

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 prepared by the Office of Examination; and
  - 4) Actions of FCA's Enforcement Committee (serving 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. Revise insurance risk model to implement Farm Bill amendments reforming premium authority. Update model data at least annually to evaluate trends in Insurance Fund solvency and revalidate assumptions. Continue evaluation of the insurance risk model as an actuarial tool to provide additional protection to System investors.  
**June 2009**  
**June 2010**
4. Work with the System to explore modeling enhancements or alternatives to improve accuracy of insurance risk model.
  - Economic capital modeling
  - Insurance Fund solvency modeling**2009-2010**
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 alternative forms of System financing and capital instruments (e.g., preferred stock, subordinated debt) on the Insurance Fund.  
**Ongoing**
7. Work with FCA to improve communications and coordination to develop better data access in the following areas:
  - Meet with field staff of the bank and market risk division, and the association exam division periodically.
  - CRS (Consolidated Reporting System) and LARS (Loan Accounting and Reporting System) databases, economic modeling, and other systems under development (shared large asset database);
  - 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.

**September 2009**



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.

**Ongoing**
2. Monitor FCA initiatives that affect the Corporation and provide input during their development.
 

**As Required**
3. Periodically review 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 2009-10 are:
 

• Control of Accountable Property	<b>March 2009</b>
• Equal Employment Opportunity	<b>April 2009</b>
• Appraisal Policy	<b>July 2009</b>
• Environmental Policy	<b>October 2009</b>
• Assistance Policy	<b>May 2010</b>
• Alternative Means of Dispute Resolution	<b>September 2010</b>
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**
5. Continue staff cross-training and versatility to ensure adequate back up in key corporate programs.

**Annually**

6. Establish, as a follow up to the December 2006 Continuity of Operations review, an offsite location that can be used to continue to invest funds in overnights until FCSIC personnel can reestablish this function.

**March 2009**

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.

**June 2009**

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

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

**March 2009****September 2009**

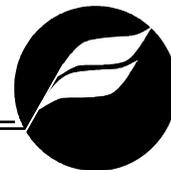
10. Develop or contract specialized training that can support staff and the Board in today's more complex financial environment e.g., outside speakers on emerging financial issues.

**2009-2010**

11. Develop new strategic plan.

- Plan program
- Contact speakers
- Conduct offsite conference
- Draft plan and seek Board approval
- Seek stakeholders input (public comment)
- Seek Board final approval and submit to OMB

**February 2009****March 2009****June 2009****July 2009****August 2009****September 2009**



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

- |  |                          |
|--|--------------------------|
| • <b>SF-224 Statement of Transactions</b> – Reports monthly deposit and disbursement transactions to Treasury.   | <b>Monthly</b>           |
| • <b>Annual Audit</b>  | <b>January</b>           |
| • <b>Intragovernmental Fiduciary Confirmation System (IFCS)</b>  | <b>Quarterly</b>         |
| • <b>Intragovernmental Reporting and Analysis System (IRAS)</b> – Combines quarterly intragovernmental trial balance data extracts and GFRS data.  | <b>Quarterly</b>         |
| • <b>The Treasury Report on Receivables (TROR)</b>   | <b>Quarterly</b>         |
| • <b>Federal Agencies' Centralized Trial-Balanced System (FACTS) II</b> – Collects the preclosing adjusted trial balance using the standard general ledger accounts.                                       | <b>Quarterly</b>         |
| • <b>GAO Annual Audit</b>  | <b>July</b>              |
| • <b>Federal Managers Financial Integrity Act</b> – Reviews the the Corporation's internal controls to give assurance that the management systems in place conform to the standards pursuant to the FMFIA. | <b>September-October</b> |
| • <b>Governmentwide Financial Report System (GFRS)</b> – Collects the Corporation's closing package information and links its audited financial statements to the Financial Report of the United States.   | <b>November</b>          |
| • <b>Agreed-Upon Procedures</b>  | <b>November</b>          |
| • <b>Federal Agencies' Centralized Trial-Balanced System (FACTS) I</b>   | <b>November</b>          |
| • <b>MAX A-11</b> – Forwards the Corporation's financial data to the Office of Management and Budget for inclusion in the President's Budget.  | <b>December</b>          |

13. Evaluate services obtained and contractor performance.

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|--|------------------|
| • Prompt Payment Report  | <b>Monthly</b>   |
| • Review contract with Bureau of Public Debt   | <b>July</b>      |
| • Review contract with auditor   | <b>September</b> |
| • SAS 70 Report – Administrative Resource Center and Federal Investment Branch review external audits of organizations that provide contracted services. | <b>August</b>    |

14. Monitor and review travel and purchase card programs.

- |   |                 |
|---|-----------------|
| • Annual Charge Card Management Plan                    | <b>January</b>  |
| • Annual credit card usage (narrative and data reports) | <b>February</b> |



**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.

**December 2009**



5. Periodically review public and private sector contractor capabilities to provide receivership support. Develop a list of possible business firms and individuals that could be appointed as receivership agents and contractors.

**Ongoing**

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. **April 2009**
- Consider the need for changes to procedures resulting from this review. **August 2009**