MEMORANDUM

Farm Credit System Insurance Corporation

January 10, 2008

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

From: Leland A. Strom
Chairman

Subject: Premiums for 2008

The Farm Credit System Insurance Corporation (Corporation) is issuing the insurance premium rates for 2008. Strong growth in insured obligations has led the Board of Directors to continue the insurance premium assessment rate on accrual loans at 15 basis points for 2008. This is the maximum rate we can charge on accrual loans. The Board has decided to continue assessing 25 basis points on nonaccrual loans, to continue assessing zero basis points on Federal and state guaranteed loans, and to make no discretionary adjustment for accrual loans that are GSE guaranteed.

Based on preliminary yearend data, growth in insured obligations for 2007 was 15.0 percent. This is below the 18.3 percent in 2006 but above the 14.1 percent growth for 2005. At yearend 2007, insured debt totaled $154 billion, up from $134 billion at yearend 2006.

The Board considered the following factors:

- Current level of the Insurance Fund and projections for growth in insured obligations;
- Likelihood and probable amount of any losses to the Insurance Fund;
- Financial condition of the Farm Credit System banks and associations;
- Health and prospects for the agricultural economy; and,
- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, use of sophisticated investment securities and derivatives.

As a result of the higher growth in insured debt, the unallocated portion of the Insurance Fund has trended even further away from the 2 percent secure base amount. The unallocated portion of the Insurance Fund represents the assets for which no specific use has been identified. Based on our preliminary yearend data, the unallocated portion of the Insurance Fund as a percentage of adjusted insured debt declined to 1.677 percent. When including the $39.9 million in the Allocated Insurance Reserves Accounts (AIRAs), the total Insurance Fund was at 1.704 percent or $451 million below the secure base amount.

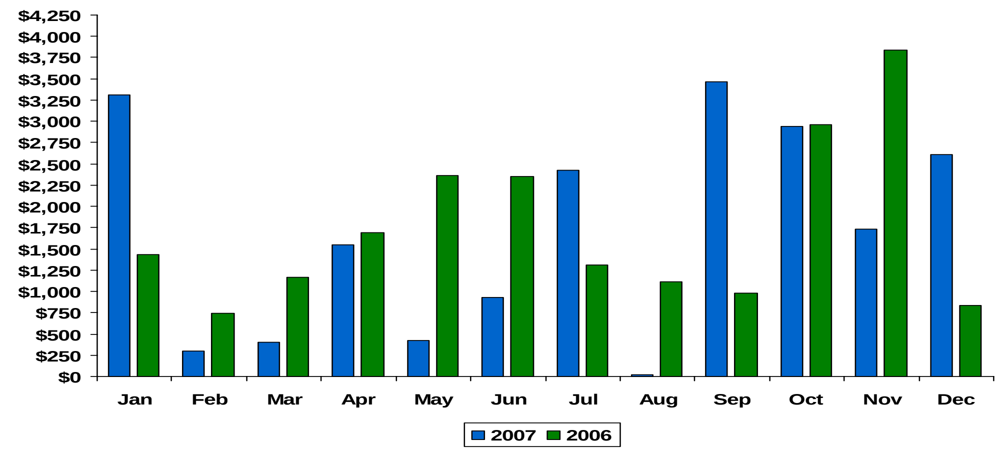
The Farm Credit Administration's Office of Examination reports that overall System financial condition and performance remain fundamentally sound. Based on the Corporation's most recent allowance for loss review of all banks and associations, the Corporation concluded that no losses to the Insurance Fund were known and the probability of any unknown losses was remote.

As you know, the Corporation has requested changes to its statutory premium authorities including changing the basis on which premiums are assessed from loans to adjusted insured debt and authorizing the Corporation to assess up to 20 basis points on insured debt. At this time it remains uncertain whether these changes will be enacted. The Board of Directors will consider implementation of any changes after the law is enacted. If the changes are enacted, then at its June meeting the Board may consider adjusting premium rates for the balance of 2008.

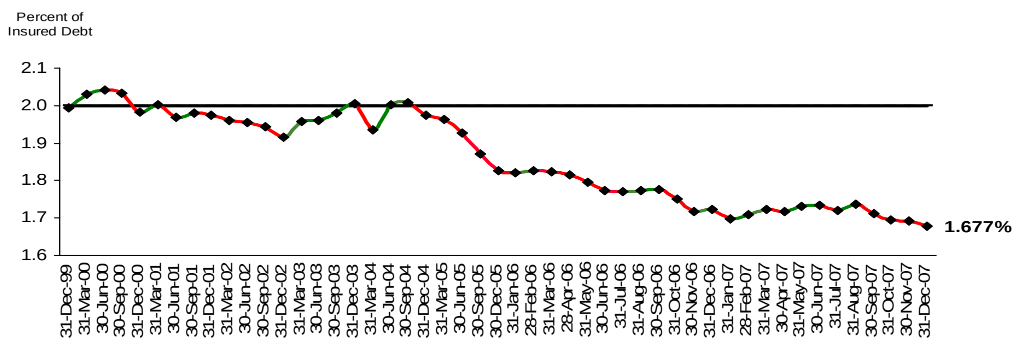
Attachment

Outstanding Insured Obligations
2006 vs. 2007

Comparative Growth		Rate	Annualized	Total Outstanding
Jan – Dec 07	$20,107	15.0%	15.0%	$154,064
Jan – Dec 06	$20,640	18.2%	18.2%	$133,958



Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
December 31, 2007



Insurance premiums are assessed with the objective of maintaining the Secure Base Amount (SBA) which is defined in the Farm Credit Act as 2% of aggregate insured obligations. At yearend excess funds above the SBA are transferred to the Allocated Insurance Reserve 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.