MEMORANDUM

Farm Credit System Insurance Corporation

September 12, 2008

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

From: Nancy C. Pellett
Chairman

Nancy C. Pellett

Subject: Premium Planning Guidance for 2009

The Farm Credit System Insurance Corporation (Corporation) is issuing guidance on insurance premium rates for next year so that Farm Credit System institutions can budget for 2009. The Board considered the following factors:

- Current level of the Farm Credit Insurance Fund (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 you know, the recently passed Food, Conservation, and Energy Act of 2008 (Farm Bill) amends the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what the Corporation insures. Until the Insurance Fund reaches the 2 percent secure base amount, 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 up to 10 basis points on non-accrual loans and add a surcharge of up to 10 basis points on other-than-temporarily impaired investments.

In addition, the Farm Credit Act no longer specifies how the Farm Credit System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. The change allows the banks flexibility in allocating premium costs to associations. Furthermore, the amendments simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of excess Insurance Fund balances,

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when they may occur, to insured banks and Farm Credit System Financial Assistance Corporation stockholders.

Finally, the amendments reduce the total insured obligations that are used for calculating the secure base amount 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. At August 29, 2008, this change resulted in an estimated deduction equal to 90 percent of $9.218 billion ($8.296 billion) in Federal-guaranteed investments from insured obligations. This deduction has the effect of reducing the secure base amount and therefore premiums by 2 percent of $8.296 billion or $166 million.

Growth in insured obligations for the year through August 29, 2008, has been 11.8 percent (an annualized rate of 17.7 percent). As of August 29, 2008, insured debt totaled $172.1 billion, up from $153.9 billion at yearend. As a result of continued strong growth in insured debt, the Insurance Fund continues to be below the 2 percent secure base amount. As a percentage of adjusted insured debt outstanding, the balance of the Insurance Fund improved moderately to 1.742 percent at August 29, 2008, versus 1.708 percent at yearend 2007. The Insurance Fund was $416 million below the secure base amount at August 29, 2008, compared to $443 million below the secure base amount at December 31, 2007. The accompanying chart shows the trend of the unallocated portion of the Insurance Fund relative to the 2 percent secure base amount (Attachment 2).

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.

For planning purposes, the Board has decided the likely premium rate for 2009 will be 20 basis points, the maximum allowed by the Farm Bill. In addition, there will likely be a 10 basis point premium 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 moderates, the Board has the flexibility to adjust rates.

As we did last year, the Board intends to set premium rates for 2009 at its January meeting after yearend results for 2008 become available.

Attachments

SECURE BASE AMOUNT CALCULATION

As of August 29, 2008

($ in Millions)

DEBT OUTSTANDING	FINAL 12/31/2006	FINAL 12/31/2007	FINAL 3/31/2008	FINAL 6/30/2008	ESTIMATE 8/29/2008
Principal	133,958	153,941	163,850	174,954	172,078
Interest	1,253	1,400	1,294	1,380	1,380
Less: 1/					
90% Fed. Guar. Loans	(3,308)	(3,255)	(3,356)	(3,810)	(3,810)
80% State Guar. Loans	(82)	(18)	(17)	(16)	(16)
90% Fed. Guar. Investments ($9,218)				(8,296)	(8,296)
ADJ. INSURED DEBT	131,821	152,069	161,771	164,212	161,336
SECURE BASE AMOUNT (2%)	2,636	3,041	3,235	3,284	3,227
UNALLOCATED INSURANCE FUND BALANCE	2,272	2,558	2,632	2,706	2,771
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	2,312	2,598	2,672	2,746	2,811
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	1.724%	1.682%	1.627%	1.648%	1.718%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	1.754%	1.708%	1.652%	1.672%	1.742%

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.

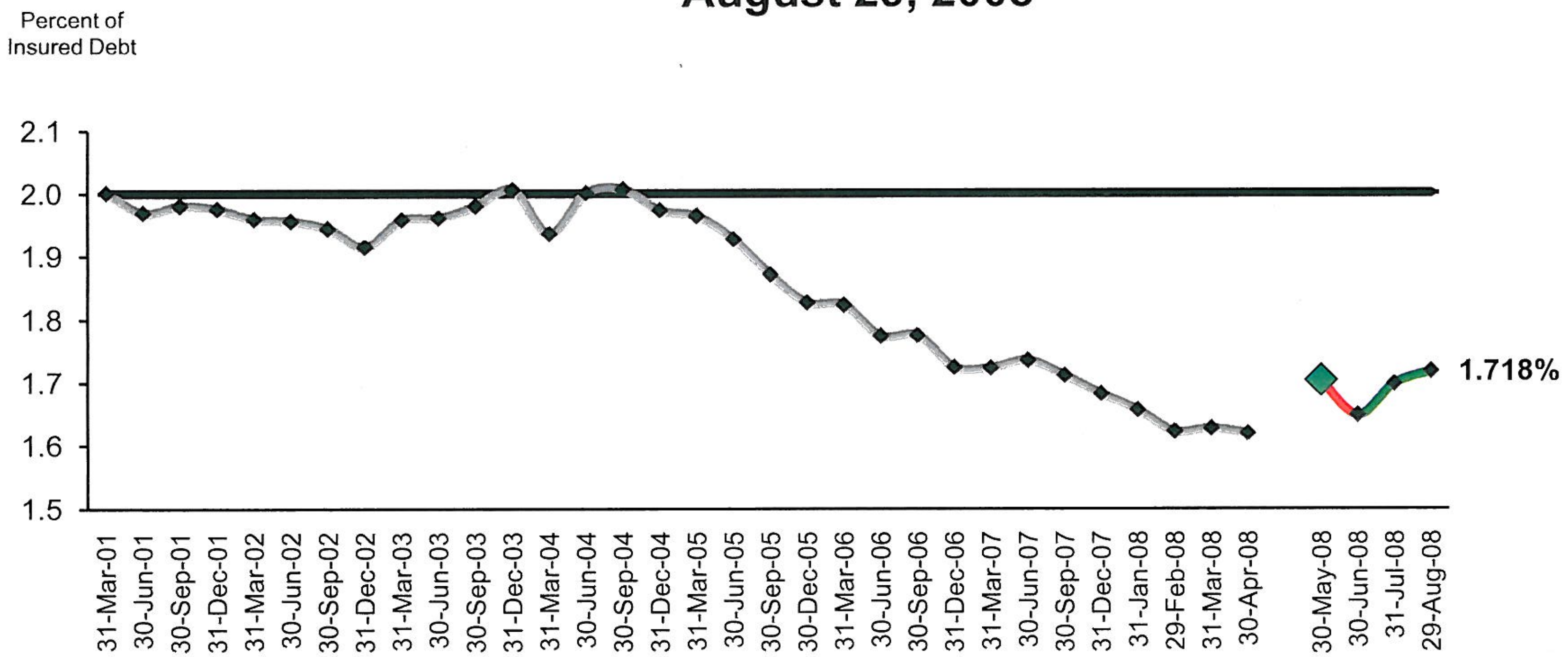
Monthly amount for Accrued Interest Payable is an estimate for Systemwide bonds only.

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 1

Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
August 29, 2008



* 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.

Attachment 2