FARM CREDIT SYSTEM INSURANCE CORPORATION
POLICY STATEMENT CONCERNING
INSURANCE PREMIUMS
DATED: JANUARY 27, 2022

Background

The Farm Credit Act of 1971, as amended (Act) established the Farm Credit System Insurance Corporation (FCSIC or Corporation) to, among other things, insure the timely payment of principal and interest on Farm Credit System obligations.[1] Section 5.55 of the Act mandates that the Corporation build and manage the Farm Credit Insurance Fund (Insurance Fund) to attain and maintain a secure base amount (SBA), defined as 2 percent of the aggregate outstanding insured obligations of all insured System banks (excluding a percentage of State and Federally guaranteed loans and investments) or such other percentage of the aggregate amount as the Corporation in its sole discretion determines is actuarially sound. The Farm Credit System Reform Act of 1996[2] amended section 5.55 of the Act to establish in the Insurance Fund an Allocated Insurance Reserves Account (AIRA) for the benefit of each insured System bank and an AIRA for the Farm Credit System Financial Assistance Corporation (FAC) stockholders; allocate any excess balances above the SBA to these AIRAs; and make partial distributions of the excess funds in the AIRAs. Congress, by enactment of the Food, Conservation, and Energy Act of 2008 (FCE Act),[3] amended the provisions of the Act that govern FCSIC premiums, the SBA, and AIRAs to incorporate the Corporation's recommendations concerning calculation of premiums and the SBA, and the simplification of the provisions governing AIRAs. In 2009, the Corporation adopted final regulations implementing the amended provisions of the Act governing FCSIC premiums, the SBA and AIRAs.[4]

Section 5.55(a) of the Act provides that for any calendar year in which the Insurance Fund does not exceed the secure base amount, the premium due from any insured System bank shall be equal to 20 basis points (0.2%) of the adjusted amount of the "average outstanding insured obligations issued by the bank for the calendar year" (plus a 10 basis points (0.1%) surcharge for nonaccrual loans and other-than-temporarily impaired investments). Section 5.55(a)(3) of the Act gives FCSIC, in its sole discretion, authority to uniformly reduce the percentage charged to each System bank below the statutory 20 basis points.

Applicability

The Act and FCSIC rules govern the calculation of the secure base amount, the determination of any excess above the SBA, the method for allocating any excess to the AIRAs, and the method for making payments from the AIRAs to accountholders.

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[1] The Agricultural Credit Act of 1987, Pub. L. No. 100-233 (1988), amended the Farm Credit Act of 1971 to establish the Farm Credit System Insurance Corporation. (12 USC §§ 2277a-1 et seq.)
[2] Pub. L. No. 104-105, 110 Stat. 162 (1996).
[3] Pub. L. No. 110-234, Pub. L. No. 110-246, 122 Stat. 1651 (2008).
[4] *See* 12 C.F.R. §§ 1410.3 – 1410.7.

This policy statement will govern how and when FCSIC will use its statutory discretion to set premiums below the statutory 20 basis points and to adjust premiums in response to changing conditions.

Policy Statement

The Corporation's Board of Directors (Board) will review the premium assessment rate at least semiannually to determine whether to exercise its discretion to adjust the premium assessments in response to changing conditions. In setting premiums, the Board's objective is to achieve and maintain the statutory secure base amount in the Insurance Fund.

As a basis for its decision the Board will consider the following:

1. The current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount. In making this determination, the Board should consider all relevant factors including:

   a. historical and anticipated growth in insured obligations (including consideration of multiple debt growth scenarios); and
   b. estimated premium and investment income.

2. The risk that the Insurance Fund will need to be used in the next 12 months. In making this determination, the Board should consider all relevant factors, including:

   a. risks arising from the general economy, including the impact of interest rates, inflation, labor markets, financial market conditions and other factors that may affect insured System banks and System borrowers;
   b. risks arising from the agricultural economy, including commodity prices, trade, government farm policy, climate risk to agriculture and other factors that may affect insured System banks and System borrowers; and
   c. risks arising from the Farm Credit System, including the financial condition of System institutions, the level and quality of capital, adequacy of System management, structural risks, operational risks and other factors that may affect insured System banks and System borrowers.

The premium on adjusted average outstanding insured obligations will be set between zero and the statutory rate of 20 basis points. The Board will not reduce the 10 basis points premium on the average principal outstanding on loans in nonaccrual status and the average amount outstanding of other-than-temporarily-impaired (OTTI) investments to continue providing an incentive for sound credit and investment practices.