MEMORANDUM

Farm Credit System Insurance Corporation

February 7, 2024

To:	Chairman, Board of Directors Chief Executive Officer Each Farm Credit System Institution
From:	Jeffery S. Hall Chairman
Subject:	Board Approves Premium Accrual Rates for 2024

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved a reduction in the insurance premium assessment rate on adjusted insured debt to 10 basis points for 2024 from 18 basis points in 2023. The Board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Federal Farm Credit Banks Funding Corporation reports that outstanding insured debt obligations increased by 6.4 percent ($25.1 billion) from $390.6 billion at year-end 2022 to $415.7 billion at year-end 2023. Based on results at December 31, 2023, the Insurance Fund was 2.03 percent of adjusted insured debt, or $128 million above the 2.0 percent secure base amount (SBA). FCSIC is required, after deducting its operating expenses, to transfer funds in excess of the SBA to Allocated Insurance Reserve Accounts (AIRAs) established for each System bank. Consequently, we transferred approximately $123 million to those accounts at December 31, 2023.

The Board's objective is to achieve and maintain the statutory secure base amount of 2 percent in the Insurance Fund. In setting a premium rate, the Board's review focuses on the current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount based on expected growth in Systemwide insured obligations. The review also examines the risk that the Insurance Fund will need to be used in the next 12 months, and includes analyzing the condition of the System, the health of the agricultural economy, and risks in the financial environment.

Over the past three years, insured debt has grown an average of about 9 percent annually. Assuming significant continued growth for 2024 of 9 percent and FCSIC investment earnings of about $245 million (equivalent to about 7 basis points of premiums), a premium rate of 10 basis points on adjusted insured obligations will allow the Insurance Fund to cover the anticipated growth in 2024 and end the year above the secure base amount.

The Insurance Fund is invested solely in obligations of the United States. In January 2022, we began implementing a 5-year bond ladder strategy. Over the past two years, we have invested

1501 Farm Credit Drive
McLean, Virginia 22102
(703) 883-4380

approximately $5.72 billion in Treasury securities with a weighted average maturity of 3.96 years and a weighted average yield of 3.54 percent. About $1.5 billion in Treasury securities will be maturing in 2024 with a weighted average yield of 1.38 percent. We anticipate that interest rates will remain elevated this year and that we will be able to reinvest those funds at higher rates. By moving to a 5-year bond ladder strategy, the Insurance Fund's investment returns should continue to reduce the premium rate we charge the banks in the years to come.

The Board will meet again in July 2024 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, or if there is a significant change in projected growth, premium rates may be adjusted.

Please contact Andrew Grimaldi, FCSIC's Chief Financial Officer, at 703-883-4383 or grimaldia@fcsic.gov, if you have any questions.

Attachment A: Trend Analysis of Outstanding Insured Obligations
Attachment B: Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Attachment A

Final Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2023

Dollars in Millions

		Month to Month Change			Year to Date Change				Year to Year Change		
Bank	31-Dec 2023	30-Nov 2023	$ Change to 31-Dec	% Change to 31-Dec	31-Dec 2022	$ Change from 31-Dec	% Change from 31-Dec	% Change Annualized	31-Dec 2022	31-Dec 2023	12 Month Change
AgFirst	42,683.4	42,238.5	444.9	1.1%	40,139.9	2,543.5	6.3%	6.3%	40,139.9	42,683.4	6.3%
AgriBank	162,372.2	158,939.8	3,432.4	2.2%	145,108.4	17,263.8	11.9%	11.9%	145,108.4	162,372.2	11.9%
CoBank	175,481.7	172,365.6	3,116.1	1.8%	171,395.6	4,086.1	2.4%	2.4%	171,395.6	175,481.7	2.4%
Texas FCB	35,133.3	35,083.9	49.4	0.1%	33,971.7	1,161.6	3.4%	3.4%	33,971.7	35,133.3	3.4%
Total Principal on Outstanding Insured Obligations *	$415,670.6	$408,627.8	$7,042.8	1.7%	$390,615.6	$25,055.0	6.4%	6.4%	$390,615.6	$415,670.6	6.4%

* Source

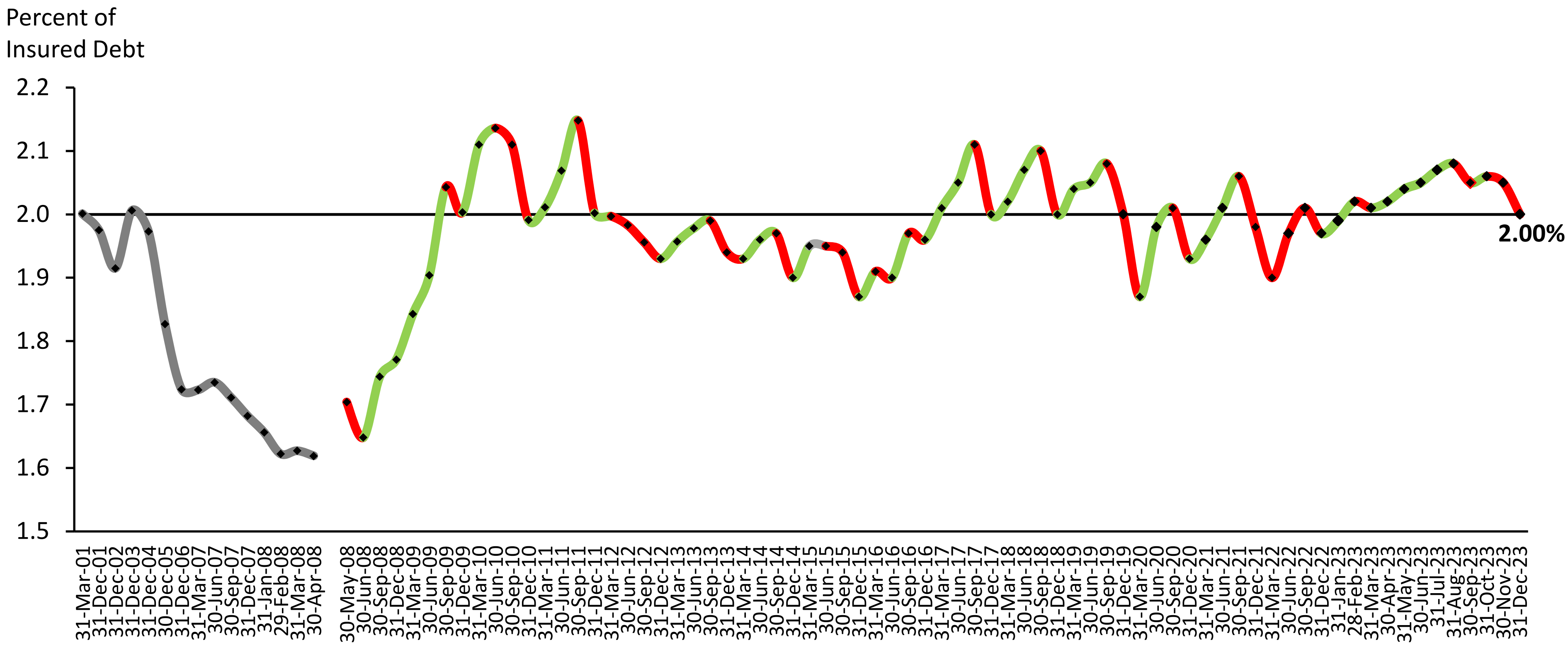
Quarter-end data: FCA call reports which include amortization of premiums and discounts.

Monthly and preliminary quarter-end data: Funding Corporation system debt obligations report at par value.

Attachment B

Final Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Results as of December 31, 2023



(1) 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 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.

(2) At year-end, based on a statutory formula, excess funds above the SBA may be transferred to Allocated Insurance Reserve Accounts (AIRAs). The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Insurance Corporation disburses payment to the Farm Credit Banks.