MEMORANDUM

FCSIC
FARM CREDIT SYSTEM INSURANCE CORPORATION

February 19, 2016

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

From: Dallas Tonsager
Chairman

Subject: Board Approves Premiums for 2016

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved an increase in insurance premium rates for 2016. As a result of significantly higher than anticipated growth for 2015 and the prospect for continued growth during the coming year, the Board of Directors approved an insurance premium assessment rate on adjusted insured debt of 16 basis points for the first half and 18 basis points for the second half of 2016, up from 13 basis points in 2015. 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 8.0 percent ($18.1 billion) from $225.1 billion at yearend 2014 to $243.2 billion at yearend 2015. This was driven by a 5.2 percent increase ($12.1 billion) in outstanding insured obligations in the fourth quarter of 2015, with a single month increase in December 2015 of 2.4 percent ($5.7 billion). At December 31, 2015 the unallocated Insurance Fund was at 1.87 percent, or $290 million below the 2 percent secure base amount (SBA).

The Board considered the following factors in setting premiums:

- 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,

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- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities and derivatives.[1]

On October 1, 2015, I issued a memorandum indicating that the Board of Directors had decided that, for planning purposes, the insurance premium rate on adjusted insured debt would likely range from 11 to 13 basis points for 2016. This decision was based on our survey of Farm Credit System banks, who advised us of an anticipated moderate rate of growth in insured debt obligations for the remainder of 2015 and a rate of 3.5 to 5.0 percent for 2016. As noted above, the actual growth rate for 2015 was 8.0 percent. This is the second consecutive year in which actual growth was significantly greater than the projected growth reported to us by the System banks (2014 growth was 8.8%). In January 2016, we updated our survey of System banks. The updated survey resulted in a weighted average growth estimate of 4.5 percent for 2016.

At December 31, 2015, outstanding insured debt obligations were $243.2 billion, up $18.1 billion from yearend 2014, which is about $8.9 billion more than projected. Also, deductions for government-guaranteed investments and loans have decreased as a percentage of outstanding insured debt obligations (from 12.3 percent to 11.3 percent), which increases the SBA.

As noted above, the unallocated Insurance Fund finished the year at 1.87 percent, or $290 million below the 2 percent SBA. If FCSIC continued to charge premiums of 13 basis points for 2016, it would yield revenue of approximately $273 million -- which would be insufficient to cover the existing shortfall and would not cover any 2016 growth. Rather than assess the full amount of premiums provided for in the statute (20 basis points), the Board has decided to assess 16 basis points for the first half of 2016 and 18 basis points for the second half. A premium accrual for 2016 of 17 basis points should result in the Insurance Fund making progress towards the SBA by yearend. However, the Board anticipates that rates will need to rise to the maximum 20 basis points for 2017 if growth continues to outpace assessments. The Board will meet again in June 2016 to review growth in insured obligations and premium rates.

If you have questions concerning these matters please contact Emily Dean, FCSIC's Chief Financial Officer, at 703-883-4387 or deanew@fcsic.gov.

Attachment 1:Trend Analysis of Outstanding Insured Obligations
Attachment 2:Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

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[1] The Farm Credit Administration's Office of Examination reports that while the overall financial condition and performance of the System remains fundamentally sound, U.S. agriculture is entering a period of lower net farm income that may lead to lower farmland values, and certain sectors may become financially stressed. The broader risk environment also remains elevated due to significant market volatility and uncertain global economic conditions. The Corporation's most recent allowance for loss review of all banks and associations concluded that no allowances are recommended at this time.

Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2015

($ in Millions)

BANK	31-Dec 2015	30-Nov 2015	11/30/15 to 12/31/15 $ Change to 31-Dec	% Change to 31-Dec	YEAR TO DATE 2015 31-Dec 2014	$ Change from 31-Dec	% Change from 31-Dec	% Change Annualized
AGFIRST	27,990.2	27,602.1	388.1	1.4%	26,830.9	1,159.3	4.3%	4.3%
AGRIBANK	92,336.2	89,420.6	2,915.6	3.3%	87,446.6	4,889.6	5.6%	5.6%
COBANK	104,703.1	102,656.6	2,046.5	2.0%	94,515.2	10,187.9	10.8%	10.8%
TEXAS FCB	18,206.7	17,887.5	319.2	1.8%	16,341.3	1,865.4	11.4%	11.4%
TOTAL OBLIGATIONS *	$ 243,236.2	$ 237,566.8	5,669.4	2.4%	$ 225,134.0	18,102.2	8.0%	8.0%

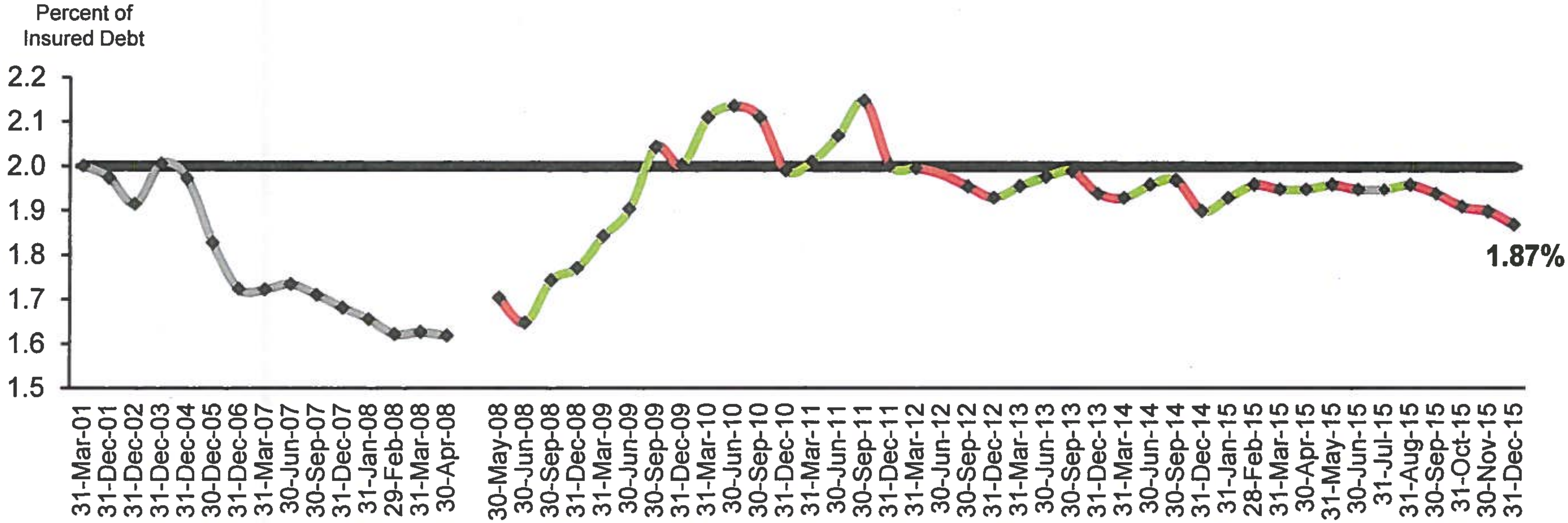
* Source

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 1

Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
December 31, 2015



(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) 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 year-end 2009, additional excess funds above the SBA of $165.4 million were transferred to the Allocated Insurance Reserves Accounts (AIRAs). In February 2010, the $39.9 million that was transferred to the AIRAs in 2003 was paid to the accountholders. In April 2010, the $165.4 million that was transferred to the AIRAs in 2009 also was paid to the accountholders. The 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. At year-end 2011, excess funds above the SBA of $222 million were transferred to the AIRAs and paid to the accountholders in May 2012.

Attachment 2