MEMORANDUM

FARM CREDIT SYSTEM INSURANCE CORPORATION

January 26, 2017

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

From: Jeffery S. Hall
Chairman

Subject: Board Approves Premiums for 2017

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved an insurance premium assessment rate on adjusted insured debt of 15 basis points for 2017. 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 6.0 percent ($14.7 billion) from $243.2 billion at yearend 2015 to $257.9 billion at yearend 2016. Based on preliminary results, at December 31, 2016 the unallocated Insurance Fund was at 1.97 percent, or $73 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,
- 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]

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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 has entered 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.

On September 22, 2016, my colleague Mr. Tonsager issued a memorandum indicating that the Board of Directors had decided that, for planning purposes, it would be prudent for System banks to anticipate a 20 basis point insurance premium rate on adjusted insured debt for 2017. The memorandum also stated that should growth of insured debt decline during the remainder of 2016, or anticipated growth be adjusted downward, premium rates will likely be set at less than 20 basis points.

On a weighted average basis, the anticipated 2017 growth rate provided by System banks in January 2017 is 5.01 percent, slightly higher than the 4.46 percent given in September 2016. However, the impact of this increase in insured debt to the SBA is mitigated because the beginning balance of insured debt for 2017 is approximately $6 billion less than what we anticipated when estimating the premium accrual rate for 2017 in September 2016.

Over the past five years, insured debt has grown an average of 7.04 percent annually. As noted above, although we made significant progress this past year towards the 2 percent SBA, we ended the year $73 million below the target. An accrual rate of 15 basis points on adjusted insured obligations should result in the Insurance Fund reaching the SBA even at a 7 percent growth rate. If the growth of insured debt in 2017 is at or below 7 percent and we end the year at or above the SBA, it would be the first time we have done so in six years.

The Board will meet again in June 2017 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, premium levels may need to change.

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

Preliminary Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2016

($ in Millions)

			11/30/16 to 12/31/16		YEAR TO DATE 2016				12/31/15 to 12/31/16		
BANK	31-Dec 2016	30-Nov 2016	$ Change to 31-Dec	% Change to 31-Dec	31-Dec 2015	$ Change from 31-Dec	% Change from 31-Dec	% Change Annualized	31-Dec 2015	31-Dec 2016	12 Month Change
AGFIRST	29,443.0	29,197.0	246.0	0.8%	27,990.2	1,452.8	5.2%	5.2%	27,990.2	29,443.0	5.2%
AGRIBANK	95,756.4	94,628.8	1,127.6	1.2%	92,336.2	3,420.2	3.7%	3.7%	92,336.2	95,756.4	3.7%
COBANK	113,305.6	111,191.0	2,114.6	1.9%	104,703.1	8,602.5	8.2%	8.2%	104,703.1	113,305.6	8.2%
TEXAS FCB	19,413.0	19,262.0	151.0	0.8%	18,206.7	1,206.3	6.6%	6.6%	18,206.7	19,413.0	6.6%
TOTAL OBLIGATIONS *	$ 257,918.0	$ 254,278.8	3,639.2	1.4%	$ 243,236.2	14,681.8	6.0%	6.0%	$ 243,236.2	$ 257,918.0	6.0%

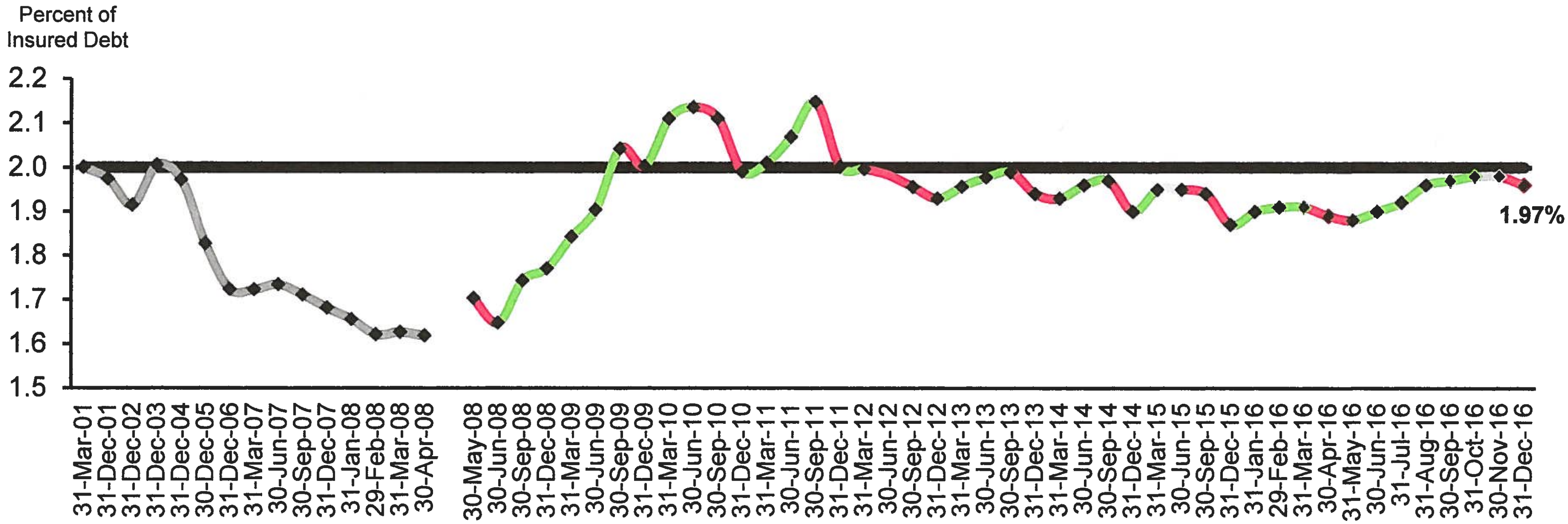
* Source

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

Preliminary Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount
December 31, 2016



(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.