



June 9, 2016

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

From: Dallas P. Tonsager
Chairman

A handwritten signature in black ink that reads 'Dallas P. Tonsager'. The signature is written in a cursive style and is positioned to the right of the printed name.

Subject: Mid-Year 2016 Premium Review

Insured debt reported by the Federal Farm Credit Banks Funding Corporation through May 31, 2016 was \$251.6 billion, up from \$243.2 billion at year-end 2015. Using preliminary results, at May 31, 2016 the Farm Credit Insurance Fund (Insurance Fund) was 1.88 percent of adjusted insured debt or \$271 million below the 2 percent secure base amount (SBA). This is a slight change to year-end 2015 results when the Insurance Fund was 1.87 percent of adjusted insured debt or \$290 million below the SBA (See Attachment A).

Based on our May survey, System banks anticipate growth in insured debt of 5.8 percent in 2016, which is a 29% increase over the 4.5 percent growth projected by System institutions in December 2015. Nevertheless, the Board of Directors is maintaining the insurance premium assessment rates on adjusted insured debt at 16 basis points for the first 6 months of 2016 and 18 basis points for the second 6 months of 2016. In addition, the Board has decided to continue assessing 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Board considers 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.

In addition to growth, the other factor influencing the level of adjusted insured debt is the level of deductions (i.e. government-guaranteed loans and investments).

Deductions from the SBA increased significantly since the passage of the Food, Conservation, and Energy Act of 2008, which permits the deduction of a portion of performing federal government-guaranteed and state government-guaranteed investments that are backed by the full faith and credit of the United States or one of the states. Prior to passage, at March 31, 2008, full faith and credit loan deductions totaled \$3.4 billion. At March 31, 2016, the total deduction for full faith and credit loans and investments was \$28.6 billion. These deductions lowered the SBA by \$572 million.

The Corporation's most recent allowance for loss review of all banks and associations concluded that no allowances are recommended at this time. Overall, the System remains fundamentally safe and sound and liquidity risk to the Insurance Fund remains low. The current agricultural lending environment is increasingly competitive and earnings may diminish as net interest margin compresses, but FCSIC believes the System is well-positioned to appropriately adjust to changes in its operating environment to remain competitive and profitable in 2016.

The Board will meet again in September 2016 to provide guidance for 2017 premium assessments.

If you have any questions concerning this matter please contact FCSIC's Chief Financial Officer, Emily Dean, at deanew@fcsic.gov or (703) 883-4387.

Attachment A: Preliminary Secure Base Amount Calculation

Preliminary Secure Base Amount Calculation

Results as of May 31, 2016

(\$ in Millions)

DEBT OUTSTANDING	FINAL				Preliminary
	6/30/2015	9/30/2015	12/31/2015	3/31/2016	5/31/2016
Principal	225,046	231,102	243,236	244,891	251,622
Interest	558	585	582	596	596
Total Principal and Interest	225,604	231,687	243,818	245,487	252,218
Less:					
90% Fed. Guar. Loans	(5,530)	(5,649)	(5,399)	(5,287)	(5,287)
80% State Guar. Loans	(27)	(27)	(27)	(27)	(27)
90% Fed. Guar. Investments	(20,986)	(21,461)	(21,998)	(23,286)	(23,286)
80% State Guar. Investments	-	-	-	-	-
Total Deductions	(26,543)	(27,137)	(27,424)	(28,600)	(28,600)
ADJ. INSURED DEBT	199,061	204,550	216,394	216,887	223,618
SECURE BASE AMOUNT (2%)	3,981	4,091	4,328	4,338	4,472
UNALLOCATED INSURANCE FUND BALANCE	3,889	3,963	4,038	4,135	4,201
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	3,889	3,963	4,038	4,135	4,201
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	1.954%	1.937%	1.866%	1.907%	1.879%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	1.954%	1.937%	1.866%	1.907%	1.879%

Assumptions:

Source of Systemwide Debt Outstanding:

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

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

Accrued Interest Payable:

Quarterly amounts are from call report data.

Monthly amounts for Accrued Interest Payable are estimates for Systemwide bonds only.

Federal and state government-guaranteed loans, and government-guaranteed investment balances are based on most recent quarter-end final data.