MEMORANDUM

FCSIC
FARM CREDIT SYSTEM INSURANCE CORPORATION

January 20, 2011

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

From: Kenneth A. Spearman
Chairman

Subject: Premiums for 2011 and Allocated Insurance Reserves Accounts (AIRAs)

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved the insurance premium rates for 2011. In 2010, Systemwide insured obligations grew by 6.5 percent. We project moderate growth to continue for 2011 (3 to 7 percent). However, based on fourth quarter results and our recent survey of Farm Credit System banks, we expect growth in 2011 to be nearer to the top of that range. As a result, the Board of Directors approved an insurance premium assessment rate on adjusted insured debt of 6 basis points for 2011. The Board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

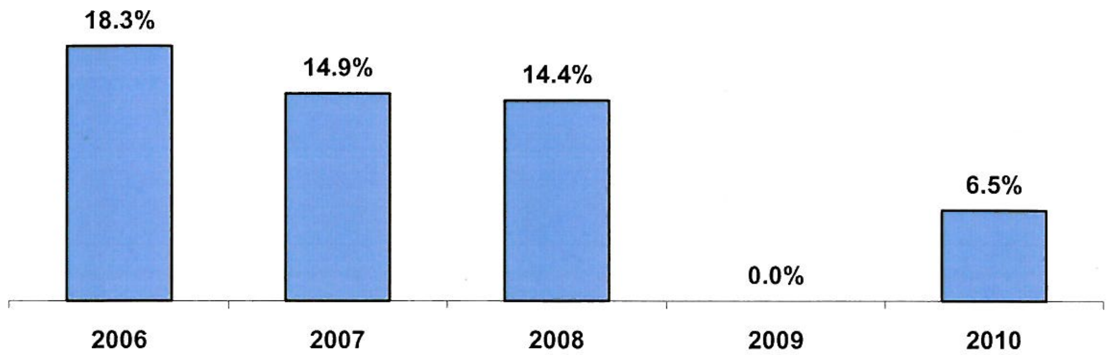
The Board considered the following factors in setting premiums:

- 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.

The Farm Credit Administration's Office of Examination reports that while the overall financial condition and performance of the System remain fundamentally sound, the risk environment 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.

Based on preliminary results reported by the Federal Farm Credit Banks Funding Corporation through December 31, 2010, insured debt grew by 6.5 percent during the year. The majority of this growth occurred during the fourth quarter of 2010, with a portion attributable to volatility in commodities. At December 31, 2010 insured debt was approximately $187.5 billion, up $11.4 billion from yearend 2009. The change in bank debt levels in 2010 ranged from negative 1.5 percent to 15.6 percent at the five banks (see attached Trend Analysis of Outstanding Insured Obligations).

The five year growth rate from 2006 through 2010 has averaged 10.8 percent annually.



As a result of the Corporation's premium assessments, investment earnings and moderate growth in adjusted insured obligations, the Insurance Fund appears to have finished 2010 slightly above the 2 percent secure base amount (SBA). Based on preliminary results, at December 31, 2010, the Insurance Fund level relative to the SBA was 2.00 percent of insured debt outstanding or $2 million above the SBA. After final yearend results are available, the Corporation will calculate whether any excess funds are available for allocation to the AIRAs. At this time it appears there will be no excess amount to allocate to the AIRAs.[1]

Weaknesses continue to exist in some agricultural sectors. These include volatile farm commodity and farm input prices; stress to specific agricultural sectors, including ethanol, dairy, hogs, poultry and timber; and reduced debt servicing ability by many farm families and rural residents due to the rising level of unemployment and diminished non-farm income. As a result, System asset quality has deteriorated and capital levels are stressed at a limited number of institutions.

[1] The Farm Credit Act of 1971, as amended (the Act), provides that, if at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, then FCSIC shall allocate to the AIRAs the excess amount less the amount that FCSIC, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations for the immediately succeeding calendar year ($4 million for 2011). The FCSIC has discretion concerning payments from the AIRAs. The Act provides in part that, "As soon as practicable during each calendar year, the Corporation may . . . pay to each insured System bank, in a manner determined by the Corporation, an amount equal to the balance in the [AIRA] of the System bank." The Act further provides that as soon as practicable during each calendar year, the Corporation may pay to each System bank and association holding FAC stock a proportionate share of the balance in the AIRA established for holders of FAC stock.

The Board will meet again in June 2011 to review growth in insured obligations and premium rates. If growth is different than has been projected, premium levels may need to be adjusted to maintain the SBA.

If you have questions concerning these matters please contact Rick Pfitzinger, FCSIC's Chief Financial Officer, at 703-883-4388 or pfitzinger@fcsic.gov.

Attachment

Attachment 1

Trend Analysis of Outstanding Insured Obligations
Preliminary Yearend Results - 12 Months Ending December 31, 2010
($ in Millions)

BANK	31-Dec 2010	30-Nov 2010	11/30/10 to 12/31/10: $ Change to 31-Dec	11/30/10 to 12/31/10: % Change to 31-Dec	YEAR TO DATE-2010: 31-Dec 2009	YEAR TO DATE-2010: $ Change from 31-Dec	YEAR TO DATE-2010: % Change. from 31-Dec	% Change. Annualized	ROLLING 12 MONTH 12/09 to 12/10: 31-Dec 2009	ROLLING 12 MONTH 12/09 to 12/10: 31-Dec 2010	ROLLING 12 MONTH 12/09 to 12/10: 12 Month Change
AGFIRST	28,260.5	27,935.3	325.2	1.2%	28,624.2	(363.7)	-1.3%	-1.3%	28,624.2	28,260.5	-1.3%
AGRIBANK	65,569.0	63,664.4	1,904.6	3.0%	61,134.5	4,434.5	7.3%	7.3%	61,134.5	65,569.0	7.3%
COBANK	57,100.5	56,298.0	802.5	1.4%	49,395.4	7,705.1	15.6%	15.6%	49,395.4	57,100.5	15.6%
TEXAS FCB	12,758.5	12,680.5	78.0	0.6%	12,768.6	(10.1)	-0.1%	-0.1%	12,768.6	12,758.5	-0.1%
USAGBANK	23,815.8	23,315.0	500.8	2.1%	24,173.9	(358.1)	-1.5%	-1.5%	24,173.9	23,815.8	-1.5%
TOTAL OBLIGATIONS /1	$ 187,504.3	183,893.3	3,611.0	1.96%	$ 176,096.6	11,407.7	6.5%	6.5%	$ 176,096.6	$ 187,504.3	6.5%

1/ Monthly data is based on the Debt Obligations at par as provided by the Funding Corporation, Quarter-end data is based on the Call Reports.

SOURCES: Funding Corporation System Debt Obligations Report for Monthly Debt Data
Call Report Data is quarterly.