FARM CREDIT SYSTEM INSURANCE CORPORATION

June 21, 2011

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

From: Kenneth A. Spearman
Chairman

Subject: Premiums for 2011

Insured debt reported by the Federal Farm Credit Banks Funding Corporation through May 31, 2011 was $188.7 billion, up slightly from $187.5 billion from year-end 2010. Using preliminary results, at May 31, 2011 the Farm Credit Insurance Fund (Insurance Fund) level was 2.03 percent of adjusted insured debt or $49 million above the 2 percent secure base amount (SBA).

Based on our June survey of System banks, we anticipate growth in insured debt of 3 to 5 percent in 2011, which is within the growth range projected by the banks in December 2010. As a result, the Board of Directors is maintaining the insurance premium assessment rate on adjusted insured debt at 6 basis points for 2011. 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 continuing increase in deductions (i.e. government-guaranteed loans and investments), which expanded by $676 million during the most recent reporting period.

McLean, Virginia 22102
(703) 883-4380

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 compared to similarly backed loan and investment deductions of $27.0 billion at the end of the most recent reporting period. These deductions have lowered the SBA by $539 million.

The Corporation's most recent allowance for loss review of all banks and associations concluded that no allowances are recommended at this time. The Farm Credit Administration's Office of Examination reports that, while the overall System financial condition and performance remain fundamentally sound, there is heightened risk in several sectors of the farm economy.

A number of financial and weather related factors are posing challenges for the System and its borrowers. These include volatile farm commodity and farm input prices; flooding, drought and severe weather that has affected several regions; stress to specific agricultural sectors; and reduced debt servicing ability by many farm families and rural residents due to the continued high level of unemployment and diminished non-farm income.

The Board will meet again in September 2011 to provide guidance for 2012 premium assessments.

If you have any questions concerning this matter please contact FCSIC's Chief Financial Officer, Rick Pfitzinger, at pfitzingerr@fcsic.gov or (703) 883-4388.