MEMORANDUM

FCSIC
FARM CREDIT SYSTEM INSURANCE CORPORATION

September 9, 2010

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

From: Kenneth A. Spearman
Chairman

Subject: Premium Planning Guidance for 2011

As you know, the Food, Conservation, and Energy Act of 2008 (FCE Act) amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what FCSIC insures. The FCE Act imposes a premium assessment of 20 basis points on adjusted insured debt obligations with authority for the Board of Directors to reduce rates in its sole discretion. The FCE Act maintains a risk surcharge of 10 basis points on non-accrual loans and adds a surcharge of 10 basis points on other-than-temporarily impaired investments.

In addition, the FCE Act simplifies the formula for payments from the Farm Credit Insurance Fund (Insurance Fund) Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of any yearend excess Insurance Fund balances, when they may occur, to insured banks and Farm Credit System Financial Assistance Corporation stockholders.

Finally, the FCE Act reduces the total insured obligations that are used for calculating the secure base amount (SBA) and assessing premiums. The new assessment methodology allows the deduction of Federal government-guaranteed and state government-guaranteed investments from the adjusted insured obligations, resulting in a lower secure base amount. At July 30, 2010, the Farm Credit System (System) held just over $24.3 billion of Federal government-guaranteed investments. Deducting 90 percent of this amount lowered the SBA by just under $21.9 billion. In addition, the System held about $7.1 billion in Federal government-guaranteed and state government-guaranteed loans at July 30, 2010, resulting in a further reduction of $6.4 billion. Combined, these deductions are projected to lower the SBA by over $566 million (see attached).

The current level of the Insurance Fund relative to the 2 percent SBA, projected growth in insured debt and changes in Federal government-guaranteed loans and investments are the most important factors that the Board considered in its premium analysis. Through July, insured debt contracted by just under $1.4 billion to $176.1 billion, or -0.8 percent year-to-date. However, our recently

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completed survey of the five System banks and a sample of associations indicated improved prospects for growth through yearend with estimates ranging from 0 to 7 percent over the remainder of 2010. For 2011, our survey produced a Systemwide weighted average growth estimate of 3 to 5 percent.

As of the end of July, the unallocated Insurance Fund was $224 million above the SBA. This amount can capitalize $11.2 billion of additional insured borrowings, or roughly a 6 percent increase in the level of debt outstanding at yearend. Unless growth increases significantly during the remaining five months of the year, it is likely the Insurance Fund will be above the SBA at yearend. After all yearend results are finalized, including System institutions reporting on their condition and performance, and any excess in the Insurance Fund is transferred to the AIRAs, the Board will consider exercising its authority under the statute to make payments from the AIRAs.

Since passage of the FCE Act in 2008, the SBA has declined steadily. This trend has been driven by a slowing of System growth and more significantly, by the repositioning of the banks' investment portfolios into more Federal government-guaranteed investments. See the following table.

Secure Base Amount Trends						
Insured Debt	2005	2006	2007	2008	2009	2010 YTD
Principal & Interest	$114,211	$135,211	$155,341	$177,422	$177,054	$176,087
Federal & State Government-Guaranteed Deductions	-$3,610	-$3,390	-$3,272	-$15,105	-$23,127	-$28,305
Adjusted Insured Debt	$110,601	$131,821	$152,069	$162,317	$153,927	$147,782
SBA 2%	$2,212	$2,636	$3,041	$3,246	$3,079	$2,956

In consideration of these factors and presuming the Insurance Fund starts 2011 at the SBA, the Board has decided that, for planning purposes, the premium rate for 2011 will likely range from 2 to 6 basis points on adjusted insured debt. In addition, the 10 basis point premium on the average principal outstanding for non-accrual loans and the average amount outstanding for other-than-temporarily impaired investments will likely be continued. This level of premiums should allow the Insurance Fund to remain at the SBA as long as growth remains moderate in 2011.

The Board has the flexibility to adjust 2010 premium rates and will make the premium decision for 2011 at its January meeting. Please feel free to contact FCSIC staff, if you have any questions.

Attachment

SECURE BASE AMOUNT CALCULATION

As of July 30, 2010

($ in Millions)

	FINAL					ESTIMATE
DEBT OUTSTANDING	6/30/2009	9/30/2009	12/31/2009	3/31/2010	6/30/2010	7/30/2010
Principal	179,025	175,640	176,097	173,270	175,231	174,731
Interest	1,111	1,109	957	991	856	856
Total Principal and Interest	**180,136**	**176,749**	**177,054**	**174,261**	**176,087**	**175,587**
Less: 1/						
90% Fed. Guar. Loans	(5,939)	(5,869)	(6,041)	(6,157)	(6,426)	(6,426)
80% State Guar. Loans	(19)	(19)	(18)	(16)	(20)	(20)
90% Fed. Guar. Investments ($24,283)	(13,006)	(15,551)	(17,064)	(19,308)	(21,855)	(21,855)
80% State Guar. Investments ($5)			(4)	(4)	(4)	(4)
Total Deductions	**(18,964)**	**(21,439)**	**(23,127)**	**(25,485)**	**(28,305)**	**(28,305)**
ADJ. INSURED DEBT	161,172	155,310	153,927	148,776	147,782	147,282
SECURE BASE AMOUNT (2%)	3,223	3,106	3,079	2,976	2,956	2,946
UNALLOCATED INSURANCE FUND BALANCE	3,069	3,173	3,083	3,139	3,157	3,170
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	3,109	3,213	3,288	3,139	3,157	3,170
UNALLOCATED INS. FUND AS % ADJ. INSURED DEBT	**1.904%**	**2.043%**	**2.003%**	**2.110%**	**2.136%**	**2.152%**
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	**1.929%**	**2.069%**	**2.136%**	**2.110%**	**2.136%**	**2.152%**

1/ The Unallocated Insurance Fund finished 2009 at 2.11 percent prior to the allocation of $165.4 million to the Allocated Insurance Reserves Accounts (AIRAs).

Assumptions:

Systemwide Debt outstanding Source:

FCA Call Reports (Quarter-end)

Funding Corporation for interim months.

Accrued Interest Payable:

Quarterly amounts are from the Call Reports.

Monthly amount for Accrued Interest Payable is an estimate for Systemwide bonds only.

Discount Note interest is included in the par balance reported by the Funding Corporation.

Federal and state guaranteed loans, and government-guaranteed investments balances are most recent quarter-end.