FARM CREDIT SYSTEM INSURANCE CORPORATION
POLICY STATEMENT CONCERNING
ADJUSTMENTS TO THE INSURANCE PREMIUMS

Effective Date: 14 JAN 98

Effect on Previous Action: Amends BM-11-JUL-96-02

Source of Authority: Section 5.55 of the Farm Credit Act of 1971, as amended (the Act); 12 U.S.C. 2277a-4.

WHEREAS, section 5.52 of the Act established the Farm Credit System Insurance Corporation (Corporation) to, among other things, insure the timely payment of principal and interest on Farm Credit System obligations (12 U.S.C. 2277a-1); and

WHEREAS, section 5.55 of the Act mandates that the Corporation collect premiums from all insured Farm Credit System banks until the Insurance Fund reaches the secure base amount, which is defined as 2 percent of the aggregate outstanding insured obligations of all insured banks (excluding a percentage of State and Federally guaranteed loans) or such other percentage of the aggregate amount as the Corporation determines is actuarially sound; and

WHEREAS, the Farm Credit System Reform Act of 1996, Pub. L. No. 104-105, 110 Stat. 162 (Feb. 10, 1996), amended section 5.55 of the Act to permit the Corporation to exercise its discretion to adjust the premium assessments applied to all insured Farm Credit System banks before the Insurance Fund reaches the secure base amount;

WHEREAS, any reduction in the premium schedule must take into account its impact on the original mandate to reach the secure base amount. NOW therefore, the Corporation's Board of Directors (Board) adopts the following policy statement to govern adjustments to premiums in response to changing conditions.

The Board will review the premium assessment schedule at least semiannually in order to determine whether to exercise its discretion to adjust the premium assessments in response to changing conditions. The Board may reduce the premiums when the Farm Credit System demonstrates good health and sound risk management and other conditions warrant, and raise premiums to the statutory level if, for example, the Insurance Fund suffers a significant loss or if bank capital or collateral decreases significantly before the secure base amount is achieved.

As a basis for its decision the Board will consider the following:

1. The current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount in light of potential growth;

2. The likelihood and probable amount of any losses to the Insurance Fund;

3. The overall condition of the Farm Credit System, including the level and quality of capital, earnings, asset growth, asset quality, loss allowance levels, asset liability management, as well as the collateral ratios of the 5 banks;

4. The health and prospects for the agricultural economy, including the potential impact of governmental farm policy and the effect of the globalization of agriculture on opportunities and competition for U.S. producers; and

5. The risks in the financial environment that may cause a problem, even when there is no imminent threat, such as volatility in the level of interest rates, the use of sophisticated investment securities and derivative instruments, and increasing competition from non-System financial institutions.

In its review of the premium assessments, the Board will consider multiple scenarios that reflect the impact of potential growth in Farm Credit System debt levels on the time required to achieve the secure base amount. The secure base amount should be achieved while the Farm Credit System is in good health with very few problem institutions. Thus, the premium on accrual loans will be set between zero and the statutory rate of 15 basis points. The premium on guaranteed loans will be set between zero and the statutory rate of 1.5 basis points for Federal and 3 basis points for State. Furthermore, the Board will not reduce the premium on loans in nonaccrual status, to continue providing an incentive for sound credit extension and administration.

DATED THIS 14TH DAY OF JANUARY, 1998

BY ORDER OF THE BOARD

Floyd Fithian
Secretary to the Board