

MEMORANDUM



January 19, 2012

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

From: Kenneth A. Spearman
Chairman

A handwritten signature in black ink, which appears to read 'Kenneth A. Spearman', is written over the printed name.

Subject: Premiums for 2012 and Allocated Insurance Reserves Accounts (AIRAs)

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board has approved the insurance premium rates for 2012. The Federal Farm Credit Banks Funding Corporation reports that insured debt obligations declined by 2.1 percent during 2011. Based on our recent survey of Farm Credit System banks and associations, we expect a low rate of growth in 2012. As a result, the Board of Directors approved an insurance premium assessment rate on adjusted insured debt of 5 basis points for 2012, the midpoint of the guidance range provided in September 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:

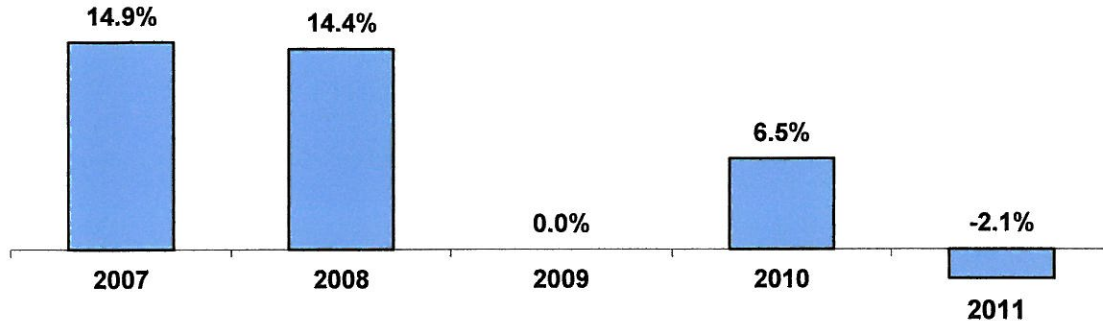
- Current level of the Insurance Fund and projections for growth in insured obligations;
- Likelihood and probable amount of any losses to the Insurance Fund;
- Financial condition of the Farm Credit System banks and associations;
- Health and prospects for the agricultural economy; and,
- Risks in the 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.

At December 31, 2011, insured debt was approximately \$183.5 billion, down \$4 billion from yearend 2010. The change in bank debt levels in 2011 ranged from negative 7.3

percent to 2.9 percent at the five banks (see attached Trend Analysis of Outstanding Insured Obligations).

The five-year growth rate from 2007 through 2011 has averaged 6.7 percent annually.



As a result of the Corporation's premium assessments, investment earnings and a decline in adjusted insured debt, the Insurance Fund finished 2011 above the 2 percent secure base amount (SBA). Based on preliminary results, at December 31, 2011, the Insurance Fund level relative to the SBA was 2.15 percent of adjusted insured debt outstanding or \$237 million above the SBA. When yearend results are available, the Corporation will calculate the amount of excess funds available for allocation to the AIRAs.¹ After all yearend results are finalized, including the reports of System institutions on their condition and performance, the Board will consider exercising its authority under the statute to make payments from the AIRAs.

Weaknesses continue to exist in some agricultural sectors. These include volatile farm commodity and farm input prices, stress to specific agricultural sectors and reduced debt servicing ability by many farm families and rural residents due to continued high levels of unemployment, and diminished non-farm income. As a result, System asset quality and capital levels remain stressed at a limited number of institutions.

The Board will meet again in June 2012 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.

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 2012). 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.

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

Attachment: Trend Analysis of Outstanding Insured Obligations

**Trend Analysis of Outstanding Insured Obligations
Preliminary Results - 12 Months Ending December 31, 2011
(\$ in Millions)**

BANK	11/30/11 to 12/31/11		YEAR TO DATE-2011		ROLLING 12 MONTH 12/10 to 12/11					
	31-Dec 2011	30-Nov 2011	\$ Change to 31-Dec 31-Dec	% Change to 31-Dec 31-Dec	31-Dec 2010	\$ Change from 31-Dec 31-Dec	% Change. Annualized	31-Dec 2010	31-Dec 2011	12 Month Change
AGFIRST	27,034.8	26,537.9	496.9	1.9%	28,263.3	(1,228.5)	-4.3%	28,263.3	27,034.8	-4.3%
AGRIBANK	67,446.1	66,212.7	1,233.4	1.9%	65,570.2	1,875.9	2.9%	65,570.2	67,446.1	2.9%
COBANK	52,904.4	51,845.7	1,058.7	2.0%	57,066.9	(4,162.5)	-7.3%	57,066.9	52,904.4	-7.3%
TEXAS FCB	12,629.7	12,624.2	5.5	0.0%	12,778.1	(148.4)	-1.2%	12,778.1	12,629.7	-1.2%
USAGBANK	23,533.8	22,945.4	588.4	2.6%	23,816.4	(282.6)	-1.2%	23,816.4	23,533.8	-1.2%
TOTAL OBLIGATIONS /1	\$ 183,548.8	180,165.9	3,382.9	1.88%	\$ 187,494.9	(3,946.1)	-2.1%	\$ 187,494.9	\$ 183,548.8	-2.1%

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.