Farm Credit System Insurance Corporation

1991 Annual Report

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Mission Statement

As an independent entity, the Farm Credit System Insurance Corporation (Corporation) shall:

- *Protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund (Insurance Fund);*
- *Exercise its authorities to minimize risk exposure to the Insurance Fund; and*
- *Promote safe and sound operations of a permanent system for delivery of credit to agricultural borrowers.*

Contents

Board of Directors

Billy Ross Brown, Chairman of the Corporation, served as a director of Production Credit Associations in the Fifth Farm Credit District for 20 years, 9 of them as Chairman of the Board of Directors of the Oxford (Mississippi) Production Credit Association. He is a prominent farmer, cattleman, and conservationist, has been active in a number of State and national agricultural and conservation organizations, and has been honored by the Mississippi Association of Conservation Districts and the U.S. Forest Service. In 1985, he was inducted into the Hall of Fame by the Mississippi Agriculture and Forestry Museum. Mr. Brown received a bachelor's degree in business administration from the University of Mississippi.

Harold B. Steele, Chief Executive Officer and Member of the Corporation's Board, is also Chairman and Chief Executive Officer of the Farm Credit Administration. From 1970 to 1983 he served as President and Chief Executive Officer of the 315,000-member Illinois Farm Bureau Federation, and from 1971 to 1973 he also served on the board of the American Farm Bureau Federation. Mr. Steele was also a director of the Midwest Financial Group, a 19-bank holding company.

The Steele family farm operation is engaged in the production of pork and grain on 1,000 acres in Princeton, Illinois. Mr. Steele attended the University of Illinois College of Agriculture. During World War II, serving as a captain in the U.S. Army, he was awarded the Silver Star and Purple Heart.

Gary C. Byrne, a Member of the Corporation's Board, is a former Administrator of the Rural Electrification Administration (REA) of the U.S. Department of Agriculture and also served as Governor of the Rural Telephone Bank. As Administrator of the REA, he managed an agency that has approved more than $62 billion in loans to 2,116 rural electric and telephone utilities in 47 States and several U.S. territories and possessions. A native of California, Mr. Byrne served as Chairman of the Bank of Alex Brown in Sacramento and also served as President and Chief Executive Officer of the Alex Brown Financial Group, a multibank holding company. He holds a bachelor's degree in political science from the University of the Redlands, Redlands, California, and a doctorate in political science from the University of North Carolina.

A Message from the Chairman

In its 1990 annual report, the Farm Credit System Insurance Corporation outlined its preliminary development plan and implementation strategy to become fully operational by January 1, 1993.

I am pleased to report that significant progress toward that goal was made during 1991. Some of the highlights for the year include:

1. Growth of $92 million in the Insurance Fund;

2. Adoption of a corporate strategic plan;

3. Adoption of an investment policy for the Corporation;

4. Adoption of premium regulations;

5. Conduct of a premium audit to ensure appropriate collection and to achieve uniform interpretation of regulations;

6. Adoption of an organizational structure that will minimize operating costs; and

7. Initiation of negotiations with the Farm Credit System Assistance Board to prepare for the transition of assistance agreements.

The Corporation will continue to work closely with the Farm Credit Administration (FCA) and make use of its resources to avoid duplication of effort. Outside contractors will also be used as necessary.

We are pleased that with the appointment of Gary C. Byrne to the Corporation's Board on December 2, 1991, the Board now has a full membership complement.

Mr. Byrne's background and experience in the banking industry and in government will be a definite asset to the Board.

Finally, on December 16, 1991, the Corporation selected Mary A. Creedon as Chief Operating Officer of the Corporation. She comes to us from the Resolution Trust Corporation and has had an outstanding Government career with more than 20 years of experience.

Billy Ross Brown

Billy Ross Brown
Chairman

Overview

The Farm Credit System Insurance Corporation (Corporation) is an independent U.S. Government corporation. It is managed by a board of directors, comprised of the Members of the Farm Credit Administration (FCA) Board of Directors. The Chairman of the Corporation's Board, however, must not be the same as the Chairman of the FCA Board.

The Corporation's mission is to ensure the timely payment of principal and interest on insured notes, bonds, debentures, and other obligations issued on behalf of Farm Credit System (FCS) Banks. This mission is accomplished through the sound management of the Insurance Fund and by the appropriate exercise of the Corporation's authority to minimize the Fund's exposure to risk.

The Corporation maintains a high degree of cooperation with the FCA to minimize its operating costs. The Corporation's philosophy is to operate with a core group of employees and to contract, as necessary, for services to carry out its mission.

Corporate Activities

During 1991, the Corporation continued progressing toward the objective of assuming its full statutory authorities on January 1, 1993. An investment policy was developed and approved by the Board to guide investment of the premiums collected by the Corporation. The Corporation also developed strategic and operating plans for 1991 and 1992. Following adoption of the plans by the Board of Directors, operating budgets for 1992 and 1993 were developed and approved. The operating budget for calendar year 1992 is $1.73 million.

A primary goal of the Corporation is to promote the safe and sound operation of a permanent system of borrower-owned cooperatives supplying credit to American agriculture. The Corporation is responsible for maintaining the soundness of the Insurance Fund, protecting the holders of insured securities, and ensuring the retirement of eligible borrower stock at its par value.

The Insurance Fund is maintained and managed to ensure the ability to make timely payment of principal and interest on insured obligations. Until January 1, 1993, however, the Fund may be used only to pay the Corporation's operating expenses. Premiums are collected annually from the banks of the FCS. Funds received are invested as prescribed by a Board-approved corporate investment policy. Corporation funds may be used only as prescribed in the statute. Sufficient liquidity must be maintained to fulfill the Corporation's statutory obligations, as well as to pay its operating expenses.

The Corporation has an ongoing responsibility to assess risk to the Insurance Fund.

The early detection of risk will help minimize Fund exposure to potential losses. Corporation staff are developing specific examination procedures to be utilized in evaluating the condition of troubled FCS institutions. These procedures will provide the information needed to independently quantify risk to the Insurance Fund. If the Corporation determines a special examination of an institution is required, it will define the requirements and may look to the FCA to fulfill them.

Corporation staff will rely on and coordinate with the FCA in other ways to assess risk exposure. This reliance will take the form of utilizing the FCA's monitoring systems and examination reports. The Corporation is also developing a program for assessing the impact to the Insurance Fund of transactions proposed by other institutions of the Farm Credit System. Such transactions might include mergers, restructuring and financial assistance between institutions.

The Farm Credit System Assistance Board will terminate on December 31, 1992. At that time, the responsibility for monitoring assisted banks will be transferred to the Corporation.

Before January 6, 1993, if appointed by the FCA, the Corporation may act as conservator or receiver for FCS institutions. Beginning on that date, however, if a conservator or receiver is required, the FCA must appoint the Corporation.

Collection of Premiums

During the first quarter of 1991, the Corporation adopted final regulations governing the assessment and collection of premiums from insured Farm Credit System banks. In March, the banks paid premiums of $66.5 million for 1989 and $73.4 million for 1990.

The premiums are calculated using the following statutory formula:

• The annual average principal outstanding for such year on loans made by the bank that are on accrual status, excluding the guaranteed portions of Government-guaranteed loans [provided for in 12 U.S.C. 2277a-4 subparagraph (c)] multiplied by 0.0015.

• The annual average principal outstanding for such year on loans made by the bank that are on nonaccrual status multiplied by 0.0025.

• The annual average principal outstanding for such year on the guaranteed portion of Federal Government-guaranteed loans made by the bank that are on accrual status multiplied by 0.00015.

• The annual average principal outstanding for such year on the guaranteed portion of State government-guaranteed loans made by the bank that are on accrual status multiplied by 0.0003.

The Corporation had accrued $74.2 million on December 31, 1991, representing the estimated premiums that were earned but not yet collected for calendar year 1991. The Corporation collected these premiums from each insured bank on January 31, 1992.

Investment of Insurance Fund Assets

Total assets of the Farm Credit System Insurance Corporation at December 31, 1991, were $547.6 million—an increase of 25 percent from December 31, 1990. Total assets included cash and investments of $456.1 million and accrued interest and premiums receivable of $91.5 million. The Corporation's equity (assets less liabilities) represents the Farm Credit System Insurance Fund, which was $390.6 million at December 31, 1991. All funds not needed for Corporation operations are invested in U.S. Treasury securities in accordance with 12 U.S.C. 2277a-11 and the Corporation's investment policy. The Corporation's investment policy guides structuring of the portfolio maturities in the following manner:

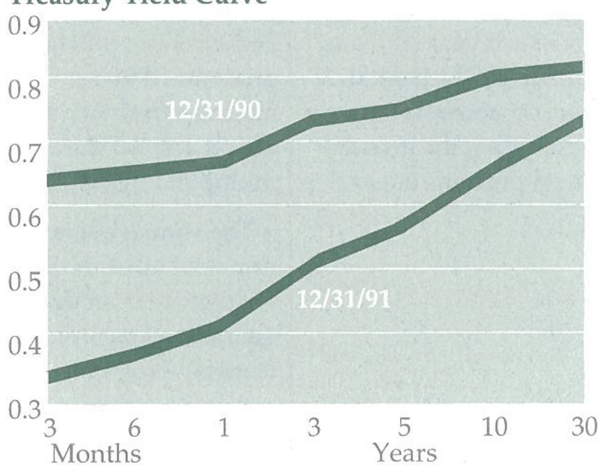
Maturity Range	% of Portfolio
1 Day to 1 Year	20
1 to 2 Years	20
2 to 3 Years	20
3 to 4 Years	20
4 to 5 Years	20

At December 31, 1991, the actual portfolio maturities were:

Maturity Schedule	$ Millions	%
1 Day to 1 Year	$ 88	19.3
1 to 2 Years	$ 87	19.1
2 to 3 Years	$ 95	20.8
3 to 4 Years	$ 94	20.6
4 to 5 Years	$ 92	20.2
Total	**$456**	**100.0**

During 1991, interest rates on U.S. Treasury securities fell significantly, as illustrated in the following graph.

Treasury Yield Curve



The decline in interest rates caused the investment portfolio's market value to appreciate as prices rose on the portfolio's longer term securities with above-market yields. Prices of Treasury securities move inversely to interest rates on the securities. At December 31, 1991, the portfolio's market value exceeded book value by $21.7 million. The weighted average portfolio maturity at yearend was 2.5 years.

For 1991, the average portfolio yield was 7.86 percent compared with 10.29 percent for 1990.

Looking Forward

Management and staff are moving quickly to ensure that the Corporation is ready to fulfill its statutory mandate. In the coming year, emphasis will be placed on the following areas.

- Identifying issues and developing strategies.

- Continuing development of a risk assessment program. This will involve defining the information needed to allow quantification of potential costs to the Insurance Fund and analysis of the impact of transactions proposed by other institutions of the Farm Credit System on the Fund.

- Developing procedures to ensure appropriate controls and efficient operations. This will include procedures for the fiduciary role the Corporation will play if it is called upon to act as receiver or conservator.

- Preparing to assume responsibility for managing financial assistance agreements when the Farm Credit System Assistance Board sunsets at the end of 1992.

Report of Independent Public Accountants

ARTHUR ANDERSEN

ARTHUR ANDERSEN & CO. SC

To the Board of Directors of the
Farm Credit System Insurance Corporation:

We have audited the accompanying statements of financial condition of the Farm Credit System Insurance Corporation (Corporation) as of December 31, 1991 and 1990, the related statements of income and expenses and changes in the Insurance Fund, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also issued on this date separate reports which describe the scope of our work and findings related to the Corporation's internal control structure and its compliance with laws and regulations.

We conducted our audits in accordance with generally accepted auditing standards, and standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation as of December 31, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Washington, D.C.
February 11, 1992

Financial Statements

Statements Of Financial Condition As Of December 31, 1991, And 1990

(In Thousands)

	1991	1990
Assets		
Cash and Cash Equivalents	$ 1,569	$ 47,504
Investments in U.S. Treasury Obligations, Net (Note 3)	454,548	251,255
Accounts Receivable	16	—
Accrued Interest Receivable	17,285	2,583
Premiums Receivable (Note 4)	74,257	137,000
Total Assets	**$547,675**	**$438,342**
Liabilities and Insurance Fund		
Accounts Payable and Accrued Expenses	$ 95	$ 158
Refund Payable to System Banks (Note 4)	1,403	—
Liability for Estimated Insurance Obligations (Note 5)	155,555	140,000
Farm Credit Insurance Fund	390,622	298,184
Total Liabilities and Insurance Fund	**$547,675**	**$438,342**

The accompanying notes are an integral part of these financial statements.

Statements Of Income And Expenses And Changes In Insurance Fund For The Years Ended December 31, 1991, And 1990

(In Thousands)

	1991	1990
Income		
Premiums (Note 4)	$ 77,463	$ 72,000
Interest Income	31,483	25,705
Total Income	**108,946**	**97,705**
Expenses		
Administrative Operating Expenses	953	243
Provision for Estimated Insurance Obligations (Note 5)	15,555	140,000
Net Income (Loss)	**92,438**	**(42,538)**
Farm Credit Insurance Fund, Beginning of Year	**298,184**	**340,722**
Farm Credit Insurance Fund, End of Year	**$390,622**	**$298,184**

The accompanying notes are an integral part of these financial statements.

Statements Of Cash Flows For The Years Ended December 31, 1991, And 1990
(In Thousands)

	1991	1990
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 92,438	$ (42,538)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in Premiums Receivable	62,743	(72,000)
(Increase) in Accrued Interest Receivable	(14,702)	—
(Increase) in Accounts Receivable	(16)	—
Net Amortization and Accretion	2,239	(2,820)
(Decrease) Increase in Accounts Payable and Accrued Expenses	(63)	40
Increase in Refund Payable to System Banks	1,403	—
Increase in Liability for Estimated Insurance Obligations	15,555	140,000
Net Cash Provided by Operating Activities	**159,597**	**22,682**
Cash Flows from Investing Activities:		
Purchases of U.S. Treasury Obligations	(457,849)	—
Proceeds from Maturity of U.S. Treasury Obligations	252,317	—
Net Cash Used in Investing Activities	**(205,532)**	**—**
Net (Decrease) Increase in Cash and Cash Equivalents	**(45,935)**	**22,682**
Cash and Cash Equivalents, Beginning of Year	**47,504**	**24,822**
Cash and Cash Equivalents, End of Year	**$ 1,569**	**$ 47,504**

The accompanying notes are an integral part of these financial statements.

Farm Credit System Insurance Corporation— Notes to the Financial Statements as of December 31, 1991, and December 31, 1990

Note 1—Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Farm Credit System Insurance Corporation (Corporation) for the purpose of insuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 (insured obligations) of the Farm Credit Act of 1971, as amended (Act). Effective January 6, 1989, each bank in the Farm Credit System (FCS) participating in insured obligations became an insured FCS bank. The Corporation is managed by a board of directors consisting of the same members making up the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

Beginning on January 1, 1993, the Corporation has the responsibility to expend amounts to the extent necessary to:

1. Insure the timely payment of interest and principal on insured obligations in the event of default by an insured FCS bank;

2. Satisfy FCS institution defaults on obligations related to the issuance of bonds by the Farm Credit System Financial Assistance Corporation (FAC) under section 6.26(d)(3) of the Act; and

3. Ensure the retirement of eligible borrower stock at par value.

At December 31, 1991, there were balances outstanding of $53.4 billion of insured obligations, $808 million of financial assistance obligations (section

626 (d)(3)), and $668 million of eligible borrower stock.

If the Corporation does not have sufficient funds to insure payment on obligations in item (1), FCS banks will be required to make payments under joint and several liability.

The U.S. Treasury must generally provide funds to pay FAC bonds in the event of FCS institution defaults referred to in item (2). (Also see Note 5.) To the extent that the U.S. Treasury is unable to recover certain amounts from defaulting FCS institutions, it can recover those amounts from the Corporation.

Additionally, beginning on January 1, 1993, the Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions. Prior to January 1, 1993, the Corporation may not make payments for any purpose except to pay for operating expenses of the Corporation.

Note 2—Summary Of Significant Accounting Policies

Accounting Principles and Reporting Practices—The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and, as such, the financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents—Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less.

Investments in U.S. Treasury Obligations—An investment portfolio is maintained as required by section 5.62 of the Act. The Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Investments are stated at cost, adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective issues.

Liability for Estimated Insurance Obligations—The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured FCS banks. (Also see Note 5.)

The insured FCS banks' primary lending markets are borrowers engaged in farming, ranching, and production and harvesting of aquatic products and their cooperatives. Economic weaknesses in these market segments and the effect of general market conditions on the insured FCS banks' borrowers could result in difficulties for certain borrowers to meet their obligations. As a result, insured FCS banks may experience increased levels of nonaccrual loans and other nonperforming assets which may adversely affect their financial condition and profitability. Therefore, adverse changes in the financial condition and profitability of insured FCS banks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

Premiums—Annual premiums are recorded as revenue during the period on which the premiums are based.

Administrative Operating Expenses—The Corporation incurs operating expenses as it develops the systems, policies, and procedures to assume its full statutory authorities. To minimize operating expenses, some services and functions are provided by the FCA under a reimbursement agreement.

Note 3—Investments
At December 31, 1991, investment in U.S. Treasury obligations consisted of the following:

At December 31, 1990, the Corporation's investment portfolio consisted of one U.S. Treasury Note which matured on May 15, 1991. The yield on this note was 8.125 percent and its market value was $251.7 million.

	Book Value	Market Value	Face Rate	Maturity Date
Treasury Notes	$ 81,149	$ 82,300	10.375%	7/15/92
	83,547	86,545	7.25%	7/15/93
	1,614	1,635	8.00%	7/31/92
	91,622	96,272	8.00%	7/15/94
	93,438	99,337	8.875%	7/15/95
	85,210	91,375	7.875%	7/15/96
	338	342	8.00%	7/31/92
	425	457	7.875%	7/15/96
	3,631	3,680	8.00%	7/31/92
	3,615	3,742	7.25%	7/15/93
	3,652	3,851	8.00%	7/15/94
	5,990	6,450	7.875%	7/15/96
Treasury Bill	317	355		4/23/92
	$454,548	**$476,341**		

Note 4—Premiums

By statute, the annual premium due from each insured FCS bank for the calendar year is equal to the sum of (1) the annual average principal outstanding for the year on loans made by the bank that are on accrual status, other than Government-guaranteed portions of these loans, multiplied by 0.0015; (2) the annual average principal outstanding for the year on loans made by the bank that are on nonaccrual status multiplied by 0.0025; (3) the annual average principal outstanding on the guaranteed portions of Federal Government-guaranteed loans of the bank that are on accrual status, multiplied by 0.00015; and (4) the annual average principal outstanding on the guaranteed portions of State government-guaranteed loans of the bank that are on accrual status, multiplied by 0.0003.

Each insured FCS bank will continue to make these annual premium payments until the aggregate amount in the Insurance Fund exceeds the "secure base amount." The secure base amount is equivalent to 2 percent of the aggregate outstanding insured obligations of all insured FCS banks (adjusted downward by a percentage of the guaranteed portions of State and Federal Government-guaranteed loans on accrual status) or other such percentage or amount determined by the Corporation's Board, in its sole discretion, to be actuarially sound. When the amount of the Insurance Fund exceeds the secure base amount, the Corporation is required to reduce the premium to a percentage necessary to maintain the level of the Insurance Fund at the secure base amount. At December 31, 1991, the Farm Credit Insurance Fund was 0.7 percent of insured obligations outstanding.

Effective January 6, 1989, each FCS bank participating in insured obligations issued under subsection (c) or (d) of section 4.2 of the Act became an insured FCS bank and was required to pay premiums to the Corporation. The Corporation recorded $77.5 million and $72.0 million in revenues in 1991 and 1990, respectively, for premiums earned from insured FCS banks.

Premiums receivable at December 31, 1990, were based on certain loan information contained in FCS institutions' Call Reports submitted to the FCA. The 1990 premiums, along with those for 1989, were collected on March 29, 1991. Based on the resolution of certain issues related to interpretation of requirements for the treatment of certain classifications of loans in the premium base, it has been determined that the FCS banks overpaid 1989 and 1990 premiums by a total of $1.4 million. This amount has been classified as "Refund Payable to System Banks" in the accompanying statements of financial condition as of December 31, 1991.

The 1991 premium receivable accrual was based on a certified statement received from each FCS bank.

Note 5—Financial Assistance to FCS Banks

The Act required that the FCA charter the Farm Credit System Assistance Board (Assistance Board) and the FAC (see Note 1) for the purpose of carrying out a program to provide assistance to institutions of the FCS that are experiencing financial difficulty. In order to raise funds to provide this assistance, the FAC has the authority to issue debt obligations with a maturity of 15 years. Subject to Assistance Board approval, these funds are used by the FAC to purchase preferred stock issued by an institution experiencing financial difficulty. When this 15-year debt matures, the institution can redeem, upon FCA approval, the preferred stock so as to allow the FAC to pay the principal of the maturing obligation. While an institution that issues preferred stock to the FAC is primarily responsible for the retirement of the FAC bonds (through redemption of the preferred stock purchased with the proceeds of the FAC bonds), the institution may be prohibited from redeeming or may elect not to redeem the preferred stock pursuant to section 6.26 of the Act. If this occurs, then the FAC must use funds maintained in its Trust Fund, to the extent available, to retire the debt. The FAC Trust Fund totaled approximately $72 million and $69 million at December 31, 1991 and 1990, respectively. If the

FAC Trust Fund is not sufficient to retire the debt, then the Corporation must purchase the preferred stock from the FAC to provide funds to retire such debt. Additionally, if the Corporation does not have sufficient funds, the U.S. Treasury must retire the debt. The Corporation is required to repay the U.S. Treasury as funds become available from the payment of premiums.

On May 20, 1988, the FCA, at the request of the Assistance Board, placed the Federal Land Bank of Jackson and the Federal Land Bank Association of Jackson into receivership and appointed a receiver to liquidate their assets. As of April 27, 1990, the FCA, the receiver of the FLB of Jackson, the FAC, the banks of the Farm Credit System, the Assistance Board, and the Corporation entered into an agreement for the sale of substantially all of the remaining assets of the Federal Land Bank of Jackson in Receivership (FLBJR). In June 1990, the above parties consummated the transactions specified by the agreement. The agreement called for the FAC to issue 15-year U.S. Treasury-guaranteed debt to purchase preferred stock in the FLBJR. Upon the maturity in 2005 of the FAC debt used to purchase preferred stock in the FLBJR, the Corporation will provide funds to repay the principal of these debt obligations, to the extent that the FAC Trust Fund is not sufficient for such purpose.

Assistance given by the FAC to the FLBJR totaled $388 million.

As a result of the April 27, 1990 agreement, it is probable that the Corporation will have to retire at least a portion of the FAC debt. It is not clear, however, to what extent the Corporation can rely on the availability of the Trust Fund. The availability of the Trust Fund depends on the ability of other Farm Credit banks to redeem preferred stock purchased by the FAC with proceeds from FAC bonds.

As of December 31, 1991, and 1990, there was $420 million of FAC bonds and related preferred stock outstanding related to four other FCS banks. These bonds, also 15-year bonds, will mature in 2003 and 2004, prior to the 15-year bonds issued in relation to the FLBJR. As a result, if these FCS banks cannot redeem the stock so that the bonds can be retired, the FAC Trust Fund may be exhausted prior to the maturity of the FAC bonds that were issued in relation to the FLBJR. At the present time, the Corporation is not aware of any information that would indicate these FCS banks will not be able to redeem such stock. However, because the availability of the Trust Fund is uncertain, the Corporation estimated the present value of its liability for payment of the entire $388 million of 15-year maturing debt to be approximately $155.5 million and $140.0 million at December 31, 1991 and 1990, respectively. This liability is reflected in the accompanying statements of financial condition. The $15.5 million provision for estimated insurance obligations for the year ended December 31, 1991, represents the increase in estimated insurance obligations due to the decrease in the discount period.

The Corporation actively monitors the creditworthiness and financial position of the insured FCS banks. Other than obligations that have occurred as a result of closing out the FLBJR as described above, management is not aware of any events or circumstances which would require a liability for estimated insurance obligations to be recorded.

Note 6—Operating Lease

On September 1, 1991, the Corporation entered into an agreement with the Farm Credit System Building Association to lease office space for a term of 3 years. The lease requires payment of an annual base rent plus the Corporation's proportionate share of operating expenses. The base rent will also increase based on a percentage of change in the CPI index on an annual basis. The Corporation recorded $22,000 in operating expenses related to the lease in 1991. Minimum future payments under the terms of the lease are $66,000 for 1992, $66,000 for 1993, $44,000 for 1994, and $0 thereafter.

References

For additional information about the Farm Credit System, its financial condition and performance, and activities of the Farm Credit Administration, the following publications are recommended.

Farm Credit System Annual Reports to Investors and Quarterly and Annual Information Statements for the current fiscal year and the two preceding fiscal years. These are available without charge from:

Federal Farm Credit Banks
Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
(201) 200-8000

Annual Reports of the Farm Credit Administration for the past five fiscal years. These are available without charge from:

Office of Congressional and
Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4056

Reports for previous years are subject to availability, but copies are available for inspection.