Farm Credit System Insurance Corporation

Protecting Investors in Agriculture and Rural America

2008 Annual Report

Mission Statement

The Farm Credit System Insurance Corporation, a Government-controlled, independent entity, shall:

- Protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund,

- Exercise its authorities to minimize Insurance Fund loss, and

- Help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

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Protecting Investors in Agriculture and Rural America

FARM CREDIT SYSTEM INSURANCE CORPORATION

April 30, 2009

Dear Mr. President and Madam Speaker:

In accordance with section 5.64 of the Farm Credit Act of 1971, as amended, the Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2008.

This report highlights the Corporation's role as the independent Federal corporation established to ensure the timely payment of principal and interest to investors in insured Farm Credit System debt securities. The balance in the Farm Credit Insurance Fund at December 31, 2008, was $2.9 billion. The Corporation collected $243 million in insurance premiums from Farm Credit System banks for 2008, earned $76 million in investment income during the same period, and expects to incur $3.2 million in operating costs in 2009.

Sincerely,

Nancy C. Pellett

Nancy C. Pellett
Chairman

The President of the United States Senate
The Speaker of the United States House of Representatives

Board of Directors

The Farm Credit System Insurance Corporation (FCSIC or Corporation) is managed by a three-member board of directors comprised of the same three individuals who compose the Farm Credit Administration (FCA) Board. However, the same member may not serve as chairman of both entities. The FCA is the independent Federal agency responsible for the regulation and examination of the Farm Credit System (FCS or System). The FCS is a nationwide financial cooperative that lends to agriculture and rural America.

Nancy C. Pellett

Nancy C. Pellett is Chairman of the Board of Directors of the Corporation. She also serves as a member of the FCA Board. Prior to becoming Chairman of FCSIC, Ms. Pellett served as Chairman and CEO of FCA for four years.

Ms. Pellett has extensive experience in production agriculture and agribusiness. In partnership with her husband, she managed Prairie Hills, Ltd., a feedlot, cow-calf, and row-crop operation in Atlantic, Iowa, from 1966 until her appointment to the Board. While she serves her term, her husband Jim, son, and daughter-in-law continue to operate this fifth-generation family farm.

In addition, for more than 20 years, she served as president and treasurer of Fredrechsen Farms, Ltd., a family-owned swine and row-crop operation in Walnut, Iowa.

A long-time beef industry leader, Ms. Pellett has held State and national leadership positions in cattle industry organizations. As a member of the National Cattlemen's Beef Association, she has served as chairman of the Check-Off Division, as chairman of the Consumer Marketing Group, and most recently as a member of the Cattlemen's Beef Board. She has also been president of the Iowa Beef Industry Council.

She is a partner in Premium Quality Foods, Inc., which markets precooked beef entrees. Previously, she served as president and consumer marketing director for the company.

Ms. Pellett served a six-year term as a member of the Board of Regents for the State of Iowa, which oversees the three State universities, as well as the University of Iowa Hospital and its affiliated clinics. She was also selected as a member of the Governor's Student Aid Commission.

She is on the Iowa State University (ISU) Foundation Board of Governors and has been a member of the advisory committees for the College of Agriculture and the College of Family and Consumer Sciences. She is past president of the ISU Alumni Association and was awarded the Alumni Medal in 1987. The Pellett family was honored as the "Family of the Year" by the university in 1997.

Dedicated to the future of agriculture, Ms. Pellett worked with 4-H at the local and State levels and served on the Iowa 4-H Foundation board. She is a founding member of the 4-H/FFA "Sale of Champions" committee for the Iowa State Fair.

A native of Walnut, Iowa, she holds a B.S. from Iowa State University at Ames. She and her husband Jim have four children. The Pellett family received the "Friends of Youth Award" in 2000 from the Knights of AkSarBen, a foundation that supports education, youth programs, and rural development in Nebraska and western Iowa.

Leland A. Strom

Leland A. Strom is Chairman of the Board and CEO of the Farm Credit Administration. Mr. Strom was appointed to a six-year term on the FCA Board by President George W. Bush on December 12, 2006, and was designated Chairman and CEO on May 22, 2008. His term expires on October 13, 2012.

Mr. Strom also serves as a member of the board of directors of the Farm Credit System Insurance Corporation (FCSIC), which is responsible for ensuring the timely payment of principal and interest on obligations issued on behalf of Farm Credit System banks. Before being named FCA Chairman and CEO, he had served as chairman of the board of directors of FCSIC since December 2006.

For more than 30 years he has been active in the agriculture industry. He served for more than 25 years on the board of 1st Farm Credit Services, an FCS institution in Illinois, holding various positions, including chairman. During the agriculture crisis of the 1980s, he was selected to sit on the Restructuring Task Force of the Sixth Farm Credit District.

From 2000 to 2006, he was on the Federal Reserve Bank of Chicago Advisory Council on Agriculture, Labor, and Small Business. Part of this time he also served on the Country Mutual Fund Trust Board, an investment fund of the Illinois Farm Bureau and its Country Financial organization.

Other boards Mr. Strom has served on include Northern F.S., Inc., a farm service and supply cooperative serving farmers in Northern Illinois; AgriBank, FCB; and the Farm Credit Council, the national trade organization representing the Farm Credit System in Government affairs.

Mr. Strom has served in several capacities with the Illinois Farm Bureau. He also served on his county Farm Bureau board. He was a member of the State Young Farmer Committee from 1981 to 1985. For his overall involvement in agriculture, he received an Outstanding Young Farmer Award.

In his community of Kane County, Illinois, which lies at the edge of suburban Chicago, Mr. Strom helped develop a farmland preservation program. The original Strom Family Farm was the first to be dedicated to permanent agricultural use under the program.

Mr. Strom studied agriculture business a Kishwaukee College and business administration at Northern Illinois University. He was a member of the Illinois Agricultural Leadership Program Class of 1988. His community involvement includes having served as vice president of his local K–12 school district, chairman of his church council, 4-H parent leader, and coach of boys' and girls' sports teams. Mr. Strom owns a third-generation family farm in Illinois that produces corn and soybeans. He and his wife, Twyla, have two sons, a daughter, and a daughter-in-law.

Dallas P. Tonsager

Dallas P. Tonsager was appointed to the FCA Board by President George W. Bush on December 1, 2004, for a term that expires May 21, 2010, and serves as a member of the Board of Directors of the Corporation.

Mr. Tonsager brings to his position extensive experience as an agriculture leader and producer, and a commitment to promoting and implementing innovative development strategies to benefit rural residents and their communities. As executive director of the South Dakota Value-Added Agriculture Development Center in Huron from 2002 until his appointment to the FCA Board, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William J. Clinton to serve as the State director in South Dakota for rural development for the U.S. Department of Agriculture. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota totaling more than $100 million. In 1999, he was recognized as one of two outstanding State directors in the nation by then-USDA Under Secretary Jill Long Thompson. His term concluded in February 2001.

A long-time member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization from 1988 to 1993. He served on the board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the advisory board of the Commodity Futures Trading Commission from 1990 to 1993.

From 1988 to 1993, Mr. Tonsager was a board member of Green Thumb, Inc., a nationwide job training program for senior citizens. He currently serves on the board of Lutheran Social Services of South Dakota.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. In partnership with his brother, he owns Plainview Farm in Oldham, a family farming operation that includes corn, soybeans, wheat, and hay. Mr. Tonsager is a graduate of South Dakota State University where he earned a B.S. in agriculture in 1976. He and his wife, Sharon, have two sons and a daughter-in-law.

2008 – Year in Review

Change in Premium Assessments

Beginning July 1, 2008, the Corporation implemented the new premium authorities granted by the Food, Conservation, and Energy Act of 2008 (FCE Act or 2008 Farm Bill) which amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what the FCSIC insures. Now the FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments retained a risk surcharge of up to 10 basis points on nonaccrual loans and added a surcharge of up to 10 basis points on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal Government-guaranteed loans and investments and 80 percent of State Government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments also clarify that the FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the System banks pass premiums to associations and other financing institutions, although it requires that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to the FCSIC's regulatory authority under Title V of the Farm Credit Act, the FCSIC has authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to how banks pass along the cost of insurance premiums. Finally, the amendments change Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and Financial Assistance Corporation stockholders.

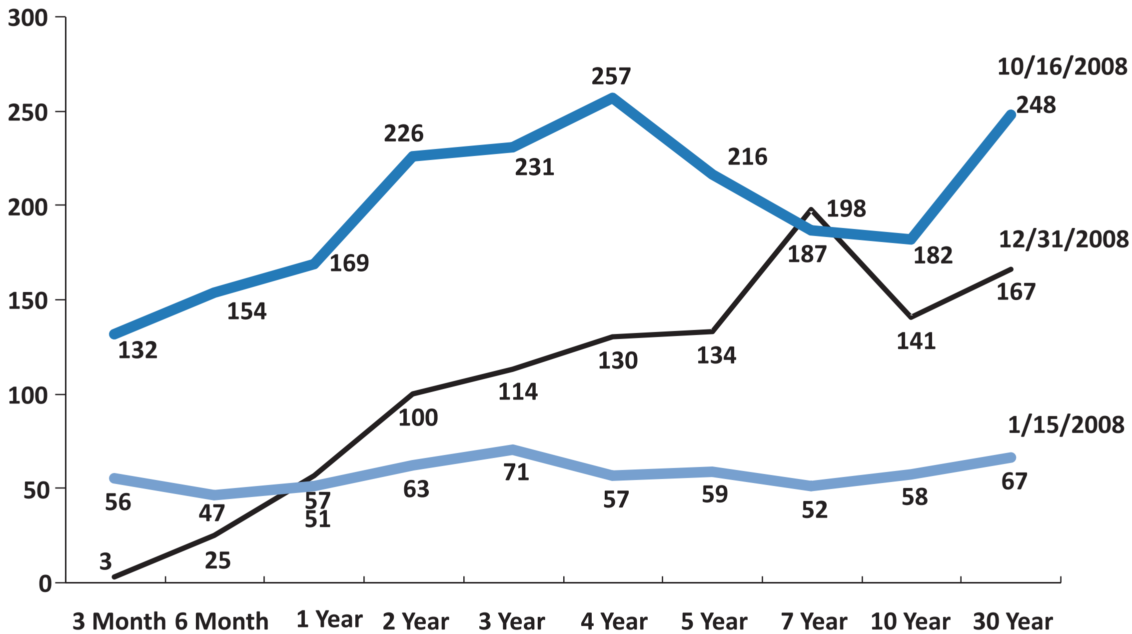
Volatile Economic Environment

The Farm Credit System experienced another year of substantial growth in 2008, with continued asset and income growth. The credit quality of System loans remains generally good, and the System's liquidity increased to 177 days at December 31, 2008. However, stresses in the general economy have had an impact on the System, leading to increased write-downs of investments and other assets. Accordingly, we are watching the following trends closely:

- Net farm income in 2009 is forecast to decline from 2008 record levels, but to remain above the 10-year average. Most crop prices are expected to be substantially lower, as are milk prices, while cash receipts for cattle, hogs, and broilers are anticipated to be higher. Farm expenses, including most manufactured inputs, feed, fertilizer, fuel, and services, such as repairs and transportation, are forecast to decline for the first time since 2002. However, the reduction in expenses may not make up for the reduction in gross income, leaving net income and output below the record levels achieved over the past two years.

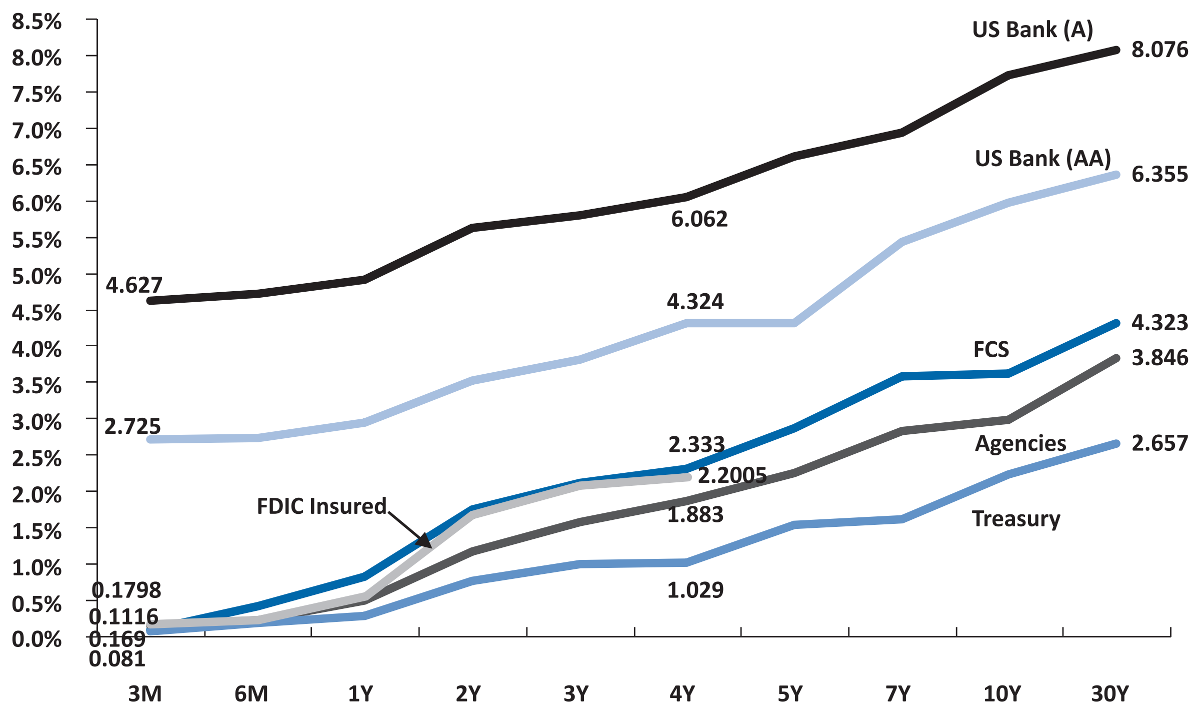
- The Federal Government's response to the current economic turmoil has had and may continue to have unintended consequences for the System's funding costs, at times limiting the System's ability to issue debt at competitive prices and terms. While the System continues to have regular and flexible access to short-term debt markets, issuance of securities with longer maturities has been reduced and the cost of such term issuances has increased. The first chart highlights the widening of spreads paid by the System versus benchmark Treasury securities. The second chart shows the yield curve comparison between System securities and a number of competing issuers including other GSE agencies, Treasury, instruments insured by the Federal Deposit Insurance Corporation (FDIC), and highly rated commercial bank instruments.

FCS Instruments Basis Points Spread Over Treasuries



Sources: Federal Farm Credit Banks Funding Corporation and Bloomberg.

FCS, Other GSE Agencies, Bank, Treasury, and FDIC-Insured Debt Yield Curve Comparison as of 12/31/2008



Sources: Federal Farm Credit Banks Funding Corporation and Bloomberg.

Issuers of FDIC-insured debt pay 50 to 100 basis points for the guarantee. FDIC-insured data as of 1/8/09.

- The Federal Reserve has predicted continued weak economic growth for 2009, forecasting that 2008 and 2009 will be the slowest period of growth since 1981-82. Unemployment is expected to increase in 2009; however, inflation is predicted to decline from its 2008 rate. Personal consumption expenditures are forecast to rise only slightly in 2009. Business fixed investments are expected to decline, while industrial production is forecast to remain flat. The Federal Reserve also predicts that the housing sector will bottom-out by mid-2009, with housing starts improving but at the slowest pace since 1959. The dollar is predicted to increase in value, while the trade deficit declines.

Although the Federal Reserve and other economic analysts have made predictions about the 2009 economy, numerous policy and legislative stimulus initiatives, combined with current market volatility, make the future difficult to forecast. The Federal Reserve continues to use the discount window to provide loans to financial institutions and has expanded the types of collateral accepted. In addition, the Federal Reserve has announced that it will employ all of its available tools, including buying mortgage-related bonds, longer-term Treasury bonds, corporate debt, and consumer loans.

The Treasury Department, together with the FDIC, has also implemented numerous programs to support the financial sector. Treasury has been providing capital infusions to numerous banks, including the very largest. The FDIC created a Temporary Liquidity Guarantee Program, guaranteeing the newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and providing full coverage of non-interest-bearing deposit transaction accounts, regardless of dollar amount. The FDIC is also helping qualified homeowners to modify their mortgages. Fannie Mae and Freddie Mac, whose mission is to provide liquidity and stability to the U.S. housing and mortgage markets, are offering loan modification programs. It is too early to evaluate the long-term consequences of these significant governmental interventions.

FCSIC Website Redesign

During 2008, the Corporation began to redesign its corporate website, including the look, content and organization of information. This redesign is part of the Corporation's e-Government efforts to provide increased transparency and greater access to information. The efficient, effective, and consistent use of Federal agency public websites is important to promote a more citizen-centered Government as outlined in the E-Government Act of 2002 (Pub. L. No. 107-347). Federal agency public websites are information resources funded in whole or in part by the Federal Government and operated by an agency, contractor, or other organization on behalf of the agency. They present Government information or provide services to the public or a specific non-Federal user group and support the proper performance of an agency function. Federal agency public websites are also information dissemination products as defined in Office of Management and Budget (OMB) Circular A-130, "Management of Federal Information Resources." Agencies are required to manage Federal agency public websites as part of their information resource management program following guidance in OMB Circular A-130, "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies."

The Corporation contracted with FCA to provide technical assistance, including the design, organization, and programming of page layouts and other support to this effort. This project was substantially completed during the first quarter of 2009.

Selected Financial Statistics

Farm Credit System Insurance Corporation
(Dollars in millions)

	2008	2007	2006
BALANCE SHEET:			
Total Assets	$ 2,914.9	$ 2,598.9	$ 2,311.9
Total Liabilities	0.3	0.4	0.3
Insurance Fund Balance			
Allocated Insurance Reserves Accounts	39.9	39.9	39.9
Unallocated Insurance Fund Balance	2,874.7	2,558.6	2,271.7
OPERATIONS:			
Revenues	318.7	289.7	252.3
Operating Expenses	2.6	2.7	2.1
Insurance Expense	-0-	-0-	-0-
Net Income	316.1	287.0	250.2

The Farm Credit System

Structure and Funding

The System is owned by the rural customers it serves, including farmers, ranchers and other agricultural producers. As of December 31, 2008, there were 90 FCS associations that lend directly to these owner-borrowers, providing a consistent source of agricultural and rural credit throughout the United States and the Commonwealth of Puerto Rico. Each association has its own chartered territory and is affiliated with one of the five FCS banks. The banks generally receive their funding through the issuance of Federal Farm Credit Banks Consolidated Systemwide Debt Securities (Systemwide debt securities). These securities are issued by the Federal Farm Credit Banks Funding Corporation (Funding Corporation). The Funding Corporation distributes these securities in the capital markets via a selling group of selected investment and dealer banks to raise the funds needed by the System.

Investor Protection

Investors provide the funds the System lends to agriculture and rural America. The Corporation's primary purpose, as defined by the Farm Credit Act, is to insure timely payment of principal and interest on insured Systemwide debt securities to these investors.

Regulatory Oversight

FCA is the safety and soundness regulator responsible for the examination, supervision, and regulation of each FCS institution. It is an independent agency in the Executive branch of the U.S. Government and derives its broad authorities from the Farm Credit Act. These authorities include examination and enforcement authorities similar to those of commercial bank regulators. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCSIC, FCA, and the FCS.

Combined Farm Credit System Statistics

(Dollars in billions)

	2008	2007	2006
Insured Debt Outstanding[1]	$177.4	$155.3	$135.2
Production Agriculture:			
Real Estate Mortgage Loans	71.9	63.5	56.5
Production and Intermediate-term Loans	37.5	32.3	28.7
Agribusiness Loans[2]	26.9	28.1	21.1
Communication Loans	4.5	3.4	3.3
Energy, Water and Waste Disposal Loans	9.4	7.5	6.3
Rural Residential Real Estate Loans	4.6	4.0	3.4
International Loans	4.1	2.1	2.2
Lease Receivables	1.9	1.7	1.5
Loans to Other Financial Institutions	0.6	0.4	0.4
Cash and Investments	43.8	36.5	33.1
Net Income	2.92	2.70	2.38
Nonperforming Loans as a Percentage of Total Loans	1.5%	0.4%	0.5%

1. Insured Debt Outstanding is based on System Institution call report information and reflects the book value of insured debt outstanding, excluding fair value adjustments plus accrued interest as of December 31, 2008.
2. At December 31, 2008, agribusiness loans consisted of loans to cooperatives of $12.2 billion, processing and marketing loans of $12.2 billion, and farm-related business loans of $2.5 billion.

Insured and Other Obligations

The Corporation insures Systemwide and consolidated bonds, notes, and other obligations issued by the System banks through the Funding Corporation. Last year, insured debt outstanding increased by more than 14 percent to $177.4 billion. For the five-year period from 2004 to 2008, insured debt outstanding grew at an average annual rate of approximately 13.5 percent.

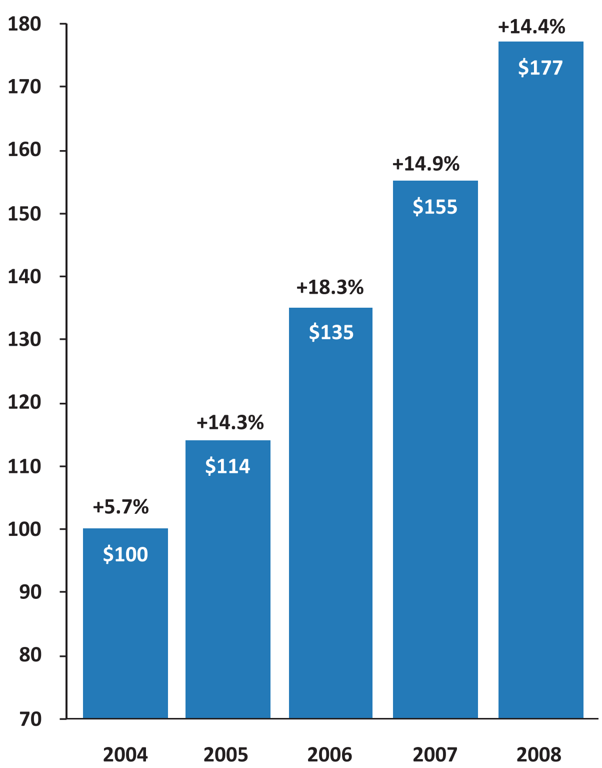
The Corporation is also required by statute to ensure the retirement of eligible borrower stock, as defined in section 4.9A of the Farm Credit Act, at par value. This stock, also known as protected borrower stock, was outstanding prior to October 6, 1988. At year-end 2008, eligible borrower stock outstanding at System institutions totaled $10 million, down from $11 million at year-end 2007.

Farm Credit System Capital

The primary source of funds to repay Systemwide debt securities is the System's borrowers. Each borrower is required to have a minimum net worth and, in most cases, collateral posted in connection with his or her loan. The borrower makes payments on the loan to the lending bank or association. The lending association in turn makes payments to its affiliated bank on its loan. Both the banks, which ultimately repay Systemwide debt securities, and the associations exceed minimum capital regulatory requirements as protection and support for the repayment of the outstanding debt. If a bank was unable to repay its portion of a security, the Insurance Fund would make that payment. In the event the assets of the Insurance Fund were exhausted, the provisions of joint and several liability of all banks would be triggered, which

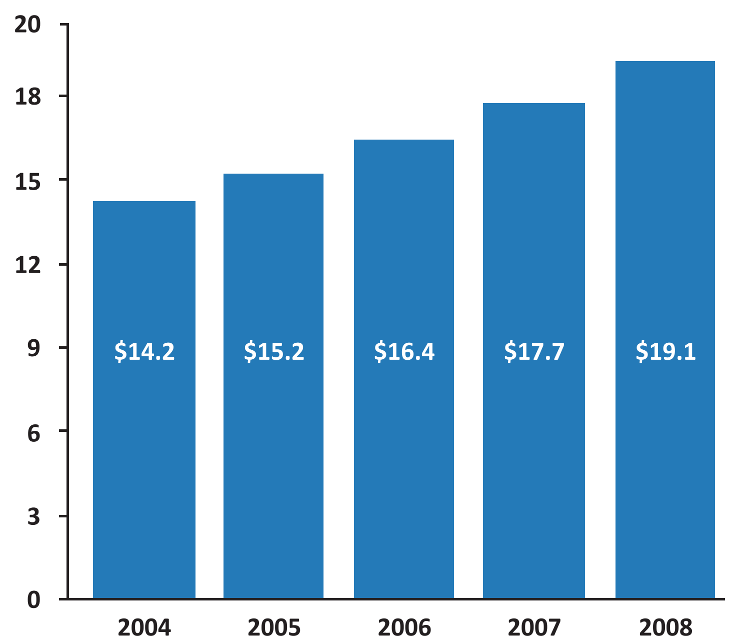
Insured Debt Outstanding Grew at an Average Annual Rate of 13.5% Over the Past 5 Years

(Dollars in billions)

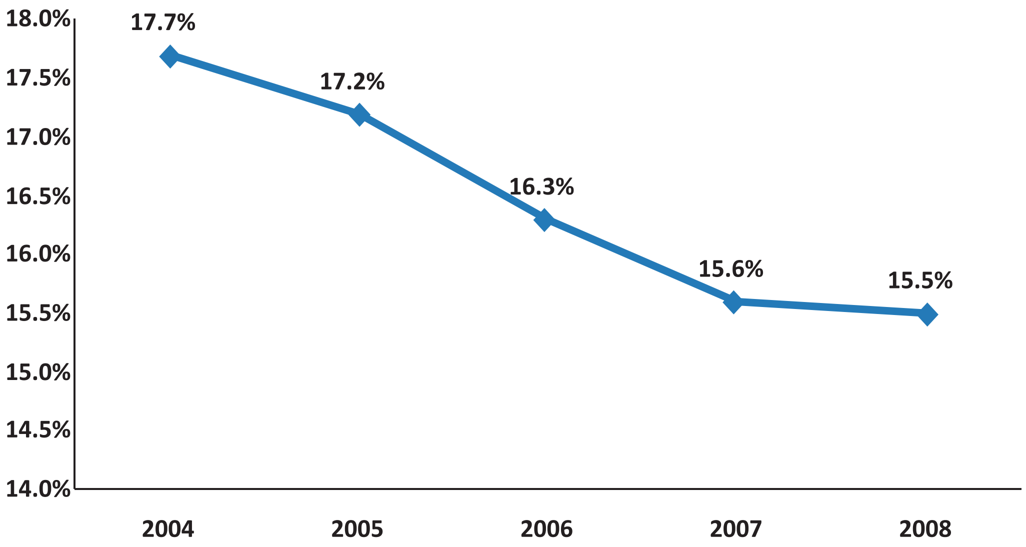


Association Capital

(Dollars in billions)



Association Capital as a Percentage of Total Assets



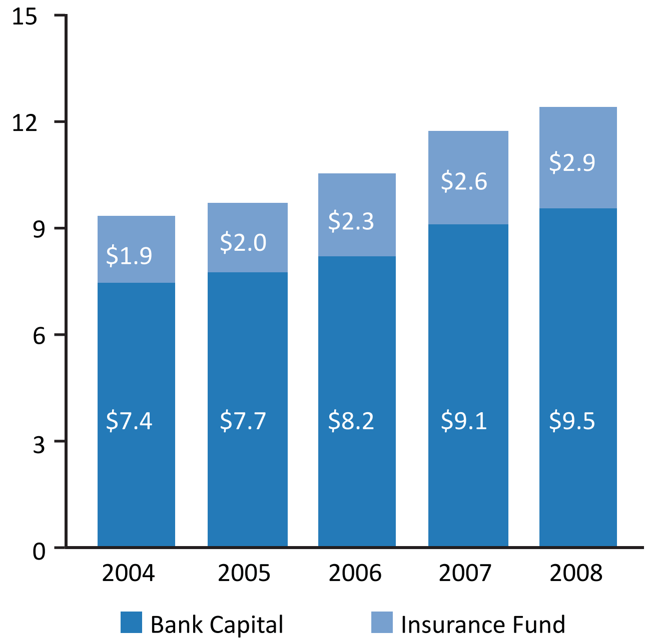
means the financial resources of the other banks would be used to repay the defaulting bank's portion of the debt issuance.

Since 2004, the amount of FCS bank capital and the balance in the Insurance Fund together has increased 33 percent from $9.3 billion to $12.4 billion at year-end 2008. As a percentage of outstanding insured debt, bank capital plus the amount in the Insurance Fund decreased from 9.4 percent in 2004 to 7.0 percent in 2008. This decline occured because the rate of growth in outstanding debt outpaced growth in bank capital and the Insurance Fund.

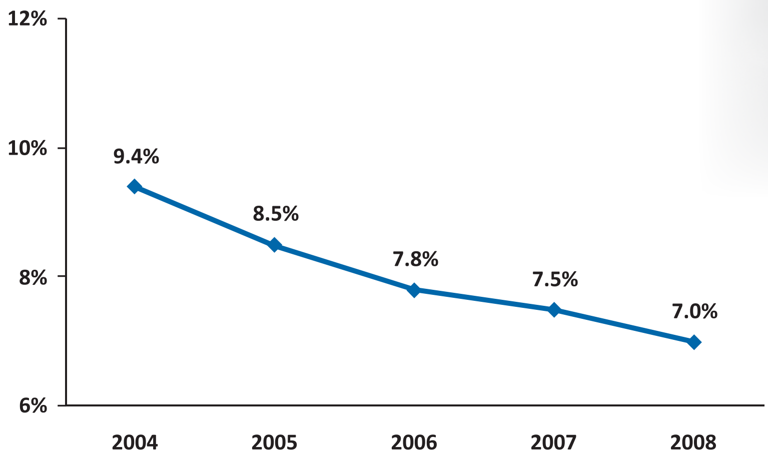
Loan growth has been the principal reason for the System's increased profitability over the past few years. Net interest income has increased, operating efficiency ratios have improved, and credit quality indicators have remained strong. However, this growth has placed, and may continue to place, pressure on System institutions' capital ratios, requiring those institutions to continue to evaluate capital management strategies and to seek additional sources of capital.

FCS associations have been building capital through net income they have earned and retained. Association capital helps reduce the credit exposure of the association's affiliated bank. Since 2004, combined association capital has increased 35 percent, from $14.2 billion to $19.1 billion at year-end 2008. However, during this period, growth in association capital as a percentage of total assets has not kept pace with balance-sheet growth. Instead it fell from 17.7 percent at year-end 2004 to 15.5 percent at year-end 2008.

Bank Capital Plus Insurance Fund
(Dollars in billions)



Bank Capital Plus Insurance Fund as a Percentage of Insured Debt



Additional Protections

The System has additional risk management tools to protect investors. One such tool is the Contractual Interbank Performance Agreement (CIPA). All five System banks have entered into this agreement, which measures the financial condition and performance of each bank using ratios that consider capital, asset quality, earnings, interest rate risk, and liquidity. CIPA financially penalizes banks that do not meet performance standards.

The banks and the Funding Corporation have also entered into a Market Access Agreement (MAA) that establishes conditions for each bank's continued participation in the debt market. If a bank fails to meet agreed-upon performance measures, including capital and collateral ratios, its participation in future debt issues could be curtailed. The criteria used under the MAA are the CIPA scores and two capital ratios.

The System also has a common minimum liquidity standard. The standard requires each bank to have enough liquidity to operate for at least 90 continuous days without access to the capital markets. At December 31, 2008, all banks exceeded the minimum 90 days of liquidity.

Insurance Fund Management

The Insurance Fund and the Secure Base Amount

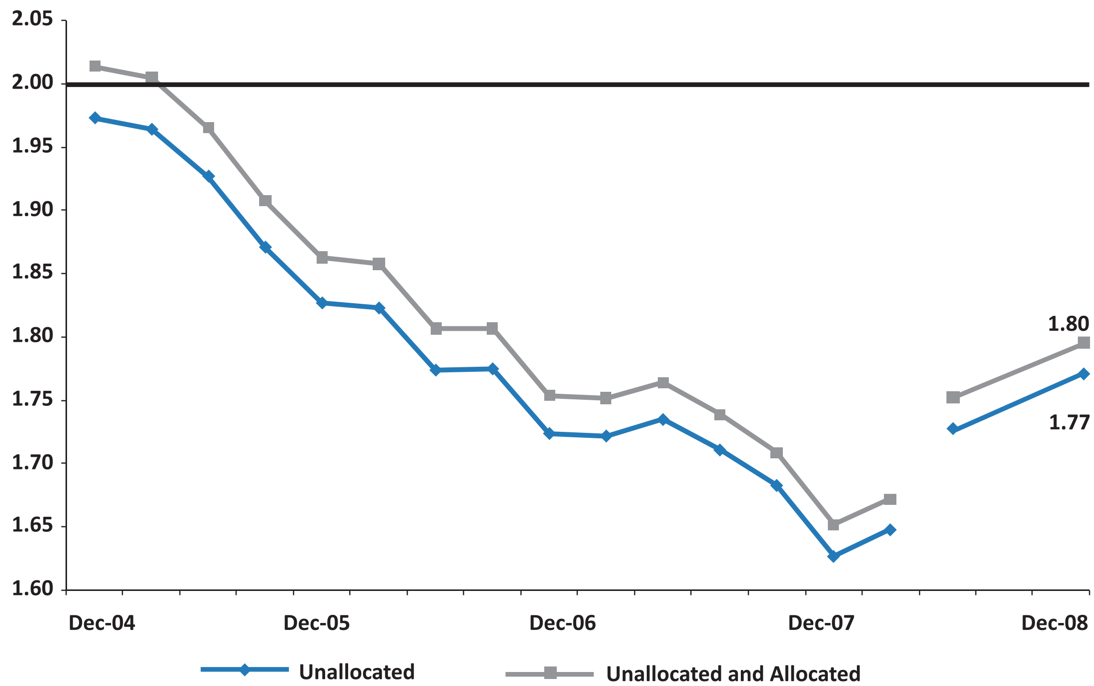
In 2008, both the total Insurance Fund and total assets grew 12.2 percent to $2.9 billion. Over the last five years, the total Insurance Fund and total assets grew at an annual rate of 9.88 percent and 7.68 percent, respectively. In 2008, the Corporation did not accrue a provision for insurance obligations.

The Insurance Fund represents the Corporation's equity, the difference between total assets and total liabilities, including insurance obligations. The Insurance Fund is composed of an unallocated Insurance Fund (the assets in the Insurance Fund for which no specific use has been identified or designated) and an allocated Insurance Fund. Premiums are due until the unallocated portion of the Insurance Fund reaches the SBA. The SBA established by the Farm Credit Act is 2 percent of the aggregate outstanding insured obligations (adjusted to exclude a part of certain Government-guaranteed loans in accrual status and non-impaired investments) or another percentage that the Board determines to be actuarially sound.

The unallocated Insurance Fund made progress towards the SBA in 2008 because of the change made to the Farm Credit Act that allowed the FCSIC Board to impose premiums ranging from 0 to 20 basis points on insured debt obligations rather than loans. During 2008, insured debt grew 14.4 percent, below the previous year's rate of growth of 14.9 percent, but above the five-year average annual growth rate of 13.5 percent. The unallocated Insurance Fund finished 2008 below the 2 percent SBA at 1.77 percent, or $371 million below the SBA. Including the AIRAs raises the level to 1.80 percent or $331 million below the SBA.

Insurance Fund Relative to 2 Percent Secure Base Amount by Quarter*

(percent)



* A change in the SBA calculation methodology was included in the FCE Act. The new methodology, which was implemented on July 1, 2008, allows the deduction of a portion of Federal and State-guaranteed investments from the SBA in a manner similar to that used for Federal and State-guaranteed loans.

Insurance premiums are assessed with the objective of maintaining the SBA, which is defined in the Farm Credit Act as 2 percent of adjusted insured obligations. At year-end excess funds above the SBA are transferred to the AIRAs. The current $39.9 million AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Corporation disburses payment to the Farm Credit banks and FAC stockholders.

Allocated Insurance Reserves Accounts

Since unallocated Insurance Fund finished the year below the SBA, no excess funds were available for transfer to the AIRAs at December 31, 2008. Under the Farm Credit Act, if the unallocated Insurance Fund is above the SBA, at any year-end, the Corporation must transfer the excess amount, less projected insurance and operating expenses for the coming year, from the year-end unallocated Insurance Fund balance to the AIRAs.

In 2003, for the first time, the Corporation closed the year above the SBA. As a result, the statute then in effect required the Corporation to transfer $39.9 million to the AIRAs. By statute, the Corporation is required to use AIRAs first for insurance claim payments. Separate AIRAs have been established for each bank and a special account has been established for the holders of Financial Assistance Corporation (FAC) stock. The first 10 percent of calculated excess funds is deposited to the AIRAs of FAC stockholders. The remaining 90 percent is prorated into the banks' AIRAs. AIRA payments are made at the discretion of the Corporation's Board.

Premiums

The Board reviews premium accrual rates as often as necessary but at least semiannually. The review focuses on five factors:

1. The level of the Insurance Fund relative to the secure base amount
2. Projected losses to the Insurance Fund
3. The condition of the System
4. The health of the agricultural economy
5. Risks in the financial environment

The most important factor in determining premium rates for 2008 was the level of the Insurance Fund relative to the SBA. Continued growth in insured debt outstanding caused the Insurance Fund to trend further away from the SBA in the first half of 2008. As a result, the Board maintained the premium assessment at 15 basis points. By statute, this was the maximum rate that could be charged. (Note: 1 basis point (bp) = 1/100 of 1 percent.)

Although the Corporation insures repayment to investors who purchase insured System debt, until the amendments to the Farm Credit Act were implemented in July 2008, the FCSIC was limited to collecting premiums based on the loans made by System banks and associations. Allowable premium rates varied by type of loan. (See also Note 4 to the Corporation's financial statements.)

Premium Rates January 2008 - June 2008

Type of Loan	Premium Range (in basis points)
Accrual	0 – 15
Nonaccrual	0 – 25
Federal Government-guaranteed accrual	0 – 1.5
State Government-guaranteed accrual	0 – 3
Government-sponsored enterprise-guaranteed accrual	0 – 15

Premium Rates July 2008 - December 2008	Premium Range (in basis points)
Adjusted Insured Debt	0 – 20
Nonaccrual Loans	0 – 10
Other-than-temporarily Impaired Investments	0 – 10

Enactment of the FCE Act in 2008 amended the premium provisions of the Farm Credit Act to, among other things, base premiums on the outstanding insured debt obligations instead of loans, and permit the Corporation to collect a broader range of premiums on insured debt.

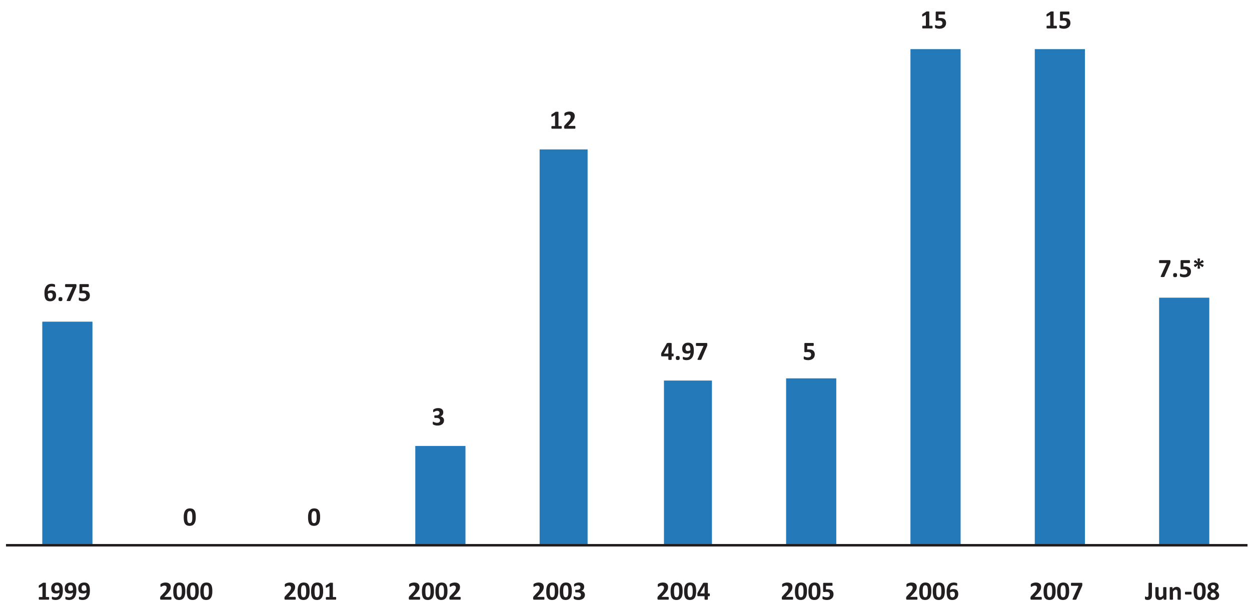
As amended, the Farm Credit Act's provisions assess premiums that are generally based on each System bank's pro rata share of outstanding insured debt obligations (rather than on loans), aligning premiums with the obligations that the FCSIC insures. The amendments reduce the total insured debt obligations on which premiums are assessed by 90 percent of Federal Government-guaranteed loans and investments and 80 percent of State Government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the SBA. If the Farm Credit Insurance Fund is below the SBA, the amended Farm Credit Act requires that each insured System bank pay the FCSIC a premium equal to (a) the adjusted average outstanding insured obligations multiplied by 0.0020; and (b) the average principal outstanding on loans in nonaccrual status and average amount outstanding of other-than-temporarily impaired investments multiplied by 0.0010, subject to FCSIC's power to reduce the premium in its sole discretion. Once the Insurance Fund attains the SBA, the law requires that premiums be reduced to the level necessary to maintain the Fund at the SBA (i.e., 2 percent of adjusted outstanding insured obligations).

The Board reviewed proposed changes to the premium process at their June 2008 meeting, and the new rates were made effective at the beginning of the next quarter, July 1, 2008.

To help System institutions budget for 2009, the Board notified the System in September 2008 that the 2009 premium assessment rate would be 20 basis points. The Board also stated that there would be an additional surcharge of 10 basis points on the average principal outstanding for nonaccrual loans and the average amount outstanding for the other-than-temporarily impaired investments.

The following chart shows premium rates from 1999 to June 30, 2008. Over the 9.5-year period, premiums ranged from 0 to 15 basis points, and averaged 7.29 basis points.

Accrual Loan Premiums Averaged 7.29 Basis Points from 1999 to June 30, 2008



* Implementation of FCE Act provisions changed the method of premium assessment from loans to adjusted insured debt beginning July 1, 2008.

From January 1, 2008, to June 30, 2008, premiums were assessed at 15 basis points annually on adjusted accrual loans plus 25 basis points on nonaccrual loans.

From July 1, 2008, to September 30, 2008, premiums were assessed at 15 basis points on adjusted insured debt plus 10 basis points on the average nonaccrual loans and the average amount outstanding of other-than-temporarily impaired investments. From October 1, 2008, to December 31, 2008, premiums were assessed at 18 basis points on adjusted insured debt plus 10 basis points on the average nonaccrual loans and the average amount outstanding of other-than-temporarily impaired investments.

As a result of continued growth in insured debt, the Insurance Fund has remained below the 2 percent SBA. At December 31, 2008, the total Insurance Fund (including the AIRAs) was $331 million below the SBA. The FCSIC Board is committed to using the expanded authorities provided by the FCE Act to return the Insurance Fund to the SBA in a timely manner. In January 2009 the Board increased the insurance premium assessment rate on adjusted insured debt to 20 basis points for 2009. This is the maximum rate that can be charged. The Board also continued the assessment of 10 basis points on the average principal balance outstanding of nonaccrual loans and the average amount outstanding of other-than-temporarily impaired investments.

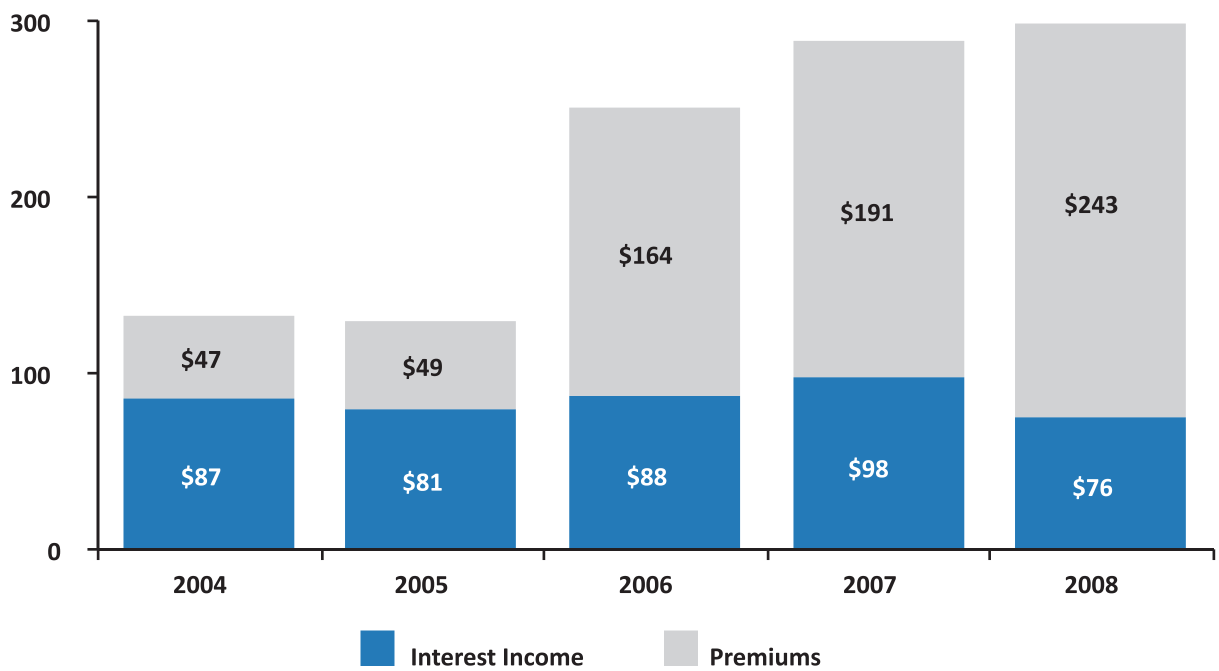
Revenues and Expenses

Net income in 2008 increased 10 percent to $316 million from $287 million in 2007. The increase in net income resulted from higher premiums. Because of a decrease in the rate of return on the U.S. Treasury securities held in the Corporation's portfolio, interest income decreased 22 percent in 2008 to $76 million from $98 million in 2007.

The Corporation's operating costs as a percentage of its total assets represented 9 basis points for 2008. Fixed costs for staff, travel, rent, and miscellaneous expenses were $2.1 million of the $2.6 million total for the year. The remaining expenses of $0.5 million were for contract services.

Corporation Revenues

(Dollars in millions)



Investments

Investments increased 11 percent during the year from $2.39 billion at December 31, 2007, to $2.65 billion at year-end 2008.

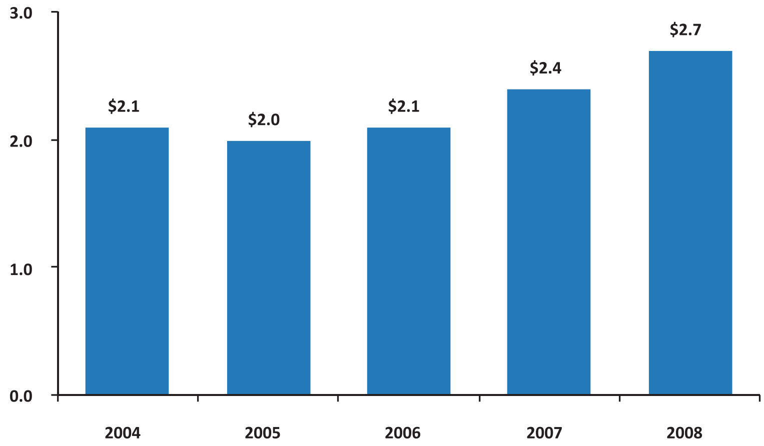
The Corporation's investment objective is to maximize returns consistent with liquidity needs and to minimize exposure to loss of principal. Funds are invested in U.S. Treasury securities in accordance with the Farm Credit Act and the Corporation's Investment Policy.

The average portfolio yield was 2.92 percent, down from 4.24 percent the prior year. The return on the Insurance Fund continued to outperform the benchmark index the Corporation uses to measure performance. This index is composed of Treasuries and private sector mutual funds with holdings of similar type and duration to the Corporation's portfolio. The average return of the benchmark group was 2.41 percent for 2008.

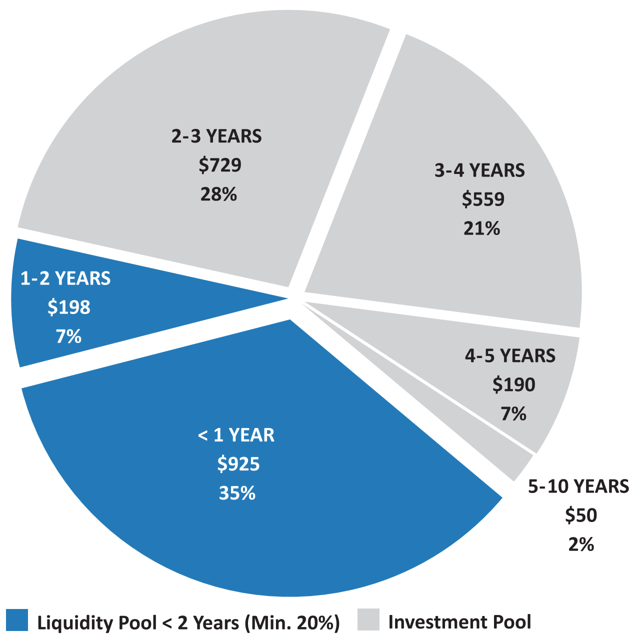
In accordance with the Corporation's Investment Policy, the portfolio is composed of a liquidity and an investment pool. The liquidity pool consists of short-term Treasury securities maturing in less than two years. The investment pool is composed of Treasury securities with maturities that vary from 2 to 10 years. The FCSIC investment policy requires that at least 20 percent of the portfolio shall be maintained in the liquidity pool, and a maximum of 25 percent may be invested in securities with maturities between 5 and 10 years. The weighted average portfolio maturity at year-end was 2.17 years. The composition of the investment portfolio at December 31, 2008, is illustrated in the accompanying chart.

In June, the Corporation implemented the recommendation from Evaluation Associates' (EA) study of FCSIC's investment program to purchase Treasury Inflation-Protected Securities (TIPS). EA recommended purchasing TIPS as a way to improve diversity and add value to the Insurance Fund portfolio. At yearend TIPS investments totaled $490 million or

Growth in Investment Portfolio
(Dollars in billions)



Investment Portfolio by Maturity at December 31, 2008
(Dollars in millions)



just over 18.5 percent of the Insurance Fund. This is below the FCSIC's 20 percent target limit for TIPS. Investment returns on TIPs include two components, a fixed interest rate yield and a variable yield for inflation, based on the monthly consumer price index reported by the Bureau of Labor Statistics.

The Corporation, as part of its Strategic Plan, contracted with EA in 2008 to conduct a review of alternative U.S. Government instruments. The FCSIC retained EA to evaluate the merits and risks of investment in Ginnie Mae (GNMA) securities. The review included an evaluation of market size and liquidity, issuance trends, performance history, and performance outlook under various scenarios. The evaluation also included an analysis of performance of the GNMA segment versus U.S. Treasuries and a general assessment of what would be required if the FCSIC decided to pursue investing in this segment. EA concluded that the GNMA market could provide more attractive yield spreads than comparable Treasury securities. However, investment in GNMA securities would involve significantly higher administrative costs compared to the current Treasury program. In addition, EA raised concerns about the liquidity of the GNMA instruments given the scale of the current resale market. EA also noted that this issue may be compounded for the FCSIC by the significant level of GNMA securities currently held by System institutions as part of their liquidity pools. In consideration of these factors, the FCSIC is not currently investing in GNMA securities.

Risk Management

The Corporation actively monitors and manages insurance risk. This program focuses on minimizing the Fund's exposure to potential losses through early detection. Corporation staff regularly monitors key ratios and financial trends; weaker System institutions undergo special examination procedures as needed.

The Corporation monitors trends in the System's growth, structure, financial performance, and condition through continual dialogue with FCA examiners and review of reports of examination. On a quarterly basis, the Corporation screens all System institutions against key performance criteria to identify institutions that may pose increasing insurance risk. The Corporation also assesses risk to the Insurance Fund by

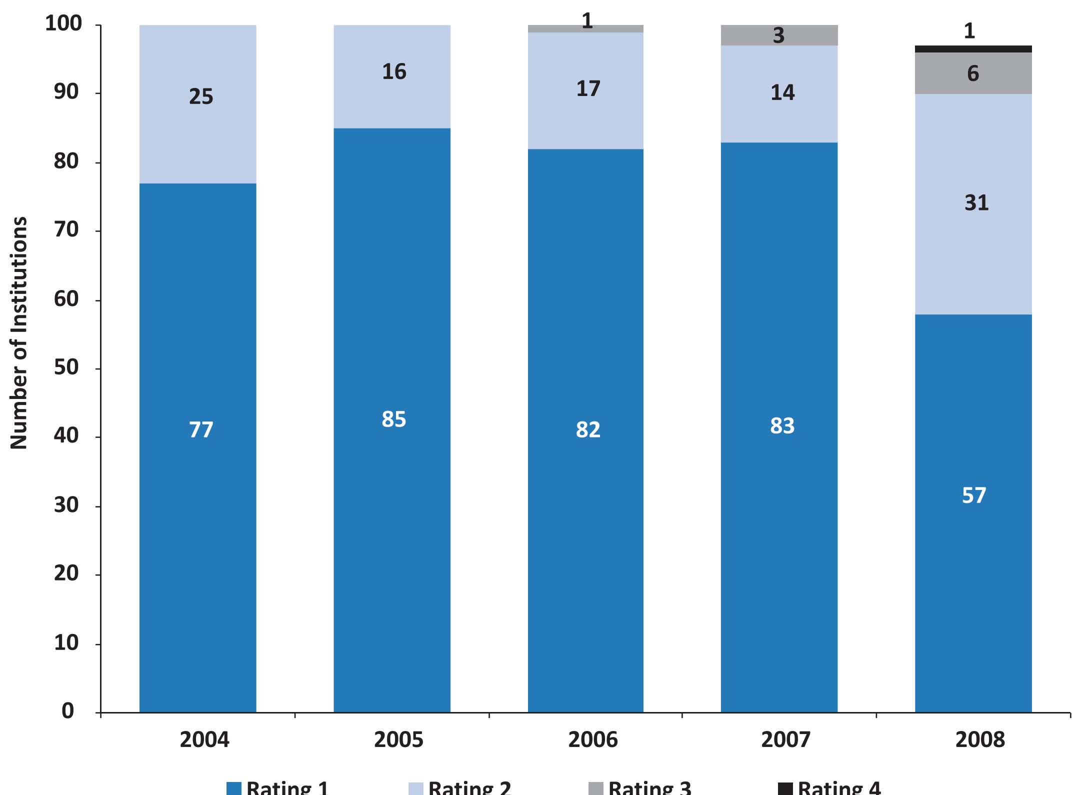
- reviewing corporate actions approved by FCA for System institutions
- monitoring legislative, judicial, regulatory, and economic trends that could affect the agricultural or financial services industries
- using analytical models, and
- participating as a nonvoting member on FCA's Regulatory Enforcement Committee.

During 2008, corporate staff monitored trends affecting agriculture and System institutions, including

- extreme volatility in commodity prices over the course of the year and the effect on System institutions' loan volumes
- deteriorating conditions in the nation's fixed income and other capital markets
- declining values of structured investment securities reported by the System's banks
- numerous Federal Government interventions in the nation's banking and other financial systems, and
- trends in System institutions' Financial Institution Rating System (FIRS) ratings as reflected in the graph below.

FCS Institution FIRS Ratings

As of January 1, 2009



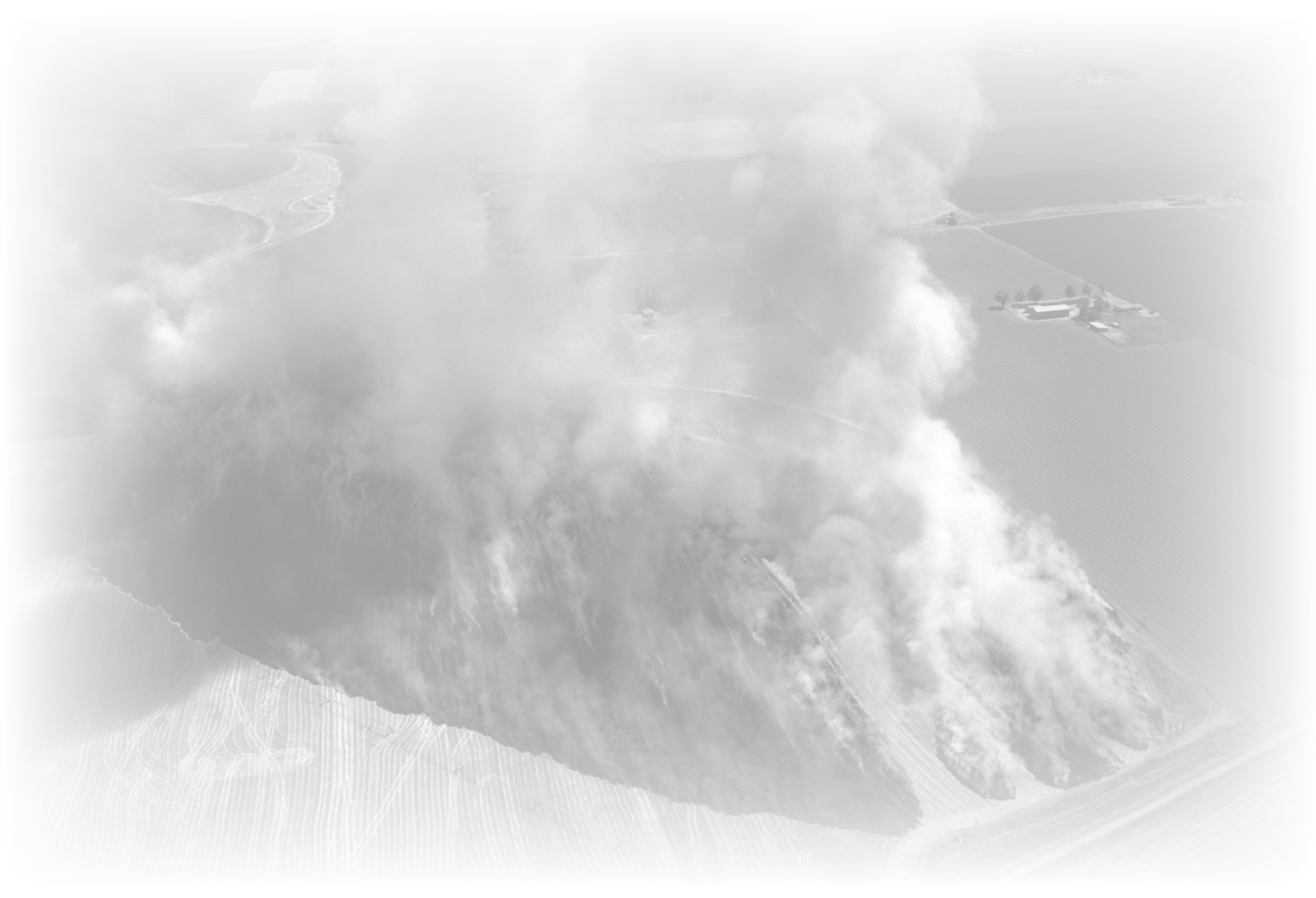
Source: FCA

Staff also participated in several interagency work groups examining System capital, investment authorities, and liquidity.

The Corporation continued to work with an insurance risk modeling tool initially developed in 2004 by the FCSIC's contractor, Oliver Wyman. From its earlier work, Oliver Wyman concluded that the most significant factors affecting the Corporation's insurance risk exposure were as follows:

1. System balance-sheet growth,
2. The financial condition and performance of the System's insured banks and associations,
3. Capital levels at the five insured System banks.

Modifications were made to this model to reflect the changes contained in the FCE Act to the FCSIC's insurance premium authorities, as well as to allow the deduction of a portion of investments held by System institutions that are guaranteed by the Federal Government or one of the various State Governments. (See Note 4 in Notes to the Financial Statements.) Staff also initiated a project to explore the feasibility of adding an enhancement to address liquidity and investment market risks. This effort included consultation with several of the System's banks to better understand their processes and data requirements.



Financial Assistance and Receivership

The Corporation is authorized to provide assistance to System institutions to prevent default, restore normal operations, or facilitate a merger or consolidation. At present, no assistance agreements are outstanding. Before financial assistance may be provided, the statute requires the Corporation to ensure that the proposed assistance is the least costly method for resolving a troubled institution. Financial assistance cannot be provided if the cost of liquidation is determined to be lower.

When appointed by FCA, the Corporation has the statutory responsibility to serve as receiver or conservator for System institutions. (There are no active receiverships or conservatorships currently in the System.) To maintain the capability to act as receiver or conservator while continuing to operate with a small core staff, the Corporation uses contractors on an as-needed basis. These contractors provide knowledgeable and readily available resources, while allowing the Corporation to contain costs during periods of limited or no activity. Corporation staff also maintains contact with the receivership staff of the FDIC and the National Credit Union Administration to exchange information concerning receivership management.

During the year, staff revised procedures for conservatorship planning and began a project to revise and update the FCSIC's receivership manual. In addition, staff is conducting a series of meetings with representatives from the FDIC on best practices concerning financial assistance and receivership activities. Staff also performed the following:

- Developed a model staffing plan for potential conservatorships or receiverships
- Reviewed sources for specialized contractor expertise
- Began development of an institution resolution simulation training exercise

Strategic Goals and Performance Measures

Three broad goals with performance measures are used to evaluate the effectiveness of the Corporation's operations.

1. **Manage the Insurance Fund to maintain the 2 percent SBA to protect investors.**

The Corporation assesses the effectiveness of its performance by

- reviewing premium rates semiannually and making necessary adjustments, and
- comparing the investment portfolio's average yield to peer investment funds with similar quality and maturity.

As a result of the premium enhancements authorized in the FCE Act, the Insurance Fund began to trend towards the 2 percent SBA. Throughout the year, the total Insurance Fund ranged from 1.65 percent to 1.80 percent, finishing the year at 1.80 percent.

Enactment of the FCE Act amended the premium provisions of the Farm Credit Act to, among other things, base premiums on outstanding insured debt obligations, instead of loans, and increased the maximum number of basis points that can be assessed annually from 15 to 20. These changes will permit the FCSIC to better manage the Insurance Fund's progress towards the SBA.

The Farm Credit Act's new provisions allow assessment of premiums that are generally based on each System bank's pro rata share of outstanding insured debt obligations (rather than on loans), aligning premiums with the obligations that the FCSIC insures. The amendments also reduce the total insured debt obligations on which premiums are assessed by 90 percent of Federal Government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount. If the Farm Credit Insurance Fund is below the SBA, the amended Farm Credit Act requires that each insured FCS bank pay the FCSIC a premium, equal to (a) the adjusted average outstanding insured obligations multiplied by 0.0020; and (b) the average principal outstanding on loans in nonaccrual status and average amount outstanding of other-than-temporarily impaired investments multiplied by 0.0010, subject to the FCSIC's power to reduce the premium in its sole discretion.

The statutory amendments also clarified that the FCSIC may collect premiums more frequently than annually. The amended Farm Credit Act provides that each insured System bank shall file with the Corporation a certified statement showing the amount of the premium due the Corporation from the bank. The Farm Credit Act mandates that each insured System bank shall pay to the Corporation the premium payments required under the statute not more frequently than once in each calendar quarter, in such manner and at such times as the Board of Directors shall prescribe. The certified statement is to be filed on a date to be determined in the sole discretion of the Corporation. Under existing regulations, the certified statement and payments for the preceeding year must be received by January 31.

At its June 2008 meeting, the Corporation's Board of Directors took action to implement the amendments of the Farm Credit Act's premium provisions. The Board implemented the new premium rates and reduced the premiums pursuant to the Corporation's authority under section 5.55(a) (3) of the Farm Credit Act, as amended by the FCE Act. Consistent with the Corporation's past practice of generally adjusting premium rates quarterly, the new rates were made effective at the beginning of the next quarter, July 1, 2008.

The investment return on the Corporation's portfolio of 2.92 percent exceeded the average return on the benchmark group (2.41 percent) that is used to measure performance. The benchmark group consists of Treasuries and private sector mutual funds that have the same characteristics as the Corporation's investment objectives.

2. **Detect, evaluate, and manage risks to the Insurance Fund to protect it from losses.**

Program effectiveness is measured by

- evaluating how promptly emerging risks are detected,
- determining the accuracy of the evaluation of risk, and
- appraising the extent of loss minimization, if applicable.

The Corporation assesses the need for any insurance loss allowance quarterly. The financials of all System institutions are proactively screened to detect risk and identify institutions that may require special examinations. In addition, the Corporation continued refinement of a model for dynamically evaluating the adequacy of the current Insurance Fund under various scenarios.

3. **Maintain the capability to manage receiverships and/or conservatorships.**

Receivership operations are considered effective if the following standards are met.

- Ninety percent of initial claims processed are completed within a specified period, depending on the size and complexity of the failed institution.
- The ratio of operating costs to total assets is comparable with that of other insurers.
- The ratio of asset recovery values to asset values is comparable with that of other insurers.

No receiverships or conservatorships existed in the Farm Credit System in 2008.

Corporation personnel are trained periodically to maintain readiness, ensuring proficiency in the performance of receivership responsibilities. The next receivership readiness exercise is scheduled for the second half of 2009.

The President's Management Agenda

The Corporation, one of 35 agencies designated as a significant Government entity for reporting purposes, is required to submit data for the Financial Report of the United States using the Government-wide Financial Report System and the Federal Agencies' Centralized Trial-Balance System.

In 2001, the Administration established a policy for improving the management and performance of the Federal Government. The President's Management Agenda focuses on five Government-wide goals to encourage improvements in specified areas of operations. The Corporation's accomplishments in those five areas are provided below.

1. **Strategic Management of Human Capital**

   - Operated with a small core staff, contracting for specialized expertise when necessary, which kept operating costs low while offering flexibility to leverage resources.
   - Continued to provide cross-training to ensure continuity of operations by empowering multiple staff members to fulfill a variety of critical roles in day-to-day operations.
   - Participated in the 2008 Federal Human Capital Survey (FHCS), which satisfied the annual requirement established by the National Defense Authorization Act of 2004 and provided agency metrics within the human capital accountability system. The FCSIC consistently scored higher than Government-wide averages on the 2008 FHCS in job satisfaction and leadership.

2. **Competitive Sourcing**

   - Continued the extensive use of competitively sourced public and private sector contractor support to perform administrative functions, including personnel, information systems, and financial systems support.

3. **Improved Financial Performance**

   - Managed an investment portfolio with an average yield that exceeded benchmarks.
   - Kept actual operating expenses below budgeted operating expenses because of (1) unexpended contingency funds to deal with potential insurance issues, (2) the use of cost-effective shared services, and (3) a staff vacancy during part of the year.

4. **Expanded Electronic Government**

   - Continued using e-mail, the Corporation's website and other electronic media to communicate with stakeholders.
   - Redesigned and modernized the FCSIC website.
     - Improved information quality and accessibility.
     - Expanded text areas to provide more background information, as well as charts and graphs.
     - Added a search facility and metadata to enhance the search process. Also added more pages to make commonly posted topics easier to find.

5. **Budget and Performance Integration**

   - Continued to provide timely and accurate financial information to assist senior management and the Board in making decisions on strategic programs and key operations.
   - Evaluated programs on an ongoing basis to determine efficiency, measuring results against Annual Performance and Strategic Plan objectives and reporting quarterly to the Board. Met new and growing demands without increasing permanent staff levels.
   - Received an unqualified opinion on the Corporation's financial statements from our external auditor.
   - The annual report on the FCSIC's internal control over financial reporting did not disclose any internal control weaknesses or any instances of noncompliance.

Reports of Independent Public Auditors

Clifton Gunderson LLP

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the accompanying statement of financial condition of the Farm Credit System Insurance Corporation (the "Corporation") as of December 31, 2008 and related statements of income and expenses and changes in insurance fund, and statements of cash flows for the year 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 audit. The financial statements of the Corporation as of December 31, 2007 were audited by other auditors whose report dated March 13, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audit provides 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 Corporation as of December 31, 2008, and the results of its operations and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2009 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of income and expenses by year is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Calverton, Maryland
March 24, 2009

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited the financial statements of the Farm Credit System Insurance Corporation (the Corporation) as of and for the year ended December 31, 2008, and have issued our report thereon dated March 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The management of the Corporation is responsible for maintaining effective internal control over financial reporting and for compliance with laws and regulations.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

****

This report is intended solely for the information and use of Corporation's Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
March 24, 2009

Farm Credit System Insurance Corporation
Statements of Financial Condition
As of December 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
Assets		
Cash and cash equivalents	$ 61,991	$ 479,926
Investments in U.S. Treasury Obligations (Note 3)	2,588,890	1,906,452
Accrued interest receivable	21,062	21,216
Premiums receivable (Note 4)	242,970	191,341
Total assets	**$ 2, 914,913**	**$ 2,598,935**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses (Note 6)	$ 290	$ 392
Total liabilities	**290**	**392**
Farm Credit Insurance Fund		
Allocated Insurance Reserve Accounts	39,888	39,888
Unallocated Insurance Fund Balance	2,874,735	2,558,655
Total Insurance Fund	**2,914,623**	**2,598,543**
Total liabilities and Insurance Fund	**$ 2,914,913**	**$ 2,598,935**

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

Farm Credit System Insurance Corporation
Statements of Income and Expenses and Changes in Insurance Fund
For the years ended December 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
Income		
Premiums (Note 4)	$ 242,970	$ 191,336
Interest income	75,736	98,352
Other Income	8	0
Total income	**$ 318,714**	**$ 289,688**
Expenses		
Administrative operating expenses (Note 6)	$ 2,634	$ 2,740
Total expenses	**$ 2,634**	**$ 2,740**
Net income	**$ 316,080**	**$ 286,948**
Farm Credit Insurance Fund – beginning of year	**$ 2,598,543**	**$ 2,311,595**
Farm Credit Insurance Fund – end of year	**$ 2,914,623**	**$ 2,598,543**

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

Farm Credit System Insurance Corporation
Statements of Cash Flows
For the years ended December 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
Cash flows from operating activities		
Net income	$ 316,080	$ 286,948
Adjustments to reconcile net income to net cash provided by operating activities		
(Increase) decrease in premium receivable	(51,629)	(26,939)
(Increase) decrease in accrued interest receivable	154	(3,307)
Net amortization and accretion of investments	8,786	7,779
Increase (decrease) in accounts payable and accrued expenses	(103)	92
Net cash provided by operating activities	273,288	264,573
Cash flows from investing activities		
Payments for purchase of U. S. Treasury Obligations	$ (1,404,110)	$ (893,404)
Proceeds from maturity of U.S. Treasury Obligations	712,887	407,918
Net cash (used) provided in investing activities	(691,223)	(485,486)
Net change in cash and cash equivalents	(417,935)	(220,913)
Cash and cash equivalents, beginning of year	479,926	700,839
Cash and cash equivalents, end of year	$ 61,991	$ 479,926

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

Notes to the Financial Statements

Note 1 — Insurance Fund: Statutory Framework

The Agricultural Credit Act of 1987 (1987 Act) established the Corporation for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act, (insured obligations). Each bank in the System participating in insured obligations is an insured System bank. At December 31, 2008, there were five insured System banks and 90 direct lender associations.

The Corporation is managed by a board of directors consisting of the same individuals as the FCA Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

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

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

The balances outstanding at December 31, 2008, for each of the components of the Corporation's insurance responsibilities were $177 billion of insured obligations, and $10 million of eligible borrower stock.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Note 2 — Summary of Significant Accounting Policies

Accounting Principles and Reporting Practices— The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2008, the Corporation held $61.92 million in overnight Treasury Certificates maturing on January 2, 2009, with an investment rate of 0.11 percent, and $75,616 in cash.

Investments in U.S. Treasury Obligations—Section 5.62 of the Farm Credit 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. The Corporation has classified its investments as held to maturity in accordance with the Statement of Financial Accounting Standard (SFAS) No. 115 and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

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 System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would have a material effect on the liability for estimated insurance obligations.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Premiums—Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31 of the year subsequent to the year in which they are earned.

Retirement Plan—All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution during 2008 to the CSRS plan was 8.5 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Retirement plan expenses amounted to $209,996 in 2008 and $197,331 in 2007.

Note 3 — Investments

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2008 and 2007, investments in U.S. Treasury obligations which are carried at amortized cost consisted of the following:

($ in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2008				
U.S. Treasury Notes	$ 2,588,890	$ 82,037	$ (22,321)	$ 2,648,606
December 31, 2007				
U.S. Treasury Notes	$ 1,906,452	$ 18,842	$ (589)	$ 1,924,705

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2008, by contractual maturity, are shown below.

($ in thousands)

	Amortized Cost	Estimated Market Value
Due in one year or less	$ 863,432	$ 873,604
Due after one year through five years	1,675,690	1,718,618
Due after five years through ten years	49,768	56,384
	$ 2,588,890	$ 2,648,606

Note 4—Premiums, the Secure Base Amount, and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

During the first half of 2008, the Farm Credit Act established the range of insurance premium rates that the Corporation's Board may assess for any calendar year based on five classes of an insured bank's loan assets. The asset classes and the range that may be assessed for each are: (1) annual average accrual loans outstanding (other than the guaranteed portions of Government-guaranteed accrual loans) for the year may be assessed from zero to 0.0015; (2) annual average nonaccrual loans outstanding may be assessed from zero to 0.0025; (3) annual average guaranteed portions of Federal Government-guaranteed accrual loans may be assessed from zero to 0.00015; (4) annual average guaranteed portions of state government-guaranteed accrual loans may be assessed from zero to 0.0003; and (5) annual average guaranteed portions of Government Sponsored Enterprise (GSE) guaranteed loans in accrual status may be assessed from zero to 0.0015.

The FCE Act of 2008 amended the Farm Credit Act to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal Government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the SBA. The amendments clarify that FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the Farm Credit System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Insurance Fund AIRAs to allow more immediate distribution of excess Insurance Fund balances to insured banks and the Financial Assistance Corporation (FAC) stockholders.

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory secure base amount is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on government guaranteed loans in accrual status and a similar percentage of government guaranteed investments that are not permanently impaired) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the assets in the Insurance Fund for which no specific use has been designated exceed the secure base amount, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2008, the Board set premium rates at its January 10, 2008, meeting at 15 basis points for accrual loans, 25 basis points for nonaccrual loans and zero for Federal and state government-guaranteed loans, and did not exercise its discretionary authority to grant a lower rate for GSE-guaranteed loans. The Board again reviewed premiums at its June 10, 2008 meeting. The Board voted to set premiums at 15 basis points on adjusted insured debt outstanding for the third quarter of 2008 and 18 basis points on adjusted insured debt outstanding for the fourth quarter of 2008. In addition, there was a 10-basis-point premium on the average principal outstanding for nonaccrual loans and on the average amount outstanding for any other-than-temporarily impaired investments. In 2008, outstanding insured obligations increased by $22 billion or 14.4 percent. At December 31, 2008, the unallocated Insurance Fund was 1.771 percent as a percentage of adjusted insured debt. At December 31, 2008, the total Insurance Fund, including the AIRAs was 1.796 percent.

On January 15, 2009, the Board set premium rates for 2009, increasing the premium rate on adjusted insured debt outstanding to 20 basis points, the maximum allowed by statute. The Board continued the 10-basis-point premium on the average principal outstanding for nonaccrual loans and other-than-temporarily impaired investments.

A 1996 amendment to the Farm Credit Act requires the Corporation to establish AIRAs for each System bank and an account for the FAC stockholders. If at the end of any calendar year the unallocated Insurance Fund is at the secure base amount, the Corporation is to segregate any excess balances into these AIRAs. In 1999, the Corporation's Board adopted the Policy Statement on the Secure Base Amount and Allocated Insurance Reserve Accounts which provides guidelines for implementing this statutory authority. If at the end of any calendar year the amount in the unallocated Insurance Fund exceeds the 2 percent secure base target, the statute requires the Corporation to compare that amount with the year-end Insurance Fund balance adjusted downward by the Corporation's estimated expenses for the following year. At year-end 2003, the Corporation transferred $39.89 million to the AIRAs. The amount was allocated as follows:

FAC Stockholders	(10%)	$ 3.99 million
Farm Credit System Banks	(90%)	$ 35.90 million

The AIRA balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board. AIRA balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRA payments. In accordance with the Corporation's policy statement, any AIRA balances do not count in measuring the Insurance Fund's compliance with the secure base amount. No AIRA payments were made during 2008 or 2007.

Note 5 — Operating Lease

On October 21, 2003, the Corporation executed a six-year lease with the Farm Credit System Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $124,344 for 2009. The Corporation recorded lease expense (including operating cost assessments) of $125,866 and $125,695 for 2008 and 2007, respectively.

Note 6 — Related Parties

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation had payables due to the FCA of $57,419 at December 31, 2008 and $155,555 at December 31, 2007. The Corporation purchased services for 2008 which totaled $134,639 compared with $337,187 for 2007.

The Corporation provides assistance to the FCA under the same Interagency Agreement, recognizing revenue of $7,750 for 2008 and zero for 2007. At December 31, 2008, and 2007, the Corporation did not have any receivables from the FCA.

Income and Expenses

Farm Credit System Insurance Corporation By Year
(Dollars in thousands)

	Income		Expenses		Net Income
Year	Premiums	Investment	Provision for Insurance Obligations	Administrative and Operating Expenses	Changes in Insurance Fund
1991	$ 77,463	$ 31,483	$ 15,555	$ 953	$ 92,438
1992	$ 73,902	$ 37,198	$ 12,062	$ 1,200	$ 97,838
1993	$ 74,100	$ 41,277	($ 39,444)[1]	$ 1,278	$ 153,543
1994	$ 76,526	$ 46,389	$ 8,890	$ 1,482	$ 112,543
1995	$ 79,394	$ 54,688	($ 14,329)[2]	$ 1,379	$ 147,032
1996	$ 85,736	$ 61,471	$ 8,509	$ 1,469	$ 137,229
1997	$ 71,242	$ 71,088	$ 9,105	$ 1,511	$ 131,714
1998	$ 19,972	$ 79,545	$ 9,743	$ 1,525	$ 88,249
1999	$ 45,496	$ 81,719	$ 10,424	$ 1,631	$ 115,203
2000	$ 1,040	$ 92,776	$ 11,154	$ 1,797	$ 80,878
2001	$ 0	$ 94,112	$ 11,935	$ 2,127	$ 80,051
2002	$ 26,355	$ 93,499	$ 13,643	$ 1,906	$ 107,545[3]
2003	$ 105,079	$ 91,405	$ 13,725	$ 2,218	$ 180,561
2004	$ 46,520	$ 86,567	$ 14,686	$ 2,263	$ 116,138
2005	$ 49,393	$ 81,253	$ 6,228	$ 2,202	$ 122,236
2006	$ 164,417	$ 87,927	$ 0	$ 2,131	$ 250,213
2007	$ 191,336	$ 98,352	$ 0	$ 2,740	$ 286,948
2008	$ 242,970	$ 75,736	$ 0	$ 2,634	$ 316,080

1. In 1993, the FAC Trust Fund was initially considered available to pay a portion of the Insurance Corporation's FAC obligation for assistance to the FLB of Jackson.
2. In 1995, this provision was adjusted to reflect a change in the FAC Trust Fund's investment strategy and the termination of the FLB Jackson receivership making available additional funds to reduce the Insurance Corporation's related FAC obligation.
3. In 2002, the Corporation changed its method of amortizing investment premiums and discounts from the straight line to the interest method. The cumulative effect on prior years of $3.2 million was included in 2002 net income.

Corporate Staff

Dorothy L. Nichols	Chief Operating Officer
Alan J. Glenn	Director of Risk Management
C. Richard Pfitzinger	Chief Financial Officer
James M. Morris	General Counsel
Phyllis Applebaum	Financial Analyst
William Fayer	Financial Analyst/Asset Assurance Manager
Jeremy Del Moral	Financial Analyst
Pam Ngorskul	Accountant
Anna Lacey	Administrative Specialist
Molly Sproles	Administrative Management Assistant

Contact Information

Copies of Farm Credit System Annual Reports to Investors and Quarterly and Annual Information Statements may be obtained from

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(201) 200-8000

Copies of the Annual Performance and Accountability Reports of the Farm Credit Administration and the FCA's Annual Report on the Farm Credit System may be obtained from

Office of Congressional and Public Affairs
Farm Credit Administration
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