Description of document: Five (5) Farm Credit System Insurance Corporation (FCSIC) corporate policies, 2011-2017

Requested date: January 2017

Released date: 21-February-2017

Posted date: 05-March-2018

Source of document: Freedom of Information Officer
Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102-5090
Fax: 703-790-9088
Email: FCSICFOIAOfficer@fcsic.gov

From: Agans, Autumn <AgansA@fca.gov>
Sent: Tue, Feb 21, 2017 9:43 am
Subject: FOIA Request - FCSIC # 17-005

This letter is in response to your Freedom of Information Act, 5 U.S.C. § 552 (FOIA), request to the Farm Credit System Insurance Corporation (FCSIC or Corporation). You have requested six specific corporate policies.

We have conducted a thorough search of the Agency's records and located 33 pages responsive to your request, which are enclosed in their entirety. To note, two of the policies you requested have now been consolidated into one document. Thus, we are providing 5 separate policies instead of 6, however, the content is the same, and includes the 6 subjects you requested. Please note that several of these policies are available at fcsic.gov.

Generally, the Corporation may charge fees to cover the full allowable direct cost of searching for and reproducing records responsive to a request for information. 12 C.F.R. § 602.11. However, we have decided to waive fees in this instance because the amount is de minimis.

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of FOIA. See 5 U.C.S. § 552(c) (2006 & Supp. IV (2010)). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all our requesters and should not be taken as an indication that excluded records do, or do not, exist.

I trust this information fully satisfies your request. If you need further assistance or would like to discuss any aspect of your request, please do not hesitate to contact me at 703.883.4082 or AgansA@fca.gov. FCA's FOIA Public Liaison is also available for assistance at FOIAPublicLiaison@fca.gov.

Autumn R. Agans
FOIA Officer
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102

Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Internal Control and Audit Coverage Policy Statement

BM-12-JAN-17-01

Effective Date: January 12, 2017

Source of Authority: Sections 5.53, 5.58, 5.59 of the Farm Credit Act of 1971, as amended (12 U.S.C. §§ 2277a-2, 2277a-7, 2277a-8).

Effect on Previous Action: Replaces the current Internal Control and Audit Coverage Policy and Audit Charter approved by the Board on December 8, 2011 [BM-8-Dec-11-03].

THE FCSIC BOARD HEREBY APPROVES:

- The revised Policy on Internal Controls and Audit Coverage and the Audit Committee Charter.

DATED THIS 12TH DAY OF JANUARY 2017

BY ORDER OF THE BOARD

Dale L. Aultman

Dale L. Aultman
Secretary to the Board

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY ON INTERNAL CONTROLS AND AUDIT COVERAGE

Purpose

The purpose of this policy is to ensure:

- the quality, integrity and transparency of FCSIC's operations and financial reports;
- FCSIC's compliance with all applicable legal requirements and prudent business practices; and that
- FCSIC management carries out the Board's commitment to a strong system of enterprise risk management and internal controls.

Background

The Farm Credit System Insurance Corporation (Corporation or FCSIC) Board of Directors (Board) has demonstrated its commitment to accurate and transparent financial reporting since 1990 by directing the preparation of financial statements and requiring an annual independent audit of those statements in voluntary compliance with the primary requirements of the Chief Financial Officers Act of 1990. The results of the audit are published each year in the Corporation's Annual Report, which is mailed to stakeholders and posted on the Corporation's web site.

Since 1981, the Office of Management and Budget (OMB) Circular No. A-123 (A-123) and the Federal Managers' Financial Integrity Act (FMFIA) have been at the center of Federal requirements to improve accountability in Federal programs and operations. In July 2016, OMB updated Circular A-123 by adding enterprise risk management to an agency's internal control process. According to this revised policy, the efficient and effective operation of the Corporation is promoted by an integrated risk management and internal control system that includes not only accounting controls but also administrative controls over its business activities to ensure attainment of program goals and objectives, compliance with all applicable statutes, and accurate and timely external financial reporting. Management is responsible for designing and implementing an enterprise risk management program and internal control process throughout the entire organizational structure and areas relative to strategic decisions, budget, program management, and operations support. In designing an enterprise risk management program, management must identify risks, quantify them, and establish a risk tolerance threshold so that corrective action options for control deficiencies can be selected. Possible corrective action options include acceptance, avoidance, mitigation, and transfer/sharing of the risk.

Adequate internal controls over financial reporting and the assessment of the effectiveness of these controls serve to enhance the quality of reporting, identify any potential weaknesses, and maintain confidence in stakeholders of Corporation reports. Thus, FCSIC management makes representations three times a year on the adequacy of the internal control environment. Management reviews internal controls and compliance with laws and policies in its management representation letters to the independent external auditor for the special purpose audit for government yearend as requested by OMB, and its calendar yearend General Accepted Accounting Principle (GAAP) based financial statement audit. FCSIC management also makes representations on the adequacy of internal controls in its annual report to Congress and OMB pursuant to the FMFIA.

OMB designated FCSIC a "significant" component agency for the purpose of the combined financial statements of the U. S. Government due to the size of its balance sheet. OMB requested a special purpose audit as part of FCSIC's filing of the fiscal yearend reports. The independent auditor, following the agreed-upon procedures and the materiality threshold approved by the Government Accountability Office (GAO), the auditor for the financial statement of the U. S. Government, audits the Corporation's material line items such as investments in U.S Treasuries and the premium receivables as of September 30th. The special purpose audited financial statements for fiscal yearend are then included in the Financial Report of the United States Government.

The calendar yearend GAAP audit provides assurance to Congress and other stakeholders of the Corporation. It is included in the Corporation's annual report to Congress. The audited calendar yearend financial statements are also included in the Federal Farm Credit System Funding Corporation's annual information statements. Regardless of calendar or fiscal yearend audits, the independent auditor conducts its audits in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United, and Office of Management and Budget Bulletin for the applicable year, *Audit Requirements for Federal Financial Statements.*

Traditionally, the independent auditors considered the Corporation's internal control to determine the appropriate audit procedures for the purpose of expressing an opinion on the financial statements. Although their report on internal control over financial reporting includes any control deficiencies that come to their attention, the objective of the report is not to express an opinion regarding the effectiveness of the Corporation's internal controls. Therefore, the independent auditor does not express an opinion in its *"Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with U. S. Government Auditing Standards"* on the effectiveness of the Corporation's internal control. To increase the integrity of the Corporation's financial reporting, FCSIC will augment its audit policy to require, effective beginning for the 2017 calendar yearend audit, the independent auditors to annually attest to and report on the effectiveness of its internal controls over financial reporting.

To establish its commitment to the concept of a strong enterprise risk management and internal control system, and provide clear direction to management, the Board adopts the following policy statement.

Policy Statement

The Corporation shall establish and maintain a comprehensive risk management process and integrate it with a cost effective system of accounting and administrative internal controls to provide the following reasonable assurances that:

i. All goals and objectives of the Corporation are planned and carried out in accordance with applicable provisions of laws, regulations and Board policies;

ii. All obligations and costs are safeguarded against waste, loss, or unauthorized use;

iii. All funds, property, and other assets are safeguarded against waste, loss or unauthorized use;

iv. All revenues and expenditures applicable to Corporation operations are properly recorded and accounted for to maintain accountability over the assets and to permit the preparation of financial statements in accordance with generally accepted accounting principles and the requirements set out in U.S. Department of Treasury's Financial Manual (TFM); and

v. All programs and administrative activities are managed efficiently to fulfill the mission of the Corporation.

The establishment and maintenance of the Corporation's internal control system shall be executed in accordance with the Board's direction, the requirements of the FMFIA, and guidelines set forth by the GAO and the OMB. The Corporation's internal control system shall include the following components:

- A financial management system that conforms to Federal Financial Management System Requirements;

- An enterprise risk management program which identifies, measures, and control risks;

- Certification by the officers who approve financial reports that those reports are financially accurate and that the Corporation is in compliance with applicable legal requirements that have a direct and material effect on those reports. The signatories will state in the certification that they have reviewed the reports. If anyone refuses to sign, then the person and reason for the refusal will be disclosed. The Corporation's annual report will be dated and signed or electronically approved by the FCSIC Chairman;

- An annual report to the Audit Committee of the review of the Vulnerability Assessment and corrective actions performed according to the requirements of the FMFIA;

- Policies and procedures that foster compliance with laws, regulations and government ethics, including annual ethics training and maintenance of a policy, procedures, and delegation manual related to administrative and program functions available to staff and reviewed and updated annually;

- Whistleblower Procedures that provide how employees may report suspected wrongdoing, how FCSIC officers will report complaints to the Audit Committee and how FCSIC will respond to employee complaints;

- An annual report by the Corporation's General Counsel to the Audit Committee on whistleblower activity affecting the Corporation.

- A financial statement audit conducted annually by an independent public auditor free of potential conflicts of interest. Corporation audit engagements shall be conducted in accordance with the Board's audit committee charter;

- To avoid conflicts of interest or the appearance thereof, the independent audit firm cannot have an accounting partner or concurring partner, or lead audit team member who was an employee, officer or director of the Corporation for the 12 months prior to contracting for audit services or within one year of its conclusion. In addition, the qualified public accounting firm must rotate the lead and reviewing audit partners after five consecutive years of service for a five-year time-out period;

- The independent auditor's attestation to, and report on, the effectiveness of the Corporation's internal control over financial reporting. The report, effective beginning with the 2017 calendar yearend audit, will state whether the internal control over the financial reporting process is effective, report internal control weaknesses, if any, and recommend corrective action, if needed;

- Regular reports from senior management to the Board addressing the Corporation's compliance and operational risk oversight responsibilities;

- Periodic operational audits conducted by an independent audit firm or other appropriate experienced consultant;

- Opening and annual audits of any receiverships; and

- Quarterly reports to the Board regarding the results of any audits conducted during the period and the status of incorporating any recommendations made by the auditors.

FARM CREDIT SYSTEM INSURANCE CORPORATION
AUDIT COMMITTEE CHARTER

Statement of Policy

The Farm Credit System Insurance Corporation (Corporation) has a Policy on Internal Controls and Audit Coverage that establishes audit requirements for its financial statements, operations and programs. To ensure the quality, integrity and transparency of its financial reports, the achievement of corporate objectives, and compliance with laws and regulations, Board of Directors (Board) shall exercise oversight of the Corporation's enterprise risk management program and internal control process by serving as the Audit Committee. The Audit Committee will maintain free and open communication between the Directors, the independent auditors, and the management of the Corporation.

Responsibilities

The policies and procedures will remain flexible, in order to best react to changing conditions and to ensure that the operational, accounting, and reporting practices of the Corporation are in accordance with all requirements and are of the highest quality.

The Board, as the Audit Committee, will:

- Review and approve the selection of independent auditors to audit the financial statements of the Corporation, including the attestation of the Corporation's internal control over financial reporting effective with the calendar yearend 2017 audit. The lead and reviewing audit partners may serve for no more than five consecutive years. They must rotate out of these roles for five years. If necessary, the Audit Committee may terminate the independent auditor. If the Board terminates an auditor, it shall disclose the reason for such termination.

- Require the independent auditor to report directly to the Audit Committee.

- Meet with the independent auditors as often as it determines necessary; at a minimum, the Audit Committee shall annually review the scope of the proposed audits for the upcoming engagements, the audit procedures to be utilized, and the reports, comments, or recommendations of the independent auditors upon conclusion of the engagements.

- Review with the independent auditors and Corporation management the adequacy and effectiveness of the accounting and administrative controls of the Corporation, and how management and the auditors evaluate materiality. Elicit any recommendations for the improvement of the internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.

- Annually review with the Corporation's management its risk management efforts to prevent fraud. Also, review, as necessary, with the Corporation's General Counsel complaints made by employees of questionable internal control, audit findings or suspected fraud pursuant to the Audit Committee Whistleblower Procedures.

- Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements. This includes management estimates for the Secure Base Amount in connection with premium assessments and the establishment of any allowances for loss or claims against the Farm Credit Insurance Fund.

- Review with the Corporation's staff their review, findings, and recommendations of the annual FMFIA internal control review.

- Review the financial statements contained in the annual report with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements as presented. Any changes in accounting principles should be reviewed.

- Review the results of any audits conducted during the year, including the OMB special purpose review of the fiscal year financial statements audit and the calendar yearend financial statements audit.

- Meet with the independent auditors without members of management present to discuss items including the independent auditors' evaluation of the Corporation's financial and accounting personnel and the cooperation that the independent auditors received during the course of the audit.

- Review the programs and policies of the Corporation that are designed to ensure compliance with applicable laws and regulations and monitor the results of these compliance efforts.

- Obtain and evaluate a report on the independent auditors' internal quality control procedures, any issues raised by the most recent internal quality control review or peer review and the steps taken to deal with any such issues.

- Obtain a list of any relationships between the auditors and any other entity (such as a Farm Credit System institution) that may reasonably bear on the auditors' independence.

- Review and pre-approve the selection of auditors and scope for any non-financial audit engagements.

- Reaffirm to Corporation employees that they may submit a confidential report of questionable internal control, audit findings or suspected fraud to the Audit Committee directly or via the Audit Committee Whistleblower Procedures.

- Determine whether to investigate any relevant matter brought to its attention.

- Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Board deems necessary or appropriate.

Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON
Policy Statement Concerning Environmental Hazards Assessment
BM-20-JAN-11-03

Effective Date: 20-JAN-11

Effect on Previous Actions: Replaces Policy on Environmental Hazards dated October 27, 1992

Source of Authority: Section 5.58, Farm Credit Act of 1971, as amended, 12 U.S.C. § 2277a-7; Bylaws of the Farm Credit System Insurance Corporation, Articles IV, VIII, and X (as revised) [BM-12-SEP-06-05].

THE FCSIC BOARD HEREBY APPROVES:

Policy Statement Concerning Environmental Hazards Assessment

DATED THIS 20th DAY OF JANUARY 2011

BY ORDER OF THE BOARD

Dale L. Aultman

Dale L. Aultman
Secretary to the Board

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY STATEMENT CONCERNING ENVIRONMENTAL HAZARDS ASSESSMENT

OBJECTIVE

The objective of this Policy Statement is to minimize risk by requiring staff to make informed judgments and decisions on asset dispositions related to environmental risks in recognition of applicable laws and regulations.

BACKGROUND

The Farm Credit System Insurance Corporation (FCSIC or Corporation) was established by the Agricultural Credit Act of 1987, which amended the Farm Credit Act of 1971. The principal objective of the FCSIC is to protect the investors in System-wide and consolidated securities issued by Farm Credit System (System) banks. The Corporation may, from time to time, hold an interest in various types of assets. These assets may have come under the control of the Corporation in its capacity as receiver or conservator, or they may be assets held in its corporate capacity. Therefore, this Policy applies to corporate assets, as well as receivership and conservatorship assets.

Section 4.12(b) of the Farm Credit Act of 1971, as amended (Act), 12 U.S.C. 2183, states that the Farm Credit Administration (FCA) Board shall have exclusive power and jurisdiction to appoint a receiver or conservator. The receiver or conservator for a System institution other than the Federal Agricultural Mortgage Corporation (FAMC)[1] shall be the Corporation. Section 5.61(a) of the Act authorizes the Corporation, in its sole discretion, to purchase the assets of a bank or direct lender association in order to facilitate a merger or consolidation, in order to prevent the placing of such institution in receivership, to restore the bank to normal operation, or to reduce the risk to the Corporation when severe financial conditions threaten the System. Section 5.61(b) of the Act sets forth the separate authority of the Corporation to, in its discretion, liquidate or sell any part of the assets of any System institution that have been placed in receivership because of the institution's inability to pay its obligations in a timely manner. In addition, FCSIC in its corporate capacity may choose to purchase certain assets.

In disposing of assets under its control, FCSIC's primary objective is to minimize losses to the Farm Credit Insurance Fund (Insurance Fund) or the receivership/conservatorship. Environmental issues have the potential to adversely affect the value of assets and to create liabilities if assets subject to environmental contamination are acquired. Therefore, the Board of Directors (Board) of the Corporation establishes this Policy Statement to provide environmental risk guidance to avoid actions that may potentially result in losses or liabilities, while fostering compliance with all relevant laws and regulations.

[1] The FCSIC may also act as receiver or conservator for FAMC if appointed by the Farm Credit Administration.

LAWS PROTECTING THE ENVIRONMENT AND SPECIAL RESOURCES

There are numerous federal, state, and local laws pertaining to environmental quality and special resources. These laws address various issues including: water quality, air quality, environmental pollutants, historical and natural resources, cultural sites, natural landmarks, and endangered species, and impose requirements on certain properties. Failure to comply with applicable laws may adversely affect value. One of the most significant laws related to environmental issues is the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 which established regulatory authority, accountability, a liability scheme, and a cleanup fund. Other key environmental laws include: Federal Insecticide, Fungicide and Rodenticide Act, Clean Air Act, National Historic Preservation Act, Wild and Scenic Rivers Act, Coastal Zone Management Act, Clean Water Act, Endangered Species Act, Safe Drinking Water Act, Emergency Wetlands Resources Act, Resource Conservation and Recovery Act, and the Coastal Barrier Improvement Act. As part of any environmental asset disposition assessment, the Corporation should evaluate and comply with the relevant laws and regulations.

TYPES OF RISK AND SIGNIFICANCE OF ENVIRONMENTAL AND SPECIAL RESOURCE ISSUES

Significant risks can be incurred due to environmental issues. The value of real property can be adversely affected by environmental contamination. Special resource designations may also affect values and asset disposition decisions. In addition, legal liability for hazardous conditions and cleanup costs may exceed the value of an asset[2]. Risk can increase significantly by taking title to property held as collateral when environmental hazards are present.

FCSIC ENVIRONMENTAL POLICY

All real estate owned (REO), all real estate that is security for non-performing loans, as well other real estate assets which may come under the Corporation's control should be screened for environmental issues.

This Policy addresses both environmental and special resource issues related to the broad range of real properties (e.g., agricultural, commercial, and industrial). Environmental hazards pose a health and/or safety risk to workers or the public. Special resource assets include those with natural, cultural, recreational or scientific values of special significance. This Policy Statement on environmental and special resources is provided to assist in limiting exposure to risk and ensure compliance with applicable laws.

The environmental issues focus on the risk of environmental contamination and the related costs and potential liabilities. This may be related to contamination from chemicals or waste during normal farming operations or from spills or leaks of hazardous substances. The special resource issues are incorporated in this Policy due to the potential impact on asset disposition actions and environmental contamination on properties with special significance as defined by law.

[2] It is reported that the FDIC is finding that up to one quarter of properties in foreclosure have environmental concerns that impact the value of the property. Environmental Risk Innovations, LLC Publication Volume 2, No.1; ERI, founded in 2000, is the nation's largest environmental risk management consulting firm that specializes in risk management services for commercial lenders worldwide.

Examples of these natural resource management initiatives that are incorporated into law include the following categories: wetlands, endangered species habitat, sole source aquifers, coastal plains, archeological resources, and historical sites.

Whenever the loan documentation, borrower interview, or site visitation indicate an environmental concern, a more detailed structural investigation may be warranted. This Policy provides guidance for a structured environmental risk assessment program that will support the overall objectives of minimizing risk. The implementation procedures should incorporate the steps necessary to comply with relevant laws and regulations and limit risk by performing appropriate due diligence to assess risk and make informed decisions on asset servicing and disposition strategies. These procedures should be based on laws, regulations, and industry standards and guidance as provided by other agencies (e.g., Environmental Protection Agency) and environmental industry specialists (e.g., National Registry of Environmental Professionals and National Association of Risk Auditors).

This more detailed assessment may include surveying prior owners of the property, researching past uses of the property, inspecting the site and contiguous parcels, and reviewing records for past use or disposal of hazardous materials. A review of public records and contact with federal and state environmental protection agencies may help determine whether the company has been cited for violations of environmental laws or listed as a property with significant environmental contamination.

<u>Environmental Risk Assessment</u>

Environmental risk assessment is a priority. The information obtained through an environmental risk assessment will not only assist in determining appropriate asset disposition, but will help to determine the property's value and the marketing strategy. Except for unusual and compelling circumstances, the environmental risk assessment steps should be completed prior to: foreclosing and taking title to property; becoming mortgagee in possession; leasing, marketing, or selling the asset; or, terminating the receivership and transferring the remaining assets. The risks of non-compliance with this Policy include potential reduced (or negative) recovery to the Corporation and exposure to federal or state enforcement actions, lawsuits, criminal sanctions, or civil penalties. Since environmental issues can become very high profile in the press; improper handling of environmental issues may also result in unwarranted publicity and controversy.

<u>Assistance from Outside Experts</u>

Whenever the complexity of the environmental issue is beyond the expertise of the Corporation's staff or its contractor, the Corporation should consult legal counsel, environmental consultants or other experts throughout the environmental risk assessment process. Outside attorneys will likely be required to assist in compliance with environmental laws and regulations and specifically with environmental warranty and disclosure issues related to asset sales. For example, specialists will typically be required for the completion of an environmental site assessment or to meet the requirements of the Environmental Protection Agency's "all appropriate inquiry rule" which states that the individual conducting the investigation and signing the report must meet the definition of an "Environmental Professional." See 40 CFR §

312.10. This rule establishes, among other things, protection from cleanup for a new owner of property as long as the owner meets certain statutory requirements. Therefore, it is essential that outside experts meet necessary qualifications in order to limit liability.

The environmental risk assessment should continue during the life of the conservatorship or receivership or as long as the Corporation controls the asset. If contractor expertise is used, Corporation staff should require periodic reports on assets subject to environmental risk.

Environmental Remediation Options

If environmental remediation is required due to contamination, the Corporation can take several options dependent upon the circumstances. These include: emergency remediation action when immediate or potential leaks of hazardous materials are discovered; limited remediation actions; allowing the buyer to complete the remediation actions through the use of a Buyer Remediation Agreement; and marketing the property "as is" without a Buyer Remediation Agreement. Guidance on these options follows.

1. Emergency Environmental Hazards

   There is the potential that an environmental emergency may require immediate action. An environmental emergency is basically the release of pollutants or hazardous substances that could endanger public health or safety and will likely require regulatory reporting and cleanup. The emergency may be the result of leaks or potential leaks of hazardous materials. For example, containers of hazardous material may be leaking or appear damaged or aged to the extent that preventive measures and emergency removal are necessary.

   If an environmental emergency is apparent, an environmental expert should be contacted immediately to assess the situation and make recommendations as to the extent of leaks, damages and potential damages, reporting requirements, the cleanup process and estimated cleanup costs. FCSIC executive management will be immediately notified, attorneys will be consulted, regulatory agencies with jurisdiction will be contacted, and remediation actions will be taken.

2. Corporation Remediation of Limited Contamination Occurrences

   In addition to remediation actions under emergency conditions (discussed in item 1 above), the Corporation will perform remediation actions under the following circumstances:

   - Under an affirmative obligation imposed by law to take action with respect to contamination of property.
   - When remediation action is routine, small scale, or can be expeditiously completed and thereby significantly enhance the marketability of REO.
   - When there are no willing buyers or other transferees who will accept the property even if the Corporation funds the remediation escrow deposit and the remediation is reasonably anticipated to maximize the net present value return from the sale or transfer of the property or minimize the loss from the asset.

3. Marketing of Property Utilizing a Buyer Remediation Agreement

   A Buyer Remediation Agreement (Agreement) is to be utilized in certain situations to market contaminated REO properties. This would be done when it minimizes the Corporation's legal liability and/or allows for the expeditious transfer of title and lowers the holding costs.

   Prior to developing an Agreement, appropriate due diligence will be completed in the form of Environmental Site Assessments (ESAs) in order to determine the type(s), level(s), and amount(s) of contamination present. The potential liability issues will be explored and resolved to the extent possible and will include discussions with environmental experts, attorneys, and regulatory agencies having jurisdiction over the hazardous condition. The legal decision will be based on consideration of such things as: corporate liability in various transfer scenarios; probable risk of corporate liability (e.g., exceeding 60 percent); requirements of state transfer statutes; resolution of pending or threatened litigation; emergency hazards requiring immediate actions; and, cost of remediation exceeding the value of the property.

4. Marketing of Property "As Is" Without a Buyer Remediation Agreement

   REO property not meeting the criteria for the use of a Buyer Remediation Agreement may be marketed and sold "as is" without the Agreement.

Reporting to the Board

Whenever assets owned or managed by the Corporation or its contractors are exposed to environmental risk, staff should report on the extent of the risk and remediation progress at least quarterly to the FCSIC Board. When contractor expertise is used, FCSIC will require reporting on assets subject to environmental risk.

COPY

Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Policy Statement on Strategic Planning
BM-24-APR-12-02

Effective Date: 24-APR-12

Effect on Previous Action(s): Will replace the Policy on Strategic Planning approved January 13, 1994. [BM-13-JAN-94-04]

Source of Authority: Sections 5.52, 5.53 and 5.58, Farm Credit Act of 1971, as amended; Government Performance Results Act of 1993, as amended; Bylaws of the Farm Credit System Insurance Corporation (as revised) [BM-12-SEP-06-05]

THE FCSIC BOARD HEREBY APPROVES THE:

- The Policy Statement on Strategic Planning, and
- Authorizes the staff to make any technical, grammatical or syntactical changes that may be necessary.

DATED THIS 24th DAY OF APRIL 2012

BY ORDER OF THE BOARD

Dale L. Aultman

Dale L. Aultman
Secretary to the Board

FARM CREDIT SYSTEM INSURANCE CORPORATION
POLICY STATEMENT ON STRATEGIC PLANNING

The Farm Credit System Insurance Corporation (FCSIC or Corporation) is committed to a strategic planning process designed to meet the Corporation's needs and comply with the Government Performance and Results Act (GPRA), as amended, and Office of Management and Budget (OMB) guidance. FCSIC's strategic plan defines its mission, long-term goals, and the approaches it will use to execute the plan and carry out its mission. The strategic plan is a commitment to perform, describing goals FCSIC aims to achieve, the actions it will take to realize those goals, and how it will deal with challenges and risks that may hinder achieving results.

The strategic plan will explain why specific long-term goals and strategies were chosen. These long-term goals will be translated into annual goals and reflected in FCSIC's annual performance plan. FCSIC will update performance goals in the annual performance plan as necessary to help it achieve the long-term goals established in the strategic plan. FCSIC will also comply with the GPRA Modernization Act of 2010 by publishing the strategic plan on the FCSIC website and notifying the President, Congress, the Farm Credit System and other stakeholders of its availability.

The strategic planning process is intended to promote sound corporate decision-making in the use of the Corporation's resources. Management will seek guidance and input from the Board of Directors during the planning process. The Board of Directors will review and approve the strategic plan, the operating budget and the annual performance plan. The Chief Operating Officer is responsible for providing leadership and direction in implementing the strategic plan and the annual performance plan. Progress in implementing the plans will be reported to the Board of Directors quarterly. Any substantive revisions to the strategic plan and the annual performance plan must be approved by the Board of Directors.

The Corporation's strategic planning process will provide for:

- A well-defined approach that promotes transparency, participation and collaboration with stakeholders to accomplish the Corporation's mission.
- Long-term strategic goals and objectives that may be expressed in outcome terms with selected performance measures/indicators that are included in the Corporation's annual performance plans.
- Explicitly stated goals, objectives, and indicators for measuring performance for each of the Corporation's programs. These will consist of:
    - Strategic Goal(s) – These goal(s) should be outcome-oriented, long-term goals for FCSIC's mission.
    - Strategic Objectives – The principal program elements that support achievement of FCSIC's long term strategic goal(s).
    - Performance Goals – A target level of performance against which actual achievement or progress can be compared, and expressed as a tangible, measureable objective or as a quantitative standard.

Other elements of the planning process include:

- A strategic plan that aligns resources and guides decision-making to accomplish priorities and improve outcomes. It should inform agency decision-making about the need for new service contracts, updated information technologies, and any change in the Corporation's business model that requires substantial new hiring or skill development.
- Identification and analysis of external factors beyond the Corporation's control that could significantly affect achievement of its goals.
- Strategies - Program strategies FCSIC will take to achieve its goal(s) and the processes, workforce needs, technology, and other resources needed to carry out its mission and achieve its goals.
- A process that promotes input from the Farm Credit System, Farm Credit Administration, OMB, Congress, as well as investors and other public stakeholders.
- A six-year planning horizon with the strategic plan updated every three years.
- An annual performance plan as required by GPRA and OMB guidance that reflects the Board of Directors' approved goals.
- Integration with the budget development process. Operating budgets will be developed for the current year and one outyear in accordance with OMB guidelines.
- Emphasis on quality and cost effectiveness in implementing the Corporation's programs.
- Publication for comment and release of the final Board-approved strategic plan using OMB's web portal and FCSIC's website.
- A fiscal year-end performance exception report and a report that highlights plan accomplishments.

The Corporation will publish an annual report in accordance with section 5.64 of the Farm Credit Act of 1971 as amended (Act), 12 U.S.C. 2277a-13. This report will include an annual performance management report that describes:

- Every performance goal in the agency's annual performance plan, even if the goal was discontinued after that fiscal year.
- Performance goals where actual performance information is missing, incomplete, preliminary, or estimated.
- Historical performance trends in a table/chart showing the goals set forth in FCSIC's annual performance plan.

The Corporation will coordinate with the Farm Credit Administration regarding reimbursable services.

Attachments:
Appendix I: Definitions
Appendix II: Timeline of Key Recurring Activities

DATED THIS 24TH DAY OF APRIL, 2012

BY ORDER OF THE BOARD OF DIRECTORS

Appendix I: Definitions in the Policy Statement on Strategic Planning, Dated April 24, 2012

a. **Annual Report.** A document approved by the Board of Directors and submitted annually to the appropriate committees of the United States Congress and made available to the Farm Credit System, investors and other public stakeholders. It reports the Corporation's actual accomplishments related to each strategic objective and performance goal in the Corporation's annual performance plan for that year. This document fulfills a statutory requirement under the Government Performance and Results Act (GPRA) for the Corporation to submit to the Congress an annual performance management report. The Corporation has elected, in accordance with the authority provided in the Reports Consolidation Act, to consolidate several statutory reporting requirements, including the annual performance management report, into the annual report.

b. **Annual Performance Plan**. A document approved by the Board of Directors and submitted annually to the appropriate committees of the United States Congress that establishes mission-critical strategic objectives, annual performance goals and measures for the Corporation. These annual goals and measures are consistent with, and directly related to, the achievement of the Corporation's long-term strategic goal(s) and objectives, as articulated in its strategic plan. This document also includes a discussion of the Corporation's management of its key strategic resources. It fulfills a statutory requirement under GPRA.

c. **Corporate Operating Budget**. The document approved by the Board of Directors that provides annual budget and staffing authorizations organized by major expense category.

d. **Government Performance and Results Act**. The GPRA provides for the establishment of strategic planning and performance measurement in the Federal Government. The Corporation produces various documents in accordance with GPRA including the strategic plan, the annual performance plan and the annual performance management report.

e. **Performance Metrics**. A target level of performance against which actual achievement or progress can be compared, preferably expressed as a tangible, measurable objective or as a quantitative standard, value, or rate. This can include goals containing key milestones or goals framed as a position relative to the past or relative to peers.

f. **Quarterly Performance Report**. A report that highlights, on a quarterly basis, the progress of the Corporation in meeting the annual performance goals and measures established in the annual performance plan.

g. **Strategic Plan**. A document approved by the Board of Directors that articulates the Corporation's mission and establishes long-term strategic goals and objectives towards the accomplishment of the mission. This plan identifies high-level strategic goals and objectives for each of the Corporation's major program areas and provides an overall framework for the Corporation's planning processes, including the development of the annual performance plan. The strategic plan ordinarily covers a six-year period and is updated every three years. After approval by the Board of Directors, it is provided to the appropriate committees of the United States Congress, in accordance with the requirements of GPRA, and is available to the public on FCSIC's website.

Appendix II: Timeline of Key Recurring Activities, Policy Statement on Strategic Planning, Dated April 24, 2012

Note: Below is a list of key recurring activities central to the strategic plan. The list does not include many specific projects, initiatives, financial reports, ethics-related or intra-governmental reporting requirements. This timeframe is provided for exemplary purposes only. Specific timeframes will be established for the Corporation's various planning, operating budget and reporting processes on an annual basis.

January

The Board of Directors meets to establish the premium accrual rates for the coming year, review the quarterly FCS Risk Report and conduct other business.

Year-end financial statements and reports are produced. Annual report preparation begins.

Certified Statements are received from the banks and reconciled with premium accruals.

Year-end Insurance Fund balance, secure base amount (SBA) and amount of any excess are determined.

If the Insurance Fund exceeds SBA, the statutory allocation calculation is performed and, if appropriate, funds transferred into the Allocated Insurance Reserves Accounts (AIRAs).

The independent audit firm begins onsite work for year-end financial audit and compliance review.

Premiums are collected from System banks – January 31.

February

The independent auditors voucher premium payments.

Year-end audit continues.

Review of year-end Federal Farm Credit Banks Funding Corporation (Funding Corporation) draft disclosure items related to the Insurance Fund or FCSIC.

The Investment Committee meets to review the investment portfolio and make such investments as may be appropriate. (The Committee meets at least once per quarter.)

March

The Quarterly Allowance for Losses Report is completed. Results are presented to the Board of Directors at their next quarterly meeting.

Annual plan for special examinations is updated and shared with FCA.

April

The Board of Directors meets to review the quarterly business, risk and annual plan progress reports and such other business as is appropriate. Sitting as the Audit Committee, the Board receives the report of the independent auditor on the year-end financial reports and compliance review.

The Investment Committee meets to review the investment portfolio and make such investments as may be appropriate.

Review the Funding Corporation's quarterly draft disclosure items related to the Insurance Fund or FCSIC.

May

The annual report is published on the FCSIC website.

Insurance Fund Adequacy model is updated and the results shared with the Board of Directors at their next quarterly meeting.

Funding Corporation's annual broker dealer meeting.

The printed version of FCSIC's annual report is distributed to stakeholders.

Staff attend economic and risk outlook briefings conducted by System banks.

June

GAO review of year-end financial audit, fiscal year audit, compliance review and auditor independence begins.

Review and update of the annual performance plan begins.

The Quarterly Allowance for Losses Report is completed. Results are presented to the Board of Directors at their next quarterly meeting.

The Board of Directors meets to consider revising the premium accrual rates for the second half of the year, review the quarterly business, risk and annual plan progress reports and such other business as is appropriate.

Premium audits begin.

July

Staff will provide support as requested to facilitate the Board of Directors Audit Committee meeting.

The Investment Committee meets to review the investment portfolio and make such investments as may be appropriate.

As part of the crisis communication readiness strategy, and to aid in development of the annual plan, hold annual meeting with outside experts.

Review the Funding Corporation's quarterly draft disclosure items related to the Insurance Fund or FCSIC.

August

Under the leadership of the Chief Operating Officer, Director of Risk Management and Chief Financial Officer, senior leaders review corporate workload assumptions, budget projections, and proposed adjustments to the baseline budget and high-level performance targets for the coming year. In addition, staff identifies contractor support, system development and technology requirements for the coming year, including the estimated costs of these projects.

Review the Funding Corporation's quarterly draft disclosure items related to the Insurance Fund or FCSIC.

September

The Board of Directors meets to consider revising the annual performance plan, the operating budgets for the coming fiscal and calendar years, review the quarterly business, risk and annual plan progress reports and such other business as is appropriate.

Once approved, the annual performance plan is submitted to the appropriate committees of the United States Congress and the President's Office of Management and Budget (OMB). The annual plan, including performance objectives for the coming year, is also disseminated to FCSIC staff.

Once approved, copies of the operating budgets for the coming year are sent to OMB.

Every three years, a revised strategic plan is reviewed and approved by the Board of Directors. Once approved, the strategic plan is submitted to the appropriate committees of the United States Congress and OMB.

The Quarterly Allowance for Losses Report is completed. Results are presented to the Board of Directors at their next quarterly meeting.

October

The independent auditor begins the fiscal year-end audit and compliance review.

The annual Federal Managers' Financial Integrity Act report is prepared. Results are shared with the Board of Directors. The report is sent to the President and the appropriate committees of the United States Congress by November 15.

The Investment Committee meets to review the investment portfolio and make such investments as may be appropriate.

Review the Funding Corporation's quarterly draft disclosure items related to the Insurance Fund or FCSIC.

Annual Equal Employment Opportunity report is filed with the Equal Employment Opportunity Commission.

November

Governmentwide Financial Report System fiscal year-end reporting is due to OMB and Treasury by November 15.

Annual Civil Monetary Penalty Report is filed with Treasury.

Annual Volunteer Community Service Report is filed with the USA Freedom Corps.

Improper Payments Information Act Report is filed with OMB.

Report on Payments from Non-Government Sources is filed with the Office of Government Ethics.

December

The Board of Directors meets to review the quarterly business, risk and annual plan progress reports and such other business as is appropriate.

The Quarterly Allowance for Losses Report is completed. Results are presented to the Board of Directors at their next quarterly meeting.

Risk Management staff hold annual meetings with senior FCA examination officials to review System performance and condition. This information is considered in the development of the premium rate recommendation for the coming year that is presented to the Board of Directors in January.

Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Policy Statement Concerning Insurance of Assets

BM-26-JAN-17-03

Effective Date: January 26, 2017

Source of Authority: Section 5.58, Farm Credit Act of 1971, as amended, 12 U.S.C. § 2277a-7; Bylaws of the Farm Credit System Insurance Corporation, Articles IV, VIII, and X.

THE FCSIC BOARD HEREBY:

- Approves the Policy Statement Concerning Insurance of Assets; and
- Authorizes and directs staff to take appropriate related actions to implement the Policy Statement and to make any technical or grammatical changes to the Policy Statement that may be necessary.

DATED THIS 26th DAY OF JANUARY 2017

BY ORDER OF THE BOARD

Dale L. Aultman

Dale L. Aultman
Secretary to the Board

ORIGINAL

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY STATEMENT CONCERNING INSURANCE OF ASSETS

Objective

The objective of this Policy Statement is to minimize losses by ensuring that adequate property and liability insurance coverage is in place in the event that the Farm Credit System Insurance Corporation acquires assets.

Background

Section 4.12(b) of the Farm Credit Act of 1971, as amended (Act), gives the Farm Credit Administration (FCA) Board the exclusive power and jurisdiction to appoint a conservator or receiver for a Farm Credit System Institution. FCA must appoint the Farm Credit System Insurance Corporation (the Corporation) as receiver or conservator for all System institutions – except Farmer Mac -- that it places into receivership or conservatorship. Pursuant to section 8.41(c), FCA may appoint the Corporation to act as receiver or conservator of Farmer Mac. The Corporation automatically succeeds to all rights, titles, powers and privileges of a System institution with respect to the institution's assets upon the Corporation's appointment as receiver.

Under section 5.61 of the Act, the Corporation may purchase the assets of any insured Farm Credit System (System) bank to prevent the placing of the bank into receivership; to restore the bank to normal operation; to reduce the risk to the Corporation posed by the bank when severe financial conditions threaten the stability of a significant number of insured System banks or of insured System banks possessing significant financial resources; or to facilitate a merger or consolidation.

Policy Statement

The Corporation's policy is to maintain adequate property and liability insurance coverage on: (1) all property or other assets acquired during the liquidation process; (2) collateral under the control of the Corporation[1]; and (3) any property for which coverage is appropriate that may be held by the Corporation through the normal course of business.

The Corporation has considered the alternative of self-insuring, as is done by other entities. However, the Corporation does not anticipate achieving either the necessary portfolio diversification or cost savings to justify the risk of self-insurance. This is because the likely concentration of assets by type and geographic location would not fit a self-insurance model. Corporation staff will continue monitoring the number and type of assets under Corporation control and may recommend a change in this policy if warranted.

[1] This applies in instances where borrowers fail to maintain adequate insurance coverage under the terms of their loan contracts and agreements.

TYPES OF INSURANCE

1. Blanket/Multi-Peril Insurance

Property and liability insurance coverage for assets is normally obtained by purchasing a blanket/multi-peril insurance policy from an insurer with a Financial Strength Rating from A.M. Best Company of B+ or better and is licensed to provide the required coverage in the state where the property is located. The Corporation will solicit, as needed, proposals from qualified insurance providers who may be called upon to provide coverage for acquired assets. The policy must cover risk of direct physical damage and third party liability. All assets eligible for insurance are to be reported to the insurer and covered under the blanket policy.

- **Covered Property**

  Examples of the types of property in which the Corporation may have an insurable interest that may be covered under a blanket/multi-peril insurance policy are as follows:

  - Residential dwellings and buildings
  - Commercial buildings
  - Unimproved land (liability coverage only)
  - Farms (considered commercial property)
  - Farm equipment
  - Commercial and office furniture, fixtures, and equipment
  - Mobile homes (considered personal property)
  - Aircraft (not in operation)
  - Boats (in storage)
  - Fine art and art objects

- **Exclusions from Coverage**

  The following types of assets are generally excluded from coverage:

  - Aircraft in operation
  - Drilling rigs in operation
  - Livestock
  - Growing crops or standing timber
  - Land, trees, shrubs, or lawns
  - Boilers
  - Boats in operation
  - Currency, coin, money, bullion, or precious metals
  - Valuable papers and records, deeds, evidence of debt, notes, or securities
  - Jewelry, precious stones, or furs
  - Docks, wharves, piers, or pilings
  - Roads, sidewalks, or pavements

- Property sold under conditional sales contracts, trust agreements, installment plans, or other deferred payment plans after delivery to the purchaser.

- **Owned Vehicle/Repossessions**

  When appropriate, the blanket/multi-peril insurance policy will be expanded to provide coverage for all owned repossessions (automobiles, trucks, tractors, equipment, bulldozers, etc.). At a minimum, the policy should provide the following types of coverage: public liability, bodily injury, property damage, comprehensive, and collision.

- **Force Placed Insurance on Collateral Not in Possession**

  Loan contracts commonly include in the body of the document, or by way of a separate signed insurance agreement, a requirement that the borrower maintain sufficient and acceptable insurance coverage on loan collateral. Such contracts usually require that the lender be named as mortgagee or loss payee and that the borrower provide a copy of the policy or acceptable evidence of same to the lender. The agreement may also state that in the event the borrower fails to provide coverage, the lender may secure insurance coverage and charge the borrower for the premiums advanced for that protection. When appropriate, the Corporation shall exercise these contractual rights and force place coverage under the blanket/multi-peril insurance policy.

- **Assets Excluded from Blanket/Multi-Peril Insurance Policy**

  In the event that insurance coverage is needed on assets excluded from the blanket/multi-peril insurance policy, Corporation staff shall endeavor to obtain appropriate protection.

2. <u>Public Liability Insurance</u>

When appropriate, the Corporation will obtain a comprehensive general liability policy providing automatic public liability coverage on field liquidation offices and other real property acquired in the liquidation process. This coverage should apply to both owned and rented properties.

3. <u>Flood Insurance</u>

When appropriate, the Corporation will obtain adequate flood insurance for those properties that are located within delineated flood zones.

4. <u>Real Estate Owned (REO) Upon Which Business is Being Conducted</u>

If the Corporation comes into possession of REO upon which business is being conducted, the insurance broker must be contacted for guidance before reporting the property for coverage. This guidance is important since unique insurance coverage (e.g., product or environmental liability) may be required when the Corporation becomes involved.

ERRORS AND OMISSIONS

The Corporation will attempt to obtain coverage that will extend to properties that may be omitted in error from the inventory report. This provision does not, however, relieve the Corporation or contract personnel from the responsibility to report property for coverage on a prompt and timely basis.

DATED THIS 26th DAY OF JANUARY, 2017

BY ORDER OF THE BOARD OF DIRECTORS

Dale L Aultman BM26-JAN-17-03

Dale L. Aultman
Secretary to the Board

Farm Credit System Insurance Corporation

BOARD ACTION

FCSIC BOARD OF DIRECTORS ACTION ON

Policy Statement Concerning Insurance Premiums and Frequently Asked Questions about Premiums

BM-26-JAN-17-04

Source of Authority: 12 U.S.C. § 2277a-4; Bylaws of the Farm Credit System Insurance Corporation.

Effect on Prior Action: The Policy Statement Concerning Insurance Premiums will replace the "Policy Statement on Insurance Premiums" [BM-8-DEC 11-02] and the "Policy Statement on the Secure Base Amount and Allocated Insurance Reserve Accounts" [BM-8-DEC-11-02], both adopted December 8, 2011.

Effective Date: January 26, 2017

THE FCSIC BOARD HEREBY:

- Approves the Policy Statement Concerning Insurance Premiums and Frequently Asked Questions about Premiums.

DATED THIS 26th DAY OF JANUARY 2017

BY ORDER OF THE BOARD

Dale L. Aultman
Secretary to the Board

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY STATEMENT CONCERNING INSURANCE PREMIUMS

ORIGINAL

Background:

The Farm Credit Act of 1971, as amended (Act) established the Farm Credit System Insurance Corporation (FCSIC or Corporation) to, among other things, insure the timely payment of principal and interest on Farm Credit System obligations.[1] Section 5.55 of the Act mandates that the Corporation build and manage the Farm Credit Insurance Fund (Insurance Fund) to attain and maintain a secure base amount (SBA), defined as 2 percent of the aggregate outstanding insured obligations of all insured System banks (excluding a percentage of State and Federally guaranteed loans and investments) or such other percentage of the aggregate amount as the Corporation in its sole discretion determines is actuarially sound. The Farm Credit System Reform Act of 1996[2], amended section 5.55 of the Act to establish in the Insurance Fund an Allocated Insurance Reserves Account (AIRA) for the benefit of each insured System bank and an AIRA for the Farm Credit System Financial Assistance Corporation (FAC) stockholders; allocate any excess balances above the SBA to these AIRAs; and make partial distributions of the excess funds in the AIRAs. Congress, by enactment of the Food, Conservation, and Energy Act of 2008 (FCE Act),[3] amended the provisions of the Act that govern FCSIC premiums, the SBA, and AIRAs to incorporate the Corporation's recommendations concerning calculation of premiums and the SBA, and the simplification of the provisions governing AIRAs. In 2009 the Corporation adopted final regulations implementing the amended provisions of the Act governing FCSIC premiums, the SBA and AIRAs.[4]

Section 5.55(a) of the Act provides that for any calendar year in which the Insurance Fund does not exceed the secure base amount, the premium due from any insured System bank shall be equal to 20 basis points (0.2%) of the adjusted amount of the "average outstanding insured obligations issued by the bank for the calendar year" (plus a 10 basis points (0.1%) surcharge for nonaccrual loans and other-than-temporarily impaired investments). Section 5.55(a)(3) of the Act gives FCSIC, in its sole discretion, authority to uniformly reduce the percentage charged to each System bank below the statutory 20 basis points.

Applicability:

The Act and FCSIC rules govern the calculation of the secure base amount, the determination of any excess above the SBA, the method for allocating any excess to the AIRAs, and the method for making payments from the AIRAs to accountholders.

This policy statement will govern how and when FCSIC will use its statutory discretion to reduce premiums below the statutory 20 basis points and to adjust premiums in response to changing conditions.

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[1] The Agricultural Credit Act of 1987, Pub. L. No. 100-233 (1988), amended the Farm Credit Act of 1971 to establish the Farm Credit System Insurance Corporation. (12 USC §§ 2277a-1 et seq.)

[2] Pub. L. No. 104-105, 110 Stat. 162 (1996).

[3] Pub. L. No. 110-234, Pub. L. No. 110-246, 122 Stat. 1651 (2008).

[4] *See* 12 C.F.R. §§ 1410.3 – 1410.7.

Policy Statement:

The Corporation's Board of Directors (Board) will review the premium assessment schedule at least semiannually in order to determine whether to exercise its discretion to adjust the premium assessments in response to changing conditions. The Board may reduce the premiums when conditions warrant and raise premiums to the statutory level if, for example, the amount of insured obligations increases, or the Insurance Fund suffers a significant loss or if bank capital or collateral decreases significantly before the secure base amount is achieved.

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

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

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

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

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

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

In its review of the premium assessments, the Board will consider multiple scenarios that reflect the impact of potential growth in Farm Credit System debt levels on the time required to achieve the secure base amount. The Corporation will strive to maintain the secure base amount while the Farm Credit System is in good health. The premium on adjusted average outstanding insured obligations will be set between zero and the statutory rate of 20 basis points. The Board will not reduce the 10 basis points premium on the average principal outstanding on loans in nonaccrual status and the average amount outstanding of other than temporarily impaired investments to continue providing an incentive for sound credit extension and administration and sound investment policy.

DATED THIS 26th DAY OF JANUARY, 2017

BY ORDER OF THE BOARD OF DIRECTORS

Dale L. Aultman BM26-JAN-17-04

Dale L. Aultman
Secretary to the Board

Farm Credit System Insurance Corporation
Frequently Asked Questions about Premiums

Introduction

The Farm Credit System Insurance Corporation (FCSIC), a government-controlled independent entity, maintains the Farm Credit Insurance Fund to insure the timely payment of principal and interest on the debt obligations jointly issued by the Farm Credit System banks used to finance the operations of the Farm Credit System. FCSIC seeks to keep a certain amount – called the "secure base amount" – in the Insurance Fund at all times.

What are the Premium Basics?

- FCSIC must maintain a "secure base amount" in the Insurance Fund.
- The SBA is equal to 2% of the insured debt issued by System banks in the Insurance Fund MINUS:
    1. 90% of outstanding amounts of Federal government-guaranteed loans and investments, and
    2. 80% of outstanding amounts of state government-guaranteed loans and investments.
- Statute sets annual premium rate at 20 basis points (0.2%) of "adjusted" insured debt (outstanding debt minus deductions for government-guarantees) unless reduced by the FCSIC Board of Directors.
- FCSIC assesses an additional 10 basis points (0.1%) surcharge on nonaccrual loans and other-than-temporarily impaired investment (OTTI) assets.

What is the Insurance Fund?

The Farm Credit Act requires FCSIC to maintain an insurance fund for the purpose of insuring the timely payment of principal and interest on the obligations jointly issued by the Farm Credit System banks. FCSIC is a Federal government entity and its Insurance Fund is part of the Federal government's budget. FCSIC maintains and replenishes the Insurance Fund by collecting annual premiums from System banks and through investment returns (the Insurance Fund is exclusively invested in U.S. Treasury securities). The amount in the Fund is based on a percentage of the amount of insured debt issued by the System banks.

What is the Secure Base Amount?

The Farm Credit Act directs FCSIC to maintain a "secure base amount" in the Insurance Fund. The Farm Credit Act states that the secure base amount means, "with respect to any point in time," 2 percent of the aggregate outstanding insured obligations of all insured System banks (as "adjusted" – reduced -- for government-guaranteed loans and investments). In addition to the 2 percent, the statute allows an alternative. The secure base amount can also be "such other percentage of the aggregate amount as the Corporation in its sole discretion determines is actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations."

What are FCSIC's objectives in managing the Insurance Fund?

Annual premiums are set with the goal of maintaining the Fund at the secure base amount and, if necessary, building back to that amount when the Fund falls below 2%. FCSIC believes it is particularly important the secure base amount be achieved while the Farm Credit System is in good health with few problem institutions.

Why does FCSIC continue to use 2 percent as the secure base amount?

Periodically, FCSIC conducts an actuarial review (hiring leading industry actuaries) of the adequacy of the Insurance Fund. To date, FCSIC has sought to maintain the Fund at the 2 percent statutory amount because it has not concluded that any other percentage is actuarially sound taking into account the risk of insuring outstanding insured obligations.

What is the effect of the "adjustments" to the secure base amount?

In calculating the aggregate outstanding insured obligations, FCSIC must exclude 90% of Federally-guaranteed loans and investments made System banks (and their affiliated associations and "other financing institutions" funded by a bank) and 80% of state-guaranteed loans and investments. In recent years, these reductions have meant that the 2% SBA -- based on *adjusted* debt -- has been equal to approximately 1.66% of *total* insured debt outstanding. These statutory deductions reflect the reduced risk of loss to the Insurance Fund when System banks hold government-guaranteed obligations.

How does FCSIC determine the amount of premiums to charge each year?

While the Insurance Fund needs to equal 2% of adjusted debt, this does not mean that FCSIC charges System banks 2% each year. Instead, FCSIC charges the amount of annual premiums necessary to refill and maintain the Insurance Fund at the 2% secure base amount (i.e., the difference between what's already in the Fund and the amount needed to keep the Fund at the 2% level).

For any calendar year in which the Insurance Fund does not exceed the secure base amount, the Farm Credit Act directs FCSIC to charge each bank a premium equal to 20 basis points (0.2%) of the adjusted amount of the "average outstanding insured obligations issued by the bank for the calendar year" (plus a 10 basis points (0.1%) surcharge for nonaccrual loans and other-than-temporarily impaired investments).

FCSIC, in its sole discretion, may reduce the percentage charged to the banks below the statutory 20 basis points. As discussed below, the FCSIC Board of Directors annually reviews the Fund and sets a rate between 0 and 20 basis points. As a matter of policy, the FCSIC Board will not reduce the additional 10 basis points premium surcharge for nonaccrual loans and other than temporarily impaired investments, to continue providing an incentive for sound credit extension and administration and sound investment policy.

Upon reaching the secure base amount, FCSIC reduces the annual premium percentage paid by each insured bank so that the aggregate of all premiums paid by the banks for the following calendar year is sufficient to ensure that the Insurance Fund balance is maintained at the secure base amount.

What does FCSIC consider when setting annual premium rates?

Each year, FCSIC looks at various factors to determine the amount of premiums needed to keep the Insurance Fund at the secure base amount, including the amount in the Fund and any shortfall under the secure base amount. FCSIC also considers multiple scenarios that reflect the impact of anticipated and potential growth in Farm Credit System debt levels on the secure base amount. FCSIC considers the projected yearend secure base amount, which is calculated using the System banks' debt estimates and projected net earnings on the Corporation's investment portfolio. Prior to making any premium decision for the next year, FCSIC surveys each bank for its growth projections and takes these estimates into consideration in its analysis.

As a basis for its premium assessment decision the FCSIC Board considers the following factors:

1. Current level of the Farm Credit Insurance Fund and projected growth of insured debt;
2. Likelihood and probable amount of any losses to the Insurance Fund;
3. Overall condition of the Farm Credit System;
4. Health and prospects for the agricultural economy; and, the
5. Risks in the financial environment that could cause problems, including volatility of interest rates, use of sophisticated investment securities and derivatives and increasing competition.

Can FCSIC charge System banks different rates based on activity or risk factors?

No. By statute, FCSIC must charge each bank the same percentage rate based on average outstanding obligations issued by the bank.

How does FCSIC determine the amount of debt on which premiums are based?

To determine the "average outstanding insured obligations issued by the bank for the calendar year," FCSIC looks at principal and interest outstanding at quarter-ends as reported by the banks in their call reports submitted to the Farm Credit Administration. Additionally, each bank files an annual certified statement with FCSIC listing the amount of the bank's average outstanding insured obligations and average outstanding deductions.

When does FCSIC set premiums?

FCSIC's Board traditionally sets the premium accrual rate each January for the coming year. FCSIC's Board reviews the premium assessment schedule at least semiannually and may use its discretion to adjust the premium assessments in response to changing conditions.

When do banks pay the premiums?

System banks make one annual premium payment by January 31 for the prior year's premiums.

Do System associations pay premiums?

FCSIC only charges System banks for insurance premiums. However, each bank is authorized to pass along the cost of insurance premiums to affiliated associations and other financing institutions that receive funding from the bank so long as it does so in an "equitable manner" (as determined by FCSIC). If an association believes its district bank is not allocating the premium cost equitably, it can bring the issue to the attention of the FCSIC Board of Directors for review.

What happens if the Insurance Fund exceeds the secure base amount at the end of the year?

FCSIC's premiums are set with the goal of reaching and maintaining the 2% secure base amount. However, if growth of insured debt is greater than forecast when premium rates are established (or the Fund is used for some authorized purpose), the Insurance Fund will end the year below the secure base amount and FCSIC will need to collect additional premiums in the following year to make up the shortfall. If growth of insured debt is less than less than forecast when premium rates are set, then the Insurance Fund may end the year above the secure base amount.

If the Insurance Fund exceeds the secure base amount at the end of any calendar year, FCSIC allocates those amounts, minus operating expenses and insurance obligations, to "allocated insurance reserve accounts" (AIRAs) established for the benefit of the System banks and holders of Financial Assistance Corporation stock (System banks and certain System associations) in accordance with the formula found at 12 U.S.C. § 2277a-4 (section 5.55 of the Farm Credit Act). Once FCSIC determines that the allocation is appropriate and that the funds in the AIRAs are not otherwise needed, FCSIC may pay the amounts in the AIRAs to the account holders. In 2010, FCSIC returned a total of $205.3 million to System institutions. In 2012 FCSIC returned a total of $221.9 million.

May AIRA accounts be reduced?

Yes. Reductions may be made in the AIRA accounts to absorb FCSIC expenses and insurance obligations. If such reductions were necessary, each AIRA would be reduced by a proportionate amount in accordance with the statute. The same formula used to make the allocation of excess fund balances will be used to reduce AIRA balances.

DATED THIS 26th DAY OF JANUARY, 2017

BY ORDER OF THE BOARD OF DIRECTORS

Dale L. Aultman BM 26-JAN-17-04

Dale L. Aultman
Secretary to the Board