Summary of Comments by
The Honorable Kenneth A. Spearman
AgChoice, ACA, Board of Directors Training Meeting
Washington, D.C.
March 28, 2013

Introductory Comments

- I work collaboratively with other FCA Board Members, but I am an independent Board Member of FCA—my comments represent my own opinions.
- My two primary goals as FCA Board Member:
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    - Maintain safety and soundness of System;
    - Ensure the System is meeting its obligation to serve all eligible and creditworthy borrowers.

- I view improved data collection, capital revisions, and corporate governance as important safety and soundness issues for the System.
- I view FCA's new business planning rule focusing on diversity and inclusion, its bookletter on serving local and regional food systems, and our continuing in-depth analysis of YBS lending as important steps by the agency towards meeting this second goal, but it is really up to the System to take leadership on this part of its mission and recognize its importance for its future success.

FCSIC Issues

- In addition to serving as an FCA Board Member, I also serve as Chairman of the Farm Credit System Insurance Corporation, which has the same three Board Members as FCA.
- The Farm Credit System Insurance Corporation is a Federal Government-controlled corporation created by Congress in 1988 whose primary mission is protecting investors who purchase insured Farm Credit System bank-issued bonds and notes. By protecting investors, FCSIC helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the Farm Credit System.
- The statutory provisions governing FCSIC are generally similar to those governing the FDIC. FCSIC manages the Farm Credit Insurance Fund, which has approximately $3 billion in assets.
- Staff of the Insurance Corporation constantly monitors the Insurance Fund to ensure its safety and soundness, stability, and yield. Over the past year, the Insurance Corporation has studied, reviewed, and revised its policies and procedures to ensure its readiness for resolving a seriously troubled or impaired institution and has extensively studied and provided input on important issues facing the System, particularly involving capital and liquidity.

- After year-end 2011, the Insurance Corporation was able to refund more than $221 million to the System in excess funds, the second time in three years we were able to provide the System with a significant refund. Our ability to provide these timely refunds was a result of statutory changes made by Congress in 2008. While we always seek to collect only the necessary amount of premiums, the new process has worked to allow us to provide timely refunds when we end the year with excess amounts.
- Year-end 2012 was, however, a different story:

    - Outstanding insured obligations increased by 7.1 percent ($12.98 billion), with $4.1 billion of this increase occurring in December 2012.
    - Individual bank growth results were as follows: AgFirst, -2.9 percent; AgriBank, 13 percent; CoBank, 4.9 percent; and Farm Credit Bank of Texas, 9.9 percent.
    - The Insurance Fund finished 2012 at 1.93 percent, $119 million below the secure base amount. Consequently, there was no excess to transfer to the allocated insurance reserves accounts.

- There is just over $13 million in the Financial Assistance Corp. Its shares remain outstanding—which are being paid down with FCSIC refunds—with $3.9 million of that amount held by AgFirst associations.
- The premium accrual rate in 2012 was 5 basis points on adjusted insured debt. In January, the FCSIC Board raised the accrual rate for 2013 to 10 basis points because of higher-than-anticipated growth in 2012 and updated survey results showing that growth in 2013 will likely exceed the System projections provided in September. The guidance range was 7 to 9 basis points.
- FCSIC staff continues to work with staff at the Federal Financing Bank and the Funding Corporation on a backstop liquidity line of up to $10 billion that FCSIC could access if the banks were unable to issue new Systemwide insured debt because of a market disruption. This is designed to help address the problem that the System—unlike commercial banks—has no “lender of last resort” if it is unable to fund itself.