Farm Credit 1-Month SOFR Index Informational Supplement

The Farm Credit System offers loans of various maturities and with different interest rate options. Some loans have fixed interest rates, which do not change, either for the life of the loan or for a certain duration. Other loans use variable interest rates, which means the interest rate changes after a certain period of time, such as every month, several months or a year. Interest rates may increase or decrease based on changes to the index rate the loan uses. An index rate is an interest rate published by a specified institution, like a newspaper or a bank, as agreed upon in the loan documents. The Farm Credit 1-Month SOFR Index (FCSI) is one such index rate used in some variable rate loans offered by the Farm Credit System. Below is a series of Q&A's designed to help you understand what the FCSI is and how it affects your loan.

What is the Farm Credit 1-Month SOFR Index?

- The FCSI is a variable rate index that is published by the Federal Farm Credit Banks Funding Corporation on its website.[1] It is defined as the 12-month average of the 1 Year Farm Credit SOFR-indexed Floating Rate Note Spread in basis points plus the 1 Month Pay Fixed SOFR Swap Rate. In other words, this index reflects the Farm Credit System's average cost of borrowing dollars for one month at the SOFR rate.

What is SOFR?

- SOFR stands for Secured Overnight Financing Rate, and it is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. SOFR is published daily by the Federal Reserve Bank of New York on its website.[2]

How is the FCSI different from SOFR?

- The FCSI is derived from SOFR and will generally move with SOFR. However, SOFR is different in two important ways. First, SOFR is an overnight rate while the FCSI is a monthly rate. This means SOFR changes daily, while the FCSI changes once a month. Second, SOFR rates are determined at the end of an interest rate period, while FCSI rates are known at the beginning. That is, for FCSI loans you'll know that month's interest rate at the beginning of the month, rather than at the end. These differences mean that the direction and amount of any change to the FCSI may differ from the way SOFR changes over the same time period.

What happened to LIBOR?

- Due to a combination of price-fixing scandals and decreasing interbank lending activity, there has been an international movement away from LIBOR over the last few years. Regulators are discouraging financial institutions from making new LIBOR loans, and official publication of LIBOR as an index rate will stop in the near future.

How can my Index-based interest rate change, and why?

- As noted on your Interest Rate Disclosure and Promissory Note, interest rates on FCSI loans can change once a month. The amount of change is without limitation and depends upon the movement of the FCSI. Your rate may also increase if there is an increase in the margin contained in the note.

How will I be notified of any changes to my interest rate?

- Notices of changes to the interest rate on an FCSI loan will be sent to the borrower within 10 days after the effective date of that change.

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[1] https://www.farmcreditfunding.com/ffcb_live/fundingCostIndex.html

[2] https://apps.newyorkfed.org/markets/autorates/SOFR