

collection protocols; to fine-tune and stabilize newly adjusted processes; and to conduct regular measurements of retained water at packaging. Members of this industry would have sufficient time to order new supplies of labels with statements reflecting the amount of retained water in raw products.

FSIS did not agree that an extension of the effective date until August 1, 2004, would be necessary for the reasons explained above in FSIS' response to the petition and comments. First, FSIS does not believe that industry laboratory capacity would become overburdened as a result of this rule. Second, FSIS does not believe that establishments would need to have a full year's worth of data on seasonal variation in naturally occurring water to be able to comply with the labeling requirements in the rule. Finally, FSIS believes that most necessary product label changes can be made in the course of a year.

In summary, FSIS believes that a one-year suspension of the water retention provisions in 9 CFR part 441 is appropriate and necessary. However, FSIS does not believe a further suspension would be warranted and does not intend to suspend the regulation beyond January 9, 2003.

#### Technical Amendments

The final rule promulgating the retained water regulations made numerous technical amendments in the sections of the poultry products inspection regulations that concern poultry chilling practices to improve consistency with the Pathogen Reduction/Hazard Analysis and Critical Control Points regulations, eliminate "command- and control" features, and reflect current technological capabilities and good manufacturing practices. FSIS also revised the definition of "ready-to-cook" poultry to account for the elimination of the requirement to remove kidneys from mature birds and removed several redundant provisions from the poultry products inspection regulations. These technical amendments were not controversial, and the effective date of these amendments will remain January 9, 2002.

#### Additional Public Notification

Public awareness of all segments of rulemaking and policy development is important. Consequently, in an effort to better ensure that minorities, women, and persons with disabilities are aware of this notice, FSIS will announce the meeting and provide copies of this **Federal Register** publication in the FSIS Constituent Update. FSIS provides a

weekly FSIS Constituent Update, which is communicated via fax to over 300 organizations and individuals. In addition, the update is available on-line through the FSIS web page located at <http://www.fsis.usda.gov>. The update is used to provide information regarding FSIS policies, procedures, regulations, **Federal Register** notices, FSIS public meetings, recalls, and any other types of information that could affect, or would be of interest to, our constituents/ stakeholders. The constituent fax list consists of industry, trade, and farm groups, consumer interest groups, allied health professionals, scientific professionals, and other individuals that have requested to be included. Through these various channels, FSIS is able to provide information to a much broader, more diverse audience. For more information and to be added to the constituent fax list, fax your request to the Congressional and Public Affairs Office, at (202) 720-5704.

For the reasons set out in the preamble, 9 CFR Part 441, added at 66 FR 1771, January 9, 2001, is suspended from January 9, 2002, until January 9, 2003.

Done at Washington, DC, on January 8, 2002.

**Margaret O'K. Glavin,**

*Acting Administrator.*

[FR Doc. 02-738 Filed 1-8-02; 3:58 pm]

**BILLING CODE 3410-DM-P**

## FARM CREDIT ADMINISTRATION

### 12 CFR Parts 614 and 619

**RIN 3052-AB93**

#### Loan Policies and Operations; Definitions; Loan Purchases and Sales

**AGENCY:** Farm Credit Administration.

**ACTION:** Final rule.

**SUMMARY:** The Farm Credit Administration (FCA, Agency, we, or our) issues this final rule to amend our loan participation regulations. This final rule will enable Farm Credit System (FCS or System) institutions to better use existing statutory authority for loan participations by eliminating unnecessary regulatory restrictions that may have impeded effective participation relationships between System institutions and non-System lenders. We believe that these regulatory changes will improve the risk management capabilities of both System and non-System lenders and thereby, enhance the availability of reliable and competitive credit for agriculture and rural America.

**EFFECTIVE DATE:** This regulation will be effective 30 days after publication in the **Federal Register** during which either or both Houses of Congress are in session. We will publish a notice of the effective date in the **Federal Register**.

#### FOR FURTHER INFORMATION CONTACT:

Mark L. Johansen, Policy Analyst, Office of Policy and Analysis, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4498, TDD (703) 883-4444.

Or

James M. Morris, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TDD (703) 883-4444.

#### SUPPLEMENTARY INFORMATION

##### I. Objectives

Our objectives for this rule are to:

- Improve System institutions' ability to participate in today's loan participation market with both System and non-System lenders;
- Increase the flow of credit to agriculture and rural America; and
- Encourage improved working relationships between System institutions and non-System lenders.

The rule will help to achieve these objectives by:

- Removing two restrictive definitions of a "loan participation" which will permit System institutions to purchase or sell 100-percent loan participations;
- Removing the 10-percent retention requirement when loan servicing remains with a non-System lender; and
- Making technical and clarifying changes in the Federal Agricultural Mortgage Corporation's (Farmer Mac) participation authorities.

##### II. Background

Our existing rule limits the amount a System institution can participate in a non-System lender's loan to 90 percent of the outstanding principal when the non-System lender retains the servicing to the borrower. If the System institution acquires the servicing rights, it can participate in more of the loan, but is limited to an amount less than 100 percent of the outstanding principal due to the "fractional undivided" language contained in two regulatory definitions of "loan participation."

Our present regulations do not specifically refer to Farmer Mac as an "other System institution" for purposes of loan participation authorities because Farmer Mac's authority to buy, sell, hold, or assign loans was granted after the present regulations were written. These final regulations correct this omission.

### III. Comments

On July 26, 2000, we published a proposed rule in the **Federal Register** to amend parts 614 and 619 of our regulations. See 65 FR 45931. We received 61 comment letters in response to our proposal. The majority of the comment letters were from boards of directors, management, or customers of System associations. We also received comments from five Farm Credit banks, two banking trade groups, and one community bank.

All but four of the comment letters supported the proposed rule. The four comment letters expressing concerns were from the banking trade groups, the community bank, and one Farm Credit bank. Comments opposing the proposed rule ranged from questioning FCA's authority to adopt the rule to expressing concerns that the proposed rule moves the System away from its cooperative principles. We did not receive any comments opposing the removal of the 10-percent retention requirement or the proposed technical and clarifying changes concerning Farmer Mac. After carefully considering the comments received, we are adopting the proposed rule without substantive change.

#### A. FCA's Authority To Revise the Loan Purchases and Sales Regulation

##### 1. Participation Authority

The final rule eliminates two overly restrictive regulatory definitions in order to give System institutions the authority to buy and sell loan participations up to 100 percent of the outstanding principal. Some comment letters contend that the Farm Credit Act of 1971, as amended (Act) does not permit us to authorize the purchase and sale of 100-percent participations. FCA has the authority to define the meaning of the terms used in the Act. We previously adopted more narrow regulatory definitions of loan participations than we now believe is required by statute. The Act does not provide a specific definition of a loan participation other than that contained in section 3.1(11)(b)(iv), which specifically applies only to "similar entity" participations and does not limit the percentage of interest in a participation. We now have determined that we should remove these regulatory definitions and allow purchases and sales of 100-percent loan participations.

We previously restricted a loan participation to a "fractional" undivided interest, something less than

100 percent.<sup>1</sup> Prior to issuing the proposed rule last year, we reviewed this restrictive language and concluded that the Act does not require such a narrow definition. Section 1.5 of the Act provides that Farm Credit Banks, "subject to regulation by the Farm Credit Administration, shall have power to \* \* \* make, participate in, and discount loans" and may "participate with" other financial institutions in loans authorized under the Act.<sup>2</sup> There are no statutory limitations on the percentage of a loan in which a Farm Credit bank may participate.<sup>3</sup> Similarly, sections 2.2 and 3.1 of the Act provide, respectively, that a production credit association may "make and participate in loans" and a bank for cooperatives may "participate in loans," subject to regulation by the FCA. Nowhere does the Act provide that a participation interest must be less than 100 percent.

The present FCA regulatory definitions are overly restrictive and not consistent with current banking practices. In 1984, the Office of the Comptroller of the Currency (OCC) issued a banking circular<sup>4</sup> that provides that loan participations can include "all or a portion" of the loan. In addition, the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the OCC, and the Office of Thrift Supervision (OTS) issued an interagency statement on sales of 100-percent loan participations on April 10, 1997. The interagency statement provided guidance on the use of 100-percent loan participations in light of a 1992 court decision<sup>5</sup> that concluded that such participations did not involve the sale of securities under Federal securities laws. By recognizing 100-percent loan participations, the banking guidance effectively removed the fractional-interest characteristic as a defining feature of a loan participation.

<sup>1</sup> We expressed this position in the preamble of the proposed Lending Authorities regulations (56 FR 2452, January 23, 1991).

<sup>2</sup> Section 1.5(16) of the Act authorizes FCS banks operating under title I to sell "interests in loans" to lenders that are not FCS institutions and expressly authorizes FCS banks to buy "interests in loans" from FCS institutions. Section 1.5(6) and section 1.5(12) separately grant express authority to "participate" in loans. Section 1.5(12) grants express authority to "participate" with "lenders that are not Farm Credit System institutions in loans that the bank is authorized to make under this title."

<sup>3</sup> We are not aware of any legislative history that limits the percentage of authorized "participations."

<sup>4</sup> OCC-BC-181 "Purchases of Loans in Whole or Part-Participations" (August 2, 1984).

<sup>5</sup> *Banco Espanol De Credito v. Security Pacific National Bank*, 973 F.2d 51 (2nd Cir. 1992).

Under the Act, System institutions have the authority to participate in loans. Because the Act does not limit the percentage of participations, we do not believe that this statutory authority should be interpreted to exclude 100-percent loan participations.

The final rule gives System institutions the freedom to exercise their statutory authority to acquire such participations by removing the regulatory definitions of "loan participation" from §§ 614.4325(a)(4) and 619.9195. By removing these restrictive definitions, we provide System institutions comparable flexibility afforded by the Federal Reserve, FDIC, OCC and OTS to commercial banks and thrift institutions. This will enable System institutions to make better use of their statutory authority, to cooperate and participate with non-System lenders, and to improve access to credit for agriculture and rural America.

Commenting on our proposed rule, a banking trade group argued that in the mid-1990's Congress explicitly denied a System attempt to increase its authority to purchase whole loans and to participate with non-System lenders in loans of up to 100 percent of the outstanding principal. At that time, the System's trade association, the Farm Credit Council (FCC), asked Congress to provide the System the authority to purchase "whole" loans from commercial banks. The document that the commenter cited referred to loan purchases, not loan participations. We found no evidence that the System's trade association included a request for 100-percent participation authority with their request for whole loan purchase authority.

##### 2. Distinction Between Loan Participations and Loan Purchases

Several commenters apparently confused 100-percent loan participation authority with the authority to purchase and sell interests in "whole loans." The Act recognizes these as separate and distinct authorities and specifically authorizes System institutions to purchase or sell participations. The authorities are separate regardless of whether the interests are 100 percent or something less.

Loan participations are a type of funding arrangement separate and distinct from either partial or whole loan purchases. The distinction centers around who retains the legal relationship with the borrower. In a loan purchase, part or all of the lending relationship transfers to the purchasing institution. By definition, a whole loan purchase includes not only the purchase

of the asset, but its cashflows, the legal relationship, and the servicing requirements. The relationship in a loan participation, regardless of the participation amount (100 percent or some amount less than 100 percent), consists only of cashflows from the loan and possibly the servicing rights for the loan. The legal lending relationship stays with the originating lender.

While 100-percent loan participations may resemble whole loan purchases in some respects, the financial markets recognize them as separate and distinct transactions. In addition, courts have recognized the legal distinction between participations and loan purchases and the separate legal effects of loan participation agreements.<sup>6</sup> Finally, other financial regulators recognize the legal distinctions between loan participations and selling whole loans, which involves the transfer of title.<sup>7</sup>

#### *B. Participation Authority and Farmer Mac*

The rule clarifies the authority of Farmer Mac and other System institutions to participate with each other. Some commenters argued that our proposal would duplicate Farmer Mac authorities and increase the risk to the System. Comment letters noted that selling loans to the secondary market

through Farmer Mac provides liquidity and helps lending institutions manage portfolio concentrations. A banking trade group asserted that the ability of System institutions, acting as poolers, to purchase whole loans through the Farmer Mac I program provides the same benefit as this final rule would provide, but in a safer environment.

System institutions have several tools they can use to improve liquidity and manage their loan portfolios. Selling loans to the secondary market is one of these tools, but is not the answer to all of an institution's needs.

Pooling authorities and the ability to purchase or sell 100-percent loan participations serve different purposes. As a pooler, a System institution is a conduit between the originating lender and the secondary market through Farmer Mac. While the System institution, as pooler, would receive a fee for its services, it would not be able to use this activity as a risk mitigation tool, unless its loans were in the pool. On the other hand, if the institution purchased a loan participation, it would hold the participation interest in the loan on its books and be able to use the participation to mitigate risks in its portfolio.

More significantly, loan participations potentially involve more types of loans than are eligible under Farmer Mac authorities. Loans sold to Farmer Mac are restricted to first mortgage loans, but System institutions and non-System lenders can participate in other types of loans. This rule provides more options to the originating and participating lender. This will not only afford increased business opportunities but will also help lenders to mitigate portfolio and concentration risk and better manage liquidity. As a result, the authorities provided in this rule, along with the ability to sell mortgage loans through Farmer Mac, have the ability to increase the availability of credit to farmers, ranchers, agriculture, and rural America.

While we recognize System loan participation authorities may overlap with some of Farmer Mac's authorities, we do not believe our amended participation regulations will adversely impact Farmer Mac's operations. We note that Farmer Mac provided favorable comment on the proposed rule and did not indicate that provisions in the rule would be harmful.

#### *C. Establishing Loan Participation Relationships*

A Farm Credit Bank asserted that aggressive System institutions would retain independent contractors outside of their chartered territory to originate

loans for them. The commenter stated that this rule along with the existing FCA regulation that permits System institutions to participate in loans outside their chartered territory without the concurrence of other FCS institutions (65 FR 24101, Apr. 25, 2000) would result in a *de facto* national charter in that a System institution could have lending relationships (in this case a participation relationship) outside its chartered territory.

This rule and the authority for System institutions to participate in loans outside their chartered territory without receiving consent does not result in a *de facto* national charter. FCA's removal of the concurrence requirement provided FCS institutions the ability to enter into less than 100-percent participation interests in loans originated outside of their chartered territory without receiving concurrence. The actual change that this rule adds is to our participation authorities and not to our loan origination authorities. Therefore, it does not result in a *de facto* national charter, as it does not provide System institutions the authority to make loans outside their chartered territory.

The FCC asked that System institutions be allowed to purchase participation interests in loans from private individuals. System institutions are authorized to purchase participation interests in loans from " \* \* \* lenders that are not Farm Credit institutions." We have previously defined the term "other lenders" in a preamble to an earlier rulemaking (57 FR 38237, Aug. 24, 1992) to include commercial banks, savings associations, credit unions, insurance companies, trust companies, agricultural credit corporations, incorporated livestock loan companies, and other financial intermediaries that extend credit as a regular part of their business. We reiterate our previous interpretation here with respect to the meaning of the term "lender."

#### *D. Loan Participations and Cooperative Principles*

Several commenters observed that when a System institution buys a loan participation the borrower does not obtain stock in the institution and is not afforded borrower rights under the Act. Commenters stated that a System institution could have a portfolio in which the majority of its loans were participations. Commenters argued that these loans do not contribute capital, that borrowers holding these loans do not participate in System governance, and that these borrowers are not afforded the rights given to System borrowers by Congress. The comment letters argued that there would be a

<sup>6</sup> For example, in *McVay v. Western Plains Corp.*, 823 F.2d 1395 (10th Cir., 1987), the court stated: "In general, loan participations are a common and wholesome credit device . . . . In a typical loan participation . . . the lead bank enters into participation agreements with the other banks but acts in relation to the loan and borrower . . . . For example, the lead bank will appear as the only party on the note and mortgage. It generally also services the loan, which includes the right to make decisions concerning acceleration, foreclosure, redemption, and deficiencies." Additionally, *In re Okura & Co.*, 249 B. R. 596 (Bankr. S.D.N.Y. 2000), concluded that the participation agreement between the lead bank and another lender was a "true loan participation" that did not result in a partial assignment of the lead lender's right to payment from the debtor or otherwise give the participating bank lender any right to payment from the debtor. Therefore, the participant did not have a "claim" that would make it a "creditor" in the debtor's bankruptcy proceeding. In discussing the characteristics of loan participations, the court stated, "The most common multiple lending agreement is the loan participation agreement, which involves two independent, bilateral relationships; the first between the borrower and the lead bank and the second between the lead bank and the participant. As a general rule, the participants do not have privity of contract with the underlying borrower."

<sup>7</sup> For example, a National Credit Union Administration letter, dated September 18, 1996, refused to permit the use of participations to increase a credit union's lending to one member, stating: "A credit union may not circumvent this restriction by selling loan participations because title to the loan normally does not transfer to the purchasers. Since the credit union retains title, selling loan participations does not reduce the ratio between the loan to the member and the credit union's reserves."

disparity between the System's treatment of those who borrow from the System and those in whose loans the System participated.

In response, we note that the System institutions may not exercise their participation authority in a manner that impedes service to their territory. Each institution's board of directors must establish limits on the amount of loan participations they can purchase.<sup>8</sup> The preamble that proposed the present § 614.4325(c)(4) stated that it " \* \* would require that institution policies specify limits on the aggregate amount of interest on loans that may be purchased, including participation interests, sufficient to ensure that the primary mission of the institution to provide credit directly to agriculture is not compromised." (See 56 FR 2452, Jan. 23, 1991) In response to the issues raised in the comment letters, we reaffirm that each institution needs to establish these limits and that FCA will continue to evaluate the institution's participation programs as a part of our examination process.

In response to commenters' concerns about System governance and borrower rights, borrowers who obtain loans from another lender instead of a System institution are not, in fact, System "borrowers." This remains true even if a System institution later buys a 100-percent participation interest in a loan from a non-System lender. A loan participation is a lender-to-lender transaction and, thus, borrowers remain obligated to the loan originator. When a borrower receives a loan from a non-System lender, that borrower has no legal entitlement to System governance rights or System borrower rights. The purchaser of a participation interest does not have a legal relationship with the borrower.

#### E. Safety and Soundness

We view safety and soundness controls as a cornerstone to an effective loan participation program. Lenders should use loan participations primarily as a risk diversification tool. While this rule may increase the System's loan participation activity, we expect System institutions to maintain appropriate risk levels and to implement the provisions allowed by this rule in a safe and sound manner. Commenters also discussed this concern. Institutions should not use this authority in a manner that results in an unsafe and unsound increase in commodity or geographical risk. We expect a thorough due diligence effort at the outset of any participation relationship.

A participation relationship is a direct relationship between the originating lender and the purchasing institution and not between the purchasing institution and the borrower. Therefore, prudent underwriting procedures dictate that the purchasing institution must complete a thorough due diligence analysis of the originating lender and the loan, or pool of loans, being participated. We outline specific requirements in § 614.4325(e) and provide additional guidance in FCA Bookletter (BL-027) which was sent to all Farm Credit institutions on March 27, 1996, to ensure the loan or pool of loans being participated in is of sound quality and that the originating lender has the capacity to manage the risk and exercise the responsibilities retained as the seller of a participation.

The responsibility of the System institution as purchaser does not end with the initial due diligence analysis. Following FCA guidance and sound lending practices, System institutions should complete a periodic analysis of the originating lender to ensure that the lender remains able to manage the risk and exercise its responsibilities. Failure to complete this due diligence prior to purchasing a loan participation and on a periodic basis may be considered an unsafe and unsound practice.

As in the preamble to the proposed rule, we again emphasize the importance of appropriate management of loan participations in ensuring safety and soundness as follows.

#### 1. Controlling Risk of Participations

Risk control issues arise with loan participations. Some of these are typical of any credit arrangement. However, 100-percent participations can increase certain types of risks if not controlled and managed appropriately. Therefore, System institutions should take extra care in developing the policies and procedures for their participation programs, especially if they intend to buy 100-percent participations. An institution's policies and procedures and participation agreements should, at a minimum, address the following:

- *Credit risk*—The participant depends on the originating lender to obtain, develop, and evaluate the relevant information about the borrower and the structure of the credit.
- *Legal risk*—The originating lender typically prepares the documentation for the loan and perfects any security interests. The participant generally has a share of the rights of the originating lender. If deficiencies exist, the participant's rights may be limited.
- *Administrative risk*—Typically, the participant must rely on the originating

lender to: (a) Service, monitor, and control the credit relationship with the borrower; (b) provide information about the borrower; and (c) remit payments received from the borrower. All of these administrative actions should be addressed in the participation agreement as well as the parties' duties and responsibilities.

A participant's administrative risk increases when the originating lender has no direct financial interest in the loan. Removing the 10-percent retention requirement as permitted by this rule could increase this risk. The participation agreement should specifically address whether the seller has the ability, and under what circumstances, to transfer or sell the note or agreement to a third party without concurrence by the participant.

#### 2. Managing Portfolio Risk

Our current regulations (§ 614.4325(c)(4)) require each System institution involved in loan participation activities to develop and implement specific policies and procedures for such programs, including establishing appropriate portfolio limits to control risk.

While participations offer a number of advantages to managing an institution's portfolio (especially as risk diversification tools) they also carry additional risks not common to a normal borrower/lender relationship. We believe policy direction from a System institution's board of directors becomes even more important with these changes to the existing rule. Each institution board that plans to use loan participations should set portfolio limitations and review them periodically to ensure loan participations are appropriately integrated into the institution's overall business plan and risk management strategies.

#### IV. Conclusion

After carefully considering all comments received, we adopt the rule as proposed without change. We believe that the provisions of this final rule will give System institutions the needed flexibility to engage in loan participations with other System institutions, Farmer Mac, and non-System lenders. Benefits to System institutions include risk management and risk concentration alternatives as well as additional diversified interest income sources. In addition, to the extent this regulation enables System institutions to establish relationships with non-System lenders through loan participations, both parties should mutually benefit. Possible incidental

<sup>8</sup> See § 614.4325(c)(4) of our regulations.

benefits to non-System lenders include increases in fee income, immediate liquidity relief, and having access to alternative and reliable funding sources. Most importantly, we believe expanded lender-to-lender relationships will benefit farmers, ranchers, agriculture, and rural America by increasing access to available credit.

## V. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), the FCA hereby certifies that the final rule will not have a significant economic impact on a substantial number of small entities. Each of the banks in the Farm Credit System, considered together with its affiliated associations, has assets in excess of \$5 billion and annual income in excess of \$400 million. Therefore, Farm Credit System institutions are not "small entities" as defined in the Regulatory Flexibility Act.

## List of Subjects

### 12 CFR Part 614

Agriculture, Banks, banking, Flood insurance, Foreign trade, Reporting and recordkeeping requirements, Rural areas.

### 12 CFR Part 619

Agriculture, Banks, banking, Rural areas.

For the reasons stated in the preamble, we amend parts 614 and 619 of chapter VI, title 12 of the Code of Federal Regulations as follows:

## PART 614—LOAN POLICIES AND OPERATIONS

1. The authority citation for part 614 continues to read as follows: e

**Authority:** 42 U.S.C. 4012a, 4104a, 4104b, 4106, and 4128; secs. 1.3, 1.5, 1.6, 1.7, 1.9, 1.10, 1.11, 2.0, 2.2, 2.3, 2.4, 2.10, 2.12, 2.13, 2.15, 3.0, 3.1, 3.3, 3.7, 3.8, 3.10, 3.20, 3.28, 4.12, 4.12A, 4.13, 4.13B, 4.14, 4.14A, 4.14C, 4.14D, 4.14E, 4.18, 4.18A, 4.19, 4.25, 4.26, 4.27, 4.28, 4.36, 4.37, 5.9, 5.10, 5.17, 7.0, 7.2, 7.6, 7.8, 7.12, 7.13, 8.0, 8.5 of the Farm Credit Act (12 U.S.C. 2011, 2013, 2014, 2015, 2017, 2018, 2019, 2071, 2073, 2074, 2075, 2091, 2093, 2094, 2097, 2121, 2122, 2124, 2128, 2129, 2131, 2141, 2149, 2183, 2184, 2199, 2201, 2202, 2202a, 2202c, 2202d, 2202e, 2206, 2206a, 2207, 2211, 2212, 2213, 2214, 2219a, 2219b, 2243, 2244, 2252, 2279a, 2279a-2, 2279b, 2279c-1, 2279f, 2279f-1, 2279aa, 2279aa-5); sec. 413 of Pub. L. 100-233, 101 Stat. 1568, 1639.

### Subpart A—Lending Authorities

2. Amend § 614.4000 as follows:  
a. Remove the word "and" at the end of paragraph (d)(1);

b. Remove the "." and add "; and" at the end of paragraph (d)(2); and  
c. Add paragraph (d)(3) to read as follows:

#### § 614.4000 Farm Credit Banks.

\* \* \* \* \*

(d)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

3. Amend § 614.4010 as follows:  
a. Remove the "." and add "; and" at the end of paragraph (e)(2); and  
b. Add paragraph (e)(3) to read as follows:

#### § 614.4010 Agricultural credit banks.

\* \* \* \* \*

(e)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

4. Amend § 614.4020 as follows:  
a. Remove the "." and add "; and" at the end of paragraph (b)(2); and  
b. Add paragraph (b)(3) to read as follows:

#### § 614.4020 Banks for cooperatives.

\* \* \* \* \*

(b)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

5. Amend § 614.4030 as follows:  
a. Remove the word "and" at the end of paragraph (b)(1);  
b. Remove the "." and add "; and" at the end of paragraph (b)(2); and  
c. Add paragraph (b)(3) to read as follows:

#### § 614.4030 Federal land credit associations.

\* \* \* \* \*

(b)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

6. Amend § 614.4040 as follows:  
a. Remove the word "and" at the end of paragraph (b)(1);  
b. Remove the "." and add "; and" at the end of paragraph (b)(2); and  
c. Add paragraph (b)(3) to read as follows:

#### § 614.4040 Production credit associations.

\* \* \* \* \*

(b)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

7. Amend § 614.4050 as follows:  
a. Remove the word "and" at the end of paragraph (c)(1);  
b. Remove the "." and add "; and" at the end of paragraph (c)(2); and

c. Add paragraph (c)(3) to read as follows:

#### § 614.4050 Agricultural credit associations.

\* \* \* \* \*

(c)(3) The Federal Agricultural Mortgage Corporation to the extent provided in § 614.4055.

\* \* \* \* \*

8. Add a new § 614.4055 to read as follows:

#### § 614.4055 Federal Agricultural Mortgage Corporation loan participations.

Subject to the requirements of subpart H of this part 614:

(a) Any Farm Credit System bank or direct lender association may buy from, and sell to, the Federal Agricultural Mortgage Corporation, participation interests in "qualified loans."

(b) The Federal Agricultural Mortgage Corporation may buy from, and sell to, any Farm Credit System bank or direct lender association, or lender that is not a Farm Credit System institution, participation interests in "qualified loans."

(c) For purposes of this section, "qualified loans" means qualified loans as defined in section 8.0(9) of the Act.

### Subpart H—Loan Purchases and Sales

9. Amend § 614.4325 by:  
a. Removing paragraph (a)(4);  
b. Redesignating paragraphs (a)(5), (a)(6), and (a)(7) as paragraphs (a)(4), (a)(5), and (a)(6), respectively; and  
revising newly designated paragraph (a)(4) to read as follows:

#### § 614.4325 Purchase and sale of interests in loans.

\* \* \* \* \*

(a)(4) *Participating institution* means an institution that purchases a participation interest in a loan originated by another lender.

\* \* \* \* \*

#### § 614.4330 [Amended]

10. Amend § 614.4330 as follows:  
a. Remove the words "an undivided" and add in their place the words "a participation" in paragraph (a)(9); and  
b. Remove paragraph (b) and redesignate existing paragraph (c) as paragraph (b).

### Subpart J—Lending and Leasing Limits

#### § 614.4358 [Amended]

11. Amend § 614.4358 as follows:  
a. Remove paragraph (b)(4)(i); and  
b. Redesignate paragraphs (b)(4)(ii) and (b)(4)(iii) as paragraphs (b)(4)(i) and (b)(4)(ii), respectively.

**PART 619—DEFINITIONS**

12. The authority citation for part 619 continues to read as follows:

**Authority:** Secs. 1.7, 2.4, 4.9, 5.9, 5.12, 5.17, 5.18, 7.0, 7.6, 7.7, 7.8 of the Farm Credit Act (12 U.S.C. 2015, 2075, 2160, 2243, 2246, 2252, 2253, 2279a, 2279b, 2279b-1, 2279b-2).

**§ 619.9195 [Removed and Reserved]**

13. Remove and reserve § 619.9195.

Dated: January 7, 2002.

**Kelly Mikel Williams,**

*Secretary, Farm Credit Administration Board.*

[FR Doc. 02-639 Filed 1-9-02; 8:45 am]

BILLING CODE 6705-01-P

**DEPARTMENT OF TRANSPORTATION****Federal Aviation Administration****14 CFR Part 39**

[Docket No. 2001-CE-30-AD; Amendment 39-12579; AD 2001-26-13]

RIN 2120-AA64

**Airworthiness Directives; Pilatus Aircraft Ltd. Model PC-7 Airplanes**

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Final rule.

**SUMMARY:** This amendment adopts a new airworthiness directive (AD) that applies to certain Pilatus Aircraft Ltd. (Pilatus) Model PC-7 airplanes. This AD requires you to inspect the landing-gear emergency-extension cable for damage and replace if necessary; verify the correct installation of the bowden-cable conduit clamp and correct if necessary; and modify the temperature-control lever mechanism. This AD is the result of mandatory continuing airworthiness information (MCAI) issued by the airworthiness authority for Switzerland. The actions specified by this AD are intended to prevent the malfunction of the emergency landing-gear extension system. Insufficient clearance between the temperature-control lever mechanism and the landing-gear emergency-extension cable could result in damage to the emergency landing gear extension cable, or the cable could get caught on the temperature control lever. Damage to, or interference with, the landing-gear emergency-extension cable could lead to a malfunction of the emergency landing-gear extension system.

**DATES:** This AD becomes effective on February 12, 2002.

The Director of the Federal Register approved the incorporation by reference

of certain publications listed in the regulations as of February 12, 2002.

**ADDRESSES:** You may get the service information referenced in this AD from Pilatus Aircraft Ltd., Customer Liaison Manager, CH-6371 Stans, Switzerland; telephone: +41 41 619 6509; facsimile: +41 41 610 3351. You may view this information at the Federal Aviation Administration (FAA), Central Region, Office of the Regional Counsel, Attention: Rules Docket No. 2001-CE-30-AD, 901 Locust, Room 506, Kansas City, Missouri 64106; or at the Office of the Federal Register, 800 North Capitol Street, NW, suite 700, Washington, DC.

**FOR FURTHER INFORMATION CONTACT:** Doug Rudolph, Aerospace Engineer, FAA, Small Airplane Directorate, 901 Locust, Room 301, Kansas City, Missouri 64106; telephone: (816) 329-4059; facsimile: (816) 329-4090.

**SUPPLEMENTARY INFORMATION:****Discussion***What Events Have Caused This AD?*

The Federal Office for Civil Aviation (FOCA), which is the airworthiness authority for Switzerland, recently notified FAA that an unsafe condition may exist on certain Pilatus Model PC-7 airplanes. The FOCA reports one occurrence of restricted movement of the temperature control lever. Investigation of the problem revealed that the landing-gear emergency-extension cable was caught on the temperature-control lever mechanism. Insufficient clearance between the landing-gear emergency-extension cable and the temperature-control lever caused the interference. This interference could also cause damage to the landing-gear emergency-extension cable.

*What Is the Potential Impact if FAA Took No Action?*

If not detected and corrected, damage to or interference with the landing-gear emergency-extension cable could lead to a malfunction of the emergency landing-gear extension system.

*Has FAA Taken Any Action to This Point?*

We issued a proposal to amend part 39 of the Federal Aviation Regulations (14 CFR part 39) to include an AD that would apply to certain Pilatus Model PC-7 airplanes. This proposal was published in the **Federal Register** as a notice of proposed rulemaking (NPRM) on October 10, 2001 (66 FR 51611). The NPRM proposed to require you to inspect the landing-gear emergency-extension cable for damage; replace any damaged landing-gear emergency-

extension cable; verify the correct installation of the bowden-cable conduit clamp; correct improper installation of the clamp; and install a new bolt and a new nut on the temperature-control lever mechanism.

*Was the Public Invited To Comment?*

The FAA encouraged interested persons to participate in the making of this amendment. We did not receive any comments on the proposed rule or on our determination of the cost to the public.

**FAA's Determination***What Is FAA's Final Determination on This Issue?*

After careful review of all available information related to the subject presented above, we have determined that air safety and the public interest require the adoption of the rule as proposed except for minor editorial corrections. We have determined that these minor corrections:

- Provide the intent that was proposed in the NPRM for correcting the unsafe condition; and
- Do not add any additional burden upon the public than was already proposed in the NPRM.

**Cost Impact***How Many Airplanes Does This AD Impact*

We estimate that this AD affects 13 airplanes in the U.S. registry.

*What Is the Cost Impact of This AD on Owners/Operators of the Affected Airplanes?*

The manufacturer has agreed to pay the costs for the inspection, replacement parts, and installation workhours.

The only impact this AD will have on the owners/operators of the affected airplanes is the time it will take to have the actions of this AD incorporated.

**Compliance Time of This AD***What Will Be the Compliance Time of This AD?*

The compliance time of this AD is "within the next 12 calendar months after the effective date of this AD."

*Why Is the Compliance Time Presented in Calendar Time Instead of Hours Time-in-Service (TIS)?*

Although malfunction of the emergency landing gear extension system is unsafe during flight, the condition is not a direct result of airplane operation. The chance of this situation occurring is the same for an airplane with 10 hours TIS as it would be for an airplane with 500 hours TIS.