This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FARM CREDIT ADMINISTRATION
12 CFR Parts 619 and 627
RIN 3052–AD48
Conservators and Receivers

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: The Farm Credit Administration (FCA, we, our) proposes a rule to update, restructure and reorganize our regulations that govern the appointment of the Farm Credit System Insurance Corporation (FCSIC) as the conservator or receiver of Farm Credit System (FCS or System) banks, associations, service corporations, and the Federal Farm Credit Banks Funding Corporation (Funding Corporation). This proposed rule also ensures that FCA conservatorship and receivership regulations are consistent with section 5412 of the Agricultural Improvement Act of 2018 (2018 Farm Bill), which strengthens, updates, and clarifies FCSIC’s powers as the conservator or receiver of these FCS institutions. Additionally, we propose consolidating and reorganizing our conservatorship and receivership regulations so they are easier to understand and use. The proposed rule makes conforming amendments to definitional regulations to clarify that bridge System banks are not subject to FCA regulations that apply to other System institutions, pursuant to new section 5.61C(h) of the Act, which expressly exempts bridge banks from certain legal requirements.

DATES: Comments on this proposed rule must be submitted on or before June 3, 2022.

ADDRESSES: We offer a variety of methods for you to submit comments. For accuracy and efficiency reasons, commenters are encouraged to submit comments by email or through the FCA’s website. As facsimiles (fax) are difficult for us to process and achieve compliance with section 508 of the Rehabilitation Act, we do not accept comments submitted by fax. Regardless of the method you use, please do not submit your comment multiple times via different methods. You may submit comments by any of the following methods:

- Email: Send us an email at reg-comment@fca.gov.
- FCA website: https://www.fca.gov. Click inside the “I want to . . .” field near the top of the page; select “comment on a pending regulation” from the dropdown menu; and click “Go.” This takes you to an electronic public comment form.
- Mail: Autumn R. Agans, Deputy Director, Office of Regulatory Policy, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102–5090. You may review copies of all comments we receive at our office in McLean, Virginia, or on our website at https://www.fca.gov. Once you are in the website, click inside the “I want to . . .” field near the top of the page; select “find comments on a pending regulation” from the dropdown menu; and click “Go.” This will take you to the Comment Letters page where you can select the regulation for which you would like to read the public comments. We will show your comments as submitted, but for technical reasons we may omit some items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. However, we will attempt to remove email addresses to help reduce internet spam.

FOR FURTHER INFORMATION CONTACT:
Technical information: Jason Moore, Senior Accountant, Office of Regulatory Policy, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4414, TTY (703) 883–4056.
Legal information: Richard A. Katz, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4020, TTY (703) 883–4056.

SUPPLEMENTARY INFORMATION:

I. Objectives

The objectives of this proposed rule are to:

- Consolidate, reorganize, and update our regulations governing FCA’s appointment of FCSIC as the conservator or receiver of any System bank, association, service corporation, or the Funding Corporation.
- Ensure that our conservatorship and receivership regulations in part 627 are consistent with section 5412 of the 2018 Farm Bill, which added section 5.61C to the Farm Credit Act of 1971, as amended (Act).1 • Restructure and reorganize part 627 so it is easier for FCA examiners, FCS institutions and other interested parties to understand and use, and to make conforming or technical revisions to other FCA regulations.
- Make conforming changes to two definitions in part 619 to implement various provisions in section 5.61C(h) of the Act that create specific exceptions so that bridge System banks are not subject to certain provisions of laws, including FCA regulations, that apply to FCS banks, associations, and service corporations.

II. Background

Section 4.12 of the Act governs the dissolution of System institutions through voluntary and involuntary liquidations, mergers, and conservatorships or receiverships.2 The FCA has “exclusive power and jurisdiction” under section 4.12(b) of the Act to appoint FCSIC as the conservator or receiver for any FCS institution3 that meets one or more of six specific statutory criteria for determining whether it is insolvent or unviable.4 Since 1992, FCA regulations

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2 Section 4.12 of the Act governs both the voluntary and involuntary dissolution of System institutions. Subpart D of part 627 addresses the voluntary liquidation of System banks, associations, service corporations, and the Funding Corporation. However, the voluntary liquidation of these System institutions is outside the scope of this rulemaking.
3 In contrast to all other FCS institutions, section 8.41(c)(1)(A) of the Act allows, but does not require, FCA to appoint FCSIC as the conservator or receiver of the Federal Agricultural Mortgage Corporation (Farmer Mac). Section 8.41 of the Act and the regulations in part 650, subpart B, govern the conservatorship or receivership of Farmer Mac. Accordingly, this rulemaking does not apply to the conservatorship or receivership of Farmer Mac.
4 More specifically, section 4.12(b) of the Act authorizes the FCA Board to appoint FCSIC as the conservator or receiver of a System institution once it determines that one or more of the following conditions exists or is occurring at the institution:
- (1) Insolvency, in that the assets of the institutions are less than its obligations to its creditors and others, including its members; (2) substantial dissipation of assets or earnings due to any violation of law, rules, or regulations, or to any unsafe or unsound practice; (3) unsafe or unsound condition to transact business; (4) willful violation of a cease and desist order that has become final; (5) concealment of books, papers, records, or assets of the institution; or refusal to disclose information that is necessary for the proper performance of a supervisory or regulatory function.

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submit books, papers, records, or other material relating to the affairs of the institution for inspection to any Federal banking agency by any lawful agent of the Farm Credit Administration; (6) the institution is unable to timely pay principal or interest on any insured obligation (as defined in section 5.51(3)) issued by the institution or the insured obligation is in default; (7) employee status; (8) FCSIC assistance to the institution; (9) termination and dissolution of a bridge System bank; and (10) capital, management, and operations of a bridge System bank.

As noted earlier, section 5.61C(h)(10)(B) of the Act authorizes FCA to charter bridge System banks at FCSIC’s request and dissolve them once a failing or failed System bank is resolved.6 This is our second rulemaking within the last year to update our conservatorship and receivership regulations to address changes that section 5412 of the 2018 Farm Bill made to the Act. In March of 2021, we issued a direct final rule that rescinded ten regulations in part 627 that section 5412 of the 2018 Farm Bill superseded and rendered obsolete.8 The preamble to the direct final rule indicated that future rulemakings could revise our conservatorship and receivership regulations in part 627 to make them consistent with new section 5.61C of the Act.

In this phase of the rulemaking, FCA proposes to update, restructure, and consolidate its regulations governing the appointment and role of FCSIC as the conservator or receiver of an FCS institution, other than Farmer Mac. More specifically, the proposed rule combines the four remaining conservatorship regulations into a single regulation, while the three receivership regulations that we retained are also consolidated together. We believe that consolidating and restructuring the conservatorship and receivership regulations in part 627 will make it easier for both FCA examiners and FCS institutions to understand and follow them. We explain these revisions in greater detail in the section-by-section analysis below.

As explained above, section 5.61C(h) of the Act establishes unambiguous, comprehensive, and prescriptive requirements concerning FCA’s authority over bridge System banks. For this reason, new regulations are not necessary to implement FCA’s statutory authority regarding bridge System banks, and we are not proposing any in this rulemaking. Instead, FCA relies on its chartering and supervisory powers, as well as coordination with FCSIC, to fulfill its responsibilities and obligations under the Act concerning bridge System banks.

Other Federal regulators of financial institutions, such as the Comptroller of the Currency, the NCUA, and the FHFA have not enacted regulations to implement similar statutory provisions. Additionally, section 5.61C of the Act grants FCSIC authority to organize, control, manage, and operate bridge System banks.

Under this new statutory framework, the successor to the bridge System bank is created by a: (1) Merger or consolidation with an existing System institution, (2) sale of the bridge System bank’s capital stock and converting its charter to that of the new institution, or (3) purchase or assumption transaction by the replacement institution. At the end of this process, FCA cancels the bridge System bank’s charter. As noted earlier, bridge System banks are a new instrument for resolving a failing or failed FCS bank. Replacing the bridge System bank with a successor FCS institution raises novel issues of first impression for both FCA and FCSIC.9 Both agencies are exploring and consulting about this matter. FCA may propose new regulations in the future to implement sections 5.61C(h)(9) and (h)(10) concerning the processes and procedures for replacing a bridge System bank with a solvent and viable FCS bank.

Although we are not proposing substantive regulations governing the chartering, operation, activities, and termination of bridge System banks, we are introducing the concept into FCA regulations for the first time. As discussed below, we are adding two new regulations that exclude bridge System banks, chartered pursuant to section 5.61C(h) of the Act, from the definitions of FCS institutions and System banks. The first place that this proposed amendment appears is in part A of the conservatorship and receivership regulations in part 627. We also propose to exclude bridge System banks from the definitions of “Farm Credit bank” and “Farm Credit institutions” in part 619, which apply to all FCA regulations in chapter VI of the Code of Federal Regulations, unless specific regulations provide a specific and specialized definition of these terms. These two amendments are consistent with section 5.61C(h)(4) of the Act, which states that bridge System banks have all corporate powers, and are subject to the same provisions of law, as any System bank, except for specific exceptions enumerated in various provisions of section 5.61C(h).

III. Section-by-Section Analysis

We discuss the specifics of our proposal for part 627 in the same chronological order they appear in the regulations. Conforming changes to part

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6 More specifically, section 5.61C(h) of the Act addresses several aspects of a bridge System bank from cradle to grave, such as: (1) Organization; (2) chartering; (3) transfer of the assets and liabilities of failing or failed System banks to the bridge System bank; (4) the powers of bridge System banks under FCNIG management and control; (5) capital; (6) employee status; (7) FCSIC assistance to the bridge System bank; (8) duration of the bridge System bank; and (9) termination and dissolution of a bridge System bank.

7 More specifically, section 5.61C(h) of the Act amends sections 4.12 of the Act.

powers and responsibilities when it places a System institution into conservatorship or receivership. Ten separate regulations in part 627 were superseded by the 2018 Farm Bill and repealed by FCA because authority over the priority of claims and other aspects relating to the administration and management of conservatorships and receiverships are now among FCSIC’s enhanced powers. For all these reasons, consolidating and reorganizing the remaining regulations achieves FCA’s goal of simplifying, clarifying, and making them more user-friendly.

The proposed rule also reverses the chronological order of the existing regulations by presenting the conservatorship regulation first and the receivership regulation second. This change is logical from FCA’s perspective because: (1) It follows the order and flow of section 4.12 of the Act, and (2) an institution in conservatorship can be placed into receivership if its condition worsens. FCA is also simplifying the numbering system for the regulations in part 627. As a result, these regulations will have no more than a two-digit number after the decimal point, which is consistent with the way FCA has numbered regulations in recent years.

B. Subpart A—General Provisions

The proposed rule changes the title of subpart A from “General” to “General Provisions.” Existing §§ 627.2700, 627.2705, 627.2710, and 627.2715 are redesignated as §§ 627.1, 627.2, 627.3, and 627.4, respectively. All of the amendments are stylistic and non-substantive.

1. Applicability—§ 627.1

Proposed § 627.1 states that the “provisions in this part apply to conservatorships, receiverships, and voluntary liquidations of System institutions chartered under titles I, II, III, IV, and VII of the Act.” This provision is similar, but not identical, to existing § 627.2700. The only substantive difference is that we propose to add specific references to System institutions chartered under titles I, II, III, IV, and VII of the Act. This proposed amendment clarifies that the regulations in part 627 do not apply to Farmer Mac. Instead, as mentioned earlier, the regulations in subpart B of part 650 govern the conservatorship, receivership, or voluntary liquidation of Farmer Mac.

Separately, we propose two minor amendments to redesignated § 627.1, which do not substantively change the regulation. First, the proposed rule omits the word “General” and the hyphen after it from the title. Second, we are making a grammatical correction in the first sentence so the verb “apply” appears in the present, not future, tense.

2. Definitions—§ 627.2

The definitions that apply to part 627 are located in proposed and redesignated § 627.2. We propose to remove the paragraph designations for the definitions in existing § 627.2705 and instead list these definitions alphabetically, which is the practice that FCA has followed in recent rulemakings. Under this proposal, the regulations in part 627 refer to the Farm Credit System Insurance Corporation as “FCSIC” instead of the “Insurance Corporation” as they do now. As a result, references to FCSIC are the same throughout all FCA regulations. We also propose to amend the definition of “Farm Credit institution(s) or institution(s)” by: (1) Removing the reference to the now-defunct Farm Credit System Financial Assistance Corporation; 10 and (2) adding a final sentence to this provision stating that these terms do not include bridge System banks chartered by FCA, in accordance with section 5.61C(h)(2) of the Act. Finally, we propose to improve the clarity of the regulatory definitions of “conservator” and “receiver” in redesignated § 627.2 by adding the words “of a Farm Credit institution” at the end of each.

3. Grounds for Appointing FCSIC as Conservator or Receiver—§ 627.3

The proposed rule redesignates § 627.2710 as § 627.3 and amend this regulation, which specifies the grounds for FCA appointing FCSIC as the conservator or receiver of a System institution pursuant to sections 4.12(b) and 5.61C(i) of the Act. We propose to delete outdated provisions in redesignated § 627.3 and streamline its language so it is concise and clear. These proposed amendments are technical and stylistic, rather than substantive.

As amended, proposed § 627.3(a) provides that FCA may, in its discretion, appoint a conservator or receiver of a Farm Credit institution if it determines that one or more of the conditions in § 627.3(b) exists. FCA must also appoint FCSIC as conservator or receiver of a Farm Credit institution. We are deleting obsolete language in this regulation from 1992 that states that FCSIC is the “sole entity” that FCA can appoint as conservator or receiver.

10 Section 5411(39) of the 2018 Farm Bill repealed title VI of the Act. Subpart B of former title VI of the Act established the Farm Credit System Financial Assistance Corporation. See Public Law 115–334, supra at 4683.
conservator or receiver after January 5, 1993. Proposed § 627.2 identifies which FCS institutions are subject to these conservatorship and receivership regulations. For this reason, we propose to remove the reference to “any bank, association, or other institution of the System” from this provision. Finally, we add a new sentence at the end of proposed § 627.3(a) to implement new section 5.61C(l)(1) of the Act, which requires FCA, to the extent practicable, to consult with FCSIC before taking a pre-resolution action that could result in a conservatorship or receivership for a distressed FCS institution.11

As before, paragraph (b) of this regulation identifies six grounds for FCA appointing FCSIC as the conservator or receiver of a System institution, which derives from section 4.12(b) of the Act. We are proposing the following revisions to redesignated § 627.3, which will bring it into conformity with more recent amendments to other FCA regulations, or make technical, grammatical, or language corrections that will improve its clarity and readability:

- In the first sentence of paragraph (b)(1), “in that the assets of the institution” changes to “because the value of its assets.” The reason for this revision is that referring to the values of the institution’s assets and liabilities improves the technical accuracy of this provision. Replacing “in that” with “because” is a plain language and a grammatical correction.

- In the second sentence of paragraph (b)(1), which excludes borrower stock and allocated equities from the phrase “obligations to members,” we change “shall not” to “does not” to improve this provision’s clarity by expressing it in the present, rather than future tense.

- In paragraph (b)(2), we replace “the conduct of an unsafe or unsound practice” with “one or more unsafe or unsound practices” which is more technically accurate and grammatically correct.

- In the introductory paragraph of paragraph (b)(3), we change “this regulation” to “this part” because it applies to all conservatorship and receivership regulations in part 627.

- Existing paragraph (b)(3)(iii) is redesignated as paragraph (b)(3)(ii).

- In redesignated paragraph (b)(3)(i), “funding bank” replaces “affiliated bank” to improve the accuracy and clarity of this provision.

- Existing paragraph (b)(3)(iv) is redesignated as paragraph (b)(3)(iii), with no other changes. Existing paragraph (b)(3)(iv) was previously reserved.

FCA proposes no changes to the grounds for appointing FCSIC as the conservator or receiver of FCS institutions in redesignated § 627.3(b)(4) and (5). However, we propose to substitute “A Farm Credit bank” for “The institution” in redesignated § 627.3(b)(6) because only FCS banks have authority to issue debt obligations insured by FCSIC to fund System loans and other assets.

4. Action for the Removal of the Conservator or Receiver—§ 627.4

The proposed rule redesignates § 627.2715 as § 627.4. This regulation implements provisions in section 4.12(b) of the Act that allows an FCS institution, within 30 days after FCA appoints FCSIC as its conservator or receiver, to bring an action in certain United States district courts to remove the conservator or receiver. Only the board of directors of the institution has authority under this regulation to initiate an action to remove the conservator or receiver. As discussed later in greater detail, once an institution is placed in conservatorship or receivership, all of the powers, rights, and privileges of its board, management, and employees are transferred to FCSIC, and the charter of an institution in receivership is canceled. Redesignated § 627.4 carves out an exception so the institution’s board subsequent to the appointment of FCSIC as conservator or receiver can bring this legal action.

We propose two revisions to redesignated § 627.4. First, we streamlined the language in the first sentence of this regulation and rewrote it in the active voice. Second, we deleted language that stated that the institution’s board is empowered to bring an action to remove the conservator or receiver in Federal court “notwithstanding any other provision in subparts B or C of this part.” Instead, we propose to cross-reference this regulation in §§ 627.10 and 627.20.

C. Subpart B—Conservator and Conservatorships

As discussed above, the proposed rule relocates our conservator and conservatorship regulations from subpart C to subpart B of part 627, and it combines the four remaining applicable regulations into a single regulation. As proposed, redesignated § 627.10 is not substantively different from the four regulations it replaces, which are existing §§ 627.2770, 627.2775, 627.2785, and 627.2790. This is because the current regulations effectively carry out FCA’s statutory powers and responsibilities concerning the conservatorship of FCS institutions. A conservator continues the ongoing operations of the financial institution while taking measures to preserve its assets and restore its financial viability so it can resume its normal business activities when it emerges from conservatorship. The purpose of a conservatorship is to resuscitate a troubled institution, not to liquidate it. In this context, our conservatorship regulations implement FCA’s authority to: (1) Appoint FCSIC as the conservator of a System institution; (2) turn the day-to-day operations of the institution over to FCSIC; (3) examine the institution in conservatorship; (4) require audits and published financial reports of such institutions; (5) terminate the conservatorship and discharge FCSIC as conservator.

Proposed § 627.10(a) replaces existing § 627.2775 as the regulation governing the appointment of the conservator. According to proposed § 627.10(a)(1), the FCA Board may exercise its authority under section 4.12(b) of the Act and § 627.3 to appoint FCSIC as the conservator of a System institution once it finds that one or more of the grounds in § 627.3(b) exists. This provision also allows FCA to appoint FCSIC as the conservator of a System institution ex parte and without notice. Proposed § 627.10(a)(1) is substantively the same as existing § 627.2775(a). However, we propose to change the order and flow of this regulatory provision. As rewritten, the redesignated rule recognizes that we must first find that legal grounds exist for appointing the conservator before we decide to do so ex parte and without notice. This revision makes the regulation more logical and easier to read and understand.

Proposed § 627.10(a)(2) is virtually the same as the first sentence of existing § 627.2775(b). Upon the appointment of the conservator, this regulation requires the FCA Chairman to immediately notify the affected institution, and if it is an association, its funding bank. This regulation also requires FCA to publish notice in the Federal Register whenever it appoints FCSIC as the conservator of a System institution. The proposed rule makes two non-substantive, stylistic changes to this regulation. First, we propose to change “district bank” to

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11 We note that section 5.61C(l) of the Act establishes a reciprocal requirement on FCSIC. According to section 5.61C(l)(2) of the Act, FCSIC “acting in the capacity of the Corporation as a conservator or receiver, shall consult with the [FCA] prior to taking any significant action impacting System institutions or service to System borrowers.”
“funding bank.” Second, the provision about publishing the notice in the Federal Register becomes a separate sentence in proposed § 627.10(a)(2). We propose to delete the rest of existing § 627.2775(b), which requires FCSIC to notify all holders of the institution’s voting stock and participation certificates, by first class mail, about the establishment of the conservatorship, and its effects on: (1) Institution’s operations, and (2) borrowers’ loans and equity holdings. Section 5.61C strengthened FCSIC’s powers as the conservator of FCS institutions, and under the circumstances, FCA regulations should not instruct FCSIC how to administer conservatorships unless a specific statutory provision explicitly requires us to do so. Providing notice and information to the shareholders of System institutions about how a conservatorship will affect them is now within FCSIC’s jurisdiction.

Proposed § 627.10(b) addresses FCA’s responsibilities, powers, and prerogatives once it places an FCS institution into conservatorship. It incorporates many of the provisions that are currently scattered throughout existing §§ 627.2775 and 627.2785.

We propose to redesignate existing § 627.2775(c) as § 627.10(b)(1). According to this regulation, once the FCA Board issues an order placing an FCS institution into conservatorship, all rights, privileges, and powers of its members, board of directors, and employees are transferred to and vested exclusively in FCSIC as conservator. Except for a few insignificant word changes, both versions of this regulation are identical in substance and meaning. The proposed rule, however, adds a passage at the end of redesignated § 627.10(b)(1) that states “the board of directors of the institution retains authority to initiate an action in Federal court to remove the conservator pursuant to proposed § 627.4.” As explained in the preamble to § 627.4, this provision replaces the more ambiguous “notwithstanding” passage in existing § 627.2715.

FCA proposes to transfer all but one of the provisions in existing § 627.2785 to the next four paragraphs of redesignated § 627.10(b). The existing regulation establishes requirements concerning the inventory, examination, auditing, and financial reporting of a System institution in conservatorship.

First, we propose to repeal § 627.2785(a), which requires the conservator to take an inventory of the assets of the institution from the date that FCA places it into conservatorship. This regulatory provision also requires the conservator to file one copy of the inventory with FCA. Conducting an inventory of the assets and liabilities of a System institution in conservatorship falls within FCSIC’s new powers and duties under section 5.61C(b) of the Act. Indeed, it is routine practice for conservators to conduct inventories of the assets and liabilities of the financial institution immediately after appointment. FCA has the right to obtain a copy of the inventory because a System institution in conservatorship is still chartered as an ongoing FCS institution and remains subject to FCA examination, supervision, and regulation. Yet, FCA regulations apply to FCS institutions, including those in conservatorship, but not to FCSIC. FCA still has authority under the 2018 Farm Bill to receive a copy of the conservator’s inventory of the institution’s assets and liabilities. However, in light of the new legislation, a regulation is no longer necessary to require FCSIC, as conservator, to conduct the inventory and share a copy of it with us.

The proposed rule redesignates existing § 627.2785(b), which confirms FCA’s authority to examine an institution in conservatorship pursuant to section 5.19 of the Act, as § 627.10(b)(2). Similarly, the requirement in § 627.2785(b) that a certified public accountant audit a System institution in conservatorship pursuant to part 621 becomes a separate regulatory provision, which we redesignate as § 627.10(b)(3). We also rewrote these two provisions in the active voice. Although these revisions improve the clarity and readability of these provisions, they do not change the substantive meaning or scope of these regulatory requirements.

The proposed rule also redesignates existing § 627.2785(c) and (d) as § 627.10(b)(4) and (5), respectively. Proposed and redesignated § 627.10(b)(4) continues to require each System institution in conservatorship to file the financial reports required by part 621. Under § 621.14, each System institution must certify that its financial reports have been prepared in accordance with applicable regulations and instructions, and they are a true and accurate representation of the institution’s financial condition and performance. Additionally, § 621.14 also requires an officer of the institution to certify these financial reports. Since FCSIC replaces the management of an FCS institution in conservatorship, FCSIC is required by both existing § 627.2785(c) and redesignated § 627.10(b)(4) to certify the reports of financial conditions that the institution submits to FCA. The proposed rule condenses the two sentences in existing § 627.2785(c) into a single, shorter sentence, without changing its meaning. Existing § 627.2785(d) requires System institutions in conservatorship to prepare and publish financial reports for their shareholders in accordance with part 620. Under this regulation, the conservator must sign and certify the disclosures that the institution’s former board of directors or management previously provided to shareholders pursuant to § 620.3. The substance and meaning of redesignated § 627.10(b)(5) is the same as the existing regulation. However, we shortened the passage requiring FCSIC, as conservator, to sign and certify the disclosure to the institution’s shareholders.

Proposed § 627.10(c) addresses the termination of the conservatorship. Essentially, a conservatorship ends in one of two ways. In the first scenario, the conservatorship corrects and resolves the problems and conditions that beleaguered the institution, and FCA determines that it is ready to resume normal operations under new management. In the alternative, the institution’s conditions continue to deteriorate, and FCA decides to place it into receivership. In this scenario, FCA appoints FCSIC as the receiver, and FCSIC determines the best course of action for liquidating and resolving the institution, as we will discuss in greater detail below.

Proposed § 627.10(c) is a restatement of the last two sentences of existing § 627.2770(a). Under proposed § 627.10(c)(1), the FCA Board may terminate the conservatorship by determining that the institution is in a position to resume normal operations. In this situation, our Board will instruct FCSIC to turn the institution’s operations over to management that we designate. Once new management is in place, the conservatorship terminates and FCA discharges FCSIC as conservator. In the alternative, the conservatorship will end when the FCA places the institution in receivership and appoints FCSIC as receiver pursuant to § 627.10(c)(2). The proposed rule makes minor wording changes to the current regulatory provisions but does not change their meaning.

We propose to rescind the requirement in existing § 627.2790 that FCSIC submit a report to FCA on its conservatorship activities before its discharge as the institution’s conservator. Filing a report is not a statutory requirement for terminating a conservatorship. FCA and FCSIC will jointly determine what documentation
is appropriate to share at the end of the conservatorship.

D. Subpart C—Receiver and Receiverships

FCA proposes to consolidate its remaining receivership regulations into a single regulation, § 627.20, and transfer it from subpart B to subpart C of part 627. To a large extent, proposed and redesignated § 627.20 follows the same format and structure as the revised conservatorship regulation, § 627.20. However, a receivership is fundamentally different from a conservatorship. A receivership liquidates and resolves a failing institution rather than correcting its problems. For this reason, there are some key distinctions between these two regulations, and many of the amendments that we propose to the receivership regulation are more substantive than those for the conservatorship regulation.

Proposed § 627.20(a) addresses FCA’s appointment of FCSIC as the receiver of an FCS institution. Paragraph (a)(1) of proposed § 627.20(a) states that the FCA Board “may exercise its authority under section 4.12(b) of the Act and § 627.3 to appoint FCSIC as the receiver of an FCS institution upon finding that one or more of the grounds identified in § 627.3(b) exists.” Under proposed § 627.20(a)(1), the FCA Board may appoint FCSIC as the receiver of any System institution ex parte and without notice.

In this context, § 627.20(a)(1) is virtually identical to § 627.10(a)(1), which is the corresponding provision in the proposed conservatorship regulation above. The proposed rule also makes the same technical and stylistic changes to the existing receivership regulation, § 627.20(a), as it does to the current conservatorship regulation. We explained the reasons for these changes in the preamble to § 627.10(a)(1), which discusses the appointment of a conservator, and the same rationale applies to the appointment of receiver under proposed § 627.20(a)(1).

Upon the appointment of FCSIC as receiver, proposed § 627.20(a)(2) requires FCA’s Chairman to immediately notify the affected institution and its funding bank if it is an association. This regulation also requires FCA to publish a notice in the Federal Register whenever it appoints FCSIC as the conservator of a System institution. Again, the technical changes we propose for this provision mirror our proposed changes to redesignated § 627.10(a), which is the companion provision in the conservatorship regulations. The explanation and rationale for these changes in the applicable preamble passage for the conservatorship regulations above apply to this receivership regulation as well.

The proposed rule redesignates existing § 627.220(d) as § 627.220(b). This regulation continues to require the funding bank, in the event of a voluntary or involuntary liquidation of an affiliated association, to institute appropriate measures to minimize the adverse effect of liquidation on those borrowers whose loans are purchased or otherwise transferred to another institution.

At this time, we propose only two minor word changes to this provision. As noted earlier, FCA does not propose substantive amendments to its voluntary liquidation regulations in this rulemaking. For this reason, redesignated § 627.220(b) continues to apply to both voluntary liquidations and receiverships for the time being.

The proposed rule, which redesignates existing § 627.2720(e) as § 627.2720(c), continues to state that “all rights, privileges, and powers of its members, the board of directors, officers, and employees are transferred to and vested exclusively in FCSIC” once the FCA Board issues the order that places it into receivership. The proposed rule adds a provision at the end § 627.2720(c)(1) that carves out an exception that enables the board of directors of the institution to initiate an action in Federal court to remove the receiver pursuant to § 627.4. The reasons for these changes have already been explained twice above.

Proposed § 627.20(c)(2) revises the last sentence of existing § 627.2720(e). This provision pertains to the cancelation of a System institution’s charter when the FCA appoints FCSIC as its receiver. Under the existing regulation, FCA may cancel the charter either simultaneously or at any time thereafter. Research reveals that in 1992 we added the provision to the final rule that allows us to cancel the charter at a later time in response to a comment from a System trade association. FCA decided that the final rule should provide flexibility so it could consider the merits about when to cancel the charter on a case-by-case basis. However, the preamble expressed FCA’s expectation that it would ordinarily cancel the charter when it appointed FCSIC as the receiver of a System institution.

We propose to amend this provision to require cancelation of the charter when FCSIC is appointed as the institution’s receiver. Canceling the charter means that the institution is out of business and undergoing liquidation and resolution. A “live” corporate charter is inconsistent with the rights, powers, and duties of the receiver in section 5.61C of the Act, as added by Congress in 2018. As long as the charter is active, the institution is not defunct as a matter of law, and FCSIC’s authority and ability to resolve the estate by disposing of its assets and liabilities can more easily be challenged by creditors, shareholder-members, and other parties, contrary to Congressional intent to provide for an orderly liquidation process comparable to that of other federally chartered financial institutions. Federal statutes comparable to section 4.12(b) of the Act permit commercial banks, credit unions, and Federal Home Loan Banks to challenge, in Federal court, decisions by the three Federal banking regulatory agencies, the NCUA, and FHFA to appoint receivers and seek their removal. These agencies cancel the charters of institutions they supervise at the time they place them into receivership to ensure an orderly liquidation and resolution.

Redesignated and amended § 627.20(d) implements section 4.37 of the Act, which addresses the treatment of uninsured voluntary and involuntary accounts of a System institution that is in receivership. As revised, this regulation provides that once the FCA Board has placed an institution into receivership, FCSIC, in accordance with section 4.37 of the Act, will, as soon as practicable, notify every borrower who holds an uninsured voluntary or involuntary account, as described in § 614.4175, at the institution that: (1) such accounts ceased earning interest from the date that the FCA Board placed the institution into receivership; and (2) FCSIC, as receiver, will immediately apply the funds in a borrower’s account(s) as payment against the outstanding balance of the borrower’s loan(s). The only substantive

12 This commenter expressed concerns that canceling the charter at the same time that FCA appoints the receiver “clouds” the issue of whether the institution had standing to challenge the receivership. FCA rejected this claim because section 4.12(b) of the Act expressly authorizes the institutions’ board to challenge the receivership in Federal court and seek removal of the receiver within 30 days after appointment. See 57 FR 46482 (Oct. 9, 1992).

13 Id.

14 Id.

15 Section 4.37 of the Act requires that money of a borrower held in an uninsured voluntary or involuntary account at a System institution must be immediately applied as payment against the borrower’s outstanding loans if the institution is placed in liquidation. This statutory provision also requires FCA to enact regulations that: (1) Define the term “uninsured voluntary or involuntary account”; and (2) effectively carry out section 4.37 of the Act.
amendment we propose to this regulation is to delete the provision in existing § 627.2735(a) that allows the borrower, within 15 days of receiving the notice, to direct FCSIC to apply the funds in the account for some other purpose specified in the loan documents. We propose to delete this provision because these accounts are uninsured and unsecured, and section 4.37 of the Act explicitly states that these funds must be applied to reduce the outstanding balance of the borrower’s loans. All other proposed changes to this regulation are designed to improve its readability and clarity. Section 4.37 requires FCA to enact regulations about how uninsured voluntary and involuntary accounts at System institutions in receivership are to be resolved by FCSIC, as receiver. For this reason, redesignated § 627.20(d) specifies how FCSIC will address the resolution of these specific liabilities of an FCS institution in receivership.

FCA proposes to repeal existing § 627.2735(b), which requires FCSIC to provide copies of the receivership regulations to the stockholders of FCS institutions in liquidation. Existing § 627.2735(b) is not needed to implement statutory provisions that protect the rights of borrowers. Section 4.9A(c) of the Act, which requires FCSIC to retire borrower stock at par at a System institution in receivership, provides clear and unambiguous guidance to FCSIC.

Finally, redesignated § 627.20(e) is a restatement of existing § 627.2765, which addresses the final discharge and release of the receiver. According to this regulation, a receivership terminates once FCSIC makes a final distribution of the assets of the liquidated institution. At that time, the regulation specifies that FCA’s Board will cancel the charter if it has not done so earlier, and it completely and finally releases and discharges the receiver. The proposed rule removes a provision in the existing regulation that states that FCA will cancel the charter if it has not done so previously because, as discussed earlier, proposed § 627.20(c)(2) requires FCA to cancel the charter when the FCA Board places the institution in receivership.

E. Conforming Amendments

We propose conforming amendments to other regulations in parts 619 and 627.

1. Definitions in Part 619

Our regulations in part 619 define terms that apply to all FCA regulations unless a part, subpart, or section states a different definition applies. We propose to amend the definitions of “Farm Credit bank” in § 619.9140 and “Farm Credit institutions” in § 619.9146, so both terms explicitly exclude bridge System banks that FCA charters at FCSIC’s request under section 5.61C(h)(2) of the Act. As discussed in great detail above, bridge System banks are vehicles to resolve FCS banks. These conforming amendments to §§ 619.9140 and 619.9146 explicitly exempt bridge System banks from FCA regulations that govern the activities and operations of ongoing FCS institutions. Thus, FCA regulations governing the organization and governance, capitalization, funding, and other activities of other System institutions do not apply to bridge System banks unless we enact a regulation in part 627 or elsewhere that explicitly states otherwise.

Separately, we propose to delete the explicit reference to the Funding Corporation from the definition of the “Farm Credit institution” in § 619.9146. The reason for this revision is that section 5411(2) of the 2018 Farm Bill amended section 1.2(a) of the Act to expressly identify the Funding Corporation as a System institution.

2. B. Voluntary Liquidation Regulations in Subpart D of Part 627

We noted earlier that FCA does not propose to revise its voluntary liquidation regulations in subpart D of part 627. However, we propose non-substantive conforming amendments, so these regulations are consistent with other changes to conservatorship and receivership regulations in part 627. First, we propose to renumber the two regulations in subpart D so they conform to numbering changes we are making to subparts A, B, and C of part 627. As a result, this proposed rule redesignates § 627.2795 as § 627.40 and § 627.2797 as § 627.41. Second, the proposed rule changes the reference to “subpart B” in redesignated § 627.40(a) to “subpart C” because we propose to relocate our receivership regulations to subpart C. Finally, we propose to remove the passage at the end of the final sentence in existing § 627.2797(a), which states, “except that if the Farm Credit institution is placed in receivership, the provisions of § 627.2730(a) shall govern further disposition of the equities of the Farm Credit institution.” We are deleting this passage because the direct final rule that FCA enacted in 2021 repealed § 627.2730.

IV. Regulatory Flexibility Act and Congressional Review Act Conclusions

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 et seq.), FCA hereby certifies that the proposed 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 and annual income in excess of the amounts that would qualify them as small entities. Therefore, Farm Credit System institutions are not “small entities” as defined in the Regulatory Flexibility Act.

List of Subjects

12 CFR Part 619

Agriculture, Banks, banking, Rural areas.

12 CFR Part 627

Agriculture, Banks, banking, Claims, Rural areas.

For the reasons stated in the preamble, parts 619 and 627 of chapter VI, title 12 of the Code of Federal Regulations are proposed to be amended as follows:

PART 619—DEFINITIONS

1. The authority citation for part 619 is revised to read as follows:

Authority: Secs. 1.4, 1.5, 1.7, 2.1, 2.2, 2.4, 2.11, 2.12, 3.1, 3.2, 4.9, 5.9, 5.17, 5.19, 5.61C, 7.0, 7.1, 7.6, 7.8 and 7.12 of the Farm Credit Act (12 U.S.C. 2012, 2013, 2015, 2072, 2073, 2075, 2092, 2093, 2122, 2123, 2160, 2243, 2252, 2254, 2279a, 2279a–1, 2279b, 2279c–1, 2279f), sec. 514, Pub. L. 102–552, 106 Stat. 4102.

2. Revise § 619.9140 to read as follows:

§ 619.9140 Farm Credit bank(s).

Except as otherwise defined, the term Farm Credit bank(s) includes Farm Credit Banks, agricultural credit banks, and banks for cooperatives, but excludes bridge System banks chartered by the Farm Credit Administration Board pursuant to section 5.61C(h)(2) of the Act.

3. Revise § 619.9146 to read as follows:

§ 619.9146 Farm Credit institutions.

Except as otherwise defined, the term Farm Credit institutions refers to all institutions that are identified in section 1.2 of the Act and are chartered and regulated by the Farm Credit Administration, but it excludes bridge System banks chartered by the Farm Credit Administration Board pursuant to section 5.61C(h)(2) of the Act.
PART 627—TITLE IV CONSERVATORS, RECEIVERS, AND VOLUNTARY LIQUIDATIONS

4. The authority citation for part 627 is revised to read as follows:

Authority: Secs. 4.2, 5.9, 5.10, 5.17, 5.51, 5.58, 5.61, 5.61C of the Farm Credit Act (12 U.S.C. 2183, 2243, 2244, 2252, 2277a, 2277a-7, 2277a-10, 2277a-10c).

5. Subparts A, B, and C are revised to read as follows:

Subpart A—General Provisions

Sec.
627.1 Applicability.
627.2 Definitions.
627.3 Grounds for appointing FCSIC as conservator or receiver.
627.4 Action for the removal of the conservator or receiver.

Subpart B—Conservator and Conservatorships

627.10 FCSIC as conservator.

Subpart C—Receiver and Receiverships

627.20 FCSIC as receiver.

Subpart A—General Provisions

§ 627.1 Applicability.

The provisions of this part apply to conservatorships, receiverships, and voluntary liquidations of System institutions chartered under titles I, II, III, IV, and VII of the Act.

§ 627.2 Definitions.

For the purposes of this part, the following definitions apply:

Act means the Farm Credit Act of 1971, as amended.

Conservator means the Farm Credit System Insurance Corporation acting in its capacity as the conservator of a Farm Credit institution.

Farm Credit institution(s) or institution(s) means all Farm Credit banks, associations, service corporations chartered under title IV of the Act, and the Federal Farm Credit Banks Funding Corporation. These two terms do not include any bridge System bank chartered by the Farm Credit Administration (FCA), in accordance with section 5.61C(h)(2) of the Act.

FCSIC means the Farm Credit System Insurance Corporation.

Receiver means FCSIC acting in its capacity as the receiver of a Farm Credit institution.

§ 627.3 Grounds for appointing FCSIC as conservator or receiver.

(a) FCA may, in its discretion, appoint a conservator or receiver of a Farm Credit institution if it determines that one or more of the grounds in paragraph (b) of this section exist. FCA must appoint FCSIC as conservator or receiver of a Farm Credit institution. To the extent practicable, FCA will consult with FCSIC before taking a pre-resolution action that may result in a conservatorship or receivership of a Farm Credit institution.

(b) The grounds for appointing FCSIC as a conservator or receiver of a System institution are:

(1) The institution is insolvent because the value of its assets is less than its obligations to creditors and others, including its members. For the purpose of determining insolvency, “obligations to members” does not include stock or allocated equities held by current or former borrowers.

(2) There has been a substantial dissipation of assets or earnings of the institution due to the violation of any law, rule, or regulation, or one or more unsafe or unsound practices.

(3) The institution is in an unsafe or unsound condition to transact business, including having insufficient capital levels or otherwise. For the purpose of this part, “unsafe or unsound condition” includes, but is not limited to, the following conditions:

(i) For associations, a default by the association of one or more terms of its general financing agreement with its funding bank that the Farm Credit Administration determines to be a material default;

(ii) For all institutions, permanent capital of less than one-half the minimum required level for the institution; or

(iii) For associations, stock impairment.

(4) The institution has committed a willful violation of a final cease and desist order issued by the Farm Credit Administration Board.

(5) The institution is concealing its books, papers, records, or assets, or is refusing to submit its books, papers, records, assets, or other material relating to the affairs of the institution for inspection to any examiner or to any lawful agent of the Farm Credit Administration Board.

(6) A Farm Credit bank is unable to make a timely payment of principal or interest on any insured obligation defined in section 5.51(3) of the Act issued by the bank individually, or on which it is primarily liable.

§ 627.4 Action for the removal of the conservator or receiver.

Within 30 days after the Farm Credit Administration Board appoints FCSIC as the conservator or receiver of a Farm Credit institution pursuant to § 627.3, the institution may bring an action in the United States District Court in the judicial district in which its home office is located, or the United States District Court for the District of Columbia, for an order requiring the Farm Credit Administration Board to remove such conservator or receiver and, if the charter has been canceled, to rescind the cancellation of the charter. The institution’s board of directors is empowered to meet subsequent to the appointment of a conservator or receiver and authorize the filing of an action in Federal court to remove the conservator or receiver. Only the institution’s board of directors has the power to authorize an action to remove the conservator or receiver.

Subpart B—Conservator and Conservatorships

§ 627.10 FCSIC as conservator.

(a) Appointment. (1) The Farm Credit Administration Board may exercise its authority under section 4.12(b) of the Act and § 627.3 to appoint FCSIC as the conservator of a Farm Credit institution upon finding that one or more of the grounds identified in § 627.3(b) exists. The Farm Credit Administration Board may appoint, ex parte and without notice, FCSIC as conservator for any Farm Credit institution.

(b) Conservatorship. (1) Once the Farm Credit Administration Board issues the order placing a Farm Credit institution in conservatorship, all rights, privileges, and powers of its members, board of directors, officers, and employees, are transferred to and vested exclusively in FCSIC as conservator, except that the board of directors of the institution retains authority to initiate an action in a Federal district court to remove the conservator pursuant to § 627.4.

(2) The Farm Credit Administration will continue to examine Farm Credit institutions in conservatorship in accordance with section 5.19 of the Act.

(3) A qualified public accountant must audit a Farm Credit institution in conservatorship in accordance with part 621 of this chapter.

(4) Pursuant to the requirements of part 621 of this chapter, each institution in conservatorship must prepare and file
with the Farm Credit Administration financial reports, certified by FCSIC, as required by § 621.14.

(5) Each institution in conservatorship must prepare and issue published financial reports in accordance with the requirements of part 620 of this chapter. FCSIC, as the conservator of the institution, will provide the signatures and certifications required by § 620.3.

(c) Termination of the conservatorship. (1) Whenever the Farm Credit Administration Board determines that the problem(s) or condition(s) that led to the conservatorship have been corrected and resolved, and the institution is in a position to resume normal operations, it may terminate the conservatorship and direct FCSIC to turn over the institution’s operations to such management that FCA designates. Once new management is in place, the conservatorship terminates and FCA discharges FCSIC as conservator; or

(2) Whenever the Farm Credit Administration Board determines that the institution should be placed in receivership, the Farm Credit Administration Board will appoint FCSIC as the receiver of such institution.

Subpart C—Receiver and Receiverships

§ 627.20 FCSIC as receiver.

(a) Appointment. (1) The Farm Credit Administration Board may exercise its authority under section 4.12(b) of the Act and § 627.3 to appoint FCSIC as the receiver of a Farm Credit institution upon finding that one or more of the grounds identified in § 627.3(b) exists. The Farm Credit Administration Board may appoint, ex parte and without notice, FCSIC as receiver for any Farm Credit institution.

(2) Upon appointing FCSIC as the receiver of an institution, the Chairman of the Farm Credit Administration shall immediately notify such institution and, in the case of an association, its funding bank. The Farm Credit Administration Board will immediately publish notice of the appointment of the receiver in the Federal Register.

(b) Funding bank role for association in liquidation. In the event of the voluntary or involuntary liquidation of an association, the funding bank must institute appropriate measures to minimize the adverse effect of the liquidation on those borrowers whose loans are purchased by, or otherwise transferred to another System institution.

(c) Receivership. (1) Once the Farm Credit Administration Board issues the order placing a Farm Credit institution in receivership, all rights, privileges, and powers of its members, the board of directors, officers, and employees, are transferred to and vested exclusively in FCSIC as receiver, except that the institution’s board of directors retains authority to initiate an action in a Federal district court to remove the receiver pursuant to § 627.4.

(2) The Farm Credit Administration Board simultaneously will cancel the charter of the institution when it appoints FCSIC as receiver.

(d) Uninsured accounts. Once the Farm Credit Administration Board has placed an institution into receivership, FCSIC, in accordance with section 4.37 of the Act, will, as soon as practicable, notify every borrower who holds an uninsured voluntary or involuntary account, as described in § 614.4175 of this chapter, at the institution that:

(1) Such accounts ceased earning interest from the date that the Farm Credit Administration Board placed the institution into receivership; and

(2) FCSIC, as receiver, will immediately apply the funds in a borrower’s uninsured account(s) as payment against the outstanding balance of the borrower’s loan(s).

(e) Final discharge and release of the receiver. The receivership terminates after FCSIC makes a final distribution of the assets of the liquidated institution. Then, the Farm Credit Administration Board will completely and finally release and discharge the receiver.

§ 627.2795 [Redesignated as § 627.40]

■ 6. Redesignate § 627.2795 as § 627.40.

§ 627.40 [Amended]

■ 7. In newly redesignated § 627.40(a), remove “subpart B” and add “subpart C” in its place.

§ 627.2797 [Redesignated as § 627.41]

■ 8. Redesignate § 627.2797 as § 627.41.

§ 627.41 [Amended]

■ 9. In newly redesignated § 627.41, revise the last sentence in paragraph (a) to read as follows:

§ 627.41 Preservation of equity.

(a) * * * In the event the resolution to liquidate is approved by the stockholders of the Farm Credit institution and the liquidation plan is approved by the Farm Credit Administration Board, the liquidation plan shall govern disposition of the equities of the Farm Credit institution. * * * * *