

Subsecs. (b), (c). Pub. L. 99-205 added subsec. (b) and redesignated former subsec. (b) as (c).

### Statutory Notes and Related Subsidiaries

#### EFFECTIVE DATE OF 1985 AMENDMENT

Amendment by Pub. L. 99-205 effective thirty days after Dec. 23, 1985, see section 401 of Pub. L. 99-205, set out as a note under section 2001 of this title.

#### CONSTRUCTION OF 1988 AMENDMENT

Pub. L. 100-399, title VII, §702(b), Aug. 17, 1988, 102 Stat. 1006, provided that section 805(q) of Pub. L. 100-233, cited as a credit to this section, is repealed and that subsec. (c) of this section shall be applied and administered as if such section had not been enacted.

#### MINIMUM CAPITAL ADEQUACY STANDARDS

Pub. L. 100-233, title III, §301(a), Jan. 6, 1988, 101 Stat. 1608, as amended by Pub. L. 100-399, title III, §301(a), Aug. 17, 1988, 102 Stat. 993, provided that:

“(1) IN GENERAL.—

“(A) ESTABLISHMENT.—Within 120 days after the date of the enactment of this Act [Jan. 6, 1988], the Farm Credit Administration shall issue regulations under section 4.3(a) of the Farm Credit Act of 1971 (12 U.S.C. 2154(c) [12 U.S.C. 2154(a)]) that establish minimum permanent capital adequacy standards for Farm Credit System institutions.

“(B) BASIS FOR ESTABLISHMENT.—The standards established under subparagraph (A) shall apply to an institution based on the financial statements of the institution prepared in accordance with generally accepted accounting principles.

“(C) RATIO OF CAPITAL TO ASSETS.—The standards established under subparagraph (A) shall specify fixed percentages representing the ratio of permanent capital of the institution to the assets of the institution, taking into consideration relative risk factors as determined by the Farm Credit Administration.

“(D) PHASE-IN PERIOD.—The standards established under subparagraph (A) shall be phased in during the 5-year period beginning on the date of the enactment of this Act [Jan. 6, 1988].

“(2) EMERGENCY POWER NOT AVAILABLE.—The Farm Credit Administration shall not invoke the emergency provisions of section 5.17(c)(2) of the Farm Credit Act of 1971 (12 U.S.C. 2251(c)(2) [12 U.S.C. 2252(c)(2)]) with respect to the issuance of the regulations required under paragraph (1)(A).

“(3) PROHIBITIONS DURING TRANSITION PERIOD.—During the 5-year period specified in paragraph (1)(D), the Farm Credit Administration shall not initiate any receivership, conservatorship, liquidation, or enforcement action against any System institution certified to issue preferred stock under section 6.27 of the Farm Credit Act of 1971 (as added by section 201 of this Act) [12 U.S.C. 2278b-7], solely because of the failure of such institution to meet minimum permanent capital adequacy standards unless such action is recommended or concurred in by the Farm Credit System Assistance Board established under section 6.0 of such Act (as added by section 201 of this Act) [former 12 U.S.C. 2278a].

“(4) PERMANENT CAPITAL.—For purposes of this subsection, the term ‘permanent capital’ has the same meaning given that term in section 4.3A(a)(1) of the Farm Credit Act of 1971 [12 U.S.C. 2154(a)(1)].”

### § 2154a. Capitalization of System institutions

#### (a) Definitions

As used in this section:

##### (1) Permanent capital

The term “permanent capital” means—

- (A) current year retained earnings;
- (B) allocated and unallocated earnings (which, in the case of earnings allocated in

any form by a System bank to any association or other recipient and retained by the bank, shall be considered, in whole or in part, permanent capital of the bank or of any such association or other recipient as provided under an agreement between the bank and each such association or other recipient);

(C) all surplus (less allowances for losses);  
(D) stock issued by a System institution, except—

(i) stock that may be retired by the holder of the stock on repayment of the holder's loan, or otherwise at the option or request of the holder; or

(ii) stock that is protected under section 2162 of this title or is otherwise not at risk; and

(E) any other debt or equity instruments or other accounts that the Farm Credit Administration determines appropriate to be considered permanent capital.

#### (2) Stock

The term “stock” means voting and non-voting stock (including preferred stock), equivalent contributions to a guaranty fund, participation certificates, allocated equities, and other forms and types of equities.

#### (b) Adoption of bylaws

Subject to approval by shareholders under subsection (c)(2), each bank and association shall adopt bylaws, developed by its board of directors, that provide for the capitalization of the institution in accordance with subsection (c)(1).

#### (c) Requirements of bylaws

##### (1) In general

Notwithstanding any other provision of this chapter, the bylaws adopted under subsection (b)—

(A) shall provide for such classes, par value, and amounts of the stock of the institution, the manner in which such stock shall be issued, transferred, and retired, and the payment of dividends and patronage refunds, as determined appropriate by the Board of Directors, subject to this section;

(B) may provide for the charging of loan origination fees as determined appropriate by the Board of Directors;

(C) shall enable the institution to meet the capital adequacy standards established under the regulations issued under section 2154(a) of this title;

(D) shall provide for the issuance of voting stock, which may only be held by—

(i) borrowers who are farmers, ranchers, or producers or harvesters of aquatic products, and cooperative associations eligible to borrow from System institutions under this chapter;

(ii) persons and entities eligible to borrow from the banks for cooperatives, as described in section 2124(c)(ii) of this title;

(iii) in the case of a Central Bank for Cooperatives, other banks for cooperatives; and

(iv) in the case of banks other than banks for cooperatives, System associations;

(E) shall require that—

(i) as a condition of borrowing from or through the institution, any borrower who is entitled to hold voting stock or participation certificates shall, at the time a loan is made, acquire voting stock or participation certificates in an amount not less than \$1,000 or 2 percent of the amount of the loan, whichever is less; and

(ii) within 2 years after the loan of a borrower is repaid in full, any voting stock held by the borrower be converted to non-voting stock;

(F) may provide that persons who are not borrowers from the institution may hold nonvoting stock of the institution;

(G) shall require that any holder of voting stock issued before the adoption of bylaws under this section exchange a portion of such stock for new voting stock;

(H) do not need to provide for maximum or minimum standards of borrower stock ownership based on a percentage of the loan of the borrower, except as otherwise provided in this section;

(I) shall permit the retirement of stock at the discretion of the institution if the institution meets the capital adequacy standards established under section 2154(a) of this title; and

(J) shall permit stock to be transferable.

## **(2) Effective date**

The bylaws adopted by the board of directors of a System institution under subsection (b) shall take effect only on approval of a majority of the stockholders of such institution present and voting, or voting by written proxy, at a duly authorized stockholders' meeting.

## **(d) Reduction of capital**

### **(1) General rule**

Except as provided in paragraph (2), the board of directors of a System institution may not reduce the permanent capital of the institution through the payment of patronage refunds or dividends, or the retirement of stock if, after or due to such action, the permanent capital of the institution would thereafter fail to meet the minimum capital adequacy standards established under section 2154(a) of this title.

### **(2) Exceptions**

Paragraph (1) shall not apply to the payment of noncash patronage refunds by any institution exempt from Federal income tax if the entire refund paid qualifies as permanent capital. Notwithstanding paragraph (1), any System institution subject to Federal income tax may pay patronage refunds partially in cash as long as the cash portion of the refund is the minimum amount required to qualify the refund as a deductible patronage distribution for Federal income tax purposes and the remaining portion of the refund paid qualifies as permanent capital.

## **(e) Compliance**

The Farm Credit Administration may issue a directive that requires compliance with sub-

section (d), to the board of directors of any System institution that fails to comply therewith.

## **(f) Loans designated for sale or sold into secondary market**

### **(1) In general**

Subject to paragraph (2) and notwithstanding any other provision of this section, the bylaws adopted by a bank or association under subsection (b) may provide—

(A) in the case of a loan made on or after February 10, 1996, that is designated, at the time the loan is made, for sale into a secondary market, that no voting stock or participation certificate purchase requirement shall apply to the borrower for the loan; and

(B) in the case of a loan made before February 10, 1996, that is sold into a secondary market, that all outstanding voting stock or participation certificates held by the borrower with respect to the loan shall, subject to subsection (d)(1), be retired.

### **(2) Applicability**

Notwithstanding any other provision of this section, in the case of a loan sold to a secondary market under subchapter VIII, paragraph (1) shall apply regardless of whether the bank or association retains a subordinated participation interest in a loan or pool of loans or contributes to a cash reserve.

### **(3) Exception**

#### **(A) In general**

Subject to subparagraph (B) and notwithstanding any other provision of this section, if a loan designated for sale under paragraph (1)(A) is not sold into a secondary market during the 180-day period that begins on the date of the designation, the voting stock or participation certificate purchase requirement that would otherwise apply to the loan in the absence of a bylaw provision described in paragraph (1)(A) shall be effective.

#### **(B) Retirement**

The bylaws adopted by a bank or association under subsection (b) may provide that if a loan described in subparagraph (A) is sold into a secondary market after the end of the 180-day period described in the subparagraph, all outstanding voting stock or participation certificates held by the borrower with respect to the loan shall, subject to subsection (d)(1), be retired.

### **(g) Construction**

This section shall not be construed to affect the provisions of this chapter that confer on System institutions a lien on borrower stock or other equities and the privilege to retire or cancel such stock or other equities for application against the indebtedness on a defaulted or restructured loan.

### **(h) Controlling authority**

To the extent that any provision of this section is inconsistent with any other provision of this chapter (other than section 2162 of this title), the provision of this section shall control.

(Pub. L. 92-181, title IV, §4.3A, as added Pub. L. 100-233, title III, §301(b), Jan. 6, 1988, 101 Stat.

1608; amended Pub. L. 100-399, title III, § 301(b)-(f), Aug. 17, 1988, 102 Stat. 994; Pub. L. 102-552, title I, § 101, Oct. 28, 1992, 106 Stat. 4103; Pub. L. 104-105, title II, § 206, Feb. 10, 1996, 110 Stat. 173; Pub. L. 110-234, title V, § 5403(b), May 22, 2008, 122 Stat. 1154; Pub. L. 110-246, § 4(a), title V, § 5403(b), June 18, 2008, 122 Stat. 1664, 1916.)

#### Editorial Notes

##### CODIFICATION

Pub. L. 110-234 and Pub. L. 110-246 made identical amendments to this section. The amendments by Pub. L. 110-234 were repealed by section 4(a) of Pub. L. 110-246.

##### AMENDMENTS

2008—Subsec. (c)(1)(D)(ii) to (iv). Pub. L. 110-246, § 5403(b), added cl. (ii) and redesignated former cls. (ii) and (iii) as (iii) and (iv), respectively.

1996—Subsecs. (f) to (h). Pub. L. 104-105 added subsec. (f) and redesignated former subsecs. (f) and (g) as (g) and (h), respectively.

1992—Subsec. (a)(1). Pub. L. 102-552 amended par. (1) generally. Prior to amendment, par. (1) read as follows: “The term ‘permanent capital’ means current year retained earnings, allocated and unallocated earnings, all surplus (less allowances for losses), and stock issued by a System institution, except stock that—

“(A) may be retired by the holder thereof on repayment of the holder’s loan, or otherwise at the option or request of the holder; or

“(B) is protected under section 2162 of this title or is otherwise not at risk.”

1988—Subsec. (a)(1)(B). Pub. L. 100-399, § 301(b), substituted “section 2162 of this title” for “section 4.9B”.

Subsec. (c)(1)(D)(i). Pub. L. 100-399, § 301(c)(1), substituted “producers or” for “producers, or”.

Subsec. (c)(1)(G). Pub. L. 100-399, § 301(c)(2), substituted “voting stock issued” for “stock issued”.

Subsec. (c)(1)(H). Pub. L. 100-399, § 301(d), inserted “, except as otherwise provided in this section” after “the borrower”.

Subsec. (c)(1)(I). Pub. L. 100-399, § 301(e), struck out “standards issued under” after “established under”.

Subsec. (d)(1). Pub. L. 100-399, § 301(f), struck out “and in section 2162 of this title” after “paragraph (2)” and “or allocated equities” after “retirement of stock”.

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 2008 AMENDMENT

Amendment of this section and repeal of Pub. L. 110-234 by Pub. L. 110-246 effective May 22, 2008, the date of enactment of Pub. L. 110-234, see section 4 of Pub. L. 110-246, set out as an Effective Date note under section 8701 of Title 7, Agriculture.

##### EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-399 effective as if enacted immediately after enactment of Pub. L. 100-233, which was approved Jan. 6, 1988, see section 1001(a) of Pub. L. 100-399, set out as a note under section 2002 of this title.

### § 2155. Liability of banks; United States not liable

#### (a) Joint and several liability of banks

(1) Each bank of the System shall be fully liable on notes, bonds, debentures, or other obligations issued by it individually, and shall be liable for the interest payments on long-term notes, bonds, debentures, or other obligations issued by other banks operating under the same subchapter of this chapter.

(2)(A) Each bank shall also be primarily liable for the portion of any issue of consolidated or

System-wide obligations made on its behalf and be jointly and severally liable for the payment of any additional sums as called upon by the Farm Credit Administration in order to make payments of interest or principal which any bank primarily liable therefor shall be unable to make.

(B) Such calls first shall be made on all non-defaulting banks in proportion to each such bank’s proportionate share of the aggregate available collateral held by all such banks.

(C) For purposes of this paragraph, the term “available collateral” means the amount (determined at the close of the last calendar quarter ending before such call) by which a bank’s collateral as described in section 2154 of this title exceeds the collateral required to support the bank’s outstanding notes, bonds, debentures, and other similar obligations.

(D) If the Farm Credit Administration makes any such call and the available collateral of all such banks does not fully satisfy the liability necessitating such calls, such calls shall be made on all nondefaulting banks in proportion to each such bank’s remaining assets.

(E) Any System bank that, pursuant to a call by the Farm Credit Administration, makes a payment of principal or interest to the holder of any consolidated or System-wide obligation issued on behalf of another System bank shall be subrogated to all rights of the holder against such other bank to the extent of such payment.

(F) On making such a call with respect to obligations issued on behalf of a System bank, the Farm Credit Administration shall appoint a receiver for the bank, which shall expeditiously liquidate or otherwise wind up the affairs of the bank.

#### (b) Resolutions as to liability; execution of obligations

Each bank participating in an issue shall by appropriate resolution undertake such responsibility as provided in subsection (a), and in the case of consolidated or System-wide obligations shall authorize the execution of such long-term notes, bonds, debentures, or other obligations on its behalf. When a consolidated or System-wide issue is approved, the notes, bonds, debentures, or other obligations shall be executed and the banks shall be liable thereon as provided herein.

#### (c) United States liability

The United States shall not be liable or assume any liability directly or indirectly thereon.

#### (d) Insurance Fund called on before invoking joint and several liability

Beginning 5 years after January 6, 1988, the Farm Credit Administration shall not call on any System institution to satisfy the liability of the institution on any joint, consolidated, or System-wide obligation participated in by the institution or with respect to which the institution is primarily, or jointly and severally, liable, before the Farm Credit Insurance Fund is exhausted, even if the Fund is only able to make a partial payment because of insufficient amounts in the Fund.

(Pub. L. 92-181, title IV, § 4.4, Dec. 10, 1971, 85 Stat. 611; Pub. L. 99-205, title I, § 101(4), title II,