rules and regulations or in a separate tariff.

Question. Could a motor carrier concur in the NFCC rule book with respect to some of its freight claim rules and practices and, at the same time, publish or file the balance of such rules and practices individually, or through some other organization?

Answer. No. The Commission's decision and its current tariff circular rules and regulations do not permit the filing in multiple tariffs of portions of claims rules. They are not to be published by a single carrier in more than one rules tariff.

Question. Must carriers that presently have oral agreements with other carriers for processing of interline claims reduce such agreements to writing and file them with the Commission?

Answer. Yes.

Question. Must carriers that will have no rules or practices for the handling of freight claims other than those prescribed in Appendix E to the Commission's report in Ex Parte No. 263 file anything in the way of tariffs with the Commission?

Answer. Yes. They must publish their claims rules in the same manner as any other carrier. It is inconceivable that a carrier will have no practices with respect to processing and disposing of cargo loss and damage claims. Even if a carrier were to pay or ignore all claims that in itself would constitute a practice and would have to be published as such in tariff form.

Question. Are all operating agreements, in which are included provisions covering loss and damage to freight and liability therefor, required to be filed with the Commission, i.e. (1) "Interline Drop Trailer Agreements;" (2) "Cargo Claim Agreement;" (3) "Cartage Agreements;" filing of which, if required, may well run into hundreds of thousands?

Answer. Yes. All contracts, agreements, and arrangements between or among carriers that pertain to the processing and disposition of cargo claims must be filed with the Commission.

Dated at Washington, D.C. this 5th day of June 1972.

[SEAL] ROBERT L. OSWALD,
Secretary.

[FR Doc.72-8639 Filed 6-6-72;8:50 am]

[Notice 46]

MOTOR CARRIER APPLICATIONS AND CERTAIN OTHER PROCEEDINGS

JUNE 5, 1972.

The following applications are governed by the Interstate Commerce Commission's special rules governing notice of filing of applications by motor carriers of property or passengers under sections 5 and 210a(b) of the Interstate Commerce Act, and certain other proceedings with respect thereto. (49 CFR 1100.240).

MOTOR CARRIERS OF PROPERTY

No. MC-F-11555. Authority sought for control by MAISLIN TRANSPORT, LTD., 7401 Newman Boulevard, La Salle, Quebec, Canada, of the operating rights of HIGHWAY EXPRESS LINES, INC., 1314 Irving Street, Allentown, PA 18103, and for acquisition by MAISLIN INDUSTRIES, LTD., also of La Salle, Quebec, Canada, of control of such rights through the transaction. Applicants' attorneys and representative: Charles Ephraim, 1250 Connecticut Avenue NW., Washington, DC 20036, William D. Traub, 10 East 40th Street, New York, NY 10016, and LeRoy Perper, 1900 Land Title Building, Philadelphia, Pa. 19110. Operating rights sought to be controlled: *General commodities*, with certain specified exceptions, and numerous specified commodities, as a *common carrier* over regular and irregular routes, from, to, and between specified points in the States of Pennsylvania, Delaware, Maryland, Virginia, New Jersey, New York, Connecticut, Rhode Island, Massachusetts, and Maine, and the District of Columbia, with certain restrictions, serving various intermediate and off-route points, over numerous alternate routes for operating convenience only, as more specifically described in Docket No. MC-60580 and sub numbers thereunder. This notice does not purport to be a complete description of all of the operating rights of the carrier involved. The foregoing summary is believed to be sufficient for purposes of public notice regarding the nature and extent of this carrier's operating rights, without stating, in full, the entirety thereof. MAISLIN TRANSPORT, LTD., is authorized to operate as a *common carrier* in Canada, and in the United States in the States of New York, Pennsylvania, New Jersey, Maine, New Hampshire, Vermont, Massachusetts, Connecticut, and Rhode Island. MAISLIN BROS. TRANSPORT (U.S.) LTD., a wholly owned subsidiary of MAISLIN TRANSPORT, LTD., is authorized to operate as a *common carrier* in the States of New York, New Jersey, Pennsylvania, Maryland, and Delaware. Application has not been filed for temporary authority under section 210a(b).

[SEAL] ROBERT L. OSWALD,
Secretary.

[FR Doc.72-8640 Filed 6-6-72;8:50 am]

INTERNATIONAL JOINT COMMISSION—UNITED STATES AND CANADA

WATER POLLUTION OF LAKES SUPERIOR AND HURON

Notice of Investigation and Public Hearings

The International Joint Commission announces that, by similar letters of reference dated April 15, 1972, the Governments of the United States and Canada have requested the Commission, pursuant to Article IX of the Boundary Waters Treaty of 1909, to conduct a study of water quality in Lake Huron and Lake Superior.

The Commission was requested to inquire into and report to the Governments on the following questions:

> Are the waters of Lake Superior and Lake Huron being polluted on either side of the boundary to an extent causing or likely to cause injury on the other side, or degradation of existing water quality levels in these lakes or in the lakes downstream? If so, to what extent, by what causes and in what localities is such pollution occurring and what remedial measures would be most practicable to restore and protect the quality of these waters? If such pollution is not occurring now, what preventive measures would be most practicable to ensure that it does not occur?

The Commission also was requested to include consideration of pollution entering Lake Superior and Lake Huron from tributary waters, including Lake Michigan, which affects water quality in these two lakes.

Persons or agencies interested in the subject matter of this reference are invited to inform the Commission of the nature of their interest. At an appropriate time, the Commission will hold public hearings at which time there will be convenient opportunity for all interested to be heard.

Copies of the complete text of reference to the International Joint Commission are available upon request to the Secretaries.

D. G. CHANCE,
Secretary, Canadian Section, International Joint Commission, Room 850, 151 Slater Street, Ottawa, ON K1P 5H2.

WILLIAM A. BULLARD,
Secretary, U.S. Section, International Joint Commission, Washington, D.C. 20440, STOP No. 86.

JUNE 2, 1972.

[FR Doc.72-8698 Filed 6-6-72;10:30 am]

WATER POLLUTION OF BOUNDARY WATERS OF THE GREAT LAKES SYSTEM FROM AGRICULTURAL, FORESTRY AND OTHER LAND USE ACTIVITIES

Notice of Investigation and Public Hearings

The International Joint Commission announces that, by similar letters of reference dated April 15, 1972, the Governments of the United States and Canada have requested the Commission, pursuant to Article IX of the Boundary Waters Treaty of 1909, to conduct a study of pollution of the boundary waters of the Great Lakes System from agricultural, forestry and other land use activities.

The Commission was requested to inquire into and report to the two Governments on the following questions:

Are the boundary waters of the Great Lakes System being polluted by land drainage (including ground and surface runoff and sediments) from agriculture, forestry, urban and industrial land development, recreational and park land development, utility and transportation systems and natural sources? If so, to what extent, by what causes and in what localities is the pollution taking place and what remedial measures would be most practicable?

The Commission is requested to consider the adequacy of existing programs and control measures, and the need for improvements thereto, relating to:

(a) Inputs of nutrients, pest control products, sediments, and other pollutants from the sources referred to above;

(b) Land use;

(c) Land fills, land dumping, and deep well disposal practices;

(d) Confined livestock feeding operations and other animal husbandry operations; and

(e) Pollution from other agricultural, forestry and land use sources.

In carrying out the study the Commission is to identify the deficiencies in technology and recommend actions for their correction.

Persons or agencies interested in the subject matter of this reference are invited to inform the Commission of the nature of their interest. At an appropriate time, the Commission will hold public hearings at which time there will be convenient opportunity for all interested to be heard.

Copies of the complete text of the reference to the International Joint Commission are available upon request to the Secretaries.

WILLIAM A. BULLARD,
Secretary, U.S. Section, International Joint Commission, Washington, D.C. 20440, STOP No. 86.

D. G. CHANCE,
Secretary, Canadian Section, International Joint Commission, Room 850, 151 Slater Street, Ottawa, ON K1P 5H2.

JUNE 2, 1972.

[FR Doc.72-8699 Filed 6-6-72;10:30 am]

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WEDNESDAY, JUNE 7, 1972
WASHINGTON, D.C.

Volume 37 ■ Number 110

PART II

FARM CREDIT ADMINISTRATION

■

Administrative Provisions; Farm Credit System

Title 12—BANKS AND BANKING

Chapter VI—Farm Credit Administration

ADMINISTRATIVE PROVISIONS; FARM CREDIT SYSTEM

In the FEDERAL REGISTER for April 12, 1972, at page 7218, notice was given that the Farm Credit Administration, by its Federal Farm Credit Board, had under consideration a proposed revision of regulations which had theretofore been issued and which were then in effect. The notice provided that interested persons could participate in the proposed rule making by submitting written comments to the Farm Credit Administration during a 30-day period ending May 12, 1972. After that date the Federal Farm Credit Board reviewed the comments received and on May 17, 1972, took final action on the proposed revision and authorized, effective on that date, the following to be issued as regulations of the Farm Credit Administration.

Chapter VI of Title 12 of the Code of Federal Regulations is amended to read as follows:

SUBCHAPTER A—ADMINISTRATIVE PROVISIONS

PART 600—ORGANIZATION AND FUNCTIONS

Subpart A—Farm Credit Administration

Sec.
600.1 Farm Credit Administration.
600.2 Federal Farm Credit Board.
600.3 Governor.
600.4 Deputy Governors.
600.5 Other administrative units.

Subpart B—Farm Credit System

600.10 Farm Credit districts.
600.20 Federal land banks.
600.30 Federal land bank associations.
600.40 Federal intermediate credit banks.
600.50 Production credit associations.
600.60 Banks for cooperatives.

AUTHORITY: The provisions of this Part 600 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Farm Credit Administration

§ 600.1 Farm Credit Administration.

The Farm Credit Administration is an independent agency in the executive branch of the Government. It consists of the Federal Farm Credit Board, the Governor, and other officers and employees. The central offices of the Farm Credit Administration are located in Suite 6100, 485 L'Enfant Plaza West, SW., Washington, D.C. 20578. Its mailing address is Farm Credit Administration, Washington, D.C. 20578. The hours of business are 8:15 a.m.–4:45 p.m. Monday through Friday, excluding holidays.

§ 600.2 Federal Farm Credit Board.

The Federal Farm Credit Board is a part-time, policymaking board which consists of 13 members, 12 of whom are appointed by the President with the advice and consent of the Senate. In making the appointments, one from each of the 12 Farm Credit districts, the President receives and considers nominations from each district by the Federal land bank associations, the production credit associations and the stockholders of the banks for cooperatives. The 13th member of the Board is designated by the Secretary of Agriculture as his representative on the Board. The Federal Farm Credit Board establishes the general policy for the guidance of the Farm Credit Administration and approves the rules and regulations which implement applicable laws.

§ 600.3 Governor.

The Governor of the Farm Credit Administration is its chief executive officer. He is appointed by the Federal Farm Credit Board, and serves at its pleasure. During any period in which the Governor holds any stock in any of the institutions subject to supervision of the Farm Credit Administration, the appointment of the Governor shall be subject to approval by the President and during any such period the President shall have the power to remove the Governor. On December 31, 1968, the Government capital then remaining in the banks and associations was retired. Under the general supervision of the Federal Farm Credit Board, the Governor is responsible for the execution of laws creating the powers, functions, and duties of the Farm Credit Administration. The Farm Credit Administration makes no loans. All inquiries which concern the obtaining of loans should be addressed to the banks and associations described in §§ 600.20–600.70.

§ 600.4 Deputy Governors.

The Governor of the Farm Credit Administration is assisted in executing his responsibilities by deputy governors appointed by him.

(a) The Credit Service, headed by the Director who also is a Deputy Governor regulates and supervises the extension and administration of credit by the banks and associations of the Farm Credit System.

(b) The Operations and Finance Service, headed by the Director who also is a Deputy Governor regulates and supervises the operating and financial policies and practices of the banks and associations.

§ 600.5 Other administrative units.

The Farm Credit Administration also includes the following: Accounting, Budget and Data Management Division; Examination Division; Office of the General Counsel; Personnel and Administrative Services Division; Research Division, and Information Division.

(a) The Accounting, Budget and Data Management Division headed by the Director, administers Farm Credit Administration accounting, budget and payroll activities; coordinates securities transactions; formulates accounting and reporting requirements for banks and associations and reviews and analyzes their financial condition and earnings; advises on EDP management and utilization, supervises district and Federal board elections.

(b) The Examination Division, headed by the Chief Examiner, examines the banks and the associations supervised by the Farm Credit Administration.

(c) The Office of the General Counsel, headed by the General Counsel, performs legal services for the Federal Farm Credit Board, the Governor, and members of his staff, and consults with and coordinates the work of attorneys employed by the banks.

(d) The Personnel and Administrative Services Division, headed by the Director, plans and directs the personnel program for the Farm Credit Administration; coordinates and advises in the administration of the personnel programs in the Farm Credit districts; provides administrative services to the Farm Credit Administration.

(e) The Research Division, headed by the Director, makes studies of economic, financial, and credit factors affecting the gathering of loan funds, and the extension of sound, useful credit.

(f) The Information Division, headed by the Director, carries on information, member relations, and educational programs to inform farmers of the availability and the use of credit, provides information services for the Farm Credit Administration, and coordinates systemwide activities of the banks and associations supervised by the Farm Credit Administration and conducts foreign training programs in agricultural credit.

Subpart B—Farm Credit System

§ 600.10 Farm Credit districts.

(a) The United States is divided into 12 Farm Credit districts. In each district there are a Federal land bank and a number of Federal land bank associations, a Federal intermediate credit bank and a number of production credit associations, and a bank for cooperatives. Additionally, there is a Central Bank for Cooperatives located in the District of Columbia. The three banks in each district maintain their offices together. The city in which their offices are located in each district and the area comprising each district are as follows:

District name	District No.	District States
Springfield	1	Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey.
Baltimore	2	Pennsylvania, Delaware, Maryland, Virginia, West Virginia, District of Columbia, Puerto Rico.
Columbia	3	North Carolina, South Carolina, Georgia, Florida.
Louisville	4	Ohio, Indiana, Kentucky, Tennessee.
New Orleans	5	Alabama, Mississippi, Louisiana.
St. Louis	6	Illinois, Missouri, Arkansas.
St. Paul	7	Michigan, Wisconsin, Minnesota, North Dakota.
Omaha	8	Iowa, Nebraska, South Dakota, Wyoming.
Wichita	9	Oklahoma, Kansas, Colorado, New Mexico.
Houston	10	Texas.
Berkeley	11	California, Nevada, Utah, Arizona, Hawaii.
Spokane	12	Washington, Oregon, Montana, Idaho, Alaska.

Each district has a part-time, policymaking Farm Credit board of seven members who are ex officio, directors of each of the three banks in that district. The Central Bank for Cooperatives has a separate board of 13 directors. Each bank has its own officials.

(b) In each district, the Federal land bank associations, the production credit associations, and the cooperatives which borrow from the banks for cooperatives, as separate groups are each entitled to elect two members of the district Farm Credit board. The seventh member of the district board is appointed by the Governor of the Farm Credit Administration with the advice and consent of the Federal Farm Credit Board. Activities of the three banks in each district are coordinated through the district Farm Credit board and a committee composed of the bank presidents.

(c) From each district, the board of directors of the bank for cooperatives elects a director of the Central Bank. The 13th director of the Central Bank is appointed by the Governor with the advice and consent of the Federal Farm Credit Board.

§ 600.20 Federal land banks.

The 12 Federal land banks, one in each Farm Credit district, were organized in 1917 under the Federal Farm Loan Act (39 Stat. 360), and are continued under the Farm Credit Act of 1971 (85 Stat. 583). The Federal land banks were established as permanent institutions designed to provide long-term farm mortgage credit for agriculture. The banks, together with the Federal land bank associations, constitute the Federal Land Bank System which is cooperatively and completely farmer-owned. The principal function of the Federal land bank is to make first mortgage loans on farm lands to eligible applicants.

§ 600.30 Federal land bank associations.

The associations receive applications for loans made by the Federal land bank, elect the loan applicants to association membership, and endorse such loans. All of the stock of the Federal land bank associations is owned by their member-borrowers. The member-borrower purchases capital stock in the Federal land bank association. The association in turn purchases a like amount of capital stock in the Federal land bank. Each Federal land bank association is managed by a board of directors elected by and from the membership.

§ 600.40 Federal intermediate credit banks.

The 12 Federal intermediate credit banks, one in each Farm Credit district, were established as permanent institutions under the Federal Farm Loan Act as amended by the Agricultural Credits Act of 1923 (42 Stat. 1454), and are continued under the Farm Credit Act of 1971 (85 Stat. 583). The capital stock of the Federal intermediate credit banks is owned by production credit associations. The Federal intermediate credit banks are primarily banks of discount for production credit associations and other agricultural and livestock lending institutions.

§ 600.50 Production credit associations.

The associations are corporations organized under the Farm Credit Act of 1933 (48 Stat. 259), and continued under the Farm Credit Act of 1971 (85 Stat. 583). Production credit associations may finance on a short- and intermediate-term basis farmers and ranchers and producers or harvesters of aquatic products.

§ 600.60 Banks for cooperatives.

The banks for cooperatives, one in each Farm Credit district and a Central Bank for Cooperatives in the District of Columbia, were organized under the Farm Credit Act of 1933 (48 Stat. 257), and continued under the Farm Credit Act of 1971 (85 Stat. 583). The banks extend credit to certain cooperatives. The Central Bank for Cooperatives services district banks for cooperatives by making direct loans to them and participating in loans that exceed their respective lending limits.

PART 601—EMPLOYEE RESPONSIBILITIES AND CONDUCT

Sec.
601.100 General policy.
601.101 Responsibilities.
601.105 Disciplinary and other remedial action.
601.110 Conflict of interest.
601.115 Applicable laws.
601.120 Cases of trivial interest or relationship.
601.125 Devotion of time to official duties.
601.126 Teaching, writing, and lecturing.
601.130 Farm Credit examiners.
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601.145 Comments on proposed legislation.
601.150 Distribution of printed material by employees.
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601.170 Statements of employment and financial interests.
601.171 Time and place for submission of statements.
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601.173 Interests of employees' relatives.
601.174 Information not known.
601.175 Information prohibited.
601.176 Confidentiality of statements.
601.177 Effect of statements on other requirements.
601.178 Review of statements.
601.180 Special Government employees.

AUTHORITY: The provisions of this Part 601 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

§ 601.100 General policy.

(a) It is the policy of the Farm Credit Administration that all of its officers and employees shall observe the highest standards of conduct in the discharge of the duties and responsibilities that are assigned to them, and that they shall conduct themselves at all times in a manner becoming officers and employees of the Federal Government, so as not to cause embarrassment to the Farm Credit Administration or the Government.

(b) Each officer and employee has an obligation to the Government, to the people he serves, and to his fellow officers and employees to carry out the purpose and spirit of this policy.

(c) Rules and regulations concerning responsibilities and conduct are contained in handbooks or special releases issued to all officers and employees. It is expected that they will keep currently informed thereon, and comply therewith.

§ 601.101 Responsibilities.

(a) In the administration of the policy set forth in § 602.200 of this chapter, and the rules and regulations thereunder, the Director of Personnel and Administrative Services is responsible for (1) general coordination, (2) dissemination of information, (3) handling of complaints, (4) assignment of investigations, (5) administrative interpretation, and (6) periodic review and evaluation of compliance.

(b) The Director of Personnel and Administrative services shall serve as counselor on ethical conduct and shall be responsible for assuring that counseling and interpretations on questions dealing with employee conduct and conflicts of interest are available to any officer or employee who desires advice and guidance on such questions.

§ 601.105 Disciplinary and other remedial action.

A violation of the provisions of this part which deal with employee conduct may be cause for appropriate disciplinary action which may be in addition to any penalty prescribed by law.

§ 601.110 Conflict of interest.

Except as specifically authorized by law or these regulations, no officer or employee of the Farm Credit Administration:

(a) Shall, in any manner directly or indirectly, participate in the deliberation upon, or the determination of, any question affecting his personal interests, those of any person related to him by blood or marriage, or those of any partnership, association, or any corporation in which he is directly or indirectly interested;

(b) Shall, except in the performance of his official duties, divulge to another person, or utilize for his personal benefit or that of another, any fact or information acquired by such officer or employee, directly or indirectly, by virtue of his employment;

(c) Shall, directly or indirectly, purchase bonds, debentures, or other obligations issued by any Farm Credit institution if his position is one of the following: Governor, Deputy Governor, Service Director, Assistant Service Director and other officials authorized to act as Service Director, General Counsel, Assistant General Counsel, Director of Accounting, Budget and Data Management Division, Comptroller, Chief Examiner, and farm credit examiners.

(d) Shall solicit, accept, or receive, directly or indirectly,

(1) From any borrowers from or debtor to, or any officer or employee of, any corporation under the supervision of the Farm Credit Administration, or

(2) From any person who has or is seeking to obtain contractual or other business or financial relations with the Farm Credit Administration, or

(3) From any loan applicant or representative thereof, or

(4) From any person who has an interest that may be substantially affected by the performance or nonperformance of such officer's or employee's official duty, any salary, loan, fee, commission, or honorarium or, for any purpose or in any way, any gift, favor, entertainment, or other benefit which might reasonably be interpreted by others as being of such nature that it could affect his impartiality; Exception: Such officer or employee may accept food and refreshments of nominal value on infrequent occasions in the ordinary course of a luncheon or dinner meeting or other meeting where such officer or employee may properly be in attendance, may accept unsolicited advertising or promotional material such as pens, pencils, note pads, calendars and other items of nominal value, and may accept, with the written approval of the Governor and upon such conditions as he may prescribe, any benefit otherwise enjoined hereby if the circumstances make clear that the motivating factor for the extension of such benefit is not based on the Government responsibilities of the officer or employee and the business of the other person concerned.

(5) Nothing in this part precludes an employee from receipt of bona fide reimbursement, unless prohibited by law, for expenses of travel and such other necessary subsistence as is compatible with this part for which no Government payment or reimbursement is made. However, this paragraph does not allow an employee to be reimbursed, or payment to be made on his behalf, for excessive personal living expenses, gifts, entertainment or other personal benefits, nor does it allow an employee to be reimbursed by a person for travel on official business under agency orders when reimbursement is proscribed by Decision B-128527 of the Comptroller General dated March 7, 1967.

(e) Shall acquire, directly or indirectly (including acquisition by membership in syndicates) any lands, or any interests therein, including mineral interests and interests as mortgagee or lessee, which are owned by or mortgaged to any corporation under Farm Credit Administration supervision or which were thus owned or mortgaged at any time within the preceding 12 months. However, such lands, or interests there in, may be acquired by will or inheritance or upon the written approval of the Governor subject to such conditions as he may prescribe. As used in this paragraph (e), "mineral interests" means any interest in minerals, oil, or gas, including but not limited to, any right derived directly or indirectly from a mineral, oil, or gas lease, deed or royalty conveyance;

(f) Shall participate directly or indirectly in any transaction concerning the purchase or sale of corporate stocks or bonds, commodities, or other property if such action might tend to interfere with the proper and impartial performance of his duties or bring discredit upon the Farm Credit Administration or any corporation under its supervision;

(g) Shall engage in criminal, infamous, dishonest, immoral, or notoriously disgraceful conduct, or otherwise conduct himself in a manner which might be prejudicial and cause embarrassment to or criticism of the Government or the Farm Credit Administration or any corporation under its supervision or interfere with the efficient performance of his duties;

(h) Shall receive any salary or anything of monetary value from a private source as compensation for his services to the Government;

(i) Shall refuse to pay in a proper and timely manner each financial obligation which is imposed by law, such as Federal, State, or local taxes, or which he has acknowledged, or which has been reduced to judgment by a court. As used herein, "proper and timely" means in a manner which the Farm Credit Administration deems does not, under the circumstances, reflect adversely on the Farm Credit Administration as his employer. In the event of a dispute between an employee and an alleged creditor, this section does not require the Farm Credit Administration to determine the validity or amount of the disputed debt;

(j) Shall participate, while on Government-owned or leased property or while on duty for the Farm Credit Administration, in any gambling activity including the operation of a gambling device, in conducting a lottery or pool, in a game for money or property, or in selling or purchasing a numbers slip or tickets;

(k) Shall take any action, whether or not otherwise expressly prohibited hereby, which might result in or create the appearance of:

(1) Using public office for private gain,

(2) Giving preferential treatment to any person,

(3) Impeding Government efficiency or economy,

(4) Losing complete independence or impartiality,

(5) Making a Government decision outside official channels, or,

(6) Affecting adversely the confidence of the public in the integrity of the Government.

§ 601.115 **Applicable laws.**

(a) Particular attention is directed to the following provisions of law containing the Federal penal provisions which relate particularly to officers and employees of the Farm Credit Administration: Paragraphs (b) and (d) of section 15 of the Agricultural Marketing Act (46 Stat. 18; 12 U.S.C. 1141j); and sections 213, 371, 432, 493, 657, 1006, 1011, 1014, 1907, and 1909 of title 18 United States Code, Crimes and Criminal Procedure.

(b) Attention is also directed to Public Law 87-849, approved October 23, 1962 (18 U.S.C. 201 et seq.) which imposes restraints on Government employees.

(1) A regular officer or employee (one appointed or employed to serve more than 130 days in any period of 365 days) is in general subject to the following major prohibitions:

(i) He may not, except in the discharge of his official duties, represent anyone else before a court or Government agency in a matter in which the United States is a party or has an interest (18 U.S.C. 203 and 205);

(ii) He may not participate in his governmental capacity in any matter in which he, his spouse, minor child, outside business associate or person with whom he is negotiating for employment has a financial interest (18 U.S.C. 208);

(iii) He may not, after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has an interest and in which he participated personally and substantially for the Government (18 U.S.C. 207(a));

(iv) He may not, for 1 year after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has an interest and which was within the boundaries of his official responsibility during the last year of his Government service (18 U.S.C. 207(b));

(v) He may not receive any salary, or supplementation of his Government salary, from a private source as compensation for his services to the Government (18 U.S.C. 209).

(2) A special Government employee is in general subject only to the following major prohibitions:

(i) He may not, except in the discharge of his official duties, represent anyone else before a court or Government agency in a matter in which the United States is a party or has an interest and in which he has at any time participated personally and substantially for the Government (18 U.S.C. 203 and 205);

(ii) He may not, except in the discharge of his official duties, represent anyone else in a matter pending before the agency he serves unless he has served there no more than 60 days during the past 365 (18 U.S.C. 203 and 205);

(iii) He may not participate in his governmental capacity in any matter in which he, his spouse, minor child, outside business associate or person with whom he is negotiating for employment has a financial interest (18 U.S.C. 208);

(iv) He may not, after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has an interest and in which he participated personally and substantially for the Government (18 U.S.C. 107(a));

(v) He may not, for 1 year after his Government employment has ended, represent anyone other than the United States in connection with a matter in which the United States is a party or has interest and which was within the boundaries of his official responsibility during the last year of his Government service (18 U.S.C. 207(b)).

(c) In addition to the statutes referred to in paragraphs (a) and (b) of this section, the attention of officers and employees, as well as special Government employees (who are defined to include, among others, officers and employees of the departments and agencies who are appointed or employed to serve, with or without compensation, for not more than 130 days during any period of 365 consecutive days either on a full-time or intermittent basis), is directed to the following statutes:

(1) House Concurrent Resolution 175, 85th Congress, 2d Session, 72 Stat. B12, the "Code of Ethics for Government Service."

(2) The prohibition against lobbying with appropriated funds (18 U.S.C. 1913).

(3) The prohibitions against disloyalty and striking (5 U.S.C. 7311, 18 U.S.C. 1918).

(4) The prohibition against the employment of a member of a Communist organization (50 U.S.C. 784).

(5) The prohibitions against the disclosure of classified information (18 U.S.C. 798, 50 U.S.C. 783), and the disclosure of confidential information (18 U.S.C. 1905).

(6) The provision relating to the habitual use of intoxicants to excess (5 U.S.C. 7352).

(7) The prohibition against the misuse of a Government vehicle (31 U.S.C. 638a (c)).

(8) The prohibition against the misuse of the franking privilege (18 U.S.C. 1719).

(9) The prohibition against the use of deceit in an examination or personnel action in connection with Government employment (18 U.S.C. 1917).

(10) The prohibition against fraud or false statements in a Government matter (18 U.S.C. 1001).

(11) The prohibition against mutilating or destroying a public record (18 U.S.C. 2071).

(12) The prohibition against counterfeiting and forging transportation requests (18 U.S.C. 508).

(13) The prohibitions against embezzlement of Government money or property (18 U.S.C. 641), failing to account for public money (18 U.S.C. 643), and embezzlement of the money or property of another person in the possession of an employee by reason of his employment (18 U.S.C. 654).

(14) The prohibition against unauthorized use of documents relating to claims from or by the Government (18 U.S.C. 285).

(15) The prohibitions against political activities in subchapter III of chapter 73 of title 5, U.S. Code and 18 U.S.C. 602, 603, 607, and 608.

(16) The prohibition against an employee acting as the agent of a foreign principal registered under the Foreign Agents Registration Act (18 U.S.C. 219).

§ 601.120 Cases of trivial interest or relationship.

If the degree of interest or relationship in any case is not substantial but is so trivial as to create little probability that the officer's or employee's impartiality of judgment and action has been affected, no question under § 601.110(a) shall be deemed involved. Each case shall be determined on its own facts, proper weight being given to the nature, amount, and importance of the benefit involved, the degree or kind of relationship in question, and the character of the person concerned.

§ 601.125 Devotion of time to official duties.

Officers and employees of the Farm Credit Administration, who are employed on a full-time basis, are required to devote their full business time to the effective accomplishment of the duties assigned them in connection with the activities and operations in which they are employed. They shall not engage in outside employment or other outside activity, with or without compensation, which is not compatible with the full and proper discharge of their official responsibilities, or which might embarrass the Farm Credit Administration or cast reflection upon their ability to take an unbiased and impartial view of its operations.

§ 601.126 Teaching, writing, and lecturing.

(a) No officer or employee of the Farm Credit Administration shall receive compensation or anything of monetary value for any consultation, lecture, discussion, writing, or appearance the subject matters of which is devoted substantially to the responsibilities, programs, or operations of the Farm Credit Administration or any corporation under its supervision, or draws substantially upon official data or ideas which have not become part of the body of public information.

(b) No officer or employee of the Farm Credit Administration shall, either for or without compensation, engage in teaching, lecturing, or writing for the purpose of the special preparation of a person or class of persons for an examination of the Civil Service Commission or Board of Examiners for the Foreign Service that depends on information obtained as a result of his Government employment, except when that information has been made available to the general public or will be made available on request, or when the Governor gives written authorization for use of nonpublic information on the basis that the use is in the public interest.

§ 601.130 Farm Credit examiners.

Farm Credit examiners occupy positions established specifically by law to carry out special responsibilities. In order that they may carry out these responsibilities effectively, it is expected that they will refrain from action or conduct that may result in, or create the appearance of, obligating them to or causing them to be influenced by any of the officers or employees of the institutions supervised by the Farm Credit Administration.

§ 601.135 Use of Government-owned property.

(a) Except in emergencies threatening loss of life or property, no employee shall use Government property or equipment for any purpose other than performance of official Government work. All employees have a positive responsibility to protect and conserve all Federal property, including equipment and supplies, which is entrusted or issued to them.

(b) Public Law 600, approved August 2, 1946 (31 U.S.C. 638a(c)), reads in pertinent part as follows: "Any officer or employee of the Government who willfully uses or authorizes the use of any Government-owned passenger motor vehicle * * * or of any passenger motor vehicle * * * leased by the Government for other than official purposes * * * shall be suspended from duty by the head of the department concerned, without compensation, for not less than 1 month, and shall be suspended for a longer period or summarily removed from office if circumstances warrant."

§ 601.140 Political activity.

Various provisions of Federal statutes and regulations prohibit or limit political activity on the part of officers and employees of Federal agencies. Any officer or employee who desires to have more detailed information should make inquiry of the Personnel and Administrative Services Division.

§ 601.141 Soliciting support in nomination and election polls.

No officer or employee of the Farm Credit Administration except as authorized in the discharge of his or her official duties shall take any part, directly or indirectly, in the designation of nominees for the Federal Farm Credit Board or in the nomination or election of a member of a district Farm Credit Board or the board of the Central Bank for Cooperatives or make any statement, either orally or in writing, which may be construed as intended to influence any vote in such designations, nominations, or elections. Any such officer or employee who violates the provisions of this section shall be dismissed.

§ 601.145 Comments on proposed legislation.

Section 1913 of Title 18 of the United States Code, entitled "Lobbying with appropriated moneys," states in substance that, in the absence of express authorization by Congress, no part of the money appropriated by any act of Congress shall be used "directly or indirectly" to pay for any personal service, telegram, letter, etc., "intended or designed to influence in any manner a Member of Congress to favor or oppose by vote or otherwise, any legislation or appropriation by Congress, whether before or after the introduction of any bill or resolution proposing such legislation or appropriation." There is an exception made in regard to communications to Congress, or Members thereof, through the proper official channels. Section 1913 imposes certain penalties for the violation of these provisions.

§ 601.150 Distribution of printed material by employees.

The distribution of circulars, flyers, posters, etc., by individual Farm Credit Administration employees or by Farm Credit Administration employee groups, should be confined to material that will not result in embarrassment to the Farm Credit Administration. Distribution of any such material should be cleared with the Personnel and Administrative Services Division. Specifically, no circulars, flyers, posters, etc., may be so distributed which:

(a) Advertise the products, services, or facilities of a commercial firm or any profitmaking organization;

(b) Directly or indirectly attack or adversely reflect on the integrity or character of Members of Congress, the judiciary or Members of the President's Cabinet, or any other Government official in a similarly responsible position;

(c) Contain expressions of a derogatory or abusive character concerning any Government employee;

(d) Directly or indirectly criticize the policies of another Government department or agency which relate to programs of the Farm Credit Administration or corporations under its supervision.

§ 601.151 Improper use of official stationery.

Official stationery should not be used for communications on controversial public matters expressing opinions which do not represent the ascertained views of those to whom such expressions of opinion would normally be imputed through the use of official stationery. In no event should permission be given for the dissemination of any such letter through facsimile use of official stationery in any newspaper, magazine, circular, or other publication.

§ 601.155 Gifts or favors from subordinates prohibited.

(a) No employee of the Farm Credit Administration shall at any time solicit contributions from other employees in the Farm Credit Administration for a gift or present to anyone in a superior position; nor shall any employee receive any gift or present offered or presented to him as a contribution from persons in the employ of the Farm Credit Administration receiving less pay than himself (5 U.S.C. 7351). However, this paragraph does not prohibit a voluntary gift of nominal value or donation in a nominal amount made on a special occasion such as marriage, illness, or retirement.

(b) No employee of the Farm Credit Administration shall place himself under obligation to a subordinate employee by borrowing money, directly, or indirectly, from such subordinate employee, or by obtaining the signature of a subordinate employee as endorser or comaker of a note issued as security for a loan.

§ 601.160 Voluntary services.

Section 665(b) of title 31, United States Code, provides that "No officer or employee of the United States shall accept voluntary service for the United States or employ personal service in excess of that authorized by law, except in cases of emergency involving the safety of human life or the protection of property."

§ 601.165 Foreign decorations.

(a) An employee shall not accept a gift, present, decoration, or other thing from a foreign government unless authorized by Congress as provided by the Constitution and in Public Law 89-673, 80 Stat. 952.

(b) Any Farm Credit Administration employee who has had such a present conferred on him or her, must notify the Personnel and Administrative Services Division that it is being held by the State Department so that appropriate steps may be taken at time of the employee's retirement, for reporting to Congress.

§ 601.170 Statements of employment and financial interests.

A statement of employment and financial interests in the form prescribed by the Civil Service Commission shall be furnished by each officer or employee who is in grade GS-16 or above under section 5332 of title 5, United States Code, or in comparable or higher positions not subject to that statute, and by the following officers or employees:

(a) Contracting or Procurement Officers (and officers or employees who have contracting or procurement authority) in Grade GS-13 and above;

(b) Chief Reviewing Appraisers;

(c) Assistant Chief Examiners;

Officers or employees from who a statement of employment and financial interests otherwise is required may be excluded from the reporting requirement when the Governor determines that reports from such officers or employees are not necessary in order to carry out the purpose of law, Executive Order 11222, and this subpart. The grievance procedure of the Farm Credit Administration shall be available for review of a complaint by any officer or employee that his position has been improperly included as one requiring the submission of a statement of employment and financial interest.

§ 601.171 Time and place for submission of statements.

The statement of employment and financial interests, which need not include the amount of financial interest, indebtedness, or value of real property, shall be submitted to the designee of the Governor not later than:

(a) Ninety days after the effective date of the regulations in this part if the officer or employee is employed on or before that date; or

(b) Thirty days after the officer's or employee's entrance on duty, but not earlier than 90 days after the effective date hereof if appointed before that date.

§ 601.172 Supplementary statements.

Changes in, or additions to, the information contained in an officer's or employee's statement of employment and financial interests shall be reported in a supplementary statement as of June 30 each year. If no changes or additions occur, a negative report is required. Notwithstanding the filing of the annual report required by this section, each officer and employee shall at all times avoid acquiring a financial interest that could result, or taking an action that would result, in a violation of the conflicts-of-interest provisions of 18 U.S.C. 208, or of this part.

§ 601.173 Interests of employees' relatives.

The interest of a spouse, minor child, or other member of an officer's or employee's immediate household is considered to be an interest of the officer or employee. For the purpose of this section, "member of an officer's or employee's immediate household" means those blood relations who are residents of the officer's or employees' household.

§ 601.174 Information not known.

If any information required to be included on a statement of employment and financial interests or supplementary statement, including holdings placed in trust, is not known to the officer or employee but is known to another person, the officer or employee shall request that other person to submit information in his behalf.

§ 601.175 Information prohibited.

An officer or employee is not required to submit on a statement of employment and financial interests or supplementary statement any information relating to the officer's or employee's connection with, or interest in, a professional society or a charitable, religious, social, fraternal, recreational, public service, civic, or political organization or a similar organization not conducted as a business enterprise. For the purpose of this section educational and other institutions doing research and development or related work involving grants of money from or contracts with the Government are deemed "business enterprises" and are required to be included in the statement of employment and financial interests.

§ 601.176 Confidentiality of statements.

The Farm Credit Administration shall hold each statement of employment and financial interest, and each supplementary statement, in confidence. To insure this confidentiality, the designee of the Governor shall review and retain such statements and maintain them in confidence, and shall not allow access to, or allow information to be disclosed from, a statement except to carry out the purpose of this subpart. The Farm Credit Administration will not disclose information from a statement except as the Civil Service Commission or the Governor may determine for good cause shown.

§ 601.177 **Effect of statements on other requirements.**

The statements of employment and financial interests and supplementary statements required of officers and employees are in addition to, and not in substitution for, or in derogation of, any similar requirement imposed by law, order, or regulation. The submission of a statement or supplementary statement by an officer or employee does not permit him or any other person to participate in a matter in which his or the other person's participation is prohibited by law, order, or regulation.

§ 601.178 **Review of statements.**

The statement of employment and financial interests shall be reviewed by the designee of the Governor to determine whether the statement reveals a conflict or an apparent conflict between the interests of the officer or employee and the performance of such officer's or employee's service for the Farm Credit Administration. If such conflict or apparent conflict cannot be resolved by consultation between the designee of the Governor and the officer or employee the conflict or apparent conflict shall be reported to the Governor for such further handling or action as the Governor may deem indicated under the circumstances.

§ 601.180 **Special Government employees.**

In addition to those requirements of §§ 601.110–601.170 which may be made conditions of employment of a special Government employee in writing at the time of his employment, or otherwise apply to him by operation of law, such employee:

(a) Shall not use his Government employment for a purpose that is, or gives the appearance of being, motivated by the desire for private gain for himself or another person, particularly one with whom he has family, business, or financial ties:

(b) Shall not use inside information obtained as a result of his Government employment for private gain for himself or another person either by direct action on his part or by counsel, recommendation, or suggestion to another person, particularly one with whom he has family, business, or financial ties (for this purpose "inside information" means information obtained under Government authority which has not become part of the body of public information);

(c) Shall not use his Government employment to coerce, or give the appearance of coercing, a person to provide financial benefit to himself or another person, particularly one with whom he has family, business, or financial ties;

(d) Shall not while so employed or in connection with his employment receive or solicit from a person having business with the Farm Credit Administration anything of value as a gift, gratuity, loan, entertainment, or favor for himself or another person, particularly one with whom he has family, business, or financial ties. However, such employee may accept food and refreshments of nominal value on infrequent occasions in the ordinary course of a luncheon or dinner meeting or other meeting where such employee may properly be in attendance, may accept unsolicited advertising or promotional material such as pens, pencils, note pads, calendars and other items of nominal value, and may accept, with the written approval of the Governor and upon such conditions as he may prescribe, any benefit otherwise enjoined hereby if the circumstances make clear that the motivating factor for the extension of such benefit is not based on the Government responsibilities of the employee and the business of the other person concerned;

(e) Shall submit to the designee of the Governor not later than the time of his employment a statement of employment and financial interests in the form prescribed by the Civil Service Commission which reports all other employment and any financial interests which relate either directly or indirectly to his duties and responsibilities as a special Government employee. He shall keep such statement current throughout his employment by the submission of supplementary statements. The information contained in the statement shall be reviewed and otherwise handled as is provided in § 601.178 with regard to statements of employment and financial interests required to be furnished by officers and employees. The Governor may waive the requirement for the submission of such statement in the case of a special Government employee who is not a consultant or an expert when the Farm Credit Administration finds that the duties of the position held by that special Government employee are of a nature and at such a level of responsibilities that the submission of the statement by the incumbent is not necessary to protect the integrity of the Government.

PART 602—RELEASING INFORMATION

Subpart A—Information and Records Generally

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602.200 General rule.
602.205 Reports of Farm Credit examiners.
602.210 Lists of borrowers.
602.215 Data regarding borrowers and loan applicants.
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AUTHORITY: The provisions of this Part 602 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Information and Records Generally

§ 602.200 **General rule.**

Except as necessary in performing official duties or as authorized by §§ 602.205–602.235, no one employed by Farm Credit Administration shall disclose information of a type not ordinarily contained in published reports or press releases regarding Farm Credit Administration or any banks or associations of the Farm Credit System or their borrowers or members. Information prepared for newspaper, publishing and broadcasting companies, and all new or revised publications shall be cleared with the Information Division.

§ 602.205 **Reports of Farm Credit examiners.**

Reports of examinations of banks or associations made by Farm Credit examiners or Federal intermediate credit bank officials and other personnel who have been authorized by the Governor to make credit examinations may be disclosed only with the consent of the Chief Examiner of the Farm Credit Administration. Consent is given for disclosing reports of regular examinations to the banks and associations involved or interested, but such disclosure of reports of special examinations shall be only by action or consent of the Chief Examiner in each instance. Consent is also given for disclosing reports of regular examinations to authorized representatives of Farm Credit Administration and, when requested for confidential use in official investigations of matters touched upon therein, to agents of the Federal Bureau of Investigation, Department of Justice; the Assistant Postmaster General, Inspection Service, U.S. Postal Service; the Secret Service; the Internal Revenue Service; Office of the Inspector General, Department of Agriculture; and the General Accounting Office.

§ 602.210 **Lists of borrowers.**

The relationship between borrowers and the banks and associations in the cooperative Farm Credit System is confidential, and therefore no one employed by Farm Credit Administration shall release a list of borrowers from a Farm Credit bank or association except as provided in § 618.8310 of this chapter unless such release is approved by the Governor or deputy governor.

§ 602.215 **Data regarding borrowers and loan applicants.**

Because the relationship between borrowers and the banks and associations in the cooperative Farm Credit System is confidential, Farm Credit Administration personnel shall hold in strict confidence all information regarding character, credit standing, and property of borrowers and applicants for loans. They shall not exhibit or quote the following documents: loan applications; letters and statements relative to the character, credit standing, and property of borrowers and applicants; recommendations of loan committees; and reports of inspectors, fieldmen, investigators, and appraisers except as authorized by § 618.8320 of this chapter. This section is subject to the following further exceptions:

(a) Examiners and other accredited representatives of Farm Credit Administration shall have free access to all information, records, and files.

(b) Accredited representatives of the offices named in § 602.205 may, at their request, be given information pertinent to their official investigations of individual cases, and may examine such portions of the records and files as contain the information.

(c) Information concerning borrowers may be given for the confidential use of any Farm Credit institution, or any Government agency, in contemplation of the extension of agricultural credit or the collection of loans.

(d) Credit information concerning any borrower may be given when such borrower consents thereto in writing.

(e) In litigation between a borrower (or his successor in interest) and the United States or a bank or association, any competent evidence may be introduced with respect to any relevant statements made orally or in writing by or to the borrower or his successor.

§ 602.220 Waiver of restriction.

If it appears that justice would be served by releasing information in circumstances forbidden by § 602.215, the restrictions of that section may be waived as to a particular case by the Governor or deputy governor. A recommendation for such waiver may be submitted by any bank, association, or office concerned. Any such recommendation from a Federal land bank association or a production credit association shall be submitted through the appropriate Federal land bank or Federal intermediate credit bank, with the request that it be considered and forwarded to the Farm Credit Administration, if deemed advisable. Each such recommendation shall be supported by a statement of facts and approved by counsel for the forwarding bank. The recommendation should be addressed to the General Counsel, Farm Credit Administration.

§ 602.225 Officer or employee summoned as a witness.

If an officer or employee is summoned as a witness in litigation to which neither the Government nor any Farm Credit institution is a party for the purpose of testifying and/or producing documentary evidence with respect to matters which he is forbidden by these regulations in this Part to disclose, he shall arrange, if possible, with the attorney who obtained the summons, to be excused from testifying. If not excused, he shall appear in response to the summons but, before testifying or producing documentary evidence as to confidential information, he shall advise the court of these regulations against disclosing such information and request that its confidential nature be safeguarded. After so doing, he may then testify or produce documentary evidence as to such information only to the extent and under the conditions directed by the court.

§ 602.230 Request for advice.

Upon receiving any such summons, the officer or employee may request advice and assistance from the General Counsel of Farm Credit Administration or the district general counsel (or other designated attorney).

§ 602.235 Information regarding personnel.

List of employees shall not be released by an office of the Farm Credit Administration without the approval of the Governor or a Deputy Governor. This section is subject to the following exceptions:

(a) Taxing authorities shall be supplied, on request, with the names, addresses, and compensation of officers and employees of Farm Credit Administration. Field offices receiving any such requests shall forward them to the Accounting, Budget and Data Management Division.

(b) The Farm Credit Administration may release employees' names, addresses, positions and spouses' names to reputable concerns for listing in local directories only. Employees wishing to do so shall be allowed to withhold their names.

§ 602.240 Authority reserved to release information.

The provisions of §§ 602.200–602.235 shall not operate to limit or restrict the discretionary authority of the Governor or any Deputy Governor to release, or authorize the release of, information by or pertaining to the Farm Credit Administration or any bank or association of the Farm Credit System.

§ 602.245 Official records generally.

The Farm Credit Administration and the several banks and associations under its supervision keep confidential the classes of records enumerated in §§ 602.205, 602.210, 602.215, 602.235. Such records and other official records in the custody of the Farm Credit Administration may be made available to the extent provided in §§ 602.250–602.265. Information contained in other official records in the custody of a particular bank or association of the Farm Credit System may be made available to persons directly and properly concerned in accordance with §§ 608.8300 and 608.8350 of this chapter.

Subpart B—Availability of Records of the Farm Credit Administration

§ 602.250 Official records of the Farm Credit Administration.

Upon request, identified records of the Farm Credit Administration shall be made available for public inspection and copying, except exempt records which include the following:

(a) Records specifically required by Executive order to be secret;

(b) Records related solely to the internal personnel rules and practices of the Farm Credit Administration, including matters which are for the guidance of agency personnel;

(c) Records which are specifically exempted from disclosure by statute;

(d) Commercial or financial information obtained from any person or organization and privileged or confidential;

(e) Interagency or intra-agency memorandums or letters which would not be available by law to a private party in litigation in which the United States, as real party in interest on behalf of the Farm Credit Administration, is a party, or from a bank or association supervised by the Farm Credit Administration to a private party in litigation with such bank or association if such memorandums or letters are records of such bank or association;

(f) Personnel and similar files, the disclosure of which would constitute a clearly unwarranted invasion of personal privacy;

(g) Investigatory files compiled for law enforcement purposes, except to the extent available by law to a private party;

(h) Records of or related to examination, operating, or condition reports (other than published condition reports) of or related to the banks and associations under the supervision of the Farm Credit Administration which are prepared by, on behalf of, or for its use.

§ 602.255 Identification of records requested.

A member of the public who requests records from the Farm Credit Administration shall provide a reasonably specific description of the records sought so that such records may be located without undue search or inquiry. A record that is not identified by a reasonably specific description is not an identified record, and the request therefor may be declined.

§ 602.260 Request for records.

Requests for identified records should be directed to the Director of Information, Farm Credit Administration, Washington, D.C. 20578. Copies of such records may be obtained in person or by mail. Records will be available for inspection or copying during business hours on a regular business day at the offices of the Farm Credit Administration which are located in Suite 6100, 485 L'Enfant Plaza West SW., Washington, D.C. 20578.

§ 602.265 Service charge.

(a) The Farm Credit Administration furnishes a member of the public free of charge a reasonable quantity of information that has been printed or otherwise reproduced for the purpose of making it available to the public without charge.

(b) The Farm Credit Administration furnishes a member of the public free of charge information that is requested and is not exempt from disclosure when the information is readily available and can be furnished by the Farm Credit Administration without charge.

(c) When a request for information which may not be furnished under paragraphs (a) and (b) of this section is received, the Farm Credit Administration furnishes a copy of it at a fair and equitable fee when it is available to the public. In determining such fair and equitable fee, the Farm Credit Administration ascertains all costs necessary to recover the full cost to the Government including but not limited to, cost of employee service relating to research, reproduction assembly, and authentication. The fee will be based on these costs and information under this paragraph will not be furnished until such fee is paid or arrangements for payment are made.

SUBCHAPTER B—FARM CREDIT SYSTEM

PART 611—ORGANIZATION

Subpart A—Introduction

Subpart B—Policy

Subpart C—The Farm Credit Administration

Subpart D—The Farm Credit System

Subpart E—Farm Credit Districts

Subpart F—General Rules for the Districts

Sec.
611.1000 Organization—district boards of directors.
611.1010 Powers, duties, and responsibilities.
611.1020 Compensation of district board members.
611.1021 Compensation limitation.
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AUTHORITY: The provisions of this Part 611 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Introduction

The Farm Credit Act of 1971, Public Law 92-181, approved December 10, 1971, is a complete recodification and replacement for prior laws under which the Farm Credit Administration and the institutions of the Farm Credit System were organized and operated. Prior laws which are repealed and superseded by the Act are identified in section 5.26(a) thereof. Section 5.26(b) retained the effectiveness of the existing regulations of the Farm Credit Administration and the Farm Credit System, the institutions' charters, bylaws, resolutions, stock classifications, policy, and elections until superseded, modified, or replaced under the authority of the 1971 Act. All obligations and contracts under prior laws remain enforceable unless and until modified in accordance with the 1971 Act. It is, therefore, the purpose of these regulations to supersede regulations of the Farm Credit Administration issued under prior authority and to implement, as of the date of approval of these regulations, the provisions of the 1971 Act. Contracts, including but not limited to notes, bonds, debentures, loans, security, collateral, entered into by the Farm Credit Administration or any of the institutions of the System before the issuance of these regulations shall remain valid and enforceable upon their terms unless and until they are subsequently modified.

Subpart B—Policy

In recognition, as a national policy, that a prosperous, productive agricultural economy requires an increasing input of credit resources through a permanent financing system designed to furnish sound, adequate, and constructive credit to farmers and ranchers and their cooperatives, the Congress initially authorized in prior law and continued under the 1971 Act a System of limited purpose, farmer-owned, banks and associations to help meet their credit needs.

The System is designed for farmer and rancher borrowers' ownership, management, and control which will be responsive to the credit needs of all types of agricultural producers and their cooperatives having a basis for credit to be furnished through the System in ways which will more adequately meet current and future complex credit requirements. For purposes of these regulations, agricultural producers are identified as individual farmers and other legal entities engaged in farming or whose owners would be granted credit if they were individual applicants. The System should also serve the farm and family needs of the part-time farmer but qualification as a farmer should not entitle such members to unlimited financing for other purposes. Additional authorization has been provided for financing non-farm rural housing, producers or harvesters of aquatic products, and selected farm-related businesses furnishing on-farm services.

The primary objective of the System is to help improve the income and well-being of farmers and ranchers. Because the System was so well conceived, it has served a large part of the agricultural credit needs of the country. It can be of greater service now with the removal of many statutory limitations. With wider latitude for action comes greater responsibility for management and policy determinations. These regulations identify areas in which Systemwide policy and district policy for the guidance of management and operations of the banks and associations are necessary to assure the accomplishment of these objectives.

This wider latitude of service and added functions accentuate the impact of the System on the agricultural economy, on other elements of the Nation's total business community, and on the public generally. Consequently, as is true with other types of financing institutions, the public interest will be protected under rules dealing with supervision, examination, audit, lending and funding operations of the System.

Subpart C—The Farm Credit Administration

The Farm Credit Administration is composed of the Federal Farm Credit Board and the Governor of the Farm Credit Administration, hereinafter called the Governor, appointed by the Board, and other employees of the Administration. The Board is composed of not more than 13 members, one of whom is designated by the Secretary of Agriculture and the remainder appointed by the President, with the advice and consent of the Senate.

The qualifications, terms, manner of nomination, appointment, and compensation of Board members are provided in section 5.8 of the Act and the procedural rules for nomination are prescribed in § 618.8150 of this chapter.

The Board establishes the general policy for the guidance of the Farm Credit Administration and approves necessary rules and regulations for the implementation of the Act as specified in section 5.9.

Subpart D—The Farm Credit System

The Farm Credit System includes the Federal land banks, the Federal land bank associations, the Federal intermediate credit banks, the production credit associations, and the banks for cooperatives. Each of these institutions is an instrumentality of the United States for carrying out the congressional policy and objective. Each is chartered by the Farm Credit Administration, an independent agency of the Executive Branch of the U.S. Government, and subject to regulation and supervision by the Farm Credit Administration. The banks also have immediate supervisory responsibility over the associations in their districts.

Subpart E—Farm Credit Districts

The United States is divided into 12 Farm Credit districts. The designation and the States and other areas embraced in each district are as follows.

District name	District No.	District States
Springfield	1	Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey.
Baltimore	2	Pennsylvania, Delaware, Maryland, Virginia, West Virginia, District of Columbia, Puerto Rico.
Columbia	3	North Carolina, South Carolina, Georgia, Florida.
Louisville	4	Ohio, Indiana, Kentucky, Tennessee.
New Orleans	5	Alabama, Mississippi, Louisiana.
St. Louis	6	Illinois, Missouri, Arkansas.
St. Paul	7	Michigan, Wisconsin, Minnesota, North Dakota.
Omaha	8	Iowa, Nebraska, South Dakota, Wyoming.
Wichita	9	Oklahoma, Kansas, Colorado, New Mexico.
Houston	10	Texas.
Berkeley	11	California, Nevada, Utah, Arizona, Hawaii.
Spokane	12	Washington, Oregon, Montana, Idaho, Alaska.

Subpart F—General Rules for the Districts

§ 611.1000 Organization—district boards of directors.

(a) Each Farm Credit district shall have a district board of directors composed of seven members, six of whom are elected and one appointed, as provided in section 5.2 of the Act. Important limitations on the eligibility for membership on the district board are specified in section 5.1 of the Act. The district board may adopt additional eligibility requirements, such as an age limitation or a number of successive terms for which a director will be eligible to serve. The terms of the elected and appointed district directors are specified in section 5.1(c) of the Act. The nomination and election of district directors is provided for in section 5.2 of the Act, and procedural rules are prescribed in § 618.8160 of this chapter. The members of each Farm Credit district board of directors shall operate as a single policymaking board. They also serve as the boards of directors of the Federal land bank, the Federal intermediate credit bank, and the bank for cooperatives in their respective districts. In neither capacity do they engage in management functions. Whether acting as the board of directors for the district or ex officio as the boards for the district banks, they are responsible for correlating the policies and functions of the banks and associations so that they complement the other institutions in the district.

(b) The Central Bank for Cooperatives as provided in section 3.2 of the Act has a separate board of directors of not more than 13 members, one elected by each district board and a member at large appointed by the Governor with the advice and consent of the Federal Farm Credit Board. The powers of the Central Bank board are comparable to the powers of the district board acting ex officio as the board of directors of the district bank for cooperatives. However, the principal purpose of the Central Bank involves participation with the district banks for cooperatives in loans.

§ 611.1010 Powers, duties, and responsibilities.

The district board acting in that capacity or as the board of a bank, as appropriate, shall—

(a) Adopt bylaws for the banks, and approve bylaws for associations in the district from forms approved or to be approved by the Farm Credit Administration and proposed modifications of such bylaws.

(b) Adopt and prescribe consistent lending and operating policies for each of the banks and all of the associations in the district as authorized by law and these regulations to the end that the credit and other services available to eligible persons be uniform to the extent feasible and at the lowest reasonable cost consistent with sound business operations. The policies of the board shall recognize that the strength of the Farm Credit System lies substantially in its cooperative character, that each institution is an integral part of the statutory scheme for the whole System, and that each institution shall consider the total credit needs of and services available to eligible borrowers.

(c) Provide for supervision of the associations in the district to assure that authorized services are available to eligible persons in the most effective and efficient manner.

(d) Periodically provide for a review of the credit and related service needs of farmers, ranchers, and cooperatives in the district and recommend programs or modified programs to the Federal Farm Credit Board.

(e) Formulate broad policy guidelines concerning the funding operations of the banks in the district and, in concert with other district boards, for the long-range guidance of the future funding of the System.

(f) Provide policy and guidelines for the employment, compensation, and employee benefits of competent officers and employees of the several institutions in the district.

(g) Authorize agreements for joint services within or between districts for functions and services to borrowers and to the institutions of the System which can be most effectively performed by joint undertakings. When such agreements involve impact or implications for other institutions of the System, general protection of borrowers' equities and overall public interests, the proposals shall be undertaken after prior consultation with Farm Credit Administrataion in its supervisory capacity.

(h) Delegate to management the responsibilities and accountability for implementing the Act and these regulations and effectuation of district board policy.

(i) Consider and take appropriate corrective actions on recommendations identified in examination and audit reports as determined by the board or as required by the Farm Credit Administration. If the district board cannot concur with corrective actions required by the Farm Credit Administration, the Federal Farm Credit Board shall determine the appropriate corrective action.

(j) Provide rules for its operations as a district board and such other policy guidance for the effective implementation of the law and these regulations within the district as may be appropriate.

§ 611.1020 Compensation of district board members.

Directors may be compensated at per diem rates not to exceed $75 for attendance at board meetings and for special assignments, including reasonable travel time from and to their residences.

§ 611.1021 Compensation limitation.

Compensation as a district board member is not allowable for time spent by district directors on business of Federal land bank associations, production credit associations or cooperatives of which they are members of other self-imposed assignments.

§ 611.1030 Special assignments of district board members.

Special assignments requiring the services of a director shall be authorized under procedures established by either the district board or the board of one of the banks, whichever is appropriate, and may be requested by the Farm Credit Administration.

§ 611.1031 Limitation on special assignments.

Special assignments requiring service in one calendar year totaling more than 30 days (not counting time needed for attendance at board meetings) must have the prior approval of the Farm Credit Administration. Without any further request therefor, prior approval is hereby given for attendance at National Farm Credit Directors Conferences and Planning Committee meetings, meetings of the Directors Advisory Committee to the Fiscal Agency Committee, meetings of the District Directors Policy Coordinating Committee and attendance at a particular time or place requested by the Farm Credit Administration.

§ 611.1040 Meetings of boards.

The boards shall establish regular meetings and may arrange for special meetings. The Farm Credit Administration should be notified at least 2 weeks in advance of any changed regular meeting date and, if possible, of any special meeting of the board.

§ 611.1050 Minutes of boards.

The district board shall keep full and accurate minutes of its meetings and of meetings as bank boards. Two copies of the minutes of district board meetings and bank board meetings should be sent to the Farm Credit Administration within 2 weeks after the meetings.

§ 611.1060 District organization.

The district board shall provide through a committee of presidents of the three banks, or through some other organizational pattern, a means of facilitating and promoting maximum communications among the banks in the district and an efficient and effective means of coordinating communications of these banks with the Farm Credit Administration, other parts of the System, other organizations, and with borrowers and the public. The organizational pattern should also be such that it encourages and helps to effectuate closer working relationships between the banks as a means of providing the best possible service to members at the lowest possible cost.

§ 611.1070 Branches.

The boards may authorize the establishment of branches or other offices necessary for the effective operation of the business of the banks. An association may establish such branches or other offices necessary for the effective service to borrowers when approved by the supervising bank.

§ 611.1080 Association establishment and election of directors.

As used throughout these regulations, the term "association" is restricted to Federal land bank associations and production credit associations. Section 1.13 of the Act provides for the establishment of Federal land bank associations and section 1.14 provides for the election of their boards of directors. Section 2.10 of the Act provides for the establishment of the production credit associations and section 2.11 provides for the electing of the board of directors. Additional provisions are contained in the bylaws for both.

§ 611.1090 Merger of districts.

Should two or more district boards recommend the merger of existing districts, change in the territory served by the respective districts, or any change in the name or designation of a district, the proposal and justification therefor shall be submitted to the Farm Credit Administration for review by the Federal Farm Credit Board before it is submitted for any required stockholder approval.

§ 611.1100 Mergers or consolidations of banks.

Any of the banks in the System proposing to merge or consolidate with like banks in other districts, as authorized by the Act, shall jointly submit the proposal and justification, including recommendations for the formulation of a board of directors for the bank resulting from such merger or consolidation, to the Farm Credit Administration for review before the proposal is submitted to the stockholders of such banks for approval.

§ 611.1110 Creation of new associations.

Any application for the issuance of a charter to a new Federal land bank association shall meet the requirements of section 1.13 of the Act, and any application for the charter of a new production credit association shall meet the requirements of section 2.10 of the Act. In submitting the application and recommendations required by said sections, the proposed association shall submit its proposed bylaws from the forms or optional forms approved by the Farm Credit Administration or its proposed additions to and modifications of such approved or optional bylaws provisions.

§ 611.1120 Merger or consolidation of associations.

The boards of directors of two or more like associations may propose to merge or consolidate associations. The resolutions proposing such agreement shall be accompanied by an agreement setting forth the terms and conditions under which the merger or consolidation shall take place and shall be submitted to the bank board which, if it approves of the proposal, shall transmit the tentative agreement, and make its recommendation, to the Farm Credit Administration for review before the proposal is submitted to the stockholders of the associations. The agreement for merger or consolidation shall include the proposed effective date; the proposed name and location of the continuing or consolidated association; the designation of the charter and bylaws of one constituent association to be those of the continuing or consolidated association; the names of persons nominated to serve as directors until the first annual meeting after the merger or consolidation; the authority for transferring assets to and assumption of liabilities by the continuing or consolidated association; provision relating to the stock of the constituent associations and the stock of the continuing or consolidated association, provided no fractional shares of stock shall be issued; and the designation of persons and granting of authority to carry out the agreement, including authority to execute any documents necessary to perfect title. If preliminary approval is received from the bank board and the Farm Credit Administration, the proposed merger or consolidation shall be submitted for the approval of the majority of the voting stockholders who are present and voting and the written proxies of voting stockholders presented at a duly authorized stockholders' meeting. The form of written proxy shall be prescribed by the bank. Upon such approval of the agreement, the Farm Credit Administration will amend the charter or issue a new one and approve new bylaws as may be appropriate. The newly designated directors may take such action at any time thereafter, subject to ratification at the first meeting after the effective date, as may be necessary for the continuing or consolidated association to transact its business. The execution of the agreement and the merger in its entirety shall be under the direction of the bank.

§ 611.1121 Territory adjustments of associations.

Territorial adjustments may be made among like associations, subject to the approval of the bank board and the Farm Credit Administration.

§ 611.1130 Liquidation of associations.

The board of directors of an association, by the adoption of an appropriate resolution, may place an association in voluntary liquidation, subject to approval of the bank board and the Farm Credit Administration, whereupon the supervising bank shall appoint a liquidating agent. Additionally, upon default on any obligation by any association which cannot be corrected by other action including but not limited to mergers, the Governor may declare an association insolvent and place it in the hands of a receiver or conservator under such terms as the Governor may prescribe on a case-by-case basis.

PART 612—PERSONNEL ADMINISTRATION

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AUTHORITY: The provisions of this Part 612 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—General Policy

§ 612.2000 Responsibility.

The personnel programs in the banks are primarily administered under the direction of their boards of directors. The Farm Credit Administration has the responsibility for exercising general supervisory authority and certain specific authorities relating to employment and compensation in the banks.

§ 612.2010 District personnel policy manual.

In the interest of effective personnel administration, the district board shall establish personnel policies for the district banks and shall provide for the issuance of the personnel policy manual reflecting such policies. The policies established shall be in accordance with applicable rules and regulations and shall be submitted to the Farm Credit Administration for review and should include the following:

(a) A general statement of personnel policy.

(b) A section on employment practices.

(1) Employment of relatives (nepotism).

(2) Reference checks.

(3) Re-employment of annuitants.

(4) Equal employment opportunity.

(c) Salary administration program.

(1) Classification of positions.

(2) Salary ranges.

(3) Compensation practices.

(4) Performance evaluation.

(d) Employee training and development.

(e) Employee responsibilities and conduct.

(1) Prohibited acts.

(2) Conflict of interest.

(3) Political activities.

(f) Grievance procedure.

(g) Employee benefits. Employee benefit programs should be motivating and equitable, effective in maintaining favorable employee attitudes, and within the economic capabilities of the banks. Employee benefits should be developed as a total program including leave, retirement, and insurance programs. Benefits should be consistent with benefits generally granted by the better employers of the area. A degree of consistency in benefit programs between districts is desirable. The inclusion of portability provisions between districts should be an objective in formulating employee benefit programs.

§ 612.2020 Associations.

The supervising banks shall develop personnel programs for associations. To the extent feasible or required, such programs shall be consistent with the personnel programs of the banks.

Subpart B—General Rules

§ 612.2030 Nepotism.

The following regulations are designed to promote morale and efficiency and to emphasize and assist the merit system of appointments and promotions.

(a) No relative of a director of a Farm Credit institution shall be employed as manager or chief executive officer of that institution.

(b) No person shall be employed by a Farm Credit institution in a position which is under the direct or indirect supervision of a relative, except that if such entity is an association, and the supervising bank has determined beforehand that positive efforts to fill an essential position by other recruitment have been unsuccessful, such bank may authorize in writing the hiring of such a related person for the position for a period or periods not to exceed 90 workdays in any calendar year. Any repetition in a succeeding calendar year must include a separate written redetermination by the bank.

(c) The term "relative" as used in this section includes first cousins and brothers-in-law and persons of similarly close or closer relationships by blood, marriage, or adoption.

(d) The provisions of this section shall be applicable to persons employed on or after the effective date of these regulations.

§ 612.2031 Reporting violations.

In any instance of violation or prospective violation of § 612.2030, it is the responsibility of the related individuals to notify the employing entity's chief executive officer regarding the situation immediately upon becoming aware of it. It is the responsibility of any such officer or manager who becomes aware of such a situation, by this or any other means, to take prompt corrective action, or, if it is beyond his power or ability to do so, to request instructions from the supervising bank or the Farm Credit Administration, as appropriate.

§ 612.2040 Reference checks.

In all bank and association appointments, careful and appropriate inquiry shall be made of the applicant's character and qualifications and made a part of the employee's personal file.

§ 612.2050 Re-employment of annuitants.

As a general policy, plans should be made in advance by banks and associations to recruit and train qualified replacements for prospective vacancies because of approaching retirements or other reasons which can be anticipated. Annuitants should not be employed except when definite recruiting efforts have failed to produce other qualified applicants for the positions. Employment of an annuitant shall be on a temporary basis and only after a break in service has occurred. A temporary appointment is defined as an appointment not to exceed 1 year.

§ 612.2060 Political activity.

(a) No salaried employee shall hold a remunerative public office or be a candidate for such office unless the bank which supervises his employer (if he is an association employee) or the Farm Credit Administration (if he is a bank employee) has, after investigation and consideration of all facts involved, rendered a written opinion that such candidacy or holding of public office would not bring justified criticism on the grounds of political activities or partialities or in any other manner adversely affect the best interests of the borrowers or the operations and public image of the System or any institutions thereof.

(b) No salaried employee shall take an active part or issue public statements relating to the nomination or candidacy of any person or participate in partisan political campaigns for national or statewide elective office, in any way that would implicate by support, endorsement or otherwise, his connection with the Farm Credit institution by which he is employed. This statement shall not be construed to prohibit an employee from expressing his personal opinion on political affairs or candidates or making voluntary campaign contributions.

§ 612.2070 Equal employment opportunity.

It shall be the policy of all banks and associations to provide all employees and all qualified and eligible applicants equal employment opportunity without regard to race, color, religion, sex, age, national origin, politics or physical handicap. Under direction of the district and association boards, chief administrative officers shall exercise personal leadership in establishing, maintaining and carrying out a positive, continuing program designed to promote equal opportunity in the organizations' employment practices.

§ 612.2080 Salary and range approvals.

(a) All salary ranges for senior officers of the banks shall be forwarded to the Farm Credit Administration for approval 15 days prior to the effective date of any changes.

(b) A form prescribed by the Farm Credit Administration will be used by the banks to record personnel actions.

(c) The establishment or any change in the salary of the chief executive officer of a bank shall be referred to the Farm Credit Administration for approval 10 days prior to release of any announcements.

(d) A copy of all personnel actions in the senior officer level will be directed to the Farm Credit Administration for record purposes.

§ 612.2090 Other compensation plans.

All types of compensation plans, other than wages, for bank officers and employees shall be submitted to the Farm Credit Administration for prior approval. Employee benefit programs, such as hospitalization plans, group life insurance plans and other similar benefits, are not considered compensation plans.

§ 612.2100 Personnel recruitment and training.

The district and association boards shall approve policies and assure that specific responsibility is assigned for implementing recruitment and training programs. The purpose of such policies and programs shall be to recruit, train, develop, and effectively utilize and retain a staff competent to carry out the function of each bank and association. In developing these policies and programs, consideration should be given to such factors as present state of and expected changes in size, number, and complexity of loans, key employee succession, present and potential share of the market, level of loan servicing, and credit related services.

§ 612.2110 Director, officer, and employee responsibilities and conduct.

The maintenance of high standards of industry, honesty, integrity, impartiality, and conduct by directors, officers, and employees of all institutions and organizations in the Farm Credit System is essential to insure the proper performance of System business and continued public confidence in the System and all its entities. The avoidance of misconduct and conflicts of interest, either real or apparent, by all personnel is indispensable to the maintenance of these standards. All personnel shall observe both the letter and the intent of the laws, regulations, instructions, and procedures applicable to them and to entities in the System, whether issued by the Farm Credit Administration or by the entities themselves. Such written criteria, however, cannot alone provide for maximum accomplishments of the aims of the Farm Credit law. Such accomplishment must rely, in addition, on positive effort and the exercise of ingenuity and good judgment by all who have a part in carrying out the authorized Farm Credit programs. District Boards shall adopt rules and guidelines of conduct for directors and employees, which shall implement these regulations and may include other guidelines, and secure compliance therewith. District Board guidelines and instructions shall be made available to each employee, each district and association director, and each nominating committee.

§ 612.2120 District and association directors.

The democratically controlled, borrower-owned structure of the Farm

Credit System makes it essential that each member of the boards of directors of the institutions of the System, as well as the officers and employees, be aware of potential conflicts of interest. Each director shall:

(a) Refrain from divulging or using for his personal benefit information acquired as a director, except in the performance of his official duties,

(b) Abstain from participating directly or indirectly in the deliberations on any question affecting his personal interests or those of his family or of any corporation or other business organization in which he has an interest,

(c) Avoid any action toward or the appearance of obtaining special advantage or favoritism in dealing with borrowers from any of the institutions of the System, or with officers or employees thereof, particularly in relation to real or personal property which any such institution owns or in which it claims a lien or other interest, and

(d) Consider the potential conflict of interest arising from his employment by, or directorship of, other lending institutions and his ability to impartially and objectively perform his duties and responsibilities as a director of the Farm Credit institutions.

§ 612.2130 Soliciting support in polls for district or Federal Farm Credit Board membership.

(a) No salaried officer or employee of a bank or association shall take any part, directly or indirectly, in the designation of nominees for the Federal Farm Credit Board, in the nomination or election of members of a district Farm Credit Board, or in the election of directors for the Central Bank for Cooperatives, or make any statement, either orally or in writing, which may be construed as intended to influence any vote in such designations, nominations, or elections. Action shall immediately be taken, for suspension or dismissal in accordance with applicable procedures, against any such officer or employee who violates the provisions of this section.

(b) No bank or association property, transportation, communications, or official stationery shall be used in the interest of any candidate.

(c) No director, officer, or employee shall, for the purpose of furthering the interests of any candidate, furnish or make use of Farm Credit System records which would not be available to all candidates.

§ 612.2140 Reports and recommendations on proposed or pending Federal legislation.

Any contacts on behalf of the bank or association or its board with the Office of Management and Budget with reference to proposed or pending legislation affecting the Farm Credit System shall be made through the Farm Credit Administration.

§ 612.2150 Devotion of time to official duties.

Officers and employees of the corporations, including associations, under the supervision of the Farm Credit Administration, who are employed on a full-time basis, are required to devote their full business time to the effective accomplishment of the duties assigned them in connection with the activities and operations of the corporations in which they are employed. They are also expected to refrain from accepting employment or compensation for activities, even for service rendered outside of business hours, which might embarrass the employing corporation or the Farm Credit Administration or cast reflection upon their ability to take an unbiased and impartial view of its operations.

§ 612.2160 Prohibited acts for salaried employees.

Under law or rules or guidelines of the district boards which shall be made available to all employees, no salaried officer, employee, or agent of any institution of the Farm Credit System:

(a) Shall, in any manner directly or indirectly, participate in the deliberation upon, or the determination of, any question affecting his personal interests, those of any person related to him by blood or marriage, or those of any partnership, association, or any business organization in which he is directly or indirectly interested;

(b) Shall, except in the performance of his official duties, divulge to another person, or utilize for his personal benefit or that of another, any fact or information acquired, directly or indirectly, by virtue of his employment;

(c) Shall accept or receive any salary, fee, commission, honorarium, or substantial gift, or other benefit, directly or indirectly, from any borrower from or debtor to any institution of the Farm Credit System, from any loan applicant or his representative, from any seller to or purchaser from any borrower or applicant, or any person transacting business with any institution of the System, provided, however, that any officer, employee, or agent may enter into bona fide transactions with borrowers for services or for the purchase and sale of farm supplies or farm products used in or produced on his own farm, if such purchases and sales are reported to and not disapproved by the board of directors of the institution by which he is employed;

(d) Shall acquire, directly or indirectly (including acquisition by membership in syndicates), any lands or interests therein, including mineral interests, which are owned by any Farm Credit institution or which were thus owned at any time within the preceding 12 months. As used in this § 612.2160, "mineral interests" means any interest in minerals, oil, or gas, including, but not limfted to, any right derived directly or indirectly from a mineral, oil, or gas lease, deed, or royalty conveyance. This paragraph shall not apply to any acquisition by will or inheritance.

(e) Shall separately acquire, directly or indirectly (including acquisition by membership in syndicates), any mineral interests in lands which are mortgaged to any Farm Credit institution or which were thus mortgaged at any time within the preceding 12 months, but this shall not prohibit mineral interest being acquired incidentally with surface interests. This paragraph shall not apply to any acquisition by will or inheritance;

(f) Shall acquire, directly or indirectly (including acquisition by membership in syndicates), any interests in lands (including mineral interests being acquired incidentally with surface interests) which are mortgaged to any Farm Credit institution or which were thus mortgaged at any time within the preceding 12 months, without obtaining the specific prior approval of its board of directors in addition to conforming with any other applicable regulations. This paragraph shall not apply to any acquisition by will or inheritance;

(g) Shall participate, directly or indirectly, in any transaction concerning the purchase or sale of corporate stocks or bonds, commodities, or other property for speculative purposes if such action might tend to interfere with the proper and impartial performance of his duties or bring discredit upon any Farm Credit institution. Employees are not prohibited by this paragraph from making bona fide investments. When an employee is uncertain as to whether a contemplated transaction would constitute a conflict of interest, he should consult his immediate supervisor;

(h) Shall have business relations, directly or indirectly, involving activities with borrowers which permits or gives the appearance of permitting undue influence, such as the purchase or sale of commodities or supplies, the placement of insurance, sale of real estate, auctioneering, sales barns, or appraisal service, except in his official capacity as an employee of the Farm Credit institution; provided that this prohibition shall not be applicable to any employee who was engaged in such activity on May 1, 1972, until December 31, 1973; and thereafter shall not be applicable to any such employee exempt therefrom upon the recommendation of the bank board and approval of the Governor, taking into account his contribution to the System and alternatives available.

(i) Shall, while he serves on a bond or debenture committee, purchase or acquire, directly or indirectly, ownership of, or any interest in, any of such obligations of the bank of which he is such an officer; or

(j) Shall serve also as an officer or director of a commercial bank or of an organization which frequently or occasionally transacts lending business with a Farm Credit institution; provided that this prohibition shall not be applicable to any employee who was such an officer or director on May 1, 1972, until December 31, 1973.

§ 612.2165 Legal provision cited.

In the above connection, particular attention is directed to the following provisions of law containing the Federal penal provisions which relate particularly to officers and employees of the institutions under the supervision of the Farm Credit Administration: Sections 212, 213, 215, 216, 371, 493, 657, 658, 1006, 1011, 1013, 1014, 1907 and 1909 of title 18, United States Code.

§ 612.2170 Cases involving trivial interest or relationship.

If the degree of interest or relationship in any case, as determined by the District board, is not substantial, but is so trivial as to create little probability that the officer's or employee's impartiality of judgment and action has been affected, no question under section 2160 shall be deemed involved. Each case shall be determined on its own facts, proper weight being given to the nature, amount, and importance of the benefit involved, the degree or kind of relationship in question, and the character of the person concerned.

§ 612.2180 Gifts or favors from subordinates.

No salaried officer or employee of any Farm Credit institution shall at any time solicit contributions from other employees for a gift or present to anyone in a superior position, nor shall any such superior receive any gift or present offered or presented to him as a contribution from employees receiving a less salary than himself, nor shall any such officer or employee make any donation as a gift or present to any official superior; provided, however, that this section shall not apply to gifts of a nominal value traditionally exchanged among business associates as part of acceptable social amenities.

§ 612.2190 Borrowing from subordinates.

No salaried officer or employee shall borrow from or obtain endorsement of a note or other obligation from any subordinate employee.

§ 612.2200 Improper use of official property.

No director, officer, or employee shall use the space, personal property, communication, transportation, or other facility of a Farm Credit institution for activities or business in his personal interest or the personal interest of another, except under lease, contract, concession, or authorization in writing, pursuant to agreements and negotiations fairly arrived at and evidenced in writing, setting forth the terms and conditions of such use. Official stationery shall not be used for personal communication or for communications on controversial public matters expressing opinions which do not represent the official views of those having a responsibility for expression of official views of the institution.

§ 612.2210 Evasions and circumventions of rules of conduct.

No officer or employee shall use any scheme or device to avoid compliance with any of the rules or guidelines established under §§ 612.2110 through 612.2200 or avoid compliance with the intent of those rules through the use of subterfuge, evasions, or circumventions. Examples of acts of subterfuge or circumventions include (a) obtaining a loan or assisting another borrower to obtain a loan from a Farm Credit institution knowing that the proceeds thereof are planned to be used to provide financing for a person who is ineligible for such a loan, (b) inducing or assisting another person to obtain a loan from any institution of the System, the proceeds of which are planned to be used for the employee's benefit or for the benefit of any legal entity in which the employee has a direct or indirect personal interest.

§ 612.2220 Official loans.

Officers and employees as well as directors may receive bona fide loans to the extent that they are eligible for such loans and in strict compliance with policies and regulations governing such loans.

§ 612.2230 Report by personnel.

The officer, director or employee involved or interested in any transaction to which §§ 612.2120, 612.2160, 612.2170, and 612.2210 are applicable shall report in writing to the appropriate officer of the interested bank or association and disclose his interest and status in the matter unless, in the case of a loan application, the application itself discloses such information. The interested bank or association is the one that is a party to the transaction and not the employing bank or association unless they happen to be the same.

§ 612.2240 Approval by interested bank or association.

All permitted transactions to which §§ 612.2120, 612.2160, 612.2170, and 612.2210 apply shall be subject to prior approval of the executive committee or loan committee of the interested Farm Credit institution and, unless the board of directors of that institution requires prior board approval of such transactions, shall be reported to the board for review. The officer, director, or employee involved or interested should absent himself from any meeting of the executive or loan committee or of the board, except when the committee or board requests information from him in person, while consideration is being given to the action on the transaction. This section supersedes any vested or delegated authority to the person involved. The final action on such transactions shall be recorded in the minutes of the committee or the board which shall reflect the fact that the person involved was not present when final consideration was given to the transaction.

§ 612.2250 Reports of transactions with directors, officers, or employees.

The associations shall report transactions to which §§ 612.2120, 612.2160, 612.2170, and 612.2210 apply fully in writing to the supervising bank and the bank shall report such final approval of the transaction to the Director of Credit Service unless the Board minutes of the supervising bank disclosing such final action are submitted promptly to the Farm Credit Administration.

§ 612.2260 Reports of credit extended to financing institutions.

Any bank or association extending credit to a financing institution not in the Farm Credit System upon the basis of any note or other obligation of a director, officer, or employee of a Farm Credit institution, including any obligation or any endorsement in which such director, officer, or employee has a personal, financial interest, shall be reported to the Director of Credit Service. This section shall not apply to the fulfillment of existing contracts with such institutions in accordance with their terms where there is no change in the parties of interest or the ownership of the related property, sales of surplus equipment and supplies in accordance with the rules of disposition of such property, or the discounting by a Federal intermediate credit bank of a PCA loan, or to the making of a loan by a bank for cooperatives except as such loans or discounts are required by other regulations to be submitted for prior approval.

§ 612.2270 Other reports to the Farm Credit Administration.

Loan transactions, which by other regulations are required to be submitted to the Director of Credit Service for prior approval or for advice and counsel, should be accompanied by the information required by this regulation when applicable, in which event a separate reporting to meet the requirements of this regulation will not be necessary. Such steps as may be necessary should be taken in each bank to see that all officers, directors, and employees are advised of the circumstances in which reports are required of them by this regulation.

§ 612.2280 Fidelity bonds required.

Provision shall be made by the banks for insurance coverage against losses by all bank and association employees through the continuation of present coverage. Bankers Blanket Bond, Standard Form No. 10, or a substitute, may be used. The Act does not require a faithful performance provision in the bond coverage. The district boards shall determine that bond coverage is in an amount that will adequately protect the banks and associations, taking into consideration the increased dollar amount of assets and lending activity of these institutions.

§ 612.2290 Policy applicable to design and administration of employee benefit programs in the Farm Credit System.

(a) All employee benefits should be developed and based on clearly defined objectives with full coordination of benefits to eliminate coverage gaps and duplication of benefits and costs.

(b) The sharing of cost between the employer and employee should take into consideration current industry and local practices and the tax consequences to both the employer and employee.

(c) All employee benefits should be reviewed periodically to make certain they are competitive as measured by industrial and local standards so that such plans can be used as an effective management tool (incentives, recruitment, etc.).

(d) The selection of insurer to underwrite the Group Insurance Program should be based on sound underwriting principles and an evaluation of operational expenses, risk assumptions, proper accounting concepts and cost control procedures.

(e) The amendment of a pension plan to eliminate future contributions from employees will be permitted under the following conditions:

(1) Prior employee contributions plus interest shall not be immediately refunded to employees in cash. (Options in cases of separation or death before retirement remain the same as under existing programs.) Instead, they will be retained as a part of the pension plan to either reduce employer costs or to provide benefits in addition to those provided by employer contributions, or to do both. This rule shall not prohibit the transfer of prior employee contributions plus interest to a new Thrift Plan which an employer may establish at the same time as future employee contributions are eliminated from the pension plan.

(2) Post-retirement group life insurance benefits to be provided present employees will be either (i) eliminated, (ii) reduced to no more than $2,500, (iii) frozen at the amounts which would have been provided under the group life insurance program had the employee's present rate of earnings continued to retirement. Post-retirement group life insurance for all employees hired in the future will be limited to a maximum of $2,500.

(3) Accidental death and dismemberment included in a group life insurance program will be terminated at the time of the employee's retirement.

(4) The funding medium to be employed to fund pension benefits may involve either a trust fund or a pension investment contract issued by an insurance company of a type which will provide a maximum rate of return commensurate with the degree of risk involved, maximum flexibility of financing, and expenses which are reasonable and justified, taking into consideration the services being provided by the insurance company.

(5) The overall costs of employee benefits will be determined on a realistic and sound financial basis and be in line with current industrial and local conditions.

(6) The pension formula will take into consideration, directly or indirectly, present and anticipated future levels of social security benefits.

§ 612.2291 Thrift plan requirements.

Subject to the restrictions previously set forth and those indicated below an employer may adopt an Employee Thrift Plan:

(a) Voluntary employee contributions will be in multiples of 1 percent but not to exceed 6 percent of their earnings, except as provided in paragraph (c) of this section.

(b) Matching employer contributions may be determined by a schedule designed to fit employer objectives but in no event will the rate of matching employer contributions exceed 50 cents for each dollar contributed by an employee.

(c) Voluntary employee contributions in excess of 6 percent but not beyond 10 percent may be permitted but in no event will such excess employee contributions be credited with a matching employer contribution.

(d) In the event prior employee contributions to a pension plan are transferred to the Thrift Plan, the value of such contributions will not be subject to withdrawal while the employee is still employed except in the event of financial emergencies as defined in the Thrift Plan.

§ 612.2300 Civil service retirement coverage.

(a) Section 5.6(b)(1) of the Act specifies which of the officers and employees of the banks shall be under the Civil Service Retirement Act after 1959. The creditability of service in the banks prior to 1960 is unaffected by the Act.

(b) District personnel officers are supplied with copies, and current amendments, of the Federal Personnel Manual and other material regarding civil service retirement, which contain complete information on the civil service retirement laws and regulations thereunder.

§ 612.2310 District retirement plans.

The district boards and the bank boards shall provide retirement benefits for their employees who are not under the Civil Service Retirement Act. It is recognized that the district retirement plans should be designed to be uniform, as far as practicable, between the various banks and associations in the same district. Retirement benefits, with due allowance for the social security benefits available, should be competitive with industry and area practices with appropriate consideration of the cost. Any such retirement plans, including thrift or savings plans, and any amendments thereto, shall be submitted for the prior approval of the Farm Credit Administration. Approval of the plan by the Internal Revenue Service shall be secured.

§ 612.2320 Personnel reports.

The Farm Credit Administration will request reports of personnel strength and listings of personnel on a semiannual basis.

PART 613—ELIGIBILITY AND SCOPE OF FINANCING

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613.3140 Requirement.

AUTHORITY: The provisions of this Part 613 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—General

§ 613.3000 Authority.

The Act, sections 1.8, 2.3, 2.15, authorizes the Federal land banks, Federal intermediate credit banks and production credit associations to make loans to bona fide farmers and ranchers, rural residents and persons furnishing to farmers and ranchers services directly related to their on-farm operating needs. Production credit associations also may make loans to producers or harvesters of aquatic products. Similarly, sections 3.7 and 3.8 of the Act authorize the banks for cooperatives to make loans to eligible cooperatives.

Subpart B—Eligibility To Borrow From Federal Land Banks and Production Credit Associations

§ 613.3010 Person defined.

A "person" is an individual or a legal entity. A "legal entity" is any partnership, corporation, estate, trust or other entity which is legally vested with authority to conduct a business.

§ 613.3015 Combined operations.

(a) Where an applicant's operations include a combination of farming, producing or harvesting aquatic products, or a farm-related business the determination of eligibility can be made on the basis of the criteria set out for either or any combination of these operations.

§ 613.3020 Farmers and ranchers.

(a) Definition. A bona fide farmer or rancher is a person owning agricultural land, or engaged in the production of agricultural products, including aquatic products under controlled conditions.

(b) To be eligible to borrow, an individual shall establish as a part of his application for credit his qualification as a bona fide farmer or rancher.

(c) A legal entity shall meet these same requirements and at least one of the following qualifications to be eligible to borrow:

(2) More than 50 percent of the value or number of shares of its outstanding voting stock or equity is owned by the individuals conducting the farming or livestock operation.

(2) More than 50 percent of the value of its assets consist of assets related to the production of agricultural products.

(3) More than 50 percent of its income orginates from its production of agricultural products.

(d) In addition, any loan to a legal entity in which at least 50 percent of ownership or the control is vested in another legal entity that does not meet at least one of the preceding three requirements shall be subject to prior approval of the Farm Credit Administration. Unless it can be found that such owned or controlled legal entity can operate its business as a counterpart to the normal farm businesses eligible to borrow, without jeopardy to such normal farm businesses or the general agricultural economy, approval will not be granted. Prior approval submissions shall fully document the ownership structure, the business affiliations of those owning or controlling the applicant, and the compatibility of the applicant's farming business to the normal farm business operating in the area or to the general agricultural economy.

(e) A legal entity engaged in agriculture for the primary purpose of conducting its operation at a loss to absorb taxable income from nonagricultural sources shall not be eligible.

(f) A legal entity which was a borrower otherwise eligible on the effective date of these regulations and does not materially change its entity structure or control and ownership will continue to be eligible for further borrowing.

(g) The banks and associations are authorized to make loans to farmers and ranchers for any agricultural purpose and other requirements of the borrower. The System is primarily an agricultural lender, therefore the following shall be used for determining the amount of credit which may be extended for other requirements.

(1) A broad interpretation may be applied to such requirements where the agricultural operation represents more than 50 percent of the borrower's total business, except that at no time shall the total credit extended for other requirements exceed the total value of farm assets.

(2) Where the agricultural operation represents less than 50 percent of the borrower's total business, credit extended for other requirements (except needs of the family in part-time family farms) shall be on a conservative basis, scaled down proportionately as the farm assets become less significant in the total operation.

§ 613.3030 Producers or harvesters of aquatic products.

(a) Definition. A producer or harvester of aquatic products is a person(s) engaged in the production or harvesting of aquatic products for economic gain in open waters under uncontrolled conditions.

(b) Eligibility. To be eligible to borrow from a production credit association as a producer or harvester of aquatic products, an individual shall establish as a part of his application for credit his qualification as a producer or harvester of aquatic products. A legal entity must meet these same requirements and at least one of the following qualifications:

(1) More than 50 percent of the value or number of shares of its voting stock or equity is owned by the individuals conducting the aquatic operation.

(2) More than 50 percent of the value of its assets consist of assets related to the production or harvesting of aquatic products.

(3) More than 50 percent of the income originates from its production or harvesting of aquatic products.

(c) All proposed loans by production credit associations to producers or harvesters of aquatic products meeting the above qualifications shall be referred to the Farm Credit Administration for prior approval.

(d) Scope of financing. Production credit associations are authorized to make loans to producers or harvesters of aquatic products for aquatic needs and other requirements of the borrower. The total credit extended for other requirements shall not exceed the value of assets devoted to the production or harvesting of aquatic products. When the aquatic operation represents less than 50 percent of the borrowers' total business, credit extended for other requirements shall be on a conservative basis scaled down proportionately as the aquatic assets become less significant in the total operation.

§ 613.3040 Rural residents.

(a) Eligibility of the user. To be eligible to borrow an individual shall establish as part of his application for credit his qualification as a rural resident. However, a borrower shall not have loans on more than one rural residence at any one time and no loan shall be made to an individual to purchase or construct a rural residence for the express purpose of rental or resale.

(b) A rural resident is an owner-occupant of a rural residence located in a rural area.

(c) Rural residence. A rural residence is a single-family, moderate-priced dwelling used as a permanent, year-round residence with appropriate appurtenances and an appropriate site sufficiently large to provide a proper surrounding for a residence both in terms of the physical requirements for access, equipment, utilities and services and the community standards for aesthetic suitability. Rural residences may include conventional housing, modular housing or mobile homes. However, a mobile home must be related to a specific real estate site. This shall involve the following.

(1) Its being fixed on a permanent or semipermanent foundation.

(2) The intent of the owners at the time affixed.

(3) Its intended use as permanent housing.

(4) Further, the mobile home shall be connected to a sewage system, water system and other utilities, and the owner-occupant shall own land or hold a suitable long-term lease which is assignable on the land on which it is located.

(d) The bank shall prescribe appropriate procedures subject to the approval of the bank board as to types of housing that may be used as security for loans to rural residents within the district.

(e) Moderate-priced dwelling: A moderate priced dwelling is adequate but not in excess of the living standards of persons in the middle range of income for that area of the Farm Credit district. Due to the wide variations in housing costs, income levels, and area standards for housing, the determination of the ranges of value which constitutes moderate priced housing will vary between localities. A loan shall not be made if the value of the dwelling exceeds the standards defined herein.

(f) The bank shall prescribe appropriate procedures subject to approval of the bank board as to ranges of value which constitute a moderate-priced dwelling with the district.

(g) Rural area:

(1) For the purposes of nonfarm rural housing loans only, a rural area is open country which is primarily agricultural in character. It may include any open areas in any city or village with a population of up to 2,500 persons, based on the latest U.S. Census, which is not directly associated with or adjacent to a larger population center. A rural area does not include established commercial subdivisions or other concentrated residential areas, regardless of location, which are primarily intended to provide high density housing and services. But individually-owned rural homes constructed in clusters for convenience or efficiency of services are included.

(2) Rural areas may include open areas which are undeveloped for housing and still devoted to agricultural use within other political subdivisions including "towns" exceeding 2,500 persons designated by the district board with the approval of the Farm Credit Administration. In making this designation, consideration shall be given to the character of local governmental powers, the availability of municipal type services, and the land ownership and probable residential growth patterns of the community.

(h) Scope of financing: Loans may be made to owner-occupants of rural residences for the purposes of buying, building, remodeling, improvements, and repair of such residence, the cost of participation certificates and closing costs and to refinance existing indebtedness on such residences. The total amount of credit that may be extended for such purposes shall not exceed 85 percent of the appraised value.

§ 613.3050 Farm-related businesses.

(a) *Definition*. A farm-related business is a person engaged in furnishing to farmers or ranchers custom-type farm-related services, performed on the farm and directly related to their on-farm operating needs.

(b) *Eligibility*. (1) To be eligible to borrow, a person shall establish as part of his application for credit his qualifications as a farm-related business.

(2) Loans shall not be made to commercial businesses which purchase farm products from or sell inputs to farmers or ranchers unless substantially all of such inputs handled are used incident to the services provided.

(c) *Scope of financing.* Federal land banks may make loans to farm-related businesses for necessary sites, capital structures and equipment and initial working capital for such services. Production credit associations may make loans to farm-related businesses for any working capital, equipment and operating needs incident to the operation of farm-related businesses. Any such loans shall be confined to the financing of those assets or business activities directly related to the custom-type services performed on the farm. Such financing is subject to the provisions of § 616.6040 of this chapter.

Subpart C—Eligibility of Financial Institutions To Borrow From the Federal Intermediate Credit Bank

§ 613.3060 Institutions eligible.

The Federal intermediate credit banks may make loans to and discount agricultural paper for production credit associations and other financial institutions in accordance with provisions in Part 614 of this chapter.

Subpart D—Eligibility of Cooperatives To Borrow From a Bank for Cooperatives

§ 613.3070 Cooperative.

The term cooperative means any association of farmers, ranchers, producers or harvesters of aquatic products, or any federation of such associations, or a combination of such associations and farmers, which is operated on a cooperative basis, is engaged in processing, preparing for market, handling or marketing farm or aquatic products; or purchasing, testing, grading, processing, distributing or furnishing farm or aquatic supplies; or furnishing farm business services or services to eligible cooperatives.

§ 613.3080 Federated cooperative.

A federated cooperative is a cooperative whose membership includes farmers' cooperative associations and in which at least 80 percent of the voting control is vested in farmers and eligible associations.

§ 613.3090 Cooperative basis.

Cooperative basis means the conduct of business for the mutual benefit of the members as patrons.

§ 613.3100 Farm or aquatic supplies and farm business services.

Farm or aquatic supplies and farm business services are any economic goods, business or services normally used by farmers or producers or harvesters of aquatic products which contribute to their business operations or are in furtherance of the livelihood, welfare or security of such persons.

§ 613.3110 Eligibility.

To be eligible to borrow from a bank for cooperatives, a cooperative shall meet the following requirements.

(a) At least 80 percent of the voting control, or such higher percent applied uniformly and consistently to all applicants and borrowers in the district as may be established by resolution of the bank board shall be held by farmers or ranchers, or producers or harvesters of aquatic products, who are eligible under § 613.3020 or § 613.3030, or by eligible cooperatives.

(b) It deals in farm products or aquatic products or products therefrom, farm or aquatic supplies, or farm business services with or for members in an amount at least equal in value to the total amount of such business transacted by it with or for nonmembers, excluding from the total of member and nonmember business transactions with the United States or any agencies or instrumentalities thereof or services or supplies furnished as a public utility.

(c) No member of the cooperative shall have more than one vote because of the amount of stock or membership capital he owns therein; or, the cooperative must restrict dividends on stock or membership capital to 10 percent per year or the maximum percentage per year permitted by the applicable State statutes, whichever is less.

(d) A cooperative or a federated cooperative which was otherwise eligible and was a borrower on the effective date of these regulations and which does not materially change its entity structure or ownership and control will continue to be eligible for further borrowing.

§ 613.3120 Scope of financing.

A bank for cooperatives may make loans to meet any credit need which will enable a cooperative to perform those functional powers prescribed in sections 3070 through 3100 which will benefit its members. A bank may also make loans, to a cooperative otherwise eligible to borrow, for purposes not directly related to such primary functions or powers, so long as a finding is made that the amount to be loaned is reasonably modest in relation to the total credit provided and such business purpose(s) will enhance the well-being of the members and patrons.

Subpart E—Nondiscrimination in Lending

§ 613.3140 Requirement.

As required in the Civil Rights Acts of 1964 and 1968, there shall be no discrimination because of race, color, sex, religion, or national origin in financing of housing or in the availability of loans generally from the Farm Credit institutions. The supervising banks shall provide instruction to their respective associations in the district regarding nondiscrimination and notice for posting in each association office.

PART 614—LOAN POLICIES AND OPERATIONS

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AUTHORITY: The provisions of this Part 614 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—General

§ 614.4000 Basic responsibilities.

The Act (sections 1.1(b), 5.18(5) and 5.19) vests certain responsibilities with the Farm Credit System and the Farm Credit Administration which pertain to the development of a credit system responsive to the credit needs of all types of eligible applicants having a basis for credit.

§ 614.4010 Supervision by the Farm Credit Administration.

The Farm Credit Administration is empowered to exercise general supervision over the administration of credit; to coordinate the activities of the banks in making studies of lending standards, including appraisal and credit standards; approve national and district standards and procedures; and to supplement the work of the districts under the foregoing where necessary to accomplish the purposes of the Act.

§ 614.4020 Delegation.

The Act authorizes and directs the delegation and redelegation of such of the duties, powers, and authority of the Farm Credit Administration as may be determined to be in the interest of effective administration.

§ 614.4030 Intent of delegation.

The banks shall provide for the exercise of loan making authority by the associations commensurate with their demonstrated ability to extend and administer credit soundly on condition that adequate control and supervisory measures are developed and exercised.

§ 614.4040 Bank guideline responsibilities.

Under policies of its board, each bank shall conduct studies and make and adopt standards for lending and develop and issue adequate credit manuals, operating procedures, and control mechanisms for guidance in the extension and administration of sound and constructive credit. The definition of a sound loan, and the five specific credit factors, along with the total provisions of these regulations on loan policies and operations shall constitute the guidelines under which district policies and procedures shall be constructed. The credit manuals setting forth policies and procedures shall prescribe the forms to be used, including a loan application and an adequate credit file; the minimum supporting credit information and verification required in relation to loan size, complexity and risk exposure; the format and procedures to be followed in loan analysis, minimum standards for loan disbursement, servicing and collections; and such other standards as are necessary for the safe and professional conduct of a lending organization.

§ 614.4050 Bank supervision of associations.

Where credit decisions are vested in associations by law or through delegated authority, district policies, and procedures shall be designed to regulate, control, and review the extension of credit. District policies and procedures shall include guidelines with respect to particular enterprise financing, and limitations with respect to lending in specialized or hazardous areas. The banks shall supervise the credit operations, monitor association performance and take corrective action when deficiencies occur. District banks shall also assist and supervise associations in the credit training of employees and loan committees.

§ 614.4060 Association responsibilities.

Associations shall conduct their credit operations within their vested or delegated authority in compliance with the guidelines of these regulations and procedures of the district bank. Demonstrated capability in extending sound credit, including the extent to which association boards have established policies and procedures with adequate controls and accountability, shall be weighed heavily by the bank in delegating authority and exercising its supervisory responsibility over association credit operations.

Subpart B—Chartered Territories

§ 614.4070 Loans outside the established territory—Federal land banks, Federal land bank associations, and production credit associations.

(a) A loan to finance operations wholly within the territory of a bank or association may be made regardless of the residence of the applicant.

(b) A loan to finance operations which are partially within and partially without the territory of an association may be made if such operations are regarded by the association and the bank as one farming or livestock unit. Concurrence of the supervising banks in whose territories the operation is located shall be obtained.

(c) A loan to finance operations wholly outside the chartered territory of an association may be made, provided such loans are authorized under policies established by the bank board and approved by the Farm Credit Administration. If a loan is made to an eligible borrower whose operation is wholly outside the chartered territory of the lending association, concurrence of like associations and the supervising bank in whose territory the operation is located shall be obtained.

§ 614.4080 Loans outside of bank's territory—banks for cooperatives.

(a) A bank is authorized to make loans to cooperatives headquartered in the district served by the bank.

(b) Cooperatives operating in more than one district shall apply for loans to the bank in the district in which the headquarters office of the cooperative is located.

(c) A bank may make loans to an eligible cooperative headquartered in another district provided the following conditions are met.

(1) The interests of the borrowing cooperative would best be served.

(2) The bank in the district in which the cooperative is headquartered gives its consent.

(3) The Farm Credit Administration approves.

Subpart C—Lending Authorities

§ 614.4090 Federal land banks.

(a) The banks are authorized to make and participate with other Federal land banks in long-term real estate mortgage loans in rural areas for a term of not less than 5 years nor more than 40 years. Subject to limitations applicable to making long-term real estate mortgage loans, the banks are authorized to make continuing commitments to lend and to extend financial assistance of a similar nature. Policies as prescribed by the bank's board shall be used in making loans, continuing commitments for loans, and in extending other financial assistance. Borrowers shall be permitted to make advance payments on their loans or, under agreement with the banks, make advance conditional payments to be applied on future maturities or to be available for return to the borrower for purposes for which the bank would increase their existing loans.

§ 614.4100 **Federal intermediate credit banks.**

(a) The banks are authorized to make loans and extend other similar financial assistance to and discount for, or purchase from, production credit associations, with their endorsement or guaranty, any note, draft, and other obligation presented by such association. In addition, the banks may participate with such association(s) and one or more other intermediate credit banks in making loans to eligible borrowers.

(b) The banks are authorized to discount for, or purchase from commercial banks and other other financial institutions, with their endorsement or guaranty, notes and other obligations for loans which have been made for agricultural purposes in accordance with regulations contained in § 614.4540.

(c) All of the foregoing shall be subject to policies prescribed by the bank board.

§ 614.4110 **Production credit associations.**

Each production credit association, under policies established by the bank board and procedures prescribed by the bank, may make, guarantee, or participate with other lenders in short- and intermediate-term loans and other similar financial assistance to eligible borrowers for a term not exceeding 7 years.

§ 614.4120 **Banks for cooperatives.**

The banks are authorized to make loans and commitments to eligible cooperatives and to extend to them other financial assistance, including, but not limited to, discounting notes and other obligations, guarantees, collateral custody, or participation with other banks for cooperatives and commercial banks or other financial institutions in loans to eligible cooperatives under policies established by the bank board.

§ 614.4130 **Approval.**

All district policies mentioned in this Subpart C shall be subject to Farm Credit Administration approval.

Subpart D—General Loan Policies for Banks and Associations

§ 614.4140 **Sound loan.**

A sound loan is one made to a responsible individual or entity of established integrity who has a creditable operating and financial record, or equivalent characteristics if a new business, in an amount sufficient to accomplish a useful purpose. It should be made in an amount and under terms and conditions that will reasonably assure repayment, usually without adversely affecting the borrower's financial position. It should be supported by sufficient equity or collateral, or both, to afford the lender reasonable protection against loss if adverse conditions occur.

§ 614.4150 **Credit factors.**

Five basic factors pertinent to a sound loan are as follows:

(a) The individual or entity: A prerequisite for a sound loan is an applicant of established integrity. Responsible and cooperative management must be evident. The importance of this factor is of such significance that it can affect the weight placed upon the other credit factors. Analysis shall include a careful evaluation of character, experience, record and prospects of management in finance and operation.

(b) Financial position and progress: Financial responsibility reflects ability to meet obligations, continue business operations and protect the lender against undue risk. The applicant's total assets controlled, equity owned, contingent liabilities and history of earnings to date are significant measures of financial responsibility.

(c) Repayment capacity: The determination of repayment capacity requires an analysis of cash flow history and projection. A cash flow projection shall reflect cash generation from the applicant's operation and all other sources. Generally the flow of cash shall be sufficient to meet all obligations and provide a remainder for contingencies.

(d) Basis of approval: The amount of loan, use of funds and loan terms are the principal factors over which the lender has direct control. Therefore, the loan shall be constructive in amount and purpose and practical as to repayment terms for both the borrower and lender. Loan conditions such as loan agreements, personal liability, additional collateral, insurance, etc., shall be required as conditions warrant.

(e) Collateral offered or available as security (section 1.9 Federal land bank, 2.15 production credit association, and 3.10(b) bank for cooperatives of the Act). Collateral needs are contingent upon the requirements of the law and as dictated by the strengths or weaknesses of all credit factors. The requirement of collateral and collateral taken shall reasonably protect the lender, provide the necessary control of equity and repayment, and leave the borrower in a position to constructively manage his business. In addition, personal liability or entity liability in the form of comakers or guarantors may provide added strength in extending credit. Sufficient analysis shall be made of credit factors relevant to such comakers or guarantors as is necessary to assure that their signatures actually provide the desired support for the loan.

Subpart E—Application of Credit Standards

§ 614.4160 **Applicants.**

Changes in the agricultural economy during recent years have created a complex variety of entrepreneurs within the field of agriculture as compared to the basic family farm or farmer cooperative which generally prevailed when the System was founded. The following guidelines shall be used by the district boards in establishing policies and by banks in developing procedures whereby loan quality standards can be varied in accordance with the nature of the applicant.

(a) In extending credit to the following basic farm family group, maximum consideration shall be given to strength in management ability, personal responsibility, family cooperation and continuity, earnings potential, purpose of loan and terms of approval in relation to their financial position and collateral.

(1) Full and part-time individual proprietorship farmers.

(2) Partnerships or joint ventures composed of subparagraph (1) of this paragraph.

(3) Estates or trusts emanating from subparagraph (1) of this paragraph.

(4) Corporations in which the stockholders are family members or individuals who would otherwise have constituted a proprietorship farm business.

(b) The following entities where partners or stockholders include farmers and nonfarmers shall be given adequate consideration for financing agricultural needs, but with careful consideration to the financing of other requirements. There shall be adequate strength in the combined credit factors to avoid more than a normal business risk.

(1) Partnerships and joint ventures in which the primary occupations and incomes of some of the partners are other than farming.

(2) Fiduciary entities which do not primarily represent the continuation of a proprietorship operation.

(3) Corporations in which stockholders include a predominance of farmers, but as investors rather than as a closely related family business.

(c) Credit extended to the following investor-oriented farming business group shall be primarily for agricultural needs. Risk factors shall be minimal. Adequate factual information and proper analysis is necessary in extending credit to any applicant. However, this group of applicants often presents complexities of financial and organizational structure beyond that normally encountered with the basic farmer applicant. It should be recognized that this requires more diligent efforts in developing adequate information and to assure that an in-depth analysis is made of such data. Nonfarm collateral or income shall not be given undue weight in determining the amount of credit extended to this group.

(1) Businessmen who also farm or own farm property.

(2) Partnerships or joint ventures composed predominantly of partners who do not have farming as their primary occupations and sources of income.

(3) Corporations in which stockholders predominantly are individual investors or other legal entities whose primary occupations or businesses and income are from sources other than farming.

(d) The type of farmer cooperative operation, quality of management, and basic financial factors shall be carefully evaluated as to their effect upon the long range benefit to members. Bank boards shall establish policies and banks for cooperatives develop procedures for administration of quality standards that fully consider the needs of, support by, and service performed for members, and risk protection afforded the lender.

(e) Where an enterprise or an area presents hazards because of the nature of the industry, economic conditions, new ventures, or changing technology, credit standards shall be administered to assure that the lender carries a proportionately lesser risk.

§ 614.4170 Borrower liability.

All primary borrowers shall normally be fully liable for loans obtained from the Farm Credit System. Where acceptable to the bank or association when the primary borrower includes two or more persons as joint borrowers, the liability requirement may be met by each borrower assuming liability for a specified percentage of the loan provided the aggregate liability covers 100 percent of the loan and credit conditions support such action. Where personal guaranty is required from persons other than the primary borrower, such guarantor shall normally be fully liable unless the primary borrower or other guarantors provide adequate financial strength to result in a sound loan even though the personal liability of an individual guarantor may be limited.

Subpart F—Loan Terms and Conditions

§ 614.4180 Federal land banks.

(a) Farm loans may be made for not less than 5 years nor more than 40 years. The basis of approval shall set out the terms and conditions under which a loan is approved. When necessary to assure proper understanding, provide needed controls and protect the lender, a formal written loan agreement shall be developed between the borrower and the bank.

(b) The outstanding loan balance on any farm loan shall not at any time during the life of the loan exceed an amount greater than 85 percent of the appraised value established by the most recent appraisal report on the primary real estate security. This shall not, however, prohibit protecting the security position by advancing taxes, advancing insurance premiums, rescheduling loan payments, granting partial releases, or other loan servicing actions when the loan, subsequent to the action, will be at least as well secured as it was prior to the action.

(c) The bank shall incorporate in the district's credit manual a sufficient number of basic repayment plans consistent with sound lending as are necessary to adequately serve the borrowers in its district. Adaptations within these plans will be permissible to tailor loans to the individual borrower's credit needs.

§ 614.4190 Federal intermediate credit banks.

(a) Loans made by a Federal intermediate credit bank in participation with a production credit association or another Federal intermediate credit bank, shall be made under terms and conditions prescribed in § 614.4200 for production credit associations.

(b) Direct loans to production credit associations. The bank may make direct loans to production credit associations either in lieu of discounting acceptable paper or in conjunction with a direct loan program which encompasses the discounting function. Except with the approval of the Farm Credit Administration, the total of all direct loans and loans discounted shall not at any time exceed the limitations outlined herein. Direct loans will normally be secured by pledge of loans and all other assets of the production credit association; except that where loans to members are discounted separately, direct loans may be unsecured in whole or in part, at the discretion of the bank. The amount loaned on an unsecured basis shall at all times be consistent with sound financial and credit practices.

(c) Direct loan limitation. The total credit extended to a production credit association under a direct loan and by discounting loans may not at any time exceed the total of that portion of the total loans, including participations purchased from other lenders, considered acceptable and problem (as defined in the Credit Examination Manual) in accordance with the percentage as classified in the most recent official credit examination, or such percentages as may equitably represent the same percentages on a current basis, such alternate procedure to be subject to concurrence of the Farm Credit Administration, the total of investments under Commodity Credit Corporation programs, notes insured or guaranteed by Farmers Home Administration, and in farmers' notes to cooperatives and dealers, etc.; and capital and surplus less the total of the amount invested in the Federal intermediate credit bank and any portion of capital and surplus invested in loans to members, and any estimated losses not protected by reserves.

(d) Form of direct loan obligation. Direct loans and advances to a production credit association may be evidenced by a promissory note or by a loan agreement in form approved by the Farm Credit Administration.

(e) Direct loans to other financing institutions. In accordance with regulations contained in § 614.4590, the bank may make direct loans or advances to other financing institutions.

§ 614.4200 Production credit associations.

(a) Operating loans will usually be made with maturities coinciding with the purpose of the loan and the normal marketing seasons for the enterprises being financed.

(b) Intermediate-term loans may be made with maturities not to exceed 7 years from the date of initial disbursement, under policies established by the bank board and procedures prescribed by the bank.

(c) Special intermediate-term loans, exclusive of loans to nonfarm rural residents, producers or harvesters of aquatic products, and farm-related businesses, may be made with maximum maturity not to exceed 7 years realizing, however, when establishing repayment that forbearance or extension may be necessary under the following circumstances.

(1) When specific capital items are being financed, such as new equipment, new or remodeled buildings, or facilities with a useful life and value, after normal depreciation and obsolescence, which exceeds the term of the loan at all times.

(2) When real estate mortgage credit is unavailable, not acceptable to the applicant, or impractical for reasons such as cost or delay in availability.

(3) When earnings history, repayment record and net earnings projections satisfactorily support the loan and provide assurance for final repayment within 3 additional years if forbearance or extension is granted.

(4) Before any special intermediate-term loans shall be made, the district board shall adopt a policy, and the Federal intermediate credit bank and the Federal land bank of the district shall develop procedures regulating the making of such loans, all of which shall be subject to approval of the Farm Credit Administration. Such policies and procedures shall include but are not limited to the following.

(i) Provisions for cooperation between production credit associations and Federal land bank associations in the consideration of any loans bordering on the long-term mortgage category.

(ii) Procedures to be followed in credit reviews and credit examinations whereby loans of this type, made during the period covered by the examination, will be reviewed and commented upon as to compliance with policy and procedures.

(iii) Provisions for adequate reporting on loans of this type to enable timely supervision by the bank.

(d) The basis of approval shall set out the terms and conditions under which a loan is approved and shall be clearly communicated to the borrower prior to disbursement of approved funds. When necessary to assure proper understanding, provide needed controls and protect the lender, a formal written loan agreement shall be developed between the borrower and the association or bank.

§ 614.4210 Banks for cooperatives.

(a) Seasonal loans shall be primarily for financing current assets and shall normally be repaid within 18 months. Term loans shall be for financing noncurrent assets or working capital and should generally be made on an amortized basis.

(b) The basis of loan approval by a bank shall set out the terms and conditions under which a loan is approved. To assure proper communication and understanding, provide needed controls, and protect the lender, a loan agreement shall be executed between the borrower and the bank.

Subpart G—Security Requirements

§ 614.4220 General.

Primary real estate shall be valued on the basis of appraised value and primary chattel security or additional security shall be valued on the basis of recovery value.

(a) *Appraised value*. Appraised value shall be the basis for valuing primary real estate and is the reasonably supported market value except in the following circumstances.

(1) Property in areas of population pressure when the principal basis of value is from land uses such as commercial, industrial, residential or recreational development or speculation on such uses in the future. These may be adjacent to urban areas but could also be some distance from the population center, along or near bodies of water, in or near mountain ski developments, in dude ranch areas, and similar situations. The appraised value of such properties shall be adjusted downward to assure that loans based thereon are consistent with the objective to make primarily agricultural loans.

(2) Timber land shall be valued at market value when not affected by the other exceptions of this section; however, the timber stumpage, which when severed is a commodity and fluctuates widely in price, shall be valued on the basis of its normal commodity price.

(3) Properties on which long-term plantings such as citrus groves, orchards, nuts, vineyards, cranberries, etc., where there is evidence of abrupt fluctuation in market value due primarily to changes in the supply and price of the particular commodity. In these cases, a 5-year moving average of market value shall be used.

(4) Property where reliance for earnings and value is placed on leases or use permits and where there is a question about the continued availability of the lease or permit for the term of loan contemplated. The fee owned land shall be appraised at market value and the lease or permit contribution to value shall be on a basis which will maintain standards consistent with other real estate lending.

(5) Properties in areas where there is evidence of imminent serious problems resulting from a depleting water supply, deteriorating water quality, or lack of drainage, except where these problems are already reflected in the market value or can be appropriately protected against in the loan term and repayment schedule. These shall be appraised in such manner as to eliminate undue lending risks in the particular circumstances.

(6) Property in areas where mineral value or speculation on such value exists. The appraised value shall be based on a comparison to similar areas where mineral influence is minimal.

(b) *Market value*. Market value is the amount which a property will bring if a reasonable time is allowed to find a purchaser and if both seller and prospective buyer are informed, neither being under abnormal pressure.

(1) The above definition contemplates the consummation of a sale and the passing of full title from seller to buyer, under the following conditions.

(i) Buyer and seller are free of undue stimulus and are motivated by no more than the reactions of typical owners.

(ii) Both parties are well-informed or well-advised and act prudently, each for what he considers his own best interest.

(iii) A reasonable time is allowed to test the market.

(iv) Payment is made in cash or in accordance with financing terms generally available in the community for this type of property.

(2) There is a difference between market price and market value. Market value represents the rationale of buyers collectively within the area while market price indicates what an individual property may have sold for.

(c) *Recovery value*. Recovery value applicable to both chattels and real estate is the amount, less estimated maintenance, selling costs, all prior liens and encumbrances, at the date of inspection or appraisal, which the lender should be able to realize from sale of property on reasonable terms. It is a modification of present market value as determined by a loan analyst or appraiser and lies between present market value and a forced sale value. Condition of the loan and of the farming operation, and the circumstances under which recovery would likely be attempted will need to be recognized in determining such value. It should be predicated on the basis of the active effort to dispose of the property when related to a workout loan situation. Values based on security in appraisal or inspection reports should clearly define the basis on which the value was established.

§ 614.4230 Federal land banks.

(a) Primary security for a Federal land bank loan shall consist of a first lien on interest in real estate. The real estate interest must be mortgagable interest under deeds or leases which reasonably may be considered adequate to afford the security of a first lien upon the rights and interests on which the loan is predicated. Collateral closely aligned with, an integral part of, and normally sold with real estate may be included in the appraised value of the security upon which a loan is based. Appraised value shall be determined within approved standards and shall include in the evaluation either farm land, eligible farm related businesses, or eligible rural residences whichever is appropriate for the type of loan being made.

(b) Additional security may be required to supplement primary real estate security. The value of such additional security shall be considered only for collateral protection and may not be included in the value of the security upon which the loan is based. Recovery value shall be the basis for measuring the collateral worth of additional security.

(c) Personal property used in farming operations and considered as collateral for short- and intermediate-term credit will normally not be included as additional security. Before taking such personal property as additional security, the Federal land bank and Federal land bank associations shall consider whether all or a portion of the credit needs might be met more satisfactorily by a short- or intermediate-term loan such as may be obtained through a production credit association in accordance with district board policies under §616.6020 of this chapter.

§ 614.4240 Federal intermediate credit banks.

(a) Participation loans. Loans made by a Federal intermediate credit bank in participation with a production credit association or another Federal intermediate credit bank shall adhere to the same security requirements as prescribed in § 614.4250 for production credit associations.

(b) Direct loans to production credit associations. Securities and other obligations pledged to the bank by a production credit association pursuant to a general pledge and direct loan agreement, shall be held by the bank as collateral for direct loans made by the bank against such securities, as general collateral to secure all paper discounted for the association, and as security for all other obligations of the association to the bank. In the event it is necessary for a bank to realize on such collateral the proceeds therefrom will be applied in that order.

(c) Direct loans to other financing institutions shall be secured in accordance with regulations contained in § 614.4600.

§ 614.4250 Production credit associations.

(a) Both secured and unsecured loans may be made in accordance with procedures prescribed by the bank. Normally, primary security taken will consist of first liens on personal property and crops. While it is not intended that associations will ordinarily make first lien real estate mortgage loans to farmers, real estate or other security may be taken when deemed necessary for the protection of the association in making short- and intermediate-term loans for eligible purposes. Before taking a real estate mortgage, the association shall consider whether all or a portion of the credit needs might be met more satisfactorily by a real estate mortgage loan such as may be obtained through a Federal land bank association, in accordance with district board policies established under § 616.6020.

(b) Recovery value shall be the basis for measuring the collateral worth of security. However, the value of interest in real estate which constitutes primary security shall be the appraised value as determined within approved appraisal standards.

§ 614.4260 Banks for cooperatives.

Banks for cooperatives are authorized to make both secured and unsecured loans.

(a) Term loans may be secured or unsecured depending on the purpose, repayment period, and other credit factors. However, as a general practice loans scheduled for repayment over an extended period should be secured.

(b) Regular seasonal loans may be secured or unsecured.

(c) Seasonal loans made to finance commodities and qualifying for special interest rate (where applicable) and lending limit consideration shall be secured. Loans secured by a chattel mortgage, factor's lien, security agreement, or security other than warehouse receipts or other title documents shall not exceed 65 percent of the net value of unhedged or 85 percent of the net value of hedged commodities and the borrower must have sufficient working capital to keep the loan properly margined. Loans secured by warehouse receipts or other title documents shall not exceed 75 percent of the unhedged net value of the commodity or 90 percent of the hedged net value and the borrower must have sufficient working capital to keep the loan properly margined.

(1) "Commodities" shall consist of goods and merchandise except for live animals which are transportable; can be accurately classified by standards of quality and quantity; and enjoy broad regional, national, or international markets within which similar items are regularly traded and the value thereof readily and regularly determined.

(2) A hedge will be considered valid if it is an enforceable contract with a reliable third party and includes point of delivery, time or period of delivery, quality, quantity, and price as specifications binding on the purchaser. Seller options will not generally invalidate the hedge classification unless of the nature to invalidate the entire contract. If options are provided the purchaser under the contract, the hedge value of the contract will be the worse combination of options.

(3) Trust receipts, negotiable bills of lading, shipping documents, drafts and acceptances may be accepted in such amounts and for such periods as reasonable prudence permits as necessary to allow the orderly marketing, handling, or processing of the commodities.

(4) Documents required in conjunction with these loans may be held by a custodian selected by the bank. In such cases the bank shall provide the custodian written instructions outlining procedures and practices to be followed in acceptance, handling, and release of all related documents. In addition, the bank shall provide for periodic review of custodian activities by bank officials and shall establish that activities of the custodian are subject to review and audit by the Farm Credit Administration.

§ 614.4261 Security and appraisal standards—bank for cooperatives.

Written security and appraisal standards shall be prepared and employed, where applicable, by each bank for cooperatives and approved by the Farm Credit Administration adopted standards should recognize that properties securing bank for cooperatives loans frequently are of the nature to which normal valuation standards do not apply. Much of the collateral securing bank for cooperatives loans is in the form of specialized assets for which individual judgments of potential values under various circumstances ranging from going concern to salvage values will need to be made.

Subpart H—Interest Rates and Charges

§ 614.4270 Policy.

In setting rates and charges, it shall be the objective to provide the types of credit needed by eligible borrowers at the lowest reasonable cost on a sound business basis, taking into account the cost of money, necessary reserves and expenses, capital requirements, and services provided to borrowers and members.

§ 614.4280 Interest rates.

Loans (and discounts) made by each bank shall bear interest at a rate or rates as may be determined by the bank board with the approval of the Farm Credit Administration. Requests to Farm Credit Administration for interest rate plans or interest rate adjustments shall include justification for the plan or change.

§ 614.4290 Interest on past due loans.

Provisions may be made in the approved interest rate programs of banks and production credit associations for the collection of interest at a higher rate after maturity of a loan or installment if provision is made in the note or loan document.

§ 614.4300 Other charges and fees.

Banks and associations may impose reasonable charges or fees to members, borrowers, or applicants in connection with loans or other services rendered. Fees charged by the associations shall be subject to bank approval.

§ 614.4310 Interest rate limitation for Federal intermediate credit banks.

The rate of interest charged borrowers on notes or other obligations that a Federal intermediate credit bank may purchase, discount, or accept as collateral for loans shall not exceed by more than 4 percent per annum the lending rate of the bank which was in effect at the time the loan was consummated. Notes with provisions for a payment of interest on other than a simple interest basis (add-on, interest after maturity, etc.) may be accepted provided the effective simple interest rate to the borrowers does not exceed such maximum.

§ 614.4320 Production credit associations.

The rate of interest charged by an association shall be the rate authorized by the bank, within programs prescribed by the bank board and approved by the Farm Credit Administration. Interest shall be charged on loans for the actual number of days such loans are outstanding unless a different method is authorized by such programs.

§ 614.4321 Interest rate programs.

The following types of interest rate programs may be employed by banks and production credit associations.

(a) Fixed rates: The rate of interest specified in the note or loan document shall prevail as the maximum rate chargeable to the borrower during the period of the loan.

(b) Variable rates: The interest rate(s) on outstanding loan balances may be changed from time to time during the period of the loan, if provision is made in the note or loan document.

(c) Fixed interest spread: Interest rates shall be expressed in terms of a percentage to be added to the cost of money to the bank or association.

(d) Differential rates may be established for different classes of loans based on the type, purpose, amount or quality of loan or any combination of these applicable factors. When the differential rate is based primarily on the amount of the loan, in order to provide equitable treatment between borrowers, the rate or rates may provide for a uniform rate up to a predetermined amount or amounts and a lower rate or rates on larger unpaid amounts. For clarification to the borrower, the above may be accomplished through the use of a blended rate.

Subpart I—Loan Participations

§ 614.4330 General.

Under policies prescribed by the boards of directors of the respective banks and approved by the Farm Credit Administration, Farm Credit banks and production credit associations may enter into loán participation programs to enable joint financing of eligible individuals or other legal entities meeting the lending standards of banks and associations. The program shall require that loan participation agreements define the provisions for disbursement and repayment of loan funds; sharing, division or assignment of collateral; the loan service plan; collection procedures; authorizations and conditions for action in the event of default by the borrower; sharing loss; conditions for termination of the agreement and any other applicable items. In lieu of executing separate notes and other legal documents, the participating institution may purchase certificates evidencing an equivalent legal participation interest in such loans. The amount of the loan held by an individual bank or association shall be subject to any prior approval requirements for that bank or association.

§ 614.4331 Federal land banks.

The banks may enter into loan participation agreements with one or more other Federal land banks under terms established by the participating banks.

§ 614.4332 Federal intermediate credit banks.

The banks may enter into loan participation agreements with one or more other Federal intermediate credit banks or with production credit associations under terms established by the participating institutions.

§ 614.4333 Production credit associations.

The associations may enter into participation agreements with one or more other production credit associations or with commercial banks and other lenders. All such agreements shall be subject to the prior approval of the Federal intermediate credit bank of the district. In addition to the provisions contained in § 614.4330, participation agreements between production credit associations and commercial banks or other lenders shall be subject to the following limitations:

(a) The association shall reserve the right to decline participation in any loan offered.

(b) Provisions restricting the association from providing full financing for the borrowers should be avoided. The agreement may, however, restrict either party soliciting full financing for these borrowers.

(c) To assure that such a participation agreement does not result in a commercial bank's substantially shifting its lending away from agriculture, the participating commercial bank shall fulfill one of the following; (1) retain at least 50 percent of the total of each participated loan, (2) retain at least 10 percent of the total of each participated loan provided that the commercial bank does not materially reduce its ratio of agricultural loans to total loans from the ratio maintained during the preceding 5 years, or (3) retain the maximum amount of the participated loan permitted by banking regulations to which the bank is subject.

(d) A lender other than a commercial bank shall provide evidence of financial responsibility and capability to service and control loans being made as a prerequisite to approval of a loan participation agreement.

(e) A copy of such participation agreements shall be forwarded to the Farm Credit Administration upon execution.

§ 614.4334 Banks for cooperatives.

A district bank for cooperatives shall first offer to the Central Bank for Cooperatives a participation in loans to a borrower when such loans exceed the lending limit of the bank. With the concurrence of the central bank, participations in loans in excess of a bank's lending limit may also be offered initially to other banks for cooperatives, then to commercial banks or other financial institutions. A bank for cooperatives may offer a participation to other banks for cooperatives in loans which are less than its lending limit; however, when total loans to such borrowers exceed the lending limit of the bank, further loans must first be offered to the Central Bank. Loans in excess of the lending limit established by the Farm Credit Administration for the banks for cooperatives on a consolidated basis may be made only when such excess amounts are sold as participations to a commercial bank or other financial institution. The form of each participation agreement shall be subject to Farm Credit Administration approval. The names of participants, amounts, and dates shall not require approval.

Subpart J—Loss Sharing Agreements

§ 614.4340 General.

With approval of the boards of directors of the respective banks, Farm Credit banks and associations may enter into agreements with other institutions charted under the same title of the Act for mutually sharing losses resulting directly or indirectly from their lending operations. The loss sharing agreements shall cover, but are not limited to, terms and conditions for activation and dissolution, definition of terms, determination of loss sharing formula, limitations on required contributions, reimbursements, and provisions for amendment. All loss sharing agreements shall be subject to Farm Credit Administration approval.

§ 614.4345 Guaranty agreements.

In lieu of loss sharing agreements, with approval of the Farm Credit Administration, banks or associations may enter into guaranty agreements wherein one or more other banks or associations agree to assume a percentage of the risk associated with specific loans.

Subpart K—Lending Limits

§ 614.4350 General.

No Farm Credit Bank or association shall make a loan, advance, or commitment which will result in any one borrower being obligated to such bank or association in excess of limits stated herein. When these limitations are approached, banks or associations should consider the feasibility of arranging participation in large loans with other banks or associations to properly serve the credit needs of deserving large borrowers. Except as provided in § 614.4353, the limitations shall not apply where the bank or association participates in a loss sharing agreement or has obtained other bank or association guaranty adequate to absorb the increased risk.

§ 614.4351 Federal land bank.

The lending limit is 20 percent of the capital and surplus of the lending bank.

§ 614.4352 Federal intermediate credit banks.

A Federal intermediate credit bank as a maker in participation with a production credit association or other Federal intermediate credit bank, shall have a limit of 20 percent of its capital and surplus.

§ 614.4353 Production credit associations.

Production credit associations until December 31, 1972, shall have a lending limit (including participations) of 50 percent of the capital and surplus of the lending association. A lending limit of 100 percent of the capital and surplus of the lending association shall apply whenever an approved loss sharing agreement is in force.

§ 614.4354 Banks for cooperatives.

Banks for cooperatives shall have the following limits until December 31, 1972.

(a) *District banks*. Loans outstanding at any one time to any one borrower, exclusive of participations sold to others, shall be limited to the following percentages of the net worth of a district bank as of the end of the preceding fiscal year or at an interim date determined by the Farm Credit Administration as a result of material changes in the bank's net worth.

(1) Term loans, 25 percent.

(2) Seasonal loans exclusive of loans secured by approved commodities, 25 percent.

(3) Seasonal loans secured by approved commodities (excluding loans secured by Commodity Credit Corporation documents), 45 percent.

(4) The sum of term and seasonal loans exclusive of seasonal loans secured by approved commodities, 25 percent; the sum of term, seasonal and seasonal loans secured by approved commodities (excluding loans secured by Commodity Credit Corporation documents), 45 percent. Loans made within the established lending limits that become excessive because of a subsequent decrease in the bank's net worth should be reduced to the lending limit in an orderly manner over a reasonable period. The Farm Credit Administration may prescribe special lending limits in writing in unusual situations.

(b) *Central Bank for Cooperatives*. Loans outstanding at any one time to any one borrower, exclusive of participations sold to others, seasonal loans secured by approved commodities or loans financing commodities within the limits of Government price support programs, shall be limited to 40 percent of the net worth of the bank as of the end of the preceding fiscal year or at an interim date determined by the Farm Credit Administration as a result of material changes in the bank's net worth.

(c) *Thirteen banks for cooperatives*. Loans outstanding at any one time to any one borrower from the 13 banks for cooperatives, exclusive of participations sold to institution(s) other than the cooperative bank system, shall not exceed 35 percent of the consolidated net worth of the banks without approval of the Farm Credit Administration.

§ 614.4360 Computation of obligation for lending limit determination.

(a) Participation loans shall be included in the computation by a bank or association only to the extent of the amount of participation which that bank or association holds.

(b) The obligation of an individual shall be the total unpaid principal of indebtedness to the bank or association for which the individual is liable as a direct borrower, as a result of being guarantor, endorser or maker on loans to other individuals or legal entities, or as a result of drafts, accounts, contracts or purchases owned.

(c) The obligations of a legal entity shall be the total unpaid principal of indebtedness to the bank or association for which the entity is obligated as a direct borrower as a result of being guarantor, endorser, or maker on loans to individuals or other legal entities or as a result of drafts, accounts, contracts, or purchases owed unless the lending bank or association can after a thorough credit evaluation of the principal maker of the endorsed or guaranteed obligation certify in writing that such original maker can reasonably be depended upon for repayment of the guaranteed or endorsed obligation.

Subpart L—Rural Housing Loans

§ 614.4370 General policy.

Loans to rural residents shall be made on a sound basis and in no event shall exceed 85 percent of the appraised value of the real estate. The foregoing shall not prohibit protecting the security position by advancing taxes or insurance premiums. When the rural residence is a mobile home, the appraised value shall include interest in land and the mobile home. In establishing lending policies all Farm Credit institutions shall give consideration to lending practices and terms used by other responsible lenders in the area.

§ 614.4380 Lending limitations.

(a) Rural residence lending in a district may be implemented only with the approval of the district board. The implementation at the association level is within the discretion of the association board.

(b) When rural housing loans have been approved by the district boards and individual association boards, each district board shall prescribe a policy which will assure that rural residence loan service is made available to eligible borrowers of these associations.

(c) No Federal land bank may at any time have rural residence loans in an amount exceeding 15 percent of the total of all loans outstanding. No production credit association may have outstanding rural residence loans in an amount exceeding 15 percent of its total loans outstanding at the end of the preceding fiscal year without prior approval by the Federal intermediate credit bank of the district, nor shall the aggregate of such loans exceed 15 percent of the outstanding loans of all associations in the district at the end of the bank's preceding fiscal year.

(d) Whenever any Federal land bank association or production credit association exceeds 15 percent of its total loan volume in rural residence loans, the respective bank board shall require the bank to make periodic reviews to assure that farmers' credit needs are being adequately served in accordance with objectives of the Act.

(e) Should circumstances arise which curtail loan funds for the System, then loan funds for agriculture shall receive priority to the exclusion of funds for rural housing loans.

§ 614.4390 Appraisal of security.

(a) Appraisal standards and procedures for rural residences shall be established by the banks subject to approval by the district board and the Farm Credit Administration. In setting appraisal standards, consideration shall be given to location, community standards, home advantages, employment opportunities, transportation facilities available and future outlook for the area. Such valuation of the property shall reflect accurately the current market value.

(b) Bench marks will be established on appropriate rural residences with values based on verified sales of similar properties.

(c) A procedure for classifying security and area shall be a basic part of the appraisal process.

(d) The same appraisal standards, and forms and procedures shall be used by both Federal land bank associations and production credit associations.

§ 614.4400 Security requirements.

When financing nonfarm rural housing, the primary security shall be a first lien on the rural residence being constructed, purchased, or refinanced. Loans for repairs and improvements usually will be secured by a real estate lien or such other security as is determined to be necessary to protect the lender.

§ 614.4410 Loan terms and conditions.

The banks, subject to the approval of the district boards and the Farm Credit Administration, shall establish policies for making and servicing of rural residence loans according to the following guidelines:

(a) Loans on rural residences shall be amortized and loan terms shall not exceed 30 years when made by a Federal land bank and 7 years when made by a production credit association. To qualify for a rural housing loan from a production credit association, an applicant shall conclusively demonstrate his ability to repay such a loan within a 7-year maturity. No final balloon or renewal payment plan will be permitted which will have the effect of extending the maturity beyond 7 years or 30 years for production credit associations and Federal land banks respectively.

(b) Monthly payment plans shall be required on all such loans unless there is a justifiable reason for a different type of repayment plan.

(c) Loan servicing policies shall encourage the orderly retirement of each rural residence loan as scheduled, and procedures for handling the delinquency of such loans shall recognize the inherent differences between agricultural and rural residence lending.

§ 614.4420 Loan closing requirements.

Uniform rules and regulations regarding the closing of rural residence loans shall be prescribed by the supervising banks. In developing such rules and regulations, consideration should be given to any legal or other requirements necessary to assure that the interests of both the borrower and lender are fully protected. Consideration should be given to provisions for payment of taxes and insurance, establishment of fee schedules, inspection procedures, disbursement and insurance, disbursement of trust funds, construction loan agreements, surety bonds for contractors and compliance with local health, environmental, zoning and code requirements.

§ 614.4430 Identification of rural housing loans.

The district board shall adopt a policy and the banks shall issue procedures, subject to approval of the Farm Credit Administration, which identify all loans made under the rural housing authorization. This identification should be made in such a manner as to provide for an analysis of rural housing lending costs, loss experience, delinquencies and contributions to earnings for purposes of guidance in establishing interest rates and the determination of dividends as well as to clearly delineate security requirements between farms and rural residences.

(a) In making such identification, the distinction between a rural residence and a farm shall be on the basis of the capacity of the security to produce agricultural income. The agricultural operation, if any, on a rural residence security will be considered to be in a range from no production to the growing of produce for home use with occasional token cash sales. A farm will be considered to be a property which has the capacity to produce farm products for sale on a sustained basis.

(b) Any loan made on security so identified as a rural residence shall be included in the 15 percent limitation.

Subpart M—Notice of Action and Appeals

§ 614.4440 Notice of action on loan application.

Every applicant for a loan from the Farm Credit System is entitled to a prompt notice of action on his application and, if the loan is denied or reduced, the reason for such action.

§ 614.4441 Applicant's right to appeal.

An applicant who has reason to believe he was denied credit or was offered credit in a reduced amount because the lender failed to take into account facts pertinent to his application, or misinterpreted or failed to properly apply the rules and regulations governing his application shall be entitled to an informal hearing. That informal hearing shall be in person before the loan committee, or officer, or employee thereof authorized to act on that application. The applicant must make the request for such a hearing in writing within 30 days of notice of the original action. Promptly after such a hearing he shall be notified of the decision reached and the reasons therefor.

§ 614.4442 Records.

Associations or banks shall maintain a complete file of all such written requests for hearing, along with all other written inquiries from applicants or borrowers concerning credit denials.

Subpart N—Loan Approval Requirements

§ 614.4450 General requirements.

Authority for loan approval is primarily vested in the Farm Credit banks and associations. However, to provide proper supervision of the System's lending functions the Act vests in the Farm Credit Administration the authority to prescribe the types and classes of loans which can only be made with the prior approval of the Farm Credit Administration or the respective banks.

§ 614.4490 Federal land bank and production credit association loans requiring prior approval.

(a) Until December 31, 1972, the following loans shall be subject to the prior approval of the bank and the Farm Credit Administration.

(1) Any land bank loan which will result in any one borrower being obligated, as defined in § 614.4360, in total loan commitment on all loans to a bank in excess of $400,000.

(2) Any production credit association loan which will result in any one borrower being obligated as defined in § 614.-4360, in total loan commitment on all loans to the association in an amount in excess of 35 percent of the association's capital and surplus.

(3) Loans described in § 613.3020(d) of this chapter shall be submitted for ruling on the eligibility of the applicant.

(4) Loans described in § 613.3030(c).

(b) The following shall be subject to the prior approval of the appropriate bank board:

(1) Loans to a member of the Federal Farm Credit Board.

(2) Loans to a member of the district board.

(3) Loans to an officer or employee of a bank.

(4) Loans to an employee of the Farm Credit Administration.

(5) Loans to any borrower where officers or employees designated above: (i) Are to receive proceeds of the loan in excess of an amount prescribed by the appropriate bank board and approved by the Farm Credit Administration, or (ii) are stockholders or owners of equity in a legal entity to which a loan is to be made wherein they have a significant personal or beneficial interest in the loan, the proceeds thereof or the security.

(c) The following shall be subject to the prior approval of the district bank:

(1) Loans to a member of an association board.

(2) Loans to an employee of an association.

(3) Loans to any borrower where directors or employees designated above: (i) Are to receive proceeds of the loan in excess of an amount prescribed by the appropriate bank board and approved by the Farm Credit Administration, or (ii) are stockholders or owners of equity in a legal entity to which a loan is to be made wherein they have a significant personal or beneficial interest in the loan, the proceeds thereof or the security.

(4) Any Federal land bank loan which will result in any one borrower being obligated, as defined in section 614.4360, to the bank in excess of an amount established by the bank board.

(5) Any production credit association loan which will result in any one borrower being obligated, as defined in section 614.4360, in total loan commitment on all loans in an amount in excess of 15 percent of the association's capital and surplus.

§ 614.4500 Bank for cooperative loans requiring Farm Credit Administration prior approval.

(a) Where commitments are being made to first-time borrowers when the line of credit is $1 million or more and either the borrower is a newly created entity or the type of activity to be financed is an enterprise which the bank has not previously financed in the district.

(b) Where a borrower is specifically designated as a "prior approval account" by the Farm Credit Administration.

(c) Where the final repayment of a term loan (including the projected amortization of any "balloon payment") is for a period longer than 20 years from the date of the first advance.

§ 614.4501 Bank for cooperatives loans requiring Farm Credit Administration post review.

(a) Where a member of the district bank, or Central Bank board of directors or a member of the Federal Farm Credit Board is the chief executive officer or principal financial officer of the borrowing cooperative.

(b) Where a member of the district bank, or Central Bank board of directors, a member of the Federal Farm Credit Board, or an employee of the bank or the Farm Credit Administration holds 10 percent or more of the voting stock of the borrowing cooperative or provides more than 10 percent of the cooperative's volume of business.

(c) Where a member of the district bank, or Central Bank board of directors, a member of the Federal Farm Credit Board, or an employee of the bank or Farm Credit Administration is an officer or director of a borrowing cooperative whose loans are classified less than those of the highest quality classification.

(d) Where a borrower is specifically designated as a "post review account" by the Farm Credit Administration.

Subpart O—Loan Servicing Requirements

§ 614.4510 General.

The banks and associations that are primary lenders shall be responsible for the servicing of the loans which they make. The boards of directors shall direct the banks and associations to adopt loan servicing policies and procedures to assure that loans will be serviced fairly and equitably for the borrower while minimizing the risk for the lender. Procedures shall include specific plans which help preserve the quality of sound loans and which help correct credit deficiencies as they develop.

(a) The Federal land bank shall provide guidelines for the servicing of loans by the Federal land bank associations. The servicing may be accomplished either under the direct supervision of the banks or under delegated authority.

(b) The Federal intermediate credit bank shall provide guidelines for the production credit associations to use in establishing their loan servicing policies and procedures plus any limitations requiring approval of the bank. Bank policies shall govern the servicing of loans in which the bank is a direct maker via participation with a production credit association.

(c) The bank for cooperatives policies shall govern the servicing of loans made by the bank separately, in participation with other banks for cooperatives or other lenders.

(d) In the development of the bank and association policies and procedures, the following criteria shall be included.

(1) *Term loans.* The objective shall be to provide borrowers with prompt and efficient service with respect to justifiable actions in such areas as: Personal liability, partial release of security, insurance requirements or adjustments, loan division or transfers, conditional payments, extensions, deferments or reamortizations. Procedures shall provide for adequate inspections, reanalysis, reappraisal, controls on payment of insurance and taxes (and for payment when necessary), and prompt exercise of legal options to preserve the lender's collateral position or guard against loss. The policy shall provide a means of forbearance for cases when the borrower is cooperative, making an honest effort to meet the conditions of the loan contract and is capable of working out of the debt burden.

(2) *Operating loans.* The objective shall be to service such loans to assure disbursement in accordance with the basis of approval, repayment from the sources obligated or pledged and to minimize risk exposure to the lender. Procedures shall require: (i) The procurement of periodic operating data essential for maintaining control, for the proper analysis of such data, and prompt action as needed; (ii) inspections, reappraisals, and borrower visits appropriate to the nature and quality of the loan; (iii) controls on insurance, margin requirements, warehousing, and the prompt exercise of legal options to preserve the lender's collateral position and guard against loss. The policy shall provide a means of forbearance for cases when the borrower is cooperative, making an honest effort to meet the conditions of the loan contract and is capable of working out of the debt burden.

(3) *Legal entity loans.* In addition to the foregoing servicing objectives for

term and operating loans, procedures for servicing these loans shall require procurement of data on changes in ownership, control, and management; review of business objectives, financing programs, organizational structure, and operating methods, and appropriate analysis of such changes with provision for action as needed.

(4) *Approved policies.* Copies of the bank loan servicing policies required under this Subpart O and all subsequent revisions shall be furnished to the Farm Credit Administration.

§ 614.4511 Federal land bank association compensation.

Compensation may be paid to an association up to an amount which, in the judgment of the bank, represents the value of the services being rendered for the bank. The compensation plan is subject to the approval of the bank board and the Farm Credit Administration.

§ 614.4512 Compromise of indebtedness.

Because of the vested borrower ownership interest in the cooperative Farm Credit System, no compromise settlement of borrower indebtedness shall be made unless it can be determined from an analysis of all the facts and legal aspects that a compromise settlement results in the greatest net return to the lender. Bank boards shall set policies covering the limited instances where compromise settlements can be permitted. These policies shall include approval limits for the bank and associations. Compromise settlements beyond these limits shall require bank board approval.

Subpart P—Special Lending Programs

§ 614.4520 General.

(a) To provide the best possible credit service to farmers, a district board may adopt policies permitting banks and associations to enter into agreements with agents, dealers, cooperatives, other lenders, and individuals to facilitate the making of loans to eligible farmers and ranchers, subject to approval by the bank.

(b) Federal land bank. A bank, or an association with bank approval, may enter into agreement which will accrue to the benefit of the borrower and lender which allows others to perform functions in loan making or servicing other than the evaluation and approval of loans. When such an agreement is developed, and the territory covered by the agreement extends outside the territorial limits of the originating association or bank, a permissive agreement from all affected banks or associations is required. Reasonable compensation may be paid for services rendered.

(c) Production credit associations may enter into agreements with private dealers or cooperatives permitting them to take applications for loans from the association to purchase farm equipment, supplies, and machinery. Such agreements shall normally be limited to persons or businesses selling to farmers or ranchers and shall contain credit limits consistent with sound credit standards. When the sales territory of a dealer or cooperative extends outside the territory of the originating association, or the Farm credit district, agreement of all banks and associations affected shall be obtained before making such loans. Reasonable compensation may be paid to a dealer or cooperative for services rendered in connection with such programs.

(d) Subject to the approval of the respective bank's board of directors, Federal land banks, Federal intermediate credit banks, banks for cooperatives and production credit associations may enter into memorandums of understanding among themselves or with other lenders for the simultaneous processing and closing of loans to a mutual borrower. The basic policies and principles of each lender shall apply.

§ 614.4530 Special loans, production credit associations.

Under policies approved by the bank board and procedures developed by the bank, production credit associations may make the following special types of loans on commodities covered by price support programs. Nothwithstanding the regulations covering other loans made by an association, loans may be made to members on any commodity for which a Commodity Credit Corporation price support program is in effect, at such rate of interest and upon such terms as the bank board may prescribe subject to the following conditions:

(a) The commodity offered as security for the loan shall be eligible for price support under a Commodity Credit Corporation price support program and shall be stored in a bonded public warehouse, holding storage agreement for such commodity approved by Commodity Credit Corporation.

(b) The member shall have complied with all Commodity Credit Corporation eligibility requirements.

(c) The loan shall mature not later than 30 days prior to the expiration of the period during which the Commodity Credit Corporation loan or other price support may be obtained on the commodity and shall be secured by pledge of negotiable warehouse receipts covering the commodity.

(d) The borrower shall appoint the association as his attorney-in-fact to obtain a Commodity Credit Corporation loan (or other such price support as is available) in the event that the borrower fails to do so prior to maturity or repayment of the loan.

Subpart Q—Federal Intermediate Credit Bank Financing of Other Financing Institutions

§ 614.4540 General.

The Federal intermediate credit banks are authorized to discount for, or purchase from commercial banks and other financial institutions, with their endorsement or guaranty, notes and other obligations for loans which have been made for agricultural purposes. No paper shall be purchased from or discounted for a commercial bank, trust company or savings institution if the amount of such paper added to the aggregate liabilities of the institution, exclusive of deposit liabilities, exceeds the lower of the amount of liabilities of the institution permitted under the laws of the jurisdiction creating the institution, or twice the paid-in and unimpaired capital and surplus of the institution. No paper shall be purchased from or discounted for any other financial institution if the amount of such paper added to the aggregate liabilities of the institution exceeds the lower of the amount of liabilities permitted under the laws of the jurisdiction creating the institution, or 10 times the paid-in and unimpaired capital and surplus of the institution. Hereafter, in this part the term "other financing institution" means all financing institutions eligible to borrow from or discount paper with a Federal intermediate credit bank other than institutions of the Farm Credit System.

§ 614.4550 Financing responsibility of the Federal intermediate credit banks regarding other financing institutions.

It is the responsibility of the banks to provide a continuing dependable source of production financing to eligible farmers and ranchers in their districts. The banks shall attempt to meet this responsibility to agricultural producers by assuring to the extent possible the viable institutions actively involved in extending credit to such producers have adequate loan funds with which to perform their function. Therefore, consideration shall be given in cases in which other financing institutions applying for the discount privilege from banks present persuasive evidence that they are unable to meet legitimate needs of their eligible farmers and rancher clientele without access to the discount privilege.

§ 614.4560 Criteria which shall be used to determine whether a discount relationship should be established with an applicant other financing institution.

(a) Approval of an application for access to the discount privilege from any other financing institution shall be subject to proof that there is a continuing need for such discounts to permit the applicant to continue to serve the volume of agricultural loans at least equal to its average volume of such loans for the past 3 years and that the need is not the result of denial or restrictions on discount privileges or other means of obtaining lendable funds customarily available to it. The application shall also establish a sufficiency of each of the following:

(1) Capital structure to support an economically feasible lending operation.

(2) Actual or potential loan volume to permit a reasonably efficient lending operation.

(3) Institution capability, including staff experience and expertise, to extend and administer the volume of lending anticipated on a sound basis.

(b) Approval of an application from a commercial bank or agricultural credit corporation affiliated with a commercial bank shall be further conditioned on the following requirements.

(1) The commercial bank involved as applicant or parent shall have not less than 25 percent of its total loan portfolio in agricultural loans. If this percentage is less than 25 percent, the applicant institution shall present sufficient evidence to show that it is making a special effort to serve the credit needs in its rural area, and the application shall be subject to prior approval of the Farm Credit Administration.

(2) Its gross loan to deposit ratio shall be not less than 60 percent at the seasonal peak. For purposes of this measure, gross loans should include all direct credit extension by the institution in its trade area. Such items as Federal funds or broker loans are to be excluded. If the applicant institution has a historical gross loan to deposit ratio of less than 60 percent at the seasonal peak, the application for access to the discount privilege shall be subject to prior approval of the Farm Credit Administration.

(3) The participation approach with the production credit associations is either unavailable or would not be of assistance to the institution in serving the credit needs of its borrowing farmers and ranchers, but the failure of the institution to participate with a production credit association shall not of itself be cause for denial or revocation of borrowing or discount privileges.

(c) Approval of an application from an agricultural credit corporation which is not affiliated with a commercial bank shall be further conditioned on the following requirements.

(1) *Character of business*. It shall be a body corporate engaged in the business of extending short- and intermediate-term credit to farmers and ranchers for agricultural purposes. A concern engaged in the business of manufacturing, merchandising, real estate brokerage, real estate loans, etc. is not eligible to obtain credit from a Federal intermediate credit bank merely because it has the power to make loans to farmers and ranchers and to borrow money. On the other hand, the fact that a corporation has powers not related to agricultural credit or receives income from other sources shall not of itself render it ineligible. Such institutions should be carefully investigated and each case decided on its merits.

(2) *Compliance with statutes*. It shall comply with State laws applicable to it. Violations of State laws will be cause for revocation by the bank of the borrowing and discounting rights of any other financing institution which does not promptly rectify such conditions upon notice from the bank. Special attention shall be given to the institutions' articles of incorporation and bylaws, capital stock and other securities transactions and, in the case of foreign corporations, evidence will be required that it has complied with the laws of each State in which it operates.

(d) In dealing with any other financing institution which is affiliated with a cooperative (through stock ownership, management, interlocking directorates or otherwise), the bank will consider the possible effects of such relationship on the operations and credit policies of the applicant corporation. A financing corporation which is a subsidiary of or affiliated with a farmers' cooperative and is otherwise eligible to borrow from and discount with a Federal intermediate credit bank may qualify to discount with its endorsement or borrow on the security of notes of farmers and ranchers (as distinguished from notes of cooperatives), evidencing loans to finance the cost of supplies, equipment or services obtained from such affiliated cooperative, if the bank board finds that an additional source of credit is needed to facilitate financing of such transactions and the primary benefits of such credit will inure to the borrowing farmers and ranchers.

§ 614.4570 Utilization of the discount privilege.

(a) The other financing institution shall remain in compliance with the approval criteria enumerated in § 614.-4560 hereof except that another financing institution which has a discount agreement in force with a Federal intermediate credit bank at the effective date of these regulations shall not be required to meet the criteria included under § 614.4560(b) hereof.

(b) The institution shall maintain reasonable credit quality in its total loan portfolio as well as that credit submitted for discount with the bank.

(c) The institution shall not significantly reduce its agricultural lending activity as a portion of its total credit activity and any substantial increase in the volume of loans tendered to the bank for discount shall be accepted subject to a showing that the increase is a result of the institution's increase in volume of agricultural loans rather than a reduction in the ratio of agricultural loans to nonagricultural loans held by it or to any restriction on its access to other sources of lendable funds.

§ 614.4590 Direct loans to other financing institutions.

A Federal intermediate credit bank is authorized to make loans and advances to other financing institutions, provided that no such loan or advance shall be made on the security of collateral other than notes or other such obligations of bona fide farmers and ranchers as defined in these regulations, unless such loan or advance is made to enable the financing institution to make or carry loans to such bona fide farmers and ranchers for agricultural purposes. In all cases, the amount of collateral required shall be not less than the principal amount of the indebtedness thereby secured.

(a) *Classes of obligations approved as collateral*. The following classes of obligations are approved as collateral for direct loans and advances to other financing institutions.

(1) Obligations of bona fide farmers and ranchers arising from direct credit extension by the financing institution.

(2) Bonds and other direct obligations of the United States.

(3) Federal Farm Loan Bonds and consolidated debentures of the banks for cooperatives.

(4) Soil and water conservation loans and farm ownership loans made under programs administered by the Farmers Home Administration, the payment of which is guaranteed by the United States.

(b) *Purpose of direct loans or advances*. In making loans or advances to any other financing institution on the security of collateral other than that described in (a) of this section, the bank will assure itself that the proceeds of such loans or advances will be used to enable the financing institution to make or carry loans to farmers and ranchers for agricultural purposes.

§ 614.4600 General collateral.

Other financing institutions (except commercial banks), as a condition precedent to borrowing from or discounting with a Federal intermediate credit bank, shall pledge as collateral for any and all obligations to the bank, cash, U.S. Government securities, Federal Farm Loan Bonds, consolidated debentures of the banks for cooperatives, or other readily marketable securities of high rating in an amount equal to such portion of its capital as shall be determined by the bank. At the discretion of the bank, commercial banking institutions may also be required (unless prohibited by law or by supervisory authority) to deposit acceptable collateral. Securities and obligations pledged with the bank shall be deposited under a collateral pledge agreement pursuant to which all securities and obligations so pledged, including all substitutions and additions and the proceeds of any such collateral including all income derived, shall be available to secure any and all obligations to the bank whether direct or contingent, present or future.

§ 614.4610 Filing and recording assignments of security instruments.

Assignments of security instruments by other financing institutions may be accepted by the bank without requiring that such assignments be recorded or filed except where the risk involved or other circumstances surrounding the paper makes recording or filing advisable as a matter of sound credit policy. In lieu of a separate assignment of each instrument, the bank may accept from such institutions a single blanket assignment and an agreement to execute separate assignments to the bank whenever requested by it.

§ 614.4620 Suspension of right to borrow and discount.

In the event a financing institution shall fail to remain in compliance with the requirements for continuation of the discount relationship set forth in § 614.-4560, or should the condition or the operations of an other financing institution become otherwise unsatisfactory to the bank, its right to borrow and discount may be withdrawn or suspended by the bank until the noncompliance or unsatisfactory condition is corrected. Should it be determined that the debt to capital ratio of the institution exceeds the legal limits set forth herein, the right of such institution to borrow and discount shall be withdrawn or suspended forthwith and shall so remain until necessary correction has been effected. During any period of suspension no new paper shall be purchased from or discounted for the institution and no further advances shall be made to it pending correction, except to the extent necessary to cover commitments on paper held by the bank or to preserve the security and protect the interest of the bank in obligations held by it. Before making additional advances to any other financing institution whose right to borrow or discount has been suspended because the ratio of its total liabilities to unimpaired capital and surplus equals or exceeds the maximum permitted under law, the bank shall satisfy itself that the corporation will not violate any applicable law by assuming liability for such additional advances.

§ 614.4630 Credit to other financing institutions in special circumstances.

When a financing institution is in need of funds in excess of the amount that can be made available through normal processes and if for credit reasons a bank is unwilling to discount or purchase a loan offered by such institution for its face amount, it may discount or purchase less than the full amount of the loan. In such transactions the institution shall be required to apply all repayments on the borrower's obligation first, to pay the bank the amount discounted or purchased by it.

§ 614.4631 Alternate method.

In lieu of discounting or purchasing notes which are not acceptable at face value, a bank may accept such paper at a reduced value as collateral security to a direct loan to the borrowing institution under § 614.4590 hereof.

§ 614.4632 Limitation on alternate method.

Use of the partial discount procedure is not intended as a substitute for or as replacing the normal procedure of discounting acceptable paper. Every effort should be made to correct the underlying cause rendering such financing necessary.

§ 614.4640 Insolvency of other financing institutions.

(a) In the event an other financing institution having a discount or financing agreement with the bank becomes insolvent or is in process of liquidation, particularly if it fails to service its loans properly and where supervision or orderly liquidation will be facilitated by direct handling of the obligations of the note makers, the bank may, with the consent of the Farm Credit Administration, take over such paper for orderly liquidation. Notes on other obligations pledged with the bank by an other financing institution, either as collateral for a direct loan or as additional security for any and all indebtedness of the institution to the bank, also may be taken over and handled directly with the makers after a title has been acquired in accordance with the provisions of applicable laws and the terms of the pledge agreements executed by the institution involved. The bank's authority to handle the paper directly includes the authority to make additional advances, to grant renewals and extensions, and to take such other actions as may be needed to work out the problems involved. Direct liquidation of paper carried for an other financing institution should be resorted to only in cases where other measures have failed, and it is apparent that direct liquidation is the only practicable means available to the bank for protection of its interest.

(b) Paper handled for insolvent other financing institutions as provided in this section shall not be assigned as collateral for debentures and shall be carried in a separate account as provided in the chart and description of accounts for the banks.

(c) On paper which a bank has taken over from a defaulting financing institution for liquidation, interest shall be collected according to the terms of the loans. Renewals of such notes, when directly payable to the bank, shall bear interest at a rate not to exceed the maximum rate that may be charged other financing institutions on paper eligible for discount by the banks at the time of renewal.

§ 614.4650 Prior loan approval.

Any obligation of a borrower accepted for discount or as collateral for a direct loan to an other financing institution shall have the prior approval of the Farm Credit Administration when the total obligations of such borrower of the offering institution exceeds $100,000 or 50 percent of the paid-in and unimpaired capital and surplus of such institution, whichever is larger.

§ 614.4660 General discount agreement.

As a condition precedent to making loans to or discounting paper for any other financing institution, the bank will require the corporation desiring such credit to execute a general discount loan and pledge agreement.

PART 615—FUNDING AND FISCAL AFFAIRS

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AUTHORITY: The provisions of this Part 615 issued under sec. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Funding

§ 615.5000 General responsibilities.

To assure continuing public confidence in the high quality of Farm Credit bank securities, whenever each bank of the System on consolidated or Systemwide basis obtains loan funds from the sale of obligations, the maturities, rates of interest, and terms and conditions of each issue shall be subject to approval and shall be signed by the Governor of the Farm Credit Administration and the banks shall be liable thereon. It shall be the responsibility of the finance committees or subcommittees of the banks, in consultation with the fiscal agent, to fix interest rates, terms and conditions of their respective issues. In the exercise of responsibility to supervise the funding of the Farm Credit System, the Governor or a designated representative shall at his discretion be present whenever the maturities, rates of interest and terms and conditions of publicly issued obligations are determined. The Farm Credit Administration should keep the U.S. Treasury informed of all public financing plans and actions by the institutions under its supervision.

§ 615.5010 Fiscal Agency.

(a) The Fiscal Agency of the Farm Credit Banks (authorized under title IV, section 4.9 of the Act) shall be responsible for the marketing of securities, the maintenance of accurate and timely records, and assistance to the banks in the orderly investment of funds. The Fiscal Agency shall conduct funding for the banks at the direction of the appropriate finance committees under the broad policy direction of district boards acting in concert. By resolutions of agreement adopted by the board of each of the banks, appropriate committees may be established for the instruction and direction of the Fiscal Agency.

(b) To provide for an adequate and reliable supply of credit to meet the objectives of this Act and to assure cooperation and coordination among the institutions of the System, the Farm Credit Administration shall maintain a general and continuing administrative review of the Fiscal Agency of the banks.

§ 615.5020 Intersystem funds.

Whenever practical the banks should borrow or lend interbank or intersystem funds prior to borrowing from commercial banks or other financial institutions.

§ 615.5030 Borrowings from commercial banks.

The bank boards, by resolution, shall authorize all commercial bank borrowings.

§ 615.5040 Borrowings from financial institutions other than commercial banks.

The Farm Credit banks may borrow from other financial institutions, such as insurance companies, Federal agencies, or Federal reserve banks only with the approval of the Farm Credit Administration.

Subpart B—Collateral

§ 615.5050 Policy.

(a) Each bank shall have on hand at the time of issuance of any long-term notes, bonds, debentures, or similar obligations, and at all times thereafter, free from any lien or other pledge, notes and other obligations representing loans made under the authority of the Act, notes of Federal land banks, Federal intermediate credit banks, and banks for cooperatives representing secured interbank or intersystem loans, readily marketable securities approved by the Farm Credit Administration or cash, in an aggregate value equal to the total amount of long-term notes, bonds, debentures, or similar obligations outstanding for which the bank is primarily liable.

(b) However, since by contract with the bondholders specific pledge continues to be attached to collateral for obligations of the Federal land banks, heretofore issued under the Federal Farm Loan Act of 1916 and the Farm Credit Act of 1933, until those obligations are retired, the collateral securing them must be accounted for separately from collateral not specifically pledged in connection with obligations of the banks issued hereafter.

(c) Each bank shall set up procedures, with the approval of its board and the Farm Credit Administration, which will insure that said bank is in compliance at all times with the statutory requirements for maintenance of collateral.

(d) Such procedures should include provisions for safe custody, methods to determine that debt instruments meet all requirements of the Act and regulations and certification by a responsible officer of the institution as to eligibility and adequacy of the amount of collateral pledged.

§ 615.5060 Federal land bank loans eligible as collateral.

(a) Net asset value of notes and other obligations representing loans, purchase money mortgages, or sales contracts made or acquired under these regulations is eligible for collateral. Each such obligation shall be certificated by the bank's attorney that the bank's interest in the security gives the equivalent protection of a first lien.

(b) Net asset value of notes and other obligations means the unpaid balance of valid loans excluding delinquencies (including default taxes, insurance premiums, etc. paid by the bank or association), future payment funds, undisbursed loan funds, trust accounts and other borrower deposits or deferred proceeds. Loans in the process of foreclosure and acquired real estate owned shall be carried at their recovery value, or investment value, whichever is lower.

§ 615.5070 Federal intermediate credit bank loans eligible as collateral.

(a) Direct loans to or discounts for production credit associations, whether secured or unsecured, provided all notes represent loans made by production credit associations to their borrowers, shall be pledged as collateral for their total indebtedness to the Federal intermediate credit bank.

(b) Direct loans to or discounts for other financing institutions, shall also be acceptable.

§ 615.5080 Bank for cooperatives loans eligible as collateral.

The value of the unpaid balance of loans to eligible cooperatives is eligible as collateral.

§ 615.5090 Loss of eligibility or reduction in carrying value of collateral.

When the Farm Credit Administration informs a bank that approval has been modified or withdrawn with respect to certain items found not to conform to the appraisal or loan standards prescribed, or any loan has been classified as an actual or potential loss, the bank shall adjust the carrying value of its pledged collateral accordingly or withdraw the loan(s) from collateral.

Subpart C—Issuance of Bonds, Notes, Debentures and Similar Obligations

§ 615.5100 Resolution required.

The bank boards shall, by resolutions, authorize the issuance of long-term notes, bonds, debentures or similar obligations in such amounts as may be required to meet bank's needs. Each such resolution shall specify the maximum amount of obligations which shall be outstanding at any one time and authorize the executive committee or appropriate officers of each bank to do all things necessary and proper to participate in such issues.

§ 615.5101 Lost, stolen, destroyed, mutilated or defaced consolidated obligations and coupons of the Farm Credit banks.

(a) *Basis of relief*. The statutes of the United States, now or hereafter in force, and the regulations of the Treasury Department, now or hereafter in force, governing relief on account of the loss, theft, destruction, mutilation or defacement of U.S. securities, and the regulation of the Treasury Department, now or hereafter in force, governing the payment of mutilated or defaced coupons of U.S. securities, insofar as such statutes and regulations may be applicable, and as modified to relate to the consolidated obligations of the Farm Credit banks and coupons of such obligations shall govern the granting of relief on account of lost, stolen, destroyed, mutilated or defaced consolidated obligations of the Farm Credit banks and mutilated or defaced coupons of such obligations.

(b) *Claims and proof of loss.* Claims shall be presented, and proof shall be made, by applicants for relief on account of the loss, theft, destruction, mutilation or defacement of consolidated obligations of the Farm Credit banks and the mutilation or defacement of coupons of such obligations, in accordance with the statutes of the United States, now or hereafter in force, and the regulations of the Treasury Department, now or hereafter in force, with respect to securities of the United States, and coupons of such securities.

§ 615.5102 Restrictive endorsements of bearer securities.

When consolidated obligations of the Farm Credit banks are being presented to Federal Reserve banks or branches, or to the Treasurer of the United States, by or through banks (including Farm Credit banks) for redemption, such obligations may be restrictively endorsed. The restrictive endorsement shall be placed thereon in substantially the same manner and with the same effects as prescribed in U.S. Treasury Department regulations, now or hereafter in force, governing like transactions in U.S. bonds; and consolidated obligations of the Farm Credit banks so endorsed shall be prepared for shipment and shipped in the manner prescribed in such regulations for United States bonds. (See 31 CFR 328.1–328.6)

§ 615.5103 Loss from payment of spurious debenture.

Each of the 12 Federal intermediate credit banks agreed, by resolution adopted by its board of directors in 1963, to share in any loss resulting from the payment of counterfeit, forged, or unauthorized debentures. The agreement provides that such loss shall be shared by all of the banks in the same ratio as their respective participations in debentures issued during the 12 months preceding the date of payment of such counterfeit, forged, or unauthorized debentures.

§ 615.5104 Bonds and debentures as illustrations.

Illustrations of Farm Credit bonds, debentures and other securities may appear in information and educational materials if printed in black and white, but not in color, and must be less than ¾ actual size or more than 1½ times the actual size of the original security. Motion picture and microfilms and slides of such securities are permitted in black and white or color for projection on a screen or for use in telecasting.

Subpart D—Other Funding

§ 615.5110 Authority to issue.

Any Farm Credit bank may issue, pursuant to authority contained in section 4.2(b) as modified by section 4.2(e) of the Act, investment bonds or like obligations other than through the Fiscal Agency if the interest rate is not in excess of the interest allowable on savings deposits of commercial banks of comparable amounts and maturities under Federal Reserve regulation on its member banks.

§ 615.5120 Purchase eligibility requirement.

Purchase of a Farm Credit Investment Bond shall be limited to members of Federal land bank associations and production credit associations, employees of the Farm Credit banks or associations, except bank presidents, and to employees of the Farm Credit Administration, except principal officials. An association member need not be an active borrower. Sale of a nominal number of shares of stock in an association will not satisfy the eligibility requirement. Types of owners may be individuals, partnerships, corporations, unincorporated associations, or fiduciary stockholders.

§ 615.5130 Procedures.

Procedures relating to issuance, pricing, payment of interest, redemption, replacement of lost or stolen bonds and other matters shall be promulgated under the authority of this regulation as operating instructions to banks and associations.

Subpart E—Investments

§ 615.5140 Investment eligibility.

In order to provide the System with investment instruments to support its financial operations, to manage its liquidity portfolios and to invest its excess funds, the following obligations are approved.

(a) Consolidated obligations of the Federal land banks, Federal intermediate credit banks and banks for cooperatives.

(b) Direct and full faith and credit obligations of the U.S. Government.

(c) Federal Home Loan Bank notes and bonds.

(d) Federal Home Loan Mortgage Corporation obligations.

(e) Federal National Mortgage Association short-term notes, debentures and participation certificates.

(f) Government National Mortgage Association direct or fully guaranteed obligations.

(g) Farmers Home Administration insured notes.

(h) Tennessee Valley Authority notes and bonds.

(i) Export-Import Bank obligations.

(j) U.S. Postal Service obligations.

(k) Merchant Marine Bonds.

(l) Negotiable certificates of deposit.

(m) Bankers acceptances.

(n) Full faith and credit obligations of a state, municipality, political subdivision, or public agency or instrumentality thereof, when approved by the bank on a case basis within the following limitations: investments in bonds, except revenue obligations, that have been rated A or better (or the equivalent) by a recognized rating service, that mature within approximately 10 years, and are readily marketable.

(o) Other types of obligations authorized by the Farm Credit Administration. Any eligible investment with a maturity of 12 months or less from the date of pledge shall be valued at face value for collateral purposes supporting bond and debenture issues. Any eligible investment with a maturity of over 12 months from the date of pledge shall be valued at market value for collateral purposes supporting bond and debenture issues.

§ 615.5141 Production credit associations.

Production credit associations shall own such securities, selected from approved investments in § 615.5140, as the supervising bank shall require.

§ 615.5142 Federal land bank associations.

Each Federal land bank association shall invest its available cash funds in excess of the amounts needed to meet its current operating requirements and other obligations in the following:

(a) Consolidated obligations of the Federal land banks, Federal intermediate credit banks, or banks for cooperatives.

(b) U.S. Government securities.

(c) Unsecured obligations of its supervising bank.

(d) Other investments authorized by the bank.

§ 615.5150 Real and personal property.

(a) Real estate and personal property may be acquired, held, or disposed of by all corporate entities of the Farm Credit System for the necessary and normal operations of their business. The purchase or construction of office quarters should be limited to facilities reasonably necessary to meet the foreseeable requirements of the association or associations. Any acquisition which may appear to involve the banks or associations to a substantial degree in real estate or other unrelated business should not be permitted.

(b) The purchase, construction, lease as lessee or sale of Farm Credit bank buildings and appurtenances shall have approval of the Farm Credit Administration. Likewise, purchase, construction, lease as lessee or sale of Federal land bank association or production credit association buildings and appurtenances shall have the approval of the appropriate bank board. It shall be the responsibility of the district board to establish guidelines for use by associations in developing plans for office space to be submitted to the appropriate bank board.

(c) The establishment of computer centers and the procurement by lease or purchase of computer systems, replacement equipment, additional components, and data terminals, by Farm Credit institutions shall be subject to prior approval of the Governor.

§ 615.5151 Additional investments of Federal intermediate credit banks.

Federal intermediate credit banks may purchase nonvoting stock and participation certificates of and pay in surplus to production credit associations when authorized by the bank board of directors on a case basis and approved by the Farm Credit Administration.

§ 615.5160 Production credit association investment in farmers' notes given cooperatives and dealers.

(a) In accordance with policies prescribed by the boards of directors of the Federal intermediate credit banks, production credit associations may invest in notes, conditional sales contracts, and other similar obligations given to cooperatives and private dealers by farmers and ranchers eligible to borrow from the association. All such programs developed shall be approved by the Farm Credit Administration before they are implemented.

(b) Such notes and other obligations evidencing purchases of farm machinery, supplies, equipment, home appliances, and other items of a capital nature handled by cooperatives and private dealers will be eligible for purchase as investments.

(c) The rate of interest on such obligations shall not exceed the limitations set forth in § 614.4310 of this chapter when such notes are offered as collateral for a direct loan from the bank.

(d) The total amount which an association may invest in such obligations at any one time shall not exceed 15 percent of the balance of loans outstanding at the close of the association's preceding fiscal year.

(e) All notes in which an association invests shall be endorsed with full recourse against the cooperative or dealer. The association shall contact each notemaker who meets the association's credit standards to encourage him to become a borrower.

Subpart F—Minimum Investment Requirement

§ 615.5170 Requirement.

The minimum investment requirement shall be comprised of cash and eligible investments, as approved by the Farm Credit Administration. Each banking system, as defined under titles I, II, and III of the Act, shall maintain a minimum investment requirement until December 31, 1972, as follows:

(a) *Federal land banks.* At least 25 percent of capital stock must be held in cash or eligible investments; provided that at least 5 percent of such capital must be invested in U.S. Government Bonds.

(b) *Federal intermediate credit banks.* Maintain an investment portfolio of interest-bearing obligations in the minimum amount of 10 percent of the monthly average amount of debentures sold on behalf of the bank during the preceding fiscal year.

(c) *Banks for cooperatives.* An amount equal to between 20 percent and 25 percent of the banks' capital stock should, as far as practical, be kept invested in cash or eligible investments, exclusive of class B and C stock of the Central Bank for Cooperatives.

§ 615.5180 Association investment portfolios.

The Federal land banks and Federal intermediate credit banks shall require that each association provide as of June 30 or December 31 a listing of its investment portfolio and investment objectives. Associations shall own such securities, selected from approved investments in §§ 615.5140, and 615.5142 as the supervising bank shall require. The banks shall assist the associations in the management of their investment portfolios.

Subpart G—Deposit of Funds

§ 615.5190 General.

All institutions of the Farm Credit System may deposit securities and current funds with and receive interest from any member bank of the Federal Reserve System. Associations may deposit funds with their supervising bank or any commercial bank insured by the Federal Deposit Insurance Corporation.

Subpart H—Net Worth Objective

§ 615.5200 General.

Each bank and association board shall establish a net worth objective to serve as a guide for the accumulation and maintenance of a net worth position adequate to reasonably assure the continued financial solvency of each institution and the continuity of its credit service to farmers and cooperatives, but avoiding the accumulation of net worth in excess of those needs. Each supervising bank board shall also establish an association net worth objective program as a guide for the associations in its district.

§ 615.5210 Annual budgets and projections.

Each bank board shall approve for each bank an operating and financial budget for each fiscal year. Each budget shall contain sufficient background information to indicate the principal assumptions and considerations involved in its formulation, detailed pro forma balance sheets, income and expense statements, bank and association programs to achieve net worth objectives and explanation of significant changes from the previous years. Bank boards also shall approve for each bank long range financial and operating projectons. Approved budgets and longer range projections shall be submitted for review as required from time to time by the Farm Credit Administration.

Subpart I—Debt to Capital Ratios

§ 615.5220 Ratio requirements.

No issue of long-term notes, bonds, debentures, or other similar obligations by a bank or banks, shall be approved if it, together with the amount of other bonds, debentures, long-term notes, or other similar obligations issued and outstanding, exceeds 20 times the capital and surplus of all the banks which will be primarily liable on the proposed issue unless a lesser ratio is fixed by the Farm Credit Administration. The term "capital, legal reserves and surplus" as used in this section includes capital stock, participation certificates, legal reserves, allocated reserves, surplus and unallocated contingency reserves.

§ 615.5230 Special exception.

A bank may, with approval of the Farm Credit Administration, exceed this ratio for temporary periods if the 20 to 1 ratio for all similar banks will not be exceeded. When such exceptions occur, other like banks of the System shall be advised regarding the basis on which approval was given.

§ 615.5240 Production credit associations.

No loan shall be made to or any paper purchased from or discounted for any production credit association if the amount of such paper added to the aggregate liabilities of the association exceeds 10 times the paid-in and unimpaired capital and surplus of the association.

Subpart J—Prescription, Subscription and Retirement of Stock

§ 615.5250 Responsibility.

(a) The board of directors of each Farm Credit institution shall prescribe in its bylaws the classes of stock and participation certificates to be issued to and subscribed by borrowers and others and how they shall be transferred, converted or retired consistent with the law.

(b) The Governor shall prescribe the initial amount of authorized capital stock for a newly chartered production credit association.

§ 615.5260 Retirement of capital stock and allocated equities of banks for cooperatives.

(a) In case of liquidation or dissolution of a present or former borrower, the bank may, but shall not be required to, retire and cancel at book value, not exceeding par, all or a part of the capital stock or any allocated equity in the bank owned by or allocated to such borrower. Before any such retirements shall be made, the bank shall have reasonable assurance that the liquidation or dissolution is or soon will be completed and the business of the borrower is not being continued under circumstances in which it would be appropriate and feasible for any successor to acquire and hold the investment interests of the present or former borrower in the bank. Retirements under this provision shall be authorized by the bank board.

(b) Where the debt of a borrower to the bank is in default, such bank may, but shall not be required to, retire and cancel all or part of any stock or allocated equities of the bank on which the bank has a lien as collateral for the debt, at the book value thereof, not exceeding par value, in total or partial liquidation of the debt, under any of the following conditions.

(1) The borrower has been declared bankrupt.

(2) The borrower has had a substantial part of its property placed in the hands of a receiver.

(3) The borrower has ceased operations, regardless of whether its charter has been surrendered.

(4) In the judgment of the bank, the indebtedness of the borrower to the bank is uncollectable.

§ 615.5270 Purchase of class B stock of the Federal intermediate credit bank by production credit associations.

(a) When the earnings of the bank are inadequate to meet its capital needs, and when feasible to do so with due regard for the circumstances of the associations, the bank board may, by resolution, authorize the bank, with the prior approval of the Farm Credit Administration, to require production credit associations to subscribe for such additional capital as may be needed by the bank. The amount determined shall be allotted, to the nearest full share, among the associations so that the total of all stock owned, including the additional amount to be subscribed for, will be as nearly as practicable in the same proportion to the total amount of Class B stock already owned and to be subscribed for by all associations of the district as each association's average indebtedness to the bank during the immediately preceding 3 fiscal years is of the average indebtedness of all associations to the bank during such period. The "average indebtedness" may be computed on the basis of either average daily balance, or average of beginning and ending monthly balances of such indebtedness for the 3-year period. Each association shall subscribe for stock in the bank so allotted to it. Such subscriptions shall be subject to call and payment therefor shall be made at such times and in such amounts, all as may be determined by the bank.

(b) When making such allotments the bank may transfer, retire or reissue outstanding class B stock among the associations as may be necessary to establish the proportion indicated in the preceding paragraph. Stock that is retired or transferred for this purpose shall first be the stock purchased by the association to the extent it is available unless otherwise approved by the Farm Credit Administration. The bank shall pay the association for all stock so retired or transferred and shall collect therefor from any association to which such stock is transferred or reissued, at the fair book value thereof not to exceed par.

§ 615.5280 Equalization of Federal intermediate credit bank class B stock and allocated reserve owned by production credit associations.

Whenever at the end of any fiscal year of the bank, the relative amounts of class B stock of a bank owned by the production credit associations differ substantially from the proportion provided for in the preceding paragraph and additional subscriptions of class B stock through which such proportion could be reestablished are not contemplated, the bank board may direct that such proportion be reestablished with the prior approval of the Farm Credit Administration. In carrying out its purpose the bank may direct, either separately or in combination, such transfers, retirements, and reissuance of outstanding class B stock among the associations as will reestablish the aforesaid proportion as nearly as may be practicable. Stock that is retired or transferred for this purpose shall first be the stock purchased by the association to the extent it is available unless otherwise approved by the Farm Credit Administration. Stock may be transferred from one association to another and retain its same issue date or series designation. Allocated reserve owned by production credit associations may be equalized in a like manner.

§ 615.5290 Purchase of Federal intermediate credit bank participation certificates by other financing institutions.

Other financing institutions which are entitled to receive participation certificates from the bank as patronage refunds may also purchase further amounts of such participation certificates with the same rights, privileges, and conditions as those issued as patronage refunds. Upon determination of the bank board, with approval of the Farm Credit Administration, the bank may require other financing institutions to purchase additional capital in the bank to assist the bank in meeting its capital needs. Such required purchases shall be on an equitable basis as determined by the bank board.

§615.5300 Surrender of Federal intermediate credit bank stock certificates and issuance of new certificates.

Upon retirement of any class B stock or participating interest evidenced by an outstanding certificate, the certificate involved shall be surrendered to the bank for cancellation. In case of partial retirement a new certificate shall be issued for the balance not retired, which shall bear the same issue date and series designation, if any, as the canceled certificate. In the event of a transfer of class B stock resulting from mergers or consolidations, or transfer of participation certificates from one holder to another, any new class B stock or participation certificates issued shall bear the same issue dates and series designations, if any, as the original certificates for which new certificates are substituted.

§ 615.5310 Lost, destroyed, or stolen Federal intermediate credit bank stock or participation certificates.

Whenever a class B stock certificate or participation certificate which has been issued by the bank is lost, stolen, destroyed, or so mutilated as to impair its value, the bank may issue in lieu thereof a new certificate which shall bear the same issue date and series designation, if any, upon compliance with the following requirements.

(a) The owner shall furnish an affidavit of loss, acceptable to the bank setting forth the issue date or series, number of shares, and any other information required to establish its identity; a detailed statement of the circumstances surrounding the loss, theft, destruction, mutilation, or defacement of the certificate; and a statement that the affidavit was made for the purpose of obtaining a new certificate. Since class B stock and participation certificates may not be transferred except with the approval of the bank, a bond of indemnity ordinarily will not be required.

(b) If a class B stock certificate or participation certificate which was reported lost, stolen, or destroyed is recovered by the owner, he should notify the bank immediately and if a new certificate was issued, the owner shall promptly return the old certificate to the bank.

§ 615.5320 Retirement of Federal intermediate credit bank class B stock, participation certificates, and allocated legal reserve.

After all stock held by the Governor has been retired, the bank may retire class B stock at par, participation certificates at face amount and allocated legal reserve without preferences to all holders thereof, and in such manner that the oldest outstanding stock, participation certificates or allocated legal reserve will be retired first, provided that after such retirements the net worth structure of the bank meets the minimum requirements approved by the Farm Credit Administration. Notwithstanding the foregoing provision, in the event of an equalization of the ownership by production credit associations of capital stock, participation certificates, and allocated legal reserve of the bank, whether in connection with an assessment for capital stock or otherwise, when an association surrenders stock, participation certificates, or allocated legal reserve, it shall first surrender that which was acquired by purchase, to the extent available, and thereafter surrender that acquired through patronage distributions from the bank. In unusual circumstances, class B stock, participation certificates, and allocated legal reserve may be retired for individual holders with the prior approval of the bank board.

Subpart K—Surplus and Reserves

§ 615.5330 Banks for cooperatives.

(a) *Surplus.* "Surplus" is defined as the net accumulation of net savings which has not been appropriated by the board of directors for a specific purpose. Amounts therein may be allocated to patrons or unallocated. Amounts not allocated shall not be distributed as patronage refunds. Each bank shall maintain in surplus an amount not less than 25 percent of all capital stock outstanding.

(b) *Reserve for contingencies.* When authorized by the bank board, an allocated or unallocated reserve for contingencies may be established and maintained when justified for circumstances which may lead to an unbudgeted expense or a loss.

(c) *Reserve for losses on loans.* Each bank shall maintain a general valuation reserve of at least $1\frac{1}{2}$ percent of net loans outstanding at the end of the fiscal year. In recognition of the risk inherent in the specialized agricultural enterprises being financed, a reserve in greater amount than the minimum is desirable. When the reserve is less than the minimum amount, the bank board shall take appropriate action to increase the reserve so that the minimum requirement is attained within a reasonable period.

§ 615.5340 Land bank system reserves for losses program.

Each bank and association shall establish and maintain reserve accounts for estimated losses on mortgage loans, unendorsed paper, advances, accrued interest, real estate owned, and loans called for foreclosure. The requirements shall be in such amounts as in the judgment of the bank and associations is considered adequate to meet such losses. Such reserves shall not be less than 1 percent of the unmatured balance of each loan outstanding, each loan called for foreclosure and each investment in acquired collateral. The combined amounts of loss reserves and indemnity credits should be considered by the bank in establishing the amount and proportion of reserves required to be carried by the bank and associations. The reserves established and maintained by the associations on endorsed loans and other obligations shall in no event be less than $\frac{1}{2}$ percent of the unmatured balance of each loan outstanding, each loan called for foreclosure, and each investment in acquired collateral. Changes in association's policies for reserve for losses shall be approved by the banks. Any changes in a bank's reserve for losses program shall be submitted to the Farm Credit Administration for its concurrence.

§ 615.5350 Special reserves of Federal land banks.

The banks shall maintain a reserve account against the general assets of the bank as required by section 1.17(a) of the Act. Net earnings for this purpose are defined as the gross earnings reduced by current expenses, losses, and other charges against current earnings.

§ 615.5360 Special reserves of Federal land bank associations.

Each Federal land bank association shall, out of its net earnings at the end of each fiscal year, carry to its reserve account a sum of not less than 10 percent of such earnings until the reserve account equals 25 percent of its outstanding capital stock and participation certificates after restoring any impairment. Thereafter, 5 percent of the net earnings for the year shall be added to such reserve account until it equals 50 percent of the association's outstanding capital stock and participation certificates. Amounts in the reserve in excess of such 50 percent may be withdrawn with the approval of the bank.

Subpart L—Distribution of Earnings

§ 615.5370 Banks for cooperatives earnings.

(a) Whenever at the end of any fiscal year a bank shall have no outstanding capital stock held by the Governor, the net savings shall first be applied to the restoration of the amount of the impairment, if any, of capital stock, as determined by the bank board. Any remaining net savings or losses shall be distributed on a cooperative basis as authorized by the bank board. Less than 25 percent of such remaining net savings may be used to maintain an allocated surplus account. Not more than 10 percent of net savings of the year available for distribution may be used to create or maintain an unallocated surplus or unallocated reserve account. Cash patronage refunds shall not exceed 25 percent of the total amount of net savings allocated or paid to patrons, except with Farm Credit Administration approval. Patronage refunds not paid in cash shall be paid in capital stock as determined by the bank board. A net loss in any fiscal year shall be absorbed on the basis determined by the bank board. Any costs or expenses attributable to a prior year shall not be charged to reserves, surplus, or patronage allocations without the approval of the Farm Credit Administration.

(b) Whenever at the end of any fiscal year a bank shall have stock outstanding held by the Governor, net savings shall be distributed in accordance with section 3.11(a) of the Act.

(c) The phrase "service fees" as used in section 3.11(c) of the Act are loan service fees and not income related to "technical assistance and financially-related services" referred to in section 3.7 of the Act. If net income from "technical assistance and financially-related services" becomes more than incidental, such net income shall be distributed as patronage to borrowers using such services.

Subpart M—Payment of Dividends

§ 615.5390 Dividends on equities.

No dividends shall be paid on stock held by the Governor except that dividends shall be permitted on class C stock investments in production credit associations held by the Governor. Any dividends paid shall be declared by the board of directors of the respective institutions in accord with §§ 615.5400 through 615.5430.

§ 615.5400 Dividends on stock or participation certificates related to farm, rural housing, and farm-related business loans.

It shall be the responsibility of the bank boards, subject to approval of the Farm Credit Administration, to adopt a policy for payment of dividends by banks and associations on a fair and equitable basis to holders of voting stock or participation certificates.

§ 615.5410 Federal land banks.

(a) Noncumulative dividends may be paid out of earnings or from earned surplus on stock and participation certificates at varying rates on different classes and issues on a basis of the comparative contribution of the holders to the capital or earnings, but otherwise dividends shall be paid without preference.

(b) Dividends as in paragraph (a) of this section may be paid after the maintenance of the reserve described in section 1.17(a) of the Act and after the payment of its franchise tax to the U.S. Government, if any.

(c) Declarations of dividends are subject to the approval of the Farm Credit Administration.

§ 615.5420 Production credit associations.

An association may pay dividends on its capital stock and participation certificates in accordance with the provisions of its bylaws, provided that the rate shall not exceed 8 percent, and provided further that when dividends are paid on class B stock and participation certificates they shall also be subject to approval of the Farm Credit Administration when the amount of the association's surplus (after the payment of dividends) is less than 5 percent of its maximum loans outstanding at the end of any month during the most recent 3 years.

§ 615.5430 Banks for cooperatives.

(a) Noncumulative dividends may be paid on nonvoting investment stock only. Such dividends may be paid only out of current earnings.

(b) The rate of dividend may not exceed 8 percent per annum.

Subpart N—Association Supervision

§ 615.5440 General policy.

Bank boards shall, from time to time, prescribe policies and regulations and establish guidelines, consistent with law and these regulations, that are necessary for the banks to discharge their supervisory responsibilities over the respective associations in financial and fiscal affairs. The banks shall supervise and monitor these activities; they shall take corrective actions as required by the circumstances and, they shall keep the boards informed.

PART 616—COORDINATION

Subpart A—General

Sec.
616.6000 Responsibility.
616.6010 Policy establishment.

Subpart B—Credit and Financially Related Services

616.6020 Overall policy.
616.6030 Rural housing.
616.6040 Farm-related businesses.
616.6050 Loans to cooperatives for the purpose of directly financing the operating needs of their members.
616.6060 Financially related services.

Subpart C—Other Activities

616.6070 Public information programs.

AUTHORITY: The provisions of this Part 616 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—General

§ 616.6000 Responsibility.

Each district board is responsible for assuring that each of the institutions under its policy or supervisory authority carries on its functions in the most efficient manner to the end that eligible farmers, ranchers, producers or harvesters of aquatic products, rural residents, farm-related businesses and cooperatives have access to complete, convenient, and high quality credit and financially related services at reasonable cost. The Act broadens the lending and service activity authorities of all of the banks and associations to a degree which could permit inefficiencies and overlapping of services among the units of the System in the absence of appropriate coordination. In addition, the interests of those using the System are best served when the activities are closely coordinated.

§ 616.6010 Policy establishment.

Each district board shall establish policies and coordinate the activities of the banks and associations in its district. These policies shall provide appropriate guidance in the areas enumerated herein and others may be included as determined by the district board.

Subpart B—Credit and Financially Related Services

§ 616.6020 Overall policy.

District policies in this area should minimize the possibility of injurious competition between Federal land bank associations, production credit associations, and farmer cooperatives and maximize cooperation among them in providing credit service. The absence of such cooperation will inevitably inure to the disadvantage of those using the services of other institutions of the System. These policies shall recognize that the Federal land banks are long-term real estate mortgage lenders, the production credit associations and the Federal intermediate credit banks make short- and intermediate-term loans repayable in not more than 7 years, and the banks for cooperatives provide a specialized credit service to cooperatives. The policies should include such subjects as collateral to be taken by each type lender, land bank open-end advance and readvance mortgage plans, limitation on the use of balloon-payment provisions in loans by all banks and associations, simultaneous or joint lending to present or prospective borrowers, joint or adjacent housing for associations whenever possible, and sharing of technical assistance, record information and counsel on specific loan cases.

§ 616.6030 Rural housing.

Coordination policies relative to rural housing should define the appropriate lending authorities in accordance with the following guidelines.

(a) Federal land banks should finance the purchase or construction of rural housing where the owner requires long-term financing. Production credit association lending, while not excluding the purchase or construction of conventional homes, should emphasize remodeling and repair of permanent homes and financing mobile homes where the owner needs intermediate-term financing.

(b) A reasonable approach to term of years and repayment capacity should benefit borrower and lender while restricting overlap to a minimum.

§ 616.6040 Farm-related businesses.

The district policies as to farm-related businesses shall assure that these lending activities do not conflict with the objectives and responsibilities of any institution of the System. This policy shall include a provision for clearance or concurrence by the bank for cooperatives on all loans to farm-related businesses which are or will be in competition with a cooperative. In event there is no concurrence, the district board shall rule. However, with the concurrence of the bank for cooperatives, the policy may permit loans by production credit associations and Federal land banks to small cooperatives furnishing eligible farm-related services.

§ 616.6050 Loans to cooperatives for the purpose of directly financing the operating needs of their members.

Policies of district boards should be designed to encourage farmers and ranchers to obtain needed financing directly from their appropriate associations. These policies should recognize, however, that interests of farmers and ranchers may, at times, best be served when financing is obtained from cooperatives which may borrow from a bank for cooperatives. In establishing coordination policies in this regard, district boards shall give due consideration to, among other things, the cooperative's ability to analyze and supervise such credit extension; the credit policy to be established; the preference of the farmers and ranchers; the quantity, quality, availability, and convenience of the credit service being offered by the appropriate associations; the need by cooperatives to offer the types of financing services offered by their competitors; and the natural relationships which exist between a cooperative's main functions of marketing, providing supplies or providing services, and the financing services incident to such marketing, supplies or services. District policies should assure that such lending activities do not conflict with the objectives and responsibilities of the Federal land banks and associations, the Federal intermediate credit banks, and the production credit associations and that, in all cases, the best interests of the farmers and ranchers are served.

§ 616.6060 Financially related services.

Financially related services offered to borrowers by institutions in one part of the System should be made available to the borrowers of the other banks and associations of the district to the fullest extent possible. Duplication of financially related services by Farm Credit institutions in the same district shall be avoided whenever possible.

Subpart C—Other Activities

§ 616.6070 Public information programs.

In disseminating information to the general public as described in Part 618 of this chapter, the banks shall maintain close coordination of such programs within the district. This coordination is essential for effective scheduling of advertising, press and public relations events, and related activities. Economies should be achieved, but more important, unified contact with the communications media minimizes complexities of the Farm Credit System structure in messages being transmitted to member borrowers, prospective borrowers and the general public. Where banks join together across district lines in carrying out information functions, they shall inform and consult with the Farm Credit Administration to assure that the best interest of all banks is served.

PART 617—EXAMINATIONS, AUDITS, AND IRREGULARITIES

Subpart A—Examinations and Audits

Sec.
617.7000 Farm Credit System institutions.
617.7010 Violation of Federal criminal statutes.
617.7020 Other financing institutions.
617.7030 Farm Credit Administration examiners' responsibilities.
617.7040 Bank designated examiners.
617.7050 Use of independent certified public accountants.
617.7060 Frequency of examinations and audits.
617.7070 Coverage.
617.7080 Reports.
617.7090 Liquidation.

Subpart B—Irregularities—Personnel

617.7100 Investigation.
617.7110 Reporting of violations.
617.7120 Cases for referral.

Subpart C—Irregularities—Borrowers and Others

617.7130 Investigation.
617.7140 Types of violations.
617.7150 Reporting of violations.
617.7160 Cases for referral.
617.7170 Notice to local police and bonding company.

AUTHORITY: The provisions of this Part 617 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Examinations and Audits

§ 617.7000 Farm Credit System institutions.

The Farm Credit Administration is required by section 5.20 of the Act to examine and audit each institution of the System, and each of their agents, at such times as the Governor may determine, but each bank and each production credit association shall be examined and audited not less frequently than once each year. Such examinations and audits shall be under the direction of the chief Farm Credit Administration examiner.

§ 617.7010 Violation of Federal criminal statutes.

The Farm Credit Administration also has the responsibility to investigate any known or suspected violation of Federal criminal statutes relating to the affairs of such institutions, or to see that such investigation is conducted. Such investigations shall be under the direction of the chief examiner.

§ 617.7020 Other financing institutions.

Upon request of the Governor or any bank of the System, Farm Credit examiners shall make examinations and written reports of the condition of any organization, other than national banks, to which, or with which, any institution of the System contemplates making a loan or discounting paper.

(a) Any organization other than State banks, trust companies, and savings associations shall, as a condition precedent to securing discount privileges with a bank of the Farm Credit System, file with such bank its written consent to examination by Farm Credit examiners as may be directed by the Farm Credit Administration. (Section 5.22 of the Act.) Such organizations shall also agree to furnish the bank, the Farm Credit Administration, or any Farm Credit examiner, at any time upon call, full and current information regarding its financial condition and operations.

(b) State banks, trust companies, and savings associations may be required in like manner to file a written consent that reports of their examination by constituted State authorities may be furnished by such authorities upon the request of the Farm Credit Administration. (Section 5.22 of the Act.)

§ 617.7030 Farm Credit Administration examiners' responsibilities.

(a) Examinations, audits, and investigations shall be made by Farm Credit Administration examiners appointed by the Governor. Such examinations and audits shall be under the direction of the chief examiner. Their responsibilities are to be discharged in the interest of carrying out the Act and in the interest of the investing public, the stockholders, and the directors and employees of the System. Examiners shall have full authority to inquire into any and all matters which affect or may affect the interests of the Farm Credit Administration or any institution in the Farm Credit System. Such matters include, but are not limited to, the financial affairs, transactions, and condition of such institutions; effectiveness of management in all aspects of the operations of such institutions; compliance with all laws applicable, all regulations and procedures issued by the Farm Credit Administration and all institutions of the System, and all generally accepted business management, credit, and accounting principles and standards as applicable to the operations of such institutions; and known or suspected violations of Federal criminal statutes relating particularly to acts of employees of such institutions or involving the affairs of such institutions.

(b) To facilitate such inquiries, examiners are empowered to examine any documents and records in the custody of any Farm Credit institution; to take over the custody of such documents and records upon issuance of a receipt therefor to the institution; to examine, with permission of the owner or custodian if needed, any other documents or records, wherever located, which may be pertinent to such inquiries; to interview and interrogate any employee, borrower, or other person regarding any matters pertinent to such inquiries; to obtain signed or sworn statements and administer oaths; and to make personal observations of any physical conditions pertinent to such inquiries. Examiners are not authorized to issue to any person an order or instruction to perform or not to perform any action.

§ 617.7040 Bank designated examiners.

The Governor may also designate employees of the Federal intermediate credit banks as Farm Credit examiners for the purpose of conducting credit examinations of production credit associations. Such examinations shall be made under guidelines provided by the chief examiner and in accordance with the principles and procedures set forth in the Manual for Credit Examinations of Production Credit Associations.

§ 617.7050 Use of independent certified public accountants.

If the Governor determines it to be necessary or appropriate, the required examinations and audits of Farm Credit institutions may be made by independent certified public accountants, certified by a regulatory authority of a State, and in accordance with generally accepted auditing standards. Such examinations shall be under the direction of the chief examiner.

§ 617.7060 Frequency of examinations and audits.

(a) Farm Credit System institutions shall be examined and audited in accordance with the following schedule and at such other times as the Governor may determine.

(1) Each bank and production credit association—once each year.

(2) Each Federal land bank association—once each 18 months.

(3) The office of the Fiscal Agency—once each year.

(4) Each data processing installation—once each year.

(5) All other agents of the banks and associations—once each year.

(b) Examinations of other financing institutions indebted to a Federal intermediate credit bank, whether directly or indirectly, shall be made by the bank for its own account, under the terms of the General Rediscount, Loan, and Pledge Agreement entered into between the borrowing institution and the bank.

(c) Examinations of corporations actively borrowing from or discounting paper with a Federal intermediate credit bank shall be made at least once each year and at such other times as the bank may determine. With the approval of the Farm Credit Administration, a bank may adopt a program of less frequent examinations of any corporation that is relatively inactive, or whose ratio of peak debt to collateral pledged to the bank is low.

§ 617.7070 Coverage

Examination and audits of Farm Credit System institutions, and their agents, shall include but not be limited to the following.

(a) Audit of the books, accounts, financial records, files, and other papers.

(b) Verification of accounts of borrowers to the extent considered necessary.

(c) Review and evaluation of the following.

(1) The quality of credit extended.

(2) The administration of credit.

(3) Credit actions by employees, loan committees, and other committees delegated loan approval and loan refusal authority.

(4) Operating and administrative procedures and practices, including the adequacy of internal control.

(5) Data processing systems and operations.

(d) Determination whether programs and activities (including financial-related services) are conducted in compliance with governing laws, rules, policies, and related regulations.

(e) Effectiveness of management and application of policies in carrying out the provisions of the Act and in serving all eligible borrowers.

§ 617.7080 Reports.

(a) Reports of examination and audits of banks, and other reports as deemed necessary by the chief examiner, shall be presented to the respective bank board by an examiner at the first scheduled board meeting subsequent to receipt of the report, and such meeting shall include an executive session with the board. Reports of examination and audit of associations by examiners shall be submitted to the supervising bank for transmittal to the respective board of directors for review and appropriate action at the first scheduled board meeting subsequent to receipt of the report by the institution examined.

(b) The examination and audit comments dealing with the effectiveness of management covered by § 617.7070(e) shall be submitted first to the Governor and when appropriate be transmitted by him with comments to the district board.

(c) Reports of examination are the property of the Farm Credit Administration and are furnished to the institution examined for its confidential use. Reports of examinations of banks or associations made by examiners or Federal intermediate credit bank officials and other personnel who have been authorized by the Governor to make credit examinations may be disclosed only with the consent of the chief examiner. Consent is given for disclosing reports of regular examinations to the banks and associations involved or interested, but such disclosure of reports of special examinations and investigations shall be only by action or consent of the chief examiner in each instance. Information needed for filing claims with surety companies may be extracted from such reports.

(d) Consent is also given for disclosing reports of regular examinations to authorized representatives of the Farm Credit Administration and, when requested for confidential use in official investigations, to agents of the Federal Bureau of Investigation, Department of Justice; Bureau of the Chief Postal Inspector, U.S. Postal Service; the Secret Service; the Internal Revenue Service; and Office of the Inspector General, Department of Agriculture.

§ 617.7090 Liquidation.

In the event of voluntary or involuntary liquidation of a bank or association, or any of their agents, and upon completion of such liquidation, the books and records of the institution shall be forwarded to the office of the district resident examiner for final examination and audit. If circumstances warrant, such final examination and audit shall be made at the institution's offices.

Subpart B—Irregularities—Personnel

§ 617.7100 Investigation.

The Farm Credit Administration shall make an investigation of any case involving irregularities, including apparent criminal violations, by bank or association personnel, upon a determination that an investigation of such case is necessary or advisable.

§ 617.7110 Reporting of violations.

Violations of Federal criminal statutes involving the banks and associations shall be reported to the president of the bank and the general counsel of the district or an attorney who is designated for the purpose. The violations shall then be reported to the Farm Credit Administration.

(a) If any bank or association employee or director discovers irregularities in the funds and accounts of a bank or association or misconduct on the part of an employee or director of a bank or association, or has reasonable grounds for the belief that irregularities or misconduct exist, the employee, or director shall report the matter to the appropriate officer of the bank and furnish such information as he has obtained or developed. The bank shall determine what further steps, if any, will be taken by its representative in the case.

(b) The bank shall immediately notify the resident examiner and other appropriate officials of the Farm Credit Administration, and furnish them with all available information concerning the matter.

(c) The bank shall bring to the attention of the board of directors of an association concerned, any irregularity found to exist and shall keep it informed of all significant developments in order that the board may take such action as may be required to protect the association's interests.

(d) Where irregularities occur in a production credit association office which also handles transactions for a Federal land bank association, or vice versa, or where persons involved are jointly employed by a production credit association and a Federal land bank association, notice of such irregularities shall be given to appropriate officials of both banks involved.

§ 617.7120 Cases for referral.

It shall be the function of the general counsel of the district (or designated bank attorney) to refer directly to the local U.S. attorney the following cases for consideration of criminal action under established procedures.

(a) Cases in which the general counsel (or designated bank attorney) determines there is substantial evidence of the violation of a Federal criminal statute.

(b) Cases in which the U.S. attorney, after discussion with the general counsel (or designated bank attorney), decides than an additional investigation by the Federal Bureau of Investigation or the Secret Service shall be undertaken.

(c) Cases in which the resident examiner notifies bank officials that further investigation by the Federal Bureau of Investigation or the Secret Service is appropriate.

Subpart C—Irregularities—Borrowers and Others

§ 617.7130 Investigation.

The bank shall make an investigation of any case involving violations of Federal criminal statutes by its borrowers.

§ 617.7140 Types of violations.

Violations of Federal criminal statutes by borrowers in connection with their loans most commonly involve actions prohibited by 18 U.S.C. 658 and 18 U.S.C. 1014. Section 658 of the criminal code makes it unlawful for any person knowingly, and with intent to defraud, to conceal, remove, dispose of, convert to his own use or to that of another, property mortgaged, pledged to, or held by an association. Section 1014 of the criminal code makes it unlawful to knowingly make a false statement or report for the purpose of influencing the action of the association or bank upon any application, advance, commitment, or loan or any change or extension of any such action by renewal, deferment of action, or otherwise, or acceptance, release, or substitution of security therefor.

§ 617.7150 Reporting of violations.

(a) *Notice to bank.* Violations of Federal criminal statutes involving borrowers shall be reported to the president of the bank, and the general counsel of the district or an attorney who is designated for the purpose. The violations shall then be reported to the Farm Credit Administration.

(b) *Report of details.* Promptly after giving notification that there may be a violation of a Federal criminal statute, the association shall ascertain the full details involved in the alleged violation and prepare a concise and specific report which will include each of the items listed in the criminal violations worksheet prescribed by the Farm Credit Administration. This complete report shall be sent directly to the district general counsel or bank attorney with the association's recommendation regarding prosecution. It is the responsibility of the general counsel or bank attorney to review the material submitted, to request additional factual information necessary for him to make his determination as to whether there is substantial evidence of the violation of a Federal criminal statute or whether further investigation should be undertaken to produce additional factual evidence which may be needed in the prosecution.

§ 617.7160 Cases for referral.

It shall be the function of the general counsel of the Farm Credit district (or a designated bank attorney) if he determines that there is substantial evidence that a violation has been committed of any of the foregoing as well as other Federal criminal statutes, to refer the matter to the U.S. attorney for consideration of prosecution under established procedures. At no time after it appears to the association or bank that a violation may have occurred shall any employee of the association or bank threaten the borrower with criminal prosecution, whether in an effort to collect the indebtedness, recover property, or otherwise.

§ 617.7170 Notice to local police and bonding company.

In case of burglary, holdup, or violations of other non-Federal criminal statutes, the bank or association shall immediately notify local police authorities. The association shall also notify an appropriate office of the bank. Losses of other natures for any institution which can be recovered under the district bankers blanket bond shall be immediately reported in accordance with established procedures.

PART 618—GENERAL PROVISIONS

Subpart A—Technical Assistance and Financially Related Services

Sec.
618.8000 Authorization.
618.8010 District board policies.
618.8020 Farm Credit Administration approval.

Subpart B—Leasings

618.8050 Leasing authority.
618.8060 Leasing limitations.

Subpart C—Procedures and Guidelines

618.8100 Farm Credit Administration.

Subpart D—Nomination and Election of Directors

618.8150 Federal Farm Credit Board.
618.8160 District boards of directors.

Subpart E—Miscellaneous Provisions

618.8200 Publication of reports.
618.8210 Conducting information programs.
618.8220 Contributions to and membership in other organizations.
618.8230 Allocation of expenses for administrative services.
618.8240 Quarters and facilities for the Farm Credit Administration.
618.8250 Purchases and sales of personal property.
618.8260 Purchase of automobiles through General Services Administration.
618.8270 Travel.

Subpart F—Releasing Information

Sec.
618.8300 General regulation.
618.8310 Lists of borrowers.
618.8320 Data regarding borrowers and loan applicants.
618.8330 Director, officer or employee summoned as witness.
618.8340 Information regarding personnel.
618.8350 Authority reserved to release information.

Subpart G—Disposition of Obsolete Records

618.8360 Authorization.
618.8370 Records disposal.

Subpart H—Federal Records

618.8380 Record material.
618.8390 Federal records in the districts.
618.8400 General Services Administration regulations.
618.8410 Transfers to Federal Records Center.
618.8420 Requests for additional disposal authority.

Subpart I—Internal Controls

618.8430 Responsibilities.

AUTHORITY: The provisions of this Part 618 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

Subpart A—Technical Assistance and Financially Related Services

§ 618.8000 Authorization.

Banks and associations may provide technical assistance to borrowers, members, applicants, and stockholders eligible to borrow and may make available to them such financially related services appropriate to on-farm operations as are determined feasible and approved by the district board.

§ 618.8010 District board policies.

District board policies governing the provision of technical assistance and financially related services shall be established within the following general guidelines.

(a) All services shall be optional, and the borrowers, shall be notified that they are not required to accept the service offered in lieu of a similar service offered by others in cases where the service is required as a loan condition.

(b) All costs to users shall be disclosed in a separate and distinct fashion from interest charges.

(c) There should be maximum cooperation among units of the System to assure that competition in offering service programs among various parts of the System is restricted to an absolute minimum. To the extent possible, members of banks and associations within a district should be served by a single financially related service program or at a minimum, common programs should be offered by the banks and associations within a given district.

(d) Bank board approval for an association to offer a financially related service program shall be conditioned on the application of a feasibility determination including the following four criteria.

(1) Need for the service—based on persuasive evidence that membership need for and interest in the proposed service is sufficient to insure that a quality service can be provided at reasonable cost and that similar service is not being provided adequately (cost, quality, availability) by others in the community.

(2) Capacity to render the service—based on the finding that the association has the institutional capacity to render the proposed service in an effective and efficient manner.

(3) Probability of equitable cost recovery—based on a reasonable presumption that the proposed service program will, at the minimum, generate sufficient revenue to cover all incremental costs. In any case, a service program requiring a substantial and continuing subsidization from or interference with the lending function shall not be permitted.

(4) Effect on operations of the association—based on an analysis of the implications flowing from the decision to offer or refuse to offer the proposed financially related service.

(e) The bank shall review annually, or more frequently if necessary, the individual association financially related service programs which have been approved by the bank to ascertain that the approval requirements of the programs are being followed. The results of these reviews shall be presented to the bank board. If an association is found not to be in compliance, a probationary period shall be established. Failure to comply within the probationary period shall result in withdrawal of the service.

(f) Such records as are necessary to facilitate the review program required herein shall be maintained by each bank or association involved in providing financially related services.

§ 618.8020 Farm Credit Administration approval.

Each proposed financially related service and technical assistance program and district policy with regard to an individual program shall be subject to the approval of the Farm Credit Administration. District policies governing services approved prior to the issuance of these regulations shall be submitted to the Farm Credit Administration for approval. These approvals shall be based on the determination that legal authority to offer the service exists and System-wide implications of offering the service would be favorable on balance.

Subpart B—Leasing

§ 618.8050 Leasing authority.

Farm Credit institutions are authorized to own and lease property as follows:

(a) Federal land banks may own and lease, or lease with option to purchase, to persons eligible for assistance, facilities needed in the farming operations of such persons.

(b) Federal land bank associations have no such leasing authority.

(c) Federal intermediate credit banks may own and lease, or lease with option to purchase, to persons eligible for assistance, equipment needed in the operations of such persons.

(d) Production credit associations may own and lease, or lease with option to purchase, to stockholders of the association, equipment needed in the farming operations of the stockholder.

(e) Banks for cooperatives may own and lease, or lease with option to purchase, to stockholders eligible to borrow from the bank, equipment needed in the operations of the stockholder.

§ 618.8060 Leasing limitations.

This authority shall not be operative until such time as adequate programs have been formulated and approved by the Bank's board and the Farm Credit Administration.

Subpart C—Procedures and Guidelines

§ 618.8100 Farm Credit Administration.

The Farm Credit Administration shall issue procedures and guidelines as necessary from time to time to facilitate carrying out requirements of the law and regulations. These instructions shall describe procedures, include sample resolutions and forms and specify records to be retained. The institutions supervised shall comply with such procedures and guidelines. These procedures will include such things as the following:

(a) Appraisal and credit standards.

(b) Graphic standards.

(c) Electronic data processing standards.

(d) Charts and descriptions of accounts.

(e) Instructions for preparation of financial and statistical reports.

(f) Instructions for production credit association credit examinations.

Subpart D—Nomination and Election of Directors

§ 618.8150 Federal Farm Credit Board.

(a) Polls for the designation of nominees for consideration by the President for appointment to the Federal Farm Credit Board shall be conducted by the election officer of the Farm Credit Administration, an official appointed by the Governor to supervise elections in the System. The results of all such polls shall be certified by the chief examiner.

(b) Information pertaining to the results of any poll shall not be disclosed before the poll has closed, the voting results have been certified, and official announcement has been made by the Governor, except notification of the number of votes received by each nominee or candidate in a poll may be made to the nominees or candidates by the election officer. Information regarding voting by individual associations shall not be disclosed at any time.

(c) The banks shall provide a complete list of all persons and organizations entitled under the law to vote in a nomination poll on request of the election officer. The lists provided shall show the number of stockholders entitled to vote in each Federal land bank association or each production credit association as of a date specified in the request for such lists.

(d) At least 1 month before the nomination ballot is mailed out, the election officer shall send to the appropriate voting group a preliminary notice and instructions for the designation of a person to be considered for appointment to the Federal Farm Credit Board.

(e) If the final designation poll results in a tie, a runoff poll between those tying shall be held.

(f) For both the nomination poll and the final designation poll, the directors of a Federal land bank association or production credit association at a lawful board meeting will vote by the adoption of resolutions as prescribed on the ballots. A majority of the number of directors provided for in the association's bylaws must be present at each meeting, and the vote of the majority of the directors present will control. The final designation resolution may not be adopted until after the ballot is received by the association.

(g) Vacancies on the Federal Farm Credit Board shall be filled for the unexpired portion of the term. Special nomination and designation polls for this purpose shall be conducted by the election officer. Pending the nomination of designees and the appointment by the President to fill the unexpired term, the board of directors of the district for which the vacancy or extended disability exists may select a representative to meet with the Federal Farm Credit Board without the right to vote. He shall be entitled to reimbursement for transportation and travel expenses and shall receive the same per diem compensation as an appointed member of the Federal Farm Credit Board.

§ 618.8160 **District boards of directors.**

(a) The election officer of the Farm Credit Administration appointed by the Governor shall develop and maintain procedures for the conduct of nomination and election polls for election of district board directors.

(b) Polls for the nomination and election of district board directors shall be conducted by the district election officers under supervision of the election officer. The results of all such polls shall be certified by an examiner designated by the Governor.

(c) Information pertaining to the results of any poll shall not be disclosed before the poll has closed, the voting results have been certified, and official announcement has been made by the Governor, except that notification of the number of votes received by each nominee or candidate in a poll may be made to the nominees or candidates by the election officer or district election officer. Information regarding voting by individual associations shall not be disclosed at any time.

(d) The banks shall provide a complete list of all persons and organizations entitled under the law to vote in a nomination poll on request of the district election officer. The lists provided shall show the number of stockholders entitled to vote in each Federal land bank association or each production credit association as of a date specified in the request for such lists.

(e) The district election officer shall send the appropriate voting groups a preliminary notice and instructions for the election of a district director at least 1 month before the nomination ballot is mailed out by him. It is the objective of the Act that in each election of a district director the nominating group should endeavor to assure representation to all sections of the district territory and as nearly as possible to all types of agriculture in the area and that at least two nominees who are willing to stand for election to that office are nominated. The preliminary notice shall include instructions to the voting groups that in nominating candidates they be guided by this objective.

(f) If the election poll results in a tie, a runoff election between those tying shall be held.

(g) For both the nomination poll and the election poll, the directors of a Federal land bank association or production credit association at a lawful board meeting will vote by the adoption of resolutions as prescribed on the ballots. A majority of the number of directors provided for the association's bylaws must be present at each meeting, and the vote of the majority of the directors present will control. The election resolution may not be adopted until after the election ballot is received by the association.

Subpart E—Miscellaneous Provisions

§ 618.8200 **Publication of reports.**

The Farm Credit Administration in the exercise of its supervisory responsibility shall publish reports of the banks or associations whenever, in its judgment, it is necessary for the disclosure of financial conditions and lending operations. Combined financial statements shall be published as of June 30, and December 31.

§ 618.8210 **Conducting information programs.**

Recognizing the importance of informed members and prospective members to the success of a cooperative organization, the banks and associations should conduct information programs to inform the farmers and the general public about their organization, functions, and services. These efforts may include use of publications, advertising, motion pictures, news releases, broadcast materials, special educational events and other member relations and public information methods. Such programs shall be coordinated within each district and, where appropriate, across district lines as prescribed in Part 616 of this chapter.

§ 618.8220 **Contributions to and membership in other organizations.**

Contributions to voluntary associations, clubs, societies, or other groups or payment of memberships in such organizations shall be authorized only after the bank or association board determines that such contributions or memberships will result in commensurate benefits to the bank or association in the conduct of its business and only after consideration of possible tax consequences.

§ 618.8230 **Allocation of expenses for administrative services.**

(a) Prior to the first day of each fiscal year the Farm Credit Administration shall estimate the cost of administrative expenses for the ensuing fiscal year and shall apportion the amount so determined among the banks of the System on such equitable basis as the Farm Credit Administration shall determine and assess against and collect in advance from the banks the amounts apportioned. Assessments shall be made quarterly and the banks shall remit the amount assessed within 30 days of assessment.

(b) As soon as practicable after the end of each fiscal year the Farm Credit Administration shall determine, on a fair and reasonable basis, the cost of operation of the Farm Credit Administration and the part thereof which fairly and equitably should be allocated to each bank and association as its share of the cost. If the amount allocated is greater or lesser than the amount collected proper adjustment shall be made at the time of the next quarterly assessment. Each year there shall be a report to the district boards of directors and the board of directors of the Central Bank for Cooperatives concerning expenditure of such assessments for the expenses of the Farm Credit Administration.

§ 618.8240 **Quarters and facilities for the Farm Credit Administration.**

With the concurrence of two-thirds of the district boards, the Farm Credit Administration may assess the banks such advances of funds as may be required to lease property in the District of Columbia or elsewhere for quarters of the Farm Credit Administration and for related purposes as provided by the Act.

§ 618.8250 **Purchases and sales of personal property.**

Personal property shall be bought and sold by the banks and associations in accordance with policies and practices adopted by the district board. In order to avoid grounds for allegations of favoritism or fraud a bank or association shall not sell surplus property above a stated value established by the board to an employee except through open competitive bidding.

§ 618.8260 **Purchase of automobiles through General Services Administration.**

(a) Banks may purchase automobiles through the facilities of the General Services Administration by placing orders with the Farm Credit Administration. A purchase order will be issued to the General Services Administration showing in detail the exact specifications shown on the bank's order. The low bid for all orders submitted shall be accepted by the banks provided that the low bid is awarded according to the exact specifications outlined in the purchase order.

(b) No automobile purchased through the General Services Administration shall be disposed of before 2 years after delivery to the bank unless it has been driven at least 50,000 miles. Exceptions to this general rule will be made only if an automobile has been wrecked or damaged and is determined by the bank in writing submitted to the Farm Credit Administration to be beyond economical repair.

§ 618.8270 Travel.

Travel and subsistence expenses of officials and employees of the banks shall be allowed in accordance with travel regulations adopted by the district board. Similar travel regulations will be developed for associations by the supervisory bank. The regulations shall contain a statement of policy on the use of official cars for private use and will take into consideration regulations issued by the Internal Revenue Service which are applicable to the employer.

Subpart F—Releasing Information

§ 618.8300 General regulation.

Except as necessary in performing official duties or as authorized in the following paragraphs, no director or employee of a bank, association, or agency thereof shall disclose information of a type not ordinarily contained in published reports or press releases regarding any such banks or associations or their borrowers or members.

§ 618.8310 Lists of borrowers.

Federal intermediate credit banks and production credit associations may issue lists of borrowers for the information of buyers, warehousemen, and others who deal in produce or livestock of the kind that secures such loans. Otherwise lists of borrowers shall not be released by any bank and association, unless such release is approved by the chief executive officer of the bank.

§ 618.8320 Data regarding borrowers and loan applicants.

(a) Except as provided in paragraph (b) of this section, the directors, officers, and employees of every bank and association shall hold in strict confidence all information regarding the character, credit standing, and property of borrowers and applicants for loans. They shall not exhibit or quote the following documents: loan applications; supplementary statements by applicants; letters and statements relative to the character, credit standing, and property of borrowers and applicants; recommendations of loan committees; and reports of inspectors, fieldmen, investigators, and appraisers.

(b) The requirements of paragraph (a) of this section are subject to the following exceptions.

(1) Examiners and other authorized representatives of the Farm Credit Administration and the bank concerned shall have free access to all information, records, and files.

(2) Accredited representatives of the offices named in § 617.7080 of this chapter may, at their request, be given information pertinent to their official investigations or individual cases, and may examine such portions of the records and files as contain the information.

(3) The chairman of the presidents committees and the presidents of the banks may supply statistical and other impersonal information pertaining to groups of borrowers, applicants, and loans, in response to requests from any department or independent office of the Government of the United States, or responsible private organizations, with the understanding that the information will not be published.

(4) Information concerning borrowers may be given for the confidential use of any Farm Credit institution in contemplation of the extension of credit or the collection of loans.

(5) Impersonal information based solely on transactions or experience with a borrower, such as amounts of loans, terms, and payment records may be given by a bank or association for the confidential use of any reliable organization in contemplation of the extension of credit.

(6) Credit information concerning any borrower may be given when such borrower consents thereto in writing.

(7) In litigation between a borrower (or his successor in interest) and a bank or association, any competent evidence may be introduced with respect to any relevant statements made orally or in writing by or to the borrower or his successor.

(8) An unsuccessful applicant for credit which primarily is for personal, family, or household purposes, if his application was rejected either wholly or partly because of information contained in a consumer report from a consumer reporting agency shall be advised as required in section 615(a) of the Fair Credit Reporting Act (84 Stat. 1133), and if his application was rejected either wholly or partly because of information obtained from a person other than a consumer reporting agency shall be advised as required in section 615(b) thereof.

(c) The exceptions in paragraph (b) of this section shall be exercised by Farm Credit institutions with full awareness of the requirements of the Fair Credit Reporting Act.

§ 618.8330 Director, officer or employee summoned as witness.

(a) If a director, officer or employee of any association or bank is summoned as a witness in litigation to which neither the Government nor any Farm Credit organization is a party, for the purpose of testifying or producing documentary evidence with respect to matters which he is precluded by these regulations to disclose, he shall arrange, if possible, with the attorney who obtained the summons, to be excused from testifying. If not excused, he shall appear in response to the summons but, before testifying or producing documentary evidence as to confidential information, he shall respectfully advise the court of these regulations against disclosing such information and respectfully request that its confidential nature be safeguarded. After so doing, he may then testify or produce documentary evidence as to such information only to the extent and under the conditions directed by the court.

(b) Upon receiving any such summons, the director, officer, or employee may request advice and assistance from an attorney for the organization with which he is connected. For this purpose, the directors, officers, and employees of associations shall consult an attorney for the supervising bank.

§ 618.8340 Information regarding personnel.

Lists of bank and associations employees shall not be released without the approval of the chief executive officer of the supervising bank. This section is subject to the following exceptions.

(a) Taxing authorities shall be supplied, on request, with the names, addresses, and compensation of the officers, agents, and employees of any bank or association.

(b) Banks may release lists of their associations and their chief executive officers.

(c) For use by their respective groups of associations and cooperatives in designating nominees for the Federal Farm Credit Board and in nominating and electing members of a district board, the banks may release lists of directors of their associations, and a bank for cooperatives may release lists of the cooperatives that hold stock in it.

(d) Banks and associations may release employees' names, addresses, positions, and spouses' names to reputable concerns for listing in local directories. The concern must agree this information is for directory purposes only. Employees wishing to do so shall be allowed to withhold their names.

§ 618.8350 Authority reserved to release information.

The provisions of Subpart F shall not operate to limit or restrict the discretionary authority of the Governor or any deputy governor to release, or authorize the release of, information by or pertaining to the Farm Credit Administration or any bank or association.

Subpart G—Disposition of Obsolete Records

§ 618.8360 Authorization.

Banks and associations are authorized to dispose of obsolete corporate, credit, accounting, and financial records and other papers not required for research, legal, or audit purposes under a Farm Credit Administration approved records disposal program, except for the following.

(a) Original corporate records, including articles of incorporation, bylaws, capital stock records, and minutes of stockholders, directors, and committees.

(b) Payroll records including gross salary and deductions for retirement, social security, and income tax withholdings.

(c) Basic personnel records including personnel folders, service records, cards, and earnings records for all active and former employees covered under the Civil Service Retirement Act.

(d) Records required by Federal or State laws.

(e) Federal records (see following Subpart H of this part).

(f) Financial reports of the banks and associations as of June 30 and December 31 each year.

(g) Applications, notes, security instruments, financial statements, and any individual records pertaining to loans charged off where the net loss after recoveries exceeds $1,000.

(h) Listing of obsolete records destroyed.

§ 618.8370 Records disposal.

Each bank and association shall maintain an up-to-date records disposal schedule which has the approval of the bank boards. The records disposal schedule of each association shall be approved by its supervising bank.

Subpart H—Federal Records

§ 618.8380 Record material.

Records of the Federal Government consists of all written or printed papers, letters, documents, books, maps, charts, plans, drawings, punchcards, tabulation sheets, motion pictures or other photographic records, sound recordings, and any other records made or received by any agency of the Federal Government in pursuance of Federal law or the transaction of public business, and preserved or appropriate for preservation as evidence of the organization, functions, policies, decisions, procedures, operations, or other activities of the Government or because of the informational value of data contained therein. Extra copies of documents preserved only for evidence, and memoranda or other papers that do not serve as the basis for official actions, are not considered record material.

§ 618.8390 Federal records in the districts.

The following are Federal records:

(a) Records in the Federal land banks and Federal land bank associations relating to Commissioner loans, including those records that existed as of the date any loans were purchased by the banks.

(b) Records of the Federal Farm Mortgage Corporation.

(c) Records of the Federal intermediate credit banks and production credit corporations in existence on December 31, 1956.

(d) Records created prior to January 1, 1957, relating to the liquidation of any production credit association.

(e) Records in the office of joint services up to December 31, 1956, relating to Commissioner loans, the Farm Credit Administration, and to the Federal intermediate credit banks, production credit associations, and Federal Farm Mortgage Corporation, including joint records of any such bank or corporation and a Federal land bank, bank for cooperatives, production credit association, or national farm loan association.

§ 618.8400 General Services Administration regulations.

The General Services Administration has prescribed regulations on the management and disposal of all Federal records. Copies of these regulations have been sent to all Federal intermediate credit banks. They are available for use by Farm Credit Administration employees, and the office of joint services.

§ 618.8410 Transfers to Federal Records Center.

Any bank or office of joint services that wishes to be relieved of the custody of Federal records, but cannot do so either because authority to destroy or microfilm them has not been obtained or because the retention periods approved by National Archives and the Congress require that the records by held either permanently or for further periods of time, may request the Farm Credit Administration to arrange with the General Services Administration to have such records transferred to a regional Federal Records Center.

§ 618.8420 Requests for additional disposal authority.

If any bank or office of joint services wishes to dispose of Federal records for which disposal authority has not been obtained from the National Archives and the Congress, two samples of the records involved, together with a description of each record and the proposed retention period, should be sent to the Farm Credit Administration, which will refer the proposal to the National Archives and will notify the bank or office of joint services of the action taken.

Subpart I—Internal Controls

§ 618.8430 Responsibilities.

The board of directors of each bank and association shall assure that the institution for which it is responsible has an adequate system of internal control, including segregation of responsibilities, appropriate accounting, and dual control over assets, liabilities, income, and expenses.

PART 619—DEFINITIONS

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AUTHORITY: The provisions of this Part 619 issued under secs. 5.9, 5.18, 5.26, 85 Stat. 619, 621, 624.

§ 619.9000 The Act.

The Farm Credit Act of 1971; Public Law 92–181 and amendments.

§ 619.9010 Additional security.

Supplementary collateral to the primary security taken in connection with the loan.

§ 619.9020 Agricultural land.

Land improved or unimproved which is devoted to or available for the production of crops and other products such as but not limited to fruits and timber or for the raising of livestock.

§ 619.9030 Agricultural products.

That which is the direct result of husbandry and cultivation of the soil. The product is in its natural, unmanufactured condition.

§ 619.9040 Aquatic products.

Fish and other marine life.

§ 619.9050 Associations.

Refers to Federal land bank associations and production credit associations.

§ 619.9060 Bona fide farmer or rancher.

A person owning agricultural land, or engaged in the production of agricultural products and livestock including aquatic products under controlled conditions.

§ 619.9070 Commercial subdivision.

A tract of land which has been divided into blocks or plots with streets, roadways, and other facilities for development as residential or industrial sites by a builder or real estate developer having financial profit as the primary aim.

§ 619.9080 Cooperative.

See § 613.3070.

§ 619.9090 Cooperative basis.

Conduct of the business for the mutual benefit of the members as patrons.

§ 619.9100 Cooperative member.

Person having stock or other ownership interest in a cooperative and acquires membership under its bylaws.

§ 619.9110 Consolidation.

Creation of one new organizational entity from two or more existing entities or parts thereof.

§ 619.9120 **Custom-type services.**

The performance of on-farm functions on a "for-hire" basis which farmers and ranchers typically have done for themselves.

§ 619.9130 **Differential interest rates.**

An interest rate program under which different rates of interest may be made applicable to individual or classes of loans on the basis of type, purpose, amount, quality of loan, or a combination of these factors.

§ 619.9140 **Farm-related businesses.**

A person which is engaged in furnishing to farmers and ranchers custom-type farm-related services performed on the farm directly related to their on-farm operating needs.

§ 619.9150 **Federated cooperative.**

An entity in which at least 80 percent of the voting control is vested in two or more eligible cooperatives.

§ 619.9160 **Five basic credit factors.**

See § 614.4150 of this chapter.

§ 619.9170 **Fixed interest rate.**

The rate of interest specified in the note or loan document which will prevail as the maximum rate chargeable to the borrower during the period of the loan.

§ 619.9180 **Fixed interest spread.**

A percentage to be added to the cost of money to the bank or association as the means of establishing a lending rate.

§ 619.9190 **Legal entity.**

Any partnership, corporation, estate, trust, or other entity which is legally vested with authority to conduct a business.

§ 619.9200 **Loss sharing agreements.**

A contractual arrangement under which a group of associations, a group of banks, or a group of associations and a bank agree to share the risk of loss on loans made in excess of a specified amount or proportion of an individual participant institution's loans, net worth, reserves for losses, etc.

§ 619.9210 **Merger.**

Combining of one or more organizational entities into another similar entity.

§ 619.9220 **Moderate-priced housing.**

See § 613.3040(d) of this chapter.

§ 619.9230 **Open-end mortgage loan plans.**

A mortgage loan which permits the borrower to obtain additional sums during the term of the loan.

§ 619.9240 **Participation agreement.**

A contract under which a lender agrees to sell a portion of a loan to one or more purchasers under specific terms set forth in the agreement.

§ 619.9250 **Participation certificates.**

Evidence of investment in a bank or association to which all the rights and obligations of stock attach with the exception of the right to vote in the affairs of the institution.

§ 619.9260 **Primary security.**

The basic collateral securing the loan.

§ 619.9270 **Producer or harvester of aquatic products.**

A person or persons engaged in the production or harvesting of aquatic products in open waters under uncontrolled conditions.

§ 619.9280 **Production or harvesting of aquatic products in open waters under uncontrolled conditions.**

Extraction of aquatic products where no element of husbandry of the product is involved prior to such extraction where the applicant and the public have equal access to the product.

§ 619.9290 **Recovery value.**

See § 614.4241 of this chapter.

§ 619.9300 **Rural area.**

See § 613.3040(f) of this chapter.

§ 619.9310 **Rural residence.**

See § 613.3040(b) of this chapter.

§ 619.9320 **Sound loan.**

See § 614.4140 of this chapter.

§ 619.9330 **Speculative purposes.**

To buy or sell with the expectation of operated on a cooperative basis for the

§ 619.9340 **Variable interest rate.**

An interest rate on the outstanding loan balances, which may be changed from time to time during the period of the loan, if provision is made in the note or loan document.

Approved, Federal Farm Credit Board.

MILLARD F. DAILY,
Chairman.

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