

CENTRAL TEXAS FARM CREDIT, ACA

CAPITALIZATION BYLAWS

CENTRAL TEXAS FARM CREDIT, ACA

CAPITALIZATION BYLAWS

ARTICLE III -- MEETINGS OF MEMBERS

350 Voting

350.1 Voting Strength and Designee for Voting Stock; Voting for Directors

Except where otherwise provided in the Farm Credit Act of 1971, as amended, Regulations, or these bylaws, each voting stockholder shall be entitled to only one vote regardless of the number of single or joint loans the stockholder may have with the association so long as the stockholder remains liable on a loan made or held by the Association and eligible to borrow as a farmer, rancher, or producer or harvester of aquatic products. In the case of a joint loan, the vote shall be cast by only one of the joint holders duly authorized in writing by the other joint holders. The vote of a stockholder which is a legal entity shall be cast by an individual duly authorized in a writing which is filed with the Association. If an individual who is a voting stockholder by virtue of an individual loan controls the business affairs or assets securing the loans of another voting stockholder, the controlling stockholder and the controlled stockholder shall be considered as one person and shall be entitled to a total of only one vote. For the purpose of this section of the bylaws, an individual shall be deemed to control another voting stockholder if the individual, together with the members of his or her immediate household, has more than a 50-percent ownership interest in (1) the other stockholder or (2) the assets securing the other stockholder's loan. Each voting stockholder shall be entitled to cast one vote for each stockholder-elected director position in accordance with Section 410.1 of these bylaws.

350.2 Proxy Voting

Stockholders entitled to vote on any matter properly brought before the stockholders at an annual or special members' meeting may vote in person, or where permitted by the Farm Credit Act of 1971, as amended, by proxy. Voting in the election of directors shall be conducted in accordance with regulation and Association policy assuring confidentiality.

350.3 Lists of Holders of Voting Stock

A list of voting stockholders shall be maintained by the Association. The list shall be used when distributing ballots at an annual or special meeting, and the nomination and election of Farm Credit Bank board members. If the meeting is held in consecutive sectional sessions, the list shall be used at each sectional session to assure that no stockholder votes more than once.

ARTICLE VII--CAPITAL STOCK AND PARTICIPATION CERTIFICATES

700 Authorization

The Association is authorized to have outstanding Class A Common Stock, Class C Common Stock, Class P Common Stock, and Participation Certificates. Each share of stock or participation certificate issued shall have a par value of \$5.00. Fractional shares of stock or participation certificate shall not be issued. Except where expressly stated in these bylaws, all

transfer, exchange, conversion and retirement of stock and participation certificates shall be at the sole discretion of the Board of Directors at book value not to exceed par.

705 Ownership

Evidence of ownership of stock and participation certificates shall be by book entry. The Association shall be its own transfer agent in all matters relating to its capital stock and participation certificates.

706 Stockholder Approval

The bylaws in Article VII and VIII shall not become effective until approved by the voting stockholders of the Association, voting in person or by written proxy, at a duly authorized stockholders' meeting in accordance with Section 4.3A of the Act. Amendments to the bylaws in Articles VII and VIII (including provisions permitting or prohibiting cumulative voting, if any), and the capitalization bylaws of FLCA and PCA, other than technical amendments not affecting substantive rights, shall not be effective without the approval of a majority of the Association's voting stockholders voting, in person or by written proxy, at a duly authorized stockholders' meeting. Any amendment authorizing the issuance of preferred stock must be authorized by a majority of the shares of each class of equities affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

707 First Lien

The Association, PCA and FLCA, as applicable, shall have first lien on all stock and participation certificates to secure any indebtedness of the holder of such stock or participation certificates to the Association, PCA and FLCA.

710 Class A - Voting Stock

710.1 Holder

This stock may be issued as a condition for obtaining a loan to borrowers who are farmers, ranchers or producers or harvesters of aquatic products.

710.2 Amount

Class A Stock purchased as a condition to obtaining a loan may be issued in unlimited amounts. Class A Stock shall be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of 2% of the loan amount or \$1,000, whichever is less, and at a maximum not to exceed 10% of the loan amount.

Class A stock need not be purchased by any borrower whose loan, at the time the loan is made, is designated for sale, and is in fact sold within the 180-day period beginning on the date of designation, into a secondary market. If such loan is not sold into a secondary market by the expiration of the 180-day period, the borrower shall purchase Class A stock in the amount set forth above for loans not sold into a secondary market. In cases where (1) stock has been issued on a loan made before February 10, 1996, the effective date of the Farm Credit System Reform Act of 1996, or (2) stock is issued on a loan made on or after February 10, 1996 that is designated for sale into a secondary market but is not sold during the 180-day period beginning on the date of designation, and where such loan is subsequently sold into a secondary market, the stock shall be retired provided that minimum regulatory capital adequacy standards are met. The retention

by the Association of a subordinated participation interest in any loan sold into a secondary market under title VIII of the Act shall not affect the application of this bylaw to such loan.

710.3 Retirement

Class A Stock may be retired and paid at the sole discretion of the Board of Directors provided that minimum regulatory capital adequacy standards or any higher board-established capital standards are met.

710.4 Voting

Holders of Class A Stock shall be entitled to full voting rights. Each stockholder shall only have one vote, regardless of the number of shares owned or the number of loans outstanding, except as provided in Section 706 regarding the issuance of preferred stock. Voting for directors shall not be cumulative.

710.5 Dividends

Dividends may be paid on Class A Stock at the sole discretion of the Board under the following conditions:

- (1) After payment of the dividend, the Association will continue to exceed the regulatory minimum capital adequacy standards or any board-established capital standard, which ever is higher.
- (2) Current earnings or earned surplus is sufficient to pay the dividend amount.
Class A Stock shall have an equal right with other classes of common stock or Participation Certificates to any dividends declared by the Board.

710.6 Patronage Distributions

Holders of class A Stock shall be eligible to receive patronage distributions in accordance with Article VIII of these bylaws.

710.7 Transfer

Class A Stock may be transferred to persons who assume liability for the transferor's loan, provided the assumptor is eligible under these bylaws to hold voting stock. Such a transfer shall be a necessary condition to the release of the transferor from liability on the loan.

Outstanding Class A Stock may be transferred to a third party eligible to hold it when Association meets minimum regulatory capital adequacy standards.

Class A Stock shall not be pledged or hypothecated to third parties and may be transferred on the Association's books only as authorized by these bylaws.

710.8 Conversion

Any outstanding Class A Stock shall be converted to Class C (nonvoting) Stock within two years after repayment of the related loan.

710.9 Cancellation of Stock Ownership in Default

If the debt of a holder of Class A Stock is in default, the Association may retire at book value, not to exceed par, all or part of such stock owned by the borrower in total or partial liquidation of the debt.

720 Class P Common Stock - Nonvoting

720.1 Holder

This stock may be issued to borrowers eligible to hold Class A common stock or participation certificates. The issuance of this stock for the purposes of accepting the distribution of Association earnings shall be a condition to obtaining a loan.

720.2 Amount

Class P common stock may be issued in unlimited amounts. This stock shall be issued in series with the stock issued in each fiscal year constituting a separate series.

Class P common stock may be issued as provided in these bylaws only for allocated surplus distributions (Section 820), stock dividends (Section 830) and patronage distributions (Section 840).

720.3 Retirement

This stock may be retired at the sole discretion of the Board in accordance with the policy and procedure of the Association Board provided the Association Board determines that the Association will meet or exceed minimum capital adequacy requirements established by regulations of the FCA, or such higher capitalization objectives that have been established by the board, after the retirement, taking into account the payment of all declared dividends and/or payment of allocated equities to holders. There is no express or implied right for Class P Stock to be retired at the end of any revolvment cycle or at any other time.

720.4 Voting

Holders of Class P Stock shall not vote except as may be provided in Section 706 regarding the issuance of preferred stock.

720.5 Dividends

Dividends may be paid on Class P Stock at the sole discretion of the Board under the following conditions:

(1) After payment of the dividend, the Association will continue to exceed the regulatory minimum capital adequacy standards or any board-established capital standard, which ever is higher; and

(2) Current earnings or earned surplus is sufficient to pay the dividend amount.

This stock shall have an equal right to any dividends on common stock declared by the Association's Board of Directors.

720.6 Patronage Distributions

Ownership of Class P stock will not entitle holders to any patronage distributions declared by the Association's Board of Directors.

720.7 Transfer

This stock may be transferred to any person or legal entity.

720.8 Conversion

This stock may not be converted.

720.9 Cancellation of Stock Ownership in Default

If the debt of a holder of Class P Stock is in default, the Association may retire at book value, not to exceed par, all or part of such stock owned by the borrower in total or partial liquidation of the debt.

730 Class C Stock - Nonvoting

730.1 Holder

Class C Stock will be issued only for conversion of Class A Stock of borrowers upon repayment of the related loan. Such conversion must occur within two years of repayment.

730.2 Amount

Class C Stock issued upon conversion of Class A Stock may be issued in unlimited amount. Par value will be the same as the converted Class A Stock.

730.3 Retirement

Retirement shall be at the sole discretion of the Board of Directors provided that minimum regulatory capital adequacy standards or any higher board established capital standards are met.

730.4 Voting

Holders of Class C Stock shall not vote except as may be provided in Section 706 regarding the issuance of preferred stock.

730.5 Dividends

Dividends may be paid on Class C Stock at the sole discretion of the Board under the following conditions:

- (1) After payment of the dividend, the Association will continue to exceed the regulatory minimum capital adequacy standards or any board-established capital standard which ever is higher; and
 - (2) Current earnings or earned surplus is sufficient to pay the dividend amount.
- Class C Stock shall have an equal right with other classes of stock to any dividends declared by the Board.

730.6 Patronage Distributions

Class C Stock shall not share in any patronage distribution.

730.7 Transfer

Class C Stock may be transferred to any person eligible to hold Class A Stock.

730.8 Conversion

Class C Stock held by a former borrower may be converted to Class A Stock when the former borrower receives a new loan and meets the eligibility requirements of 710.1.

If the Association meets the minimum capital adequacy standards, Class C Stock transferred to a third party may be converted to Class A Stock to satisfy stock purchase requirements for a new loan to the third party.

730.9 Cancellation of Stock Ownership in Default

If the holder of Class C Stock has a loan which is in default, the Association may retire at book value, not to exceed par, all or part of such stock owned by the borrower in total or partial liquidation of the debt.

740 Participation Certificates

740.1 Holder

- (1) Participation Certificates will be issued as a condition for obtaining a loan from the Association to borrowers or applicants who are: (a) rural residence borrowers; (b) persons or organizations furnishing farm-related services; or (c) other persons or organizations who are eligible to borrow from the Association, but are not eligible to hold Class A Stock
- (2) Participation certificates may be issued to any person who is not a member but who is eligible to borrow from the Association, or from another System institution, for the purpose of qualifying such person for technical assistance, related services, and leasing services offered by the association.
- (3) Participation certificates may be issued at the discretion of the Association board to lending institutions that originate loans in which the Association agrees to purchase a participation interest.

740.2 Amount

Participation Certificates issued under section 740.1 may be issued in unlimited amounts.

Participation Certificates shall be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of 2% of the loan amount or \$1,000, whichever is less, and at a maximum not to exceed 10% of the loan amount.

Participation certificates need not be purchased by any borrower whose loan, at the time the loan is made, is designated for sale, and is in fact sold within the 180-day period beginning on the date of designation, into a secondary market. If such loan is not sold into a secondary market by the expiration of the 180-day period, the borrower shall purchase participation certificates in the amount set forth above for loans not sold into a secondary market. In cases where (1) participation certificates have been issued on a loan made before February 10, 1996, the effective date of the Farm Credit System Reform Act of 1996, or (2) participation certificates are issued on a loan made on or after February 10, 1996 that is designated for sale into a secondary market but is not sold during the 180-day period beginning on the date of designation, and where such loan is

subsequently sold into a secondary market, the participation certificates shall be retired provided that minimum regulatory capital adequacy standards are met. The retention by the Association of a subordinated participation interest in any loan sold into a secondary market under title VIII of the Act shall not affect the application of this bylaw to such loan.

740.3 Retirement

Retirement shall be at the sole discretion of the Board of Directors provided that minimum regulatory capital adequacy standards or any higher board-established capital standards are met.

740.4 Voting

Holders of Participation Certificates shall not have voting rights except as may be provided in Section 706 of these bylaws regarding issuance of preferred stock.

740.5 Dividends

Dividends may be paid on Participation Certificates at the sole discretion of the Board under the following conditions:

(1) After payment of the dividend, the Association will continue to exceed the regulatory minimum capital adequacy standards or any board-established capital standard which ever is higher; and

(2) Current earnings or earned surplus is sufficient to pay the dividend amount.

Participation Certificates shall have an equal right with other classes of common stock to any dividends declared by the Board.

740.6 Patronage Distributions

Holders of Participation Certificates shall be eligible to receive patronage distributions in accordance with Article VIII of these bylaws.

740.7 Transfer

Participation Certificates may be transferred to persons who assume liability for the transferor's loan, provided the assumptor is eligible under these bylaws to hold such equities. Such a transfer shall be a necessary condition to the release of the transferor from liability on the loan.

Outstanding Participation Certificates may be transferred to a third party eligible to hold them as a condition to obtaining a loan when the Association meets minimum capital adequacy standards.

Participation Certificates shall not be pledged or hypothecated to third parties and may be transferred on the Association's books only as authorized by these bylaws.

740.8 Conversion

Participation Certificates shall not be converted to any other class of stock.

740.9 Cancellation of Stock Ownership in Default

If the debt of a holder of Participation Certificates is in default, the Association may retire at book value, not to exceed par, all or part of such equities owned by the borrower in total or partial liquidation of the debt.

750 Impairment

750.1 Application of Losses

Any losses which result in impairment of Association capital stock will be borne ratably by each share or unit of Class A Stock, Class P Stock, Class C Stock and Participation Certificates.

750.2 Restoration

Any restoration of impairment shall be apportioned ratably to each share or unit of each class of common stock and participation certificates until the book value of all such stock and participation certificates is at least equal to the par value.

760 Distribution on Liquidation

In the event of the liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of stock and participation certificates in the following order of priority:

First, to the holders of common stock and participation certificates, pro rata in proportion to the number of shares or units of participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; and

Second, to the holders of Allocated Surplus as provided in Section 820 of the bylaws pro rata, on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; and

Third, any remaining assets of the Association after such distributions shall be distributed to the members and equity holders, both past and present, in proportion to which the aggregate patronage of each such member and equity holder bears to the total patronage of all such parties insofar as practicable, calculated over a period of no less than five (5) years prior to the date of liquidation, unless otherwise provided by law.

ARTICLE VIII--DIVIDENDS AND PATRONAGE DISTRIBUTIONS

800 Application of Earnings or Losses

800.1 Earnings

At the end of each fiscal year, the Association shall apply its earnings for such fiscal year as follows and in the order listed:

- (1) To cover operating expenses including additions to loss allowances, in accordance with generally accepted accounting principles and as provided by law;
- (2) To restore the amount of any impairment of all capital stock and participation certificates as provided in Section 750 of the bylaws;
- (3) To restore the amount of any impairment of allocated surplus in the reverse order of such impairment;
- (4) To create and maintain an unallocated surplus account as provided in Section 810 of these bylaws;
- (5) To pay dividends on capital stock of the Association if authorized; and
- (6) To make patronage distributions if authorized pursuant to Section 840 of these bylaws.

800.2 Losses

In the event of a net loss for any fiscal year, after applying earnings for such fiscal year as provided in Section 800.1, such loss shall be absorbed by: first, charges to the unallocated surplus account; second, impairment of the allocated surplus account to the extent evidenced by "Nonqualified Written Notices of Allocations", in the reverse order of issuance, third, impairment of the allocated surplus account to the extent evidenced by "Qualified Written Notices of Allocation," in the reverse order of issuance; and fourth, impairment of capital stock as provided in Section 750.1.

810 Surplus Accounts

The Association shall create and maintain an unallocated surplus account and may maintain an allocated surplus account. At the end of any fiscal year that the surplus accounts otherwise would be less than the amount determined to be sufficient by the Board, the Association shall apply earnings for the year to the unallocated surplus account in such amount as the Association Board may determine.

820 Allocated Surplus Account

820.1 Creation

The Association may create and, subject to the Regulations and Association policy, maintain an allocated surplus account consisting of earnings held therein and allocated to Patrons on a patronage basis pursuant to Section 840 of these bylaws. Allocated surplus may be evidenced by either “qualified written notices of allocation” or “non-qualified written notices of allocation,” or both, as those terms are defined under Internal Revenue Code (“Code”) Section 1388. All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the Board, in order of issuance by years as funds are available. All allocations in the form of non-qualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired in the discretion of the Board.

Only those persons to which allocated surplus may be issued may own such allocated surplus. In the event of a net loss for any fiscal year, such allocated surplus account shall be subject to impairment in the order specified in Section 800.2.

820.2 Lien

The Association, PCA and FLCA (as applicable) shall have a first lien and security interest on all surplus account allocations owned by any Patron, and all distributions thereof, as additional collateral for any and all obligations of the Patron (or, if the Patron is another System institution from which a loan participation was purchased, then the obligations of the borrower on such loan) to the Association, PCA and FLCA.

820.3 Application Against Debt

Subject to the applicable provisions of the Regulations, when the debt or other financial obligation of a borrower or other customer is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all surplus account allocations owned by such borrower or other customer to be applied against such debt or financial obligation based on the fair value of such surplus account allocations as determined by the Board in its sole discretion.

820.4 No Right to Retirement

Any surplus allocated to a Patron after October 5, 1988 shall be retired at the sole discretion of the Board. There is no express or implied right granted to a Patron to have such allocated surplus retired upon request or at any particular time.

820.5 Form of Payment; Limitations

Upon approval of the Board, any retirement of allocated surplus may be paid in cash, Class P Common Stock, or other forms of available equities, or applied against any of the holder’s debt or other financial obligation to the Association, PCA or FLCA. In no event shall such retirement reduce the Association’s permanent capital below the minimum required by the Regulations. Retirements of less than the full amount of allocations issued in the same series (or class thereof) shall be on a pro rata basis. Any part of an allocated surplus distribution in stock to one Patron that is less than the par amount of one share may be held by the Association and included with subsequent distributions.

820.6 Notices of Allocation

All qualified notices of allocation shall satisfy the definition of a “qualified written notice of allocation” as defined in section 1388 of the Code. All nonqualified notices of allocation shall satisfy the definition of a “nonqualified written notice of allocation” as also defined in section 1388 of the Code.

820.7 Records; Transfer

A record of the holders of allocated surplus shall be kept and maintained by the Association. Allocations of “qualified” amounts will be maintained separately from allocations of “nonqualified” amounts. Such surplus accounts shall be transferable only to the Association or to

an eligible Patron of the Association in the manner established by the Board, and no transfer thereof shall be binding upon the Association unless so transferred on the books of the Association.

830 Dividends

830.1 Authorization

The Board of Directors may declare dividends out of current earnings or earned surplus on any class or classes of stock or participation certificate eligible to receive dividends, provided that at the time of declaration, the Association meets minimum capital adequacy standards and no class of stock or participation certificates is impaired. Dividends shall be noncumulative, and shall be without preference as to rate and priority of payment between classes of common stock, between classes of common stock and participation certificates, and between holders of the same class of stock or participation certificates.

830.2 Form

Dividends may be paid in cash, Class P stock, or partly in cash and partly in such stock. Any part of such dividends to one owner payable in stock that is less than \$5.00 may be distributed in cash or held by the Association and cumulated with subsequent dividends until the retained dividends equal \$5.00 so that the dividends may be distributed as one whole share of Class P stock.

830.3 Payment Date and Qualifying Period

Dividends may be paid to holders of record on the effective date of the declaration, provided the stock or participation certificates were outstanding for at least 180 calendar days prior to the effective date of the declaration.

830.4 Limitation

Notwithstanding the foregoing, the Association shall not pay any dividends on common stock or participation certificates in any year with respect to which the Association has passed a resolution authorizing the payment of patronage under Section 840.

840 Patronage Distributions

840.1 Authorization

Patronage Resolutions. Subject to the provisions of the Act and Regulations, prior to the beginning of any fiscal year or other period, the Association's Board may, by adoption of a resolution (the "Patronage Resolution"), obligate the Association to distribute its available Patronage-Sourced Net Earnings to Patrons on the basis of the quantity or value of patronage business done with the Association, PCA and FLCA. Patrons shall be defined in the Patronage Resolution, and may include Members and such other customers, borrowers and financial institutions with which the Association, PCA and/or FLCA conduct business during the fiscal year. Patronage-Sourced Net Earnings shall mean the consolidated pre-tax net earnings of the Association, PCA and FLCA for the fiscal year, as computed under generally accepted accounting principles, attributable to patronage business done with or for Patrons. All transactions done with or for Patrons shall be deemed patronage business unless otherwise provided in the Patronage Resolution. Any outstanding Patronage Resolution that is not rescinded prior to the beginning of a fiscal year shall become irrevocable and constitute a binding legal obligation of the Association with respect to such fiscal year.

Patronage-Sourced Net Earnings of a fiscal year available for patronage distribution shall be determined only after making the applications as required in subsections (1) through (5) of Section 800.1, including the setting aside of a portion of the net earnings in the unallocated surplus account, as deemed prudent for sound capital accumulation, and making provision for payment of the Association's federal income or related taxes for the fiscal year; provided, that,

these amounts shall first come from net earnings, if any, attributable to sources other than patronage business with or for Patrons of the Association and any non-patronage sourced net earnings not so applied shall be set aside in the unallocated surplus account. The Board in its resolution may establish a minimum level of available earnings and if the available earnings fall below this level no patronage distribution will be made.

840.2 Basis

Patronage distributions shall generally be in the proportion that the amount of income earned, or revenue received, by the Association, PCA and FLCA on patronage business with each Patron bears to the total income earned, or revenue received, by the Association, PCA and FLCA on all such patronage business during the fiscal year, or such other proportionate patronage basis as may be approved by the Board consistent with the requirements of Subchapter T of the Code. The Board may establish, on a fair and equitable basis, separate patronage pools for patronage business transactions of the same type or with similar characteristics. Earnings from transactions that do not constitute patronage business will be segregated into a separate pool and will not be available for distribution.

840.3 Form

If the Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association that the Patron is eligible to hold (including Class P Common Stock), allocations of earnings retained in an allocated surplus account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. All qualified notices of allocated surplus shall satisfy the definition of a "qualified written notice of allocation" as defined in Section 1388 of the Code. All nonqualified notices of allocated surplus shall satisfy the definition of a "nonqualified written notice of allocation" as set forth in Section 1388 of the Code. Any part of a patronage distribution in a class of equity to one borrower that is not a multiple of \$5.00 may be distributed in cash or held by the Association for the borrower and included in a subsequent distribution.

840.4 Default

If a Patron is in default, any part of the patronage distribution to that Patron, except for the minimum amount that must be paid in cash to qualify the distribution as a deduction for Federal income tax purposes, may, at the discretion of the Association, be applied against such Patron's debt or other financial obligation to the Association, PCA and FLCA. If a loan in which the Association, PCA or FLCA owns a participation interest is in default, the Association may apply the accrued patronage to the loan balance.

840.5 Consent

Each holder of voting stock shall, by such act of membership and receipt of a copy of this By-Law article, consent that the amount of any distributions with respect to patronage which are made in, or evidenced by, qualified written notices of allocation, as defined in Code Section 1388, including allocations of surplus and patronage refunds paid in stock, and which are received by him or her from the Association, will be taken into account as income by such person at the stated dollar amount in the manner provided in Code Section 1385(a) in the taxable year in which such qualified written notices of allocation are received. Such holder also consents by such act alone, to take into account as income in the same manner the amount of any distributions with respect to patronage provided he or she receives written notice that such amount has been applied on his or her indebtedness to the Association, PCA or FLCA. Each such holder further consents that the amount of any distributions with respect to his or her patronage which are made in, or evidenced by, nonqualified written notices of allocation (as defined in Code Section 1388) will be taken into account (as income) by the holder in the taxable year in which such nonqualified written notices of allocation are redeemed. Consent under this paragraph shall be continuing in

effect, but shall cease to be effective with respect to patronage of a distributee occurring after the distributee has ceased to hold voting stock of the Association.

840.6. Form of Consent

The Association may obtain the written consent of each Patron that the amount of any distributions with respect to such party's patronage, which are made in, or evidenced by, qualified written notices of allocation (as defined in Code Section 1388), including patronage allocation of surplus account, patronage refunds paid in stock or distributions with respect to patronage that has been applied to the Patron's indebtedness to the Association, PCA or FLCA and for which the Patron has received written notice, will be taken into account (as income) by the Patron at their stated dollar amounts in the manner provided for in Code Section 1385(a) in the taxable year in which such qualified written notices of allocation are received by the Patron. The Association may further obtain the written consent of each Patron that the amount of any distributions with respect to such party's patronage which are made in, or evidenced by, nonqualified written notices of allocation (as defined in Code Section 1388), will be taken into account (as income) by such party in the taxable year such nonqualified written notices of allocation are redeemed. The form of consent shall be prescribed by the Board and shall be continuing in effect until revoked by the Patron, and it may be included as part of the loan application or other appropriate form signed by Patrons. Consent may also be obtained by use of a qualified check in the manner provided for in Code Section 1388.

840.7. PCA and FLCA

In the event of an Authorization Event under Section 110 hereof, where the Association arranges for the provision of credit and/or related services to its Patrons through PCA and/or FLCA, and such Patrons avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from PCA and/or FLCA, all net earnings or loss attributable to such provision of credit and/or related services shall be treated as net earnings or loss of the Association from business done with its Patrons and all business done with PCA and FLCA shall be treated as business done with the Association.

850 Retirement of Patronage Accounts

If at any time, the Board of Directors shall determine that the financial condition of the Association will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or part. The Board of Directors shall have the sole discretion to retire any capital credited to a patron's account. The Board of Directors may take into account special circumstances, such as the death of a patron, in exercising its resolution at a duly called meeting. Any capital retired under this section shall be retired at present value based upon the current revolvment cycle, if any.

860 Limitation

Notwithstanding any other provision of these bylaws, no dividend or patronage refund may be declared or paid which would result in the failure of the Association to meet minimum permanent capital adequacy standards as may from time to time be promulgated by the FCA pursuant to Section 4.3 of the Act.