

FARM CREDIT



of Central Florida

BYLAWS

Effective Date May 24, 2006

This package contains only Articles pertaining to Stock and Participation Certificates.
Please contact your local Service Center to obtain a complete copy of our Bylaws.

FARM CREDIT OF CENTRAL FLORIDA, ACA BYLAWS

Definitions

“Act” - the Farm Credit Act of 1971, as it may be amended from time to time.

“Annual Meeting” - the annual meeting of Members pursuant to Article III of these Bylaws.

“Association” - this Farm Credit of Central Florida, ACA

“Authorization Event” - shall have the meaning set forth in Section 110 hereof.

“Board” - All references in these Bylaws to the “Board” shall refer both to the directors of the Association sitting as of the effective date of the Bylaws and to any successors thereof pursuant to these Bylaws, unless the context otherwise requires.

“Bylaws” - these Bylaws, as they may be amended from time to time pursuant to Articles VII and XV hereof.

“Code” - the Internal Revenue Code of 1986, as amended.

“FCA” - the Farm Credit Administration.

“FCB” or “Bank” - the AgFirst Farm Credit Bank, or any successor entity thereto.

“FLCA” - Farm Credit of Central Florida, FLCA, a Federal land bank association with direct lending authority and a subsidiary of the Association.

“Member” - a holder of stock or participation certificates in the Association, except another System institution.

“PCA” - the Farm Credit of Central Florida, PCA, a production credit association and a subsidiary of Association.

“Patron” - shall have the meaning ascribed to such term under Section 860.

“Regulations” - FCA regulations or directives applicable to and binding on the Association.

“Subsidiary” - PCA or FLCA.

“System” - the Farm Credit System.

“Voting Stockholder” - shall have the meaning ascribed to such term under Section 200.

ARTICLE VII -- CAPITAL STOCK AND PARTICIPATION CERTIFICATES

700 Authorization, Classes, Par or Face Value - The Association is authorized to issue and have outstanding Class A Preferred, Class A Common, Class B Common, Class C Common, Class E Common and Class D Preferred Stock, and Class B and Class C Participation Certificates, each in such amount as specifically provided herein, or, if no amount is specifically so provided, in such amount as may be necessary to conduct the Association's business. Issuances of Class A Preferred Stock and Class D Preferred Stock shall require the affirmative vote of a majority of the shares of each class of equity affected by the preference, voting as a class, whether or not otherwise authorized to vote, in person or by proxy, at a duly authorized meeting of stockholders.

The features of these classes are summarized in the Features of Equities table at the end of these Bylaws. Class A Common, Class B Common and Class B Participation Certificates constitute "protected stock" under Section 4.9A of the Act. Except as provided herein, no further shares of these classes may be issued. Other classes of equity may be issued as provided in Section 720. Each share of stock (common and preferred) and unit of participation certificates shall have a par or face value of \$5.00. Fractional shares of stock or units of participation certificates shall not be issued. Except as to Class A Common, Class B Common and Class B Participation Certificates, all transfers, exchanges, conversions, and retirements of stock and participation certificates shall be at book value not to exceed par. Equities shall vote in accordance with Section 350 hereof. Thus, among other things, (a) each new issuance of preferred stock is subject to the approval of a majority of the shares of each class of equities affected by the preference, voting as a class, whether or not otherwise authorized to vote, and (b) no voting stockholder is entitled to cumulate votes.

710 Ownership and Form of Issuance - Evidence of ownership of capital stock and participation certificates may be by book entry or in definitive form as determined by the Board. Unless otherwise directed by the Board, all classes of equity will be issued in book entry form and ownership shall be confirmed by the Association upon the request of the holder. The Association shall be its own transfer agent in all matters relating to its capital stock and participation certificates.

720 Issue, Rights, Preferences and Limitations

720.1 Class A Nonvoting Stock

- (a) Class A Preferred Stock may be retired only at the discretion of the Board. Class A Preferred Stock shall have preference as to dividends (Section 850). Ownership of Class A Preferred Stock provides no voting rights. Dividends on Class A Preferred Stock are non-cumulative. If authorized under the last sentence of Section 700 hereof, up to \$50 million shares of

Class A Preferred Stock may be issued:

- (1) To the Bank;
- (2) In such amounts and to such persons as may be permitted under a plan adopted by the Board;
- (3) For allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860); and
- (4) In exchange for Class A Common, Class C Common or Class C Participation Certificates converted pursuant to the provisions of Section 740 of these Bylaws and/or Section 4.3A(c)(1)(E)(ii) of the Act.

Only persons to whom Class A Preferred may be issued may own such Class A Preferred. There shall be no preference as between Class A Preferred and Class D Preferred in respect of distributions or liquidation or other matters.

- (b) Class A Common Stock shall be retired at its par value. Ownership of Class A Common Stock provides no voting rights. Shares of Class A Common Stock may be exchanged for shares of Class A Preferred Stock (if authorized) on a one-for-one basis. Since such exchange constitutes a distinct investment decision by the borrower, the Association will, in connection with each such exchange, furnish the borrower with disclosure comparable to the disclosure that is, pursuant to Section 615.5250(d) of the Regulations, supplied to new borrowers. Class A Common Stock may only be owned by those borrowers who held Class A Common Stock in the Association's predecessor production credit association upon the formation of the Association. No further shares of Class A Common Stock may be issued.

720.2 Class B Common Stock - Class B Common Stock does not confer voting rights. It shall be retired at its par value. Class B Common may only be owned by only those borrowers who held Class B Common in the Association's predecessor Federal land bank association and/or production credit association upon the formation of the Association. No further shares of Class B Common Stock may be issued.

720.3 Class C Common Voting Stock - Class C Common Stock shall be issued as follows:

New borrowers who are eligible to become voting stockholders (pursuant to the Act and Regulations) must purchase, at the time of the first loan

disbursement, the number of shares of Class C Common Stock determined by the Board to be necessary to contribute to the adequate capitalization of the Association. This amount of stock shall not be less than the lower of the following amounts:

- (a) two hundred (200) shares (\$1,000 par value); or
- (b) one (1) share for each \$250.00 (or fraction thereof) of the amount of the loan.

The amount required to be purchased shall not be greater than 10 percent of the aggregate loan amount from the Association, PCA and FLCA; however, the Board may require new borrowers to purchase more stock if the Association is deemed not to be in compliance with the capital requirements of the Act and Regulations.

Only persons to whom Class C Common may be issued may own such Class C Common. Owners of Class C Common Stock have voting rights as provided in Section 350. Class C Common Stock may be retired only at the discretion of the Board. Dividends on Class C Common Stock shall be non-cumulative.

720.4 Participation Certificates

720.41 Class B Participation Certificates may only be owned by those borrowers who held Class B Participation Certificates in the predecessor Federal land bank association or predecessor production credit association upon the formation of the Association. Class B Participation Certificates do not confer voting rights. They shall be retired at face value. No further Class B Participation Certificates may be issued.

720.42 Class C Participation Certificates shall be issued to (and may be owned only by) borrowers who are not eligible to become voting stockholders (as defined in Section 720.3). New borrowers who are not eligible to become voting stockholders must purchase, at the time of the first loan disbursement, the number of Class C Participation Certificate units determined by the Board to be necessary to contribute to the adequate capitalization of the Association; provided, however, that the amount required to be purchased shall not be less than nor more than the amount of stock required to be purchased by those borrowers who are eligible to purchase Class C Common Stock. Class C Participation Certificates do not confer voting rights.

720.43 Class C Participation Certificates may be issued to borrowers or

applicants who are:

- (a) Rural residents, to capitalize rural housing loans;
- (b) Persons or organizations furnishing farm related services to capitalize their loans; and/or
- (c) Other persons or organizations who are eligible to borrow from the Association or participate in Association loans but who are not eligible to hold voting stock (as defined in Section 720.3).

720.44 Class C Participation Certificates may be issued for allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860).

720.45 Class C Participation Certificates may be issued to any person who is not a stockholder but who is eligible to borrow from the Association, for the purpose of qualifying such person for technical assistance, financially related services, and/or leasing services offered by the Association.

720.46 Class C Participation Certificates shall be retired at the sole discretion of the Board. Dividends on Class C Participation Certificates shall be non-cumulative.

720.5 Class D Preferred Stock - Subject to part (a) of the last sentence of Section 700 hereof, up to \$25 million of Class D Preferred Stock may be issued to such persons or investors (and may be owned by such persons or investors) as may be permitted under a plan adopted by the Board. Class D Preferred Stock may be retired only at the discretion of the Board. Class D Preferred Stock shall have such terms and dividend rate as may be determined by the Board. Class D Preferred Stock shall confer no voting rights and shall have preference as to dividend(s) (Section 850). Dividends on Class D Preferred Stock shall be noncumulative. There shall be no preference as between Class A Preferred and Class D Preferred in respect of distributions or liquidation or other matters.

720.6 Class E Common Stock - Class E Common Stock may be issued: (1) for allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860); and (2) in exchange for Class C Common Stock or Class C Participation Certificates converted pursuant to the provisions of Section 740 of these Bylaws and/or Section 4.3A(c)(1)(E)(ii) of the Act. Class E Common Stock shall be retired at its par value not to exceed book value. Ownership of Class E Common Stock provides no voting rights. Dividends on Class E Common Stock shall be non-cumulative.

720.7 Transfer of Equities in Lieu of Purchase - The requirements, set forth in preceding subsections of this Section 720, for borrowers to purchase Association stock or participation certificates at the time loans are made to such borrowers, apply only when the capital adequacy requirements applicable to the Association (as provided in the Act and Regulations) are not met. At all other times, the requirements of this Section 720 for borrowers to purchase stock or participation certificates at the time loans are made to such borrowers may be met either through purchase from the Association or through transfer of such stock or participation certificates from authorized holders thereof.

720.8. Loans Designated for Sale or Sold into the Secondary Market.

- (a) Notwithstanding any other provision of these bylaws, no voting stock or participation certificate purchase requirement shall apply with respect to a loan that is made on or after the adoption of these Bylaws and is designated at the time made for sale into a secondary market; provided that, if a loan designated for sale into a secondary market is not sold within 180 days following the date of such designation, the voting stock or participation certificate purchase requirement otherwise applicable to the loan in the absence of this bylaw provision shall apply.
- (b) Notwithstanding any other provision of these bylaws, all outstanding voting stock or participation certificates held by a borrower with respect to a loan shall be retired if: (i) the loan is made prior to the adoption of these Bylaws, it is sold into a secondary market, and the permanent capital of Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations; or (ii) the loan is made on or after the adoption of these Bylaws, it is designated at the time made for sale into a secondary market, it is sold into such market after the 180 day period beginning on the date of such designation, and the permanent capital of this Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations.

730 Transfer - Class A Preferred Stock, Class D Preferred Stock, Class A Common Stock, Class B Common Stock, Class C Common Stock, Class E Common Stock, Class B Participation Certificates and Class C Participation Certificates may be transferred to persons or entities eligible to purchase or to hold such stock or participation certificates as enumerated in Sections 700 and 720, subject to the following conditions: (a) transfer shall not be effectuated prior to notification of and acknowledgment by the Association, if no indebtedness is due by the transferor to the

Association; and (b) transfer shall not be effectuated prior to notification of and written consent of the Association if indebtedness is due by the transferor to the Association.

740 Conversion

740.1 Shares of Class A Preferred and Class D Preferred may be converted to a like amount of Class C Common or Class C Participation Certificates by those holders eligible to borrow from the Association at the time of the first loan disbursement.

740.2 Class C Stock or Class C Participation Certificates shall automatically be converted to Class A Preferred Stock (if authorized), or Class E Common Stock (if Class A Preferred Stock is not authorized), within two years after the holder ceases to be a borrower, as determined by the Board. Since such exchange constitutes a distinct investment decision by the borrower, the Association will, in connection with each such exchange, furnish the borrower with disclosure comparable to the disclosure that is, pursuant to Section 615.5250(d) of the Regulations, supplied to new borrowers.

740.3 Class A Common Stock issued and outstanding may be converted to Class A Preferred Stock (if authorized) at the option of the holder of such Class A Common Stock. Since such exchange constitutes a distinct investment decision by the borrower, the Association will, in connection with each such exchange, furnish the borrower with disclosure comparable to the disclosure that is, pursuant to Section 615.5250(d) of the Regulations, supplied to new borrowers.

750 Retirements

750.1 Subject to the Regulations, Class A Common, Class B Common and Class B Participation Certificates shall be retired in ways that come within the meaning of “the ordinary course of business” as defined by the Regulations.

750.2 Subject to section 615.5280 of the Regulations, when the debt of a borrower is in default, the Association may, but is not required to, order the retirement of any stock or participation certificates held by the borrower and the application of the proceeds thereof against the borrower’s indebtedness to the Association. Any such retirement and application of proceeds shall be after notice to the borrower consistent with section 615.5280(f) of the Regulations and after similar retirement and application of surplus account allocations and equity reserve, if any, owned by the borrower and pledged to the Association.

760 Impairment

- 760.1 Any losses suffered by the Association shall first be applied against unallocated surplus as reflected on the books of the Association. To the extent that such losses exceed unallocated surplus, resulting in an impairment of the Association's allocated surplus or capital stock, such losses shall be allocated in accordance with Section 840.3.
- 760.2 Impaired stock and participation certificates shall be restored in the sequence provided in Section 840.2 until each share of stock and unit of participation certificates has a book value equal to its par or face value, respectively.
- 770 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 the outstanding stock and participation certificates or to Patrons in the following order of priority:
- A) First, to the holders of Class A Preferred Stock and Class D Preferred Stock, if any, until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders on a pro rata basis;
 - B) Second, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock, Class E Common Stock, Class B Participation Certificates and Class C Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
 - C) Third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
 - D) Fourth, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
 - E) Fifth, insofar as is practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and
 - F) Sixth, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

- 780 Lien and Security Interest - Except with respect to stock held by a System institution, each holder of stock, participation certificates and allocated surplus in the Association shall be deemed to have granted to the Association, PCA and FLCA (as applicable) and the Association, PCA and FLCA (as applicable) shall have, a first lien and security interest on all such stock, participation certificates and allocated surplus in the Association owned by such holder as additional collateral for any and all obligations of such holder to the Association, PCA and FLCA.
- 790 Amendment to Capitalization Bylaws - Any amendment to Articles VII and VIII of these Bylaws or to the capitalization bylaws of PCA or FLCA, other than those of a strictly technical nature not affecting substantive rights, shall not become effective unless approved by majority of Voting Stockholders of the Association voting, in person or by proxy, at a duly authorized meeting of Members.

ARTICLE VIII - EARNINGS, SURPLUS, DIVIDENDS, PATRONAGE DISTRIBUTIONS

- 800 Capitalization Plan - The Board shall adopt, maintain, and amend from time to time, as the Board deems appropriate, a capitalization plan for the Association. The capitalization plan shall be designed to enable the Association to meet the capital adequacy standards established in the Regulations. Subject to these Bylaws, the capitalization plan shall provide for, among other things, the manner in which the Association's stock, participation certificates and allocated equities shall be issued, transferred, and retired. In connection with the Capitalization Plan, no dividends shall be cumulated.
- 810 Interest Rates - The Board shall authorize such interest rates or interest rate programs for use by the Association as are determined to be within the lending standards prescribed by the Bank. It shall be the objective of the Association to provide the types of credit needed by eligible borrowers, at a reasonable cost, on a sound business basis, taking into account the marginal cost of money to the Association, necessary reserves and expenses to the Association, and the services provided to borrowers and members.
- 820 Surplus Accounts - As contemplated in the Plan, the Association shall create an unallocated surplus account and an allocated surplus account. The Association shall maintain the unallocated surplus account and, subject to Section 830.1, may maintain the allocated surplus account. The minimum aggregate amount of these two accounts

shall be determined by the Board. At the end of any fiscal year, if the surplus accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the requirements of any general financing agreement or other commitments of the Association, the Association shall apply earnings for the year to the unallocated surplus account in such amounts as may be determined necessary by the Board.

830 Allocated Surplus Account

830.1 As contemplated in the Plan, the Association shall create and, subject to the Regulations and Association policy, shall maintain an allocated surplus account consisting of earnings held therein and allocated to Patrons on a patronage basis pursuant to Section 860. 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:

(a) 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.

(b) 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 840.3.

830.2 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.

830.3 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.

- 830.4 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.
- 830.5 Upon approval of the Board, any retirement of allocated surplus may be paid in cash 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.
- 830.6 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.
- 830.7 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.

840 Application of Earnings or Losses

- 840.1 At the end of each accounting period the Association shall, after paying or providing for all operating expenses in accordance with the Act, determine the amount of its net earnings or net losses for such period.
- 840.2 Any net earnings determined pursuant to Section 840.1 shall be applied in the following order of priority:
 - (a) First, to the restoration of the amount of the impairment, if any, of Class A Preferred and Class D Preferred Stock issued and outstanding,

if any, until such stock is no longer impaired;

- (b) Second, to the restoration of the amount of the impairment, if any, of Class A Common Stock, Class B Common Stock, Class C Common Stock, Class E Common Stock, Class B Participation Certificates and Class C Participation Certificates issued and outstanding, until such stock and equities are no longer impaired;
- (c) Third, to the restoration of the amount of impairment, if any, of allocated surplus in the reverse order of impairment;
- (d) Fourth, to unallocated surplus in an amount determined by the Board;
- (e) Fifth, for payment of dividends on stock in accordance with these Bylaws if authorized by the Board; and
- (f) Sixth, any remaining net earnings may be distributed as patronage refunds, which may be paid in the form of allocated surplus, stock, cash or any combination of the above.

840.3 Any net losses determined pursuant to Section 840.1, to the extent they exceed unallocated surplus, shall, except as may be otherwise provided in the Act, be treated as impairing allocated surplus and stock in the following order:

- (a) First, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- (b) Second, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- (c) Third, Class A Common Stock, Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- (d) Fourth, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

850 Dividends

- 850.1 When approved by the Board in accordance with the Regulations, dividends may be paid on the capital stock and participation certificates of the Association, as the Board may determine by resolution; provided, however, that no dividend rate shall exceed eight percent (8%) of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class A Preferred and Class D Preferred Stock, or on all classes of stock and participation certificates. Subject to the provisions herein, the rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, C or E Common Stock or participation certificates for such year. The rate of dividends on Class D Preferred Stock and Class A Preferred stock shall be as determined by the Board but shall not be greater than twenty percent per annum. The rate of dividends on Class A, B, C and E Common Stock and participation certificates shall be at the same rate per share. No dividend shall be declared on common stock or participation certificates in any year for which the Board has passed a resolution authorizing the distribution of patronage.
- 850.2 Dividends may be paid to holders of record on the effective date of declaration or at such previous date as may be set by the Board by resolution.
- 850.3 Dividends on capital stock and participation certificates may be paid in cash, Class A Preferred or Class D Preferred, or partly in cash and partly in such stock, except that dividends on capital stock held by a Farm Credit System institution shall be paid in cash. 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 A Preferred or Class D Preferred Stock.
- 850.4 Dividends on subsequently authorized stock shall be paid in accordance with, and subject to, the resolution of stockholders authorizing the issuance of such stock.
- 850.5 Notwithstanding other provisions of this Section, no dividend may be declared if permanent capital would be reduced by payment of said dividend, unless the Association, after recording the dividend, will meet the capital adequacy standards under the Act and Regulations.

860 Patronage Distributions

- 860.1. 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 (a) through (e) of Section 840.2, 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.

- 860.2. Basis of Distribution. 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 be not available for distribution.
- 860.3. 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, 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.

- 860.4. 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.
- 860.5. Patron's Consent to Take Patronage Distribution into Income - 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.
- 860.6. 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.

860.7. 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.

870 Impact of Distributions on Patronage Earnings. Any dividend that is declared by the Board and distributed by the Association (other than a patronage dividend authorized by resolution adopted under Section 860.1) shall not reduce the net earnings from business done with or for Patrons for the year of distribution. Such dividend shall be treated as reducing, first, the net earnings of non-patronage business for the current year and, second, unallocated surplus.