

CUSTOMER INFORMATION AND DISCLOSURE HANDBOOK



*For the Farm Credit Services of America office nearest you, call
1-800-884-FARM
For additional information visit our web site at www.fcsamerica.com*

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Farm Credit Services of America is protected by federal and state laws that make it unlawful to give false statements for the purpose of influencing the loan decision or to sell or otherwise dispose of collateral with intent to defraud.

Welcome to Farm Credit Services of America

When you obtain a loan and purchase stock in Farm Credit Services of America, you become a member of one of the largest agricultural lending organizations in the nation, which is also a part of the nationwide Farm Credit System. We are a cooperative Farm Credit association owned and directed by agricultural producers who are our customers.

Becoming a stockholder affords you the opportunity to vote for our board of directors as a part of the annual election process. Additionally, the more eligible loans you have with us, the more opportunity you have to receive cash back dividends through our patronage program that benefits our shareholders.

This Handbook explains the rights and services available to you. It includes information on customer stock and our capitalization plan, customer privacy information, and disclosure relating to fees and other matters. We urge you to review all of the Handbook material completely and let us know if you have any questions by contacting us at the number below.

Organizational Structure. Our association consists of three entities. Farm Credit Services of America, ACA, is an Agricultural Credit Association and the parent holding company of Farm Credit Services of America, FLCA (Federal Land Credit Association), and Farm Credit Services of America, PCA (Production Credit Association), lending subsidiaries, collectively referred to as FCSAmerica.

Farm Credit Services of America, FLCA provides long-term credit secured by a first lien on real estate for purchasing land, constructing buildings, refinancing existing mortgages, consolidating short-term debt, and other long-term needs.

Farm Credit Services of America, PCA provides short-term loans for farm operating expenses, farm or ranch improvements, equipment, livestock, living expenses, and other short- and intermediate-term needs.

Where We Get Funds. Unlike commercial banks, associations of the Farm Credit System do not take deposits. Instead, the Farm Credit System raises money by selling bonds on Wall Street. Once bonds are sold, the bond proceeds are made available to local associations through one of four (4) regional Farm Credit Banks (FCB's). Farm Credit Services of America, ACA, obtains funds from AgriBank, FCB, to provide credit and related services through its Production Credit Association and Federal Land Credit Association to farmers, ranchers, rural residents and agribusinesses.

Working together, the Farm Credit Banks and local associations that make up the Farm Credit System make credit available to rural communities and those involved in agriculture.

Where We Are Located. FCSAmerica has a network of retail offices within Iowa, Nebraska, South Dakota, and Wyoming. **To reach your local office with any questions call 1-800-884-FARM.**

CUSTOMER PRIVACY

Customer privacy is important to FCSAmerica and we hold your financial and personal information in strict confidence. We do not sell or trade our customers' personal information to marketing companies or information brokers. All financial and personal information will be handled in accordance with the regulations of the Farm Credit Administration and other applicable law. Farm Credit Services of America, does share a common management team and operations staff with Frontier Farm Credit, ACA/FLCA/PCA ("Frontier Farm Credit") and the two associations have joint offices at 5015 S. 118th Street, Omaha, NE 68137. To facilitate such joint operations, you may be asked to authorize the sharing of financial and other personal information maintained by FCSAmerica with Frontier Farm Credit, including, but not necessarily limited to "consumer reports" and "non-public personal information" used for the purpose of establishing the undersigned's eligibility for personal, family or household purposes, employment purposes or other purpose covered by the Fair Credit Report Act, 15 U.S.C. §§ 1681 et seq., as may be amended from time-to-time. To learn more about customer privacy please visit www.fcsamerica.com/privacystatement.

ANONYMOUS REPORTING

FCSAmerica provides a system that allows customers, employees and third parties to confidentially and anonymously report to our board members or senior leaders any issues related to accounting or audit matters. To learn more about the anonymous reporting system or to file an anonymous report, please visit www.fcsamerica.com or call 1-866-294-4874.

POOLING LOANS

FCSAmerica may wish to pool or group your loan for securitization of the loans, which is the sale of the pooled loans on the secondary market. Certain borrower rights provided by the Farm Credit Act do not apply to pooled loans.

For your loan to be pooled, you will receive a "Pooling Notice" with your final loan commitment. The Pooling Notice will inform you of the right to refuse pooling your loan. You will have three days from the date of written loan approval or commitment to refuse pooling of your loan. If your loan is not pooled, the borrower rights provided by the Farm Credit Act are available on

your loan. The Pooling Notice does not affect any borrower protections available to you under applicable state law.

FEES AND CHARGES

Following are examples of fees and charges that may be applicable to your transaction. This list is not all inclusive.

Origination Fees: Loan origination fees partially offset the funding and administrative costs associated with originating loans.

Business Valuation Fee: Validating customer controls and reporting systems ensuring accuracy of customer reporting and compliance with covenants and conditions. The current fee ranges from \$1,250 to \$1,500.

Conversion Fees: The conversion fee is a minimum cost to a customer who wishes to change the loan contract. The fee partially offsets administrative costs for processing the change to the loan record and costs incurred by the lender for changes in its funding of the loan.

Commitment Fees: The commitment fee offsets the funding risks associated with quoting interest rates and/or committing loan proceeds and closing loans or disbursing loan proceeds at a later date in a volatile lending environment.

Overlimit Fees: A fee is charged for any advance on a line of credit which would cause your outstanding balance to exceed your Maximum Principal Balance amount, whether or not FCSAmerica honors the advance. The current fee is \$30.

Wire Transfer Fees: A fee is charged for any instructions to transfer disbursements from your line of credit by wire. The current fee for a wire transfer request via our online services is \$10. The current fee for a wire transfer request via your local retail office is \$15. An international wire in a foreign currency is \$40.

Stop Payment Fees: A fee is charged for any instructions to stop a payment request from your line of credit. The current fee for a stop payment request via our online services for a non-bill payment request is \$10. The current fee for a stop payment request via your local retail office for a non-bill payment request is \$15. The current fee for a stop payment request for a bill payment transaction is \$20.

Stop payments expire twelve months from the date of issuance and can be extended by contacting the local retail office. If the stop payment expires and an unauthorized draft is presented, it is the responsibility of the customer to contact the retail office within 24 hours of the draft being presented to reject the unauthorized draft.

Payroll Processing Fees: A fee is charged for each payroll file processed as a disbursement from your line of credit to make payroll payments. The current fee for payroll file processing via our online services or your local retail office is \$20.

CREDIT BUREAU INFORMATION

We may make a credit decision affecting you based upon information received from one or more of the three major credit reporting agencies. Additionally, we may provide information about your loans with us to one or more of such agencies. You may obtain a free copy of your credit report from the agencies by contact them using the following phone numbers: Experian: 888-397-3742, Equifax: 800-685-1111; and, TransUnion: 800-888-4213. If you think information regarding any of your loans with us as listed on your credit report is inaccurate, write to us separately at: Farm Credit Services of America, Attn: Loan Accounting, P.O. Box 2409, Omaha, NE 68103-2409.

INSURANCE SERVICES

FCSAmerica offers several types of crop insurance coverage. Purchasing insurance from FCSAmerica is optional. Purchasing insurance from another provider does not influence in any way our credit decision or any other factor in your relationship with us.

CAPITALIZATION PLAN

Qualified customers must purchase (ACA) stock and thereby become members and owners of FCSAmerica. These funds help capitalize FCSAmerica. A complete copy of our Capitalization Bylaws is included in this Handbook.

FCA establishes minimum capital adequacy ratios for Farm Credit institutions. These capital ratios are given in the financial reports provided to prospective and present stockholders. The ACA currently meets and knows of no reason it would not continue to meet minimum capital adequacy ratios in the next year.

STOCK DISCLOSURE

All customers of the ACA are required to make an investment in our association by acquiring stock. The Capitalization provisions of the Bylaws authorize the ACA, to issue various classes of stock. Currently the classes of stock which have been issued and remain outstanding are: (1) Class D (voting) Common Stock which shares have a par face value of \$5 per share; and, (2) Class E (non-voting) Common Stock which shares have a par face value of \$5 per share. Additional classes of stock may be authorized and/or issued from time-to-time at the discretion of our Board of Directors. The issued and outstanding stock represents an investment in the ACA and is not a compensating balance for any loan made to the shareholder. All stock

represents an at-risk investment which is not protected by the Agricultural Credit Act of 1987 or insurance of any kind.

Class D Common Stock is voting stock issued to our customers who are farmers and ranchers and/or entities involved in agricultural processing and marketing. These shareholders have an investment requirement equal to \$1,000.

Class E Common Stock is non-voting stock issued to rural housing and insurance customers, persons furnishing farm-related services, and others eligible to borrow money from us, but who are not eligible to hold voting stock. Class E shareholders that are loan customers have an investment requirement of \$1,000. Class E shareholders purchasing insurance and farm related services must hold at least one (1) share of stock so long as the shareholder continues to do business with FCS America.

The ACA has a first lien on all issued stock for payment of any liability of the shareholder.

Stock is acquired by each borrower and co-borrower via a non-interest bearing legal obligation. The only time the ACA would require payment of the obligation is in the unlikely event that the ACA fails to meet regulatory capital requirements. Since the ACA is well capitalized and plans to be well capitalized in the future, payment of this obligation is not expected.

Stock may only be retired at the discretion of our board of directors at book value, not to exceed the par value; however, shares may not be retired during any period that: (1) the ACA does not meet capital adequacy standards under FCA regulations; or, (2) when the ACA would not continue to meet the capital adequacy standards after retirement of any shares. Borrowers are required to repay the full amount of their loan(s), including any amount of such loan(s) attributed to the purchase of stock, regardless of whether capital is impaired. Stock may be converted into a different class of stock according to our bylaws and policies then in effect and the Farm Credit Act.

Subject to ACA policies, the stock is transferable by a shareholder to any eligible person or entity to whom such stock may be issued. However, stock may not be transferred by shareholders when the ACA does not meet applicable capital standards under FCA regulations.

Dividends or patronage may be declared and paid to shareholders at such times, in such amounts and to such persons as our board of directors determines. The payment of any such dividends or patronage is subject to the Farm Credit Act, FCA regulations (including capital requirements), provided that at the time of declaration no stock is impaired and a dividend or patronage declaration will not result in impairment.

Distribution to shareholders in the event of liquidation or dissolution of the ACA shall be in accordance with the provisions of our Capitalization Bylaws. A copy of the Capitalization Bylaws is attached hereto and is available upon request.

FINANCIAL CONDITION

Information on the current financial condition of the ACA including information on FCA capital ratios is provided in the most recent annual or quarterly report included with this Handbook or available at the office servicing your loan. If you are a stockholder, the annual report is mailed to you. The annual report and most recent quarterly report are also available on request at your local FCSAmerica office or at www.fcsamerica.com.

PATRONAGE PROGRAM

Our board of directors has adopted a patronage program. The program is expected to provide annual cash payments to eligible customers. Questions and answers on the program details are included in this Handbook.

ADDITIONAL INFORMATION

As provided in FCA regulations, additional information is available to customers by written request and may require certification as to the permissible use of the information. Examples include requests for:

- Association Bylaws
- Association Charter
- Association Articles of Incorporation
- Compensation data
- AgriBank, FCB financial reports
- Stockholder lists (only for permissible use)

This information can be requested by writing to: Legal Specialist, Farm Credit Services of America, P.O. Box 2409, Omaha, NE 68103-2409.

2017 PATRONAGE PROGRAM

FARM CREDIT SERVICES OF AMERICA

Customer Questions and Answers

WHAT IS THE 2017 PATRONAGE PROGRAM?

FCSAmerica will return a portion of our 2017 net income earned from eligible customers through the 2017 patronage program. The amount of the cash-back dividend will be determined by the Board of Directors in December 2017 based on a variety of business and economic factors.

WHAT CHANGES HAVE BEEN MADE TO THE 2017 PATRONAGE PROGRAM?

- Customers with accelerated loans will not be eligible for patronage. If a single loan is accelerated, all loans to that customer are ineligible.
- Uncashed cash-back dividend checks may be applied to a customer's loans if the check is not cashed within 90 days of the check issue date.

WHEN WILL THE 2017 CASH-BACK DIVIDEND CHECKS BE DISTRIBUTED?

The 2017 cash-back dividend checks are expected to be mailed by March 31, 2018.

WHY DOES FCSAMERICA OFFER CASH-BACK DIVIDENDS?

Cash-back dividends are a component of FCSAmerica's customer value proposition and are one of the unique benefits of doing business with a customer-owned financial cooperative. Cash-back dividends are a way to reduce the cost of borrowing from FCSAmerica by sharing in the cooperative's profits.

HOW WILL MY 2017 CASH-BACK DIVIDEND BE CALCULATED?

The same as in previous years. The amount of your 2017 patronage distribution will be based on your eligible average loan volume with FCSAmerica during 2017. Generally, the more a customer borrows from us, the more he or she will benefit, financially, from the program. Because your eligible average loan volume and the amount of approved patronage can change each year, your cash-back dividend likely will change from one year to the next.

IS MY CASH-BACK DIVIDEND SUBJECT TO TAX?

Yes. Eligible customers generally should include the cash-back dividends in their 2018 taxable income. We encourage customers to consult with a tax advisor about their specific situation. Non-corporate customers will receive an IRS Form 1099-PATR early in 2019 for cash-back dividends paid in 2018. IRS regulations do not require distribution of 1099-PATR forms for corporations.

WHY DOESN'T FCSAMERICA DISTRIBUTE ALL OF ITS EARNINGS IN CASH?

Retained earnings not distributed in cash-back dividends help FCSAmerica build the necessary capital to fund future growth and to develop new products and services that help you, our customer-owner, succeed.

WHO IS ELIGIBLE FOR THE 2017 PATRONAGE PROGRAM?

Generally, all customers whose loans are capitalized by stock with the exceptions noted below. This includes customers who pay off their loan(s) during the year. These customers will receive cash-back dividends for the portion of the year that their loan was outstanding as long as they owned stock at the time of payoff and they meet all eligibility requirements.

ARE THERE CUSTOMER-OWNERS WHO ARE NOT ELIGIBLE?

Yes, when:

- A customer has a loan that has been accelerated. If any of a customer's loans is accelerated, all loans to that customer are ineligible for patronage.
- A loan is in non-accrual and past due at the end of the year.
- A loan is made through the Young and Beginning Development Fund.
- A customer has waived his/her right to cash-back dividends/patronage due to concessions granted as part of a forbearance or restructure agreement.
- The loan is a sales contract (contract for deed) resulting from a loan restructuring.
- The cash-back dividend distribution is less than \$25.
- A loan is a multi-lender syndication unless the contract with the customer specifically provides for the distribution of cash-back dividends/patronage.
- A loan is a participation purchased or a portion of the loan is sold to another entity unless the participation agreement specifically provides for the distribution of cash-back dividends/patronage.
- Any of a customer's loans has been partially or fully charged-off. If any of a customer's loans is charged off, all loans to that customer become ineligible for patronage.
- A customer has filed a voluntary petition in bankruptcy or has an involuntary bankruptcy petition filed against them. All loans to that customer become ineligible for patronage.

Ineligibility due to charge-off and bankruptcy applies for seven years, beginning from the date of such charge-off or the date of discharge from bankruptcy or a

similar proceeding and concluding at the end of the patronage year in which the seven-year period expires.

FCSAmerica also has the option of applying cash-back dividends to a loan balance if the customer is not in compliance with their loan agreement at the end of 2017 or at the time the cash-back dividend checks are issued in 2018, or the customer has not cashed their cash-back dividend check within 90 days of the date the check is issued.

ARE ALL PRODUCTS OFFERED BY FCSAMERICA ELIGIBLE FOR CASH-BACK DIVIDENDS?

No. Due to regulatory restrictions and the unique characteristics of some products, they are ineligible for cash-back dividends. Net income generated by these products is added to our cooperative's retained earnings and is not included in the patronage program. These products are:

- Insurance – Insurance regulations prevent us from distributing insurance income directly to the customers who generate it.
- Leasing - Due to changes several years ago in the lease agreement with our lease processor (Farm Credit Leasing), cash-back dividends are not paid on leases.
- Loans made through the Young and Beginning Development Fund.
- AgDirect financing made after April 11, 2010.

WHO WILL BE THE PAYEE ON THE CASH-BACK DIVIDEND CHECKS?

The cash-back dividend check payee will be the “payor of record” (primary customer) in our loan accounting system as of December 31, 2017. This is the same person whose taxpayer identification number appears on any IRS reporting associated with the customer's account.

WHY DOESN'T FCSAMERICA LOWER INTEREST RATES AND ELIMINATE THE PATRONAGE PROGRAM?

FCSAmerica is dedicated to providing industry expertise, quality customer service and competitive rates. In order to attract investors for Farm Credit System funding, FCSAmerica must demonstrate the ability to generate strong earnings. The program allows FCSAmerica's Board to determine the amount of the cash-back dividend distribution after financial results for the year are known.

WILL FCSAMERICA DISTRIBUTE A CASH-BACK DIVIDEND EVERY YEAR?

Our Board currently intends to distribute cash-back dividends each year. The Board and our financial plans are positioned to distribute 60 to 75 basis points in cash patronage prospectively. The exact cash amount, however, will be

determined at the end of each year and will be based on a variety of business and economic factors. Future cash distributions will balance FCSAmerica's loan growth, earnings and other business conditions for the year.

FARM CREDIT SERVICES OF AMERICA, ACA
CAPITALIZATION BYLAWS
Article VII - Capitalization

700 AUTHORIZED SHARES

- 700.1 The Association is authorized to issue:
1. up to 100 million shares of Class A Common Stock with a par value of \$5.00 per share;
 2. up to 4,980,885 shares of Class B Common Stock with a par value of \$5.00 per share;
 3. an unlimited number of shares of Class D Common Stock with a par value of \$5.00 per share;
 4. up to 141,641 units of Participation Certificates with a face value of \$5.00 per unit;
 5. an unlimited number of Class E Common Stock with a face value of \$5.00 per unit.
- 700.2 Stock shall be issued in book entry form, and not certificate form.
- 700.3 As a condition of borrowing from the Association, FCSAmerica, PCA or FCSAmerica, FLCA, any eligible borrower shall, at the time a loan is made, acquire Class D Common Stock or Class E Common Stock according to Association policy existing at the time of acquisition, in an amount not less than one thousand dollars or two (2) percent of the amount of the loan or loans, whichever is less, or such higher amount as determined by the Board. The required capital investment shall be set forth in a policy adopted by the Board, which policy the Board may in its discretion amend from time to time. Such policy may require that the required investment be computed with reference to, and payable at the time of, the loan commitment.

710 RIGHTS, PREFERENCES, AND LIMITATIONS OF CLASSES OF STOCK

- 710.1 Class A Common Stock shall be nonvoting and may be issued to such persons as permitted under a plan adopted by the Board of Directors, as patronage dividends under Section 740 hereof, and in exchange for allocated surplus under Section 725. Class A Common Stock may be retired at the discretion of the Board and, if retired, shall be retired at book value not to exceed par value, subject to Section 710.9.
- 710.2 4,980,885 shares of Class B Common Stock were issued solely to qualified borrowers of FCSAmerica, PCA or FCSAmerica, FLCA in exchange for stock of a like designation issued by FCSAmerica, PCA or FCSAmerica, FLCA before October 6, 1988. No further shares of Class B Common Stock shall be issued. Class B Common Stock shall be entitled to vote and may be retired at the discretion of the

Board and, if retired, shall be retired at book value not to exceed par value, subject to Section 710.9.

- 710.3 Class D Common Stock shall be entitled to vote and shall be issued solely to a borrower who is a farmer, rancher, or producer or harvester of aquatic products who obtains a loan on or after October 6, 1988. Class D Common Stock may be retired at the discretion of the Board, at book value not to exceed par value, subject to Section 710.9.
- 710.4 141,641 units of Participation Certificates were issued solely in exchange for like participation certificates issued by FCSAmerica, FLCA or FCSAmerica, PCA prior to October 6, 1988 to: 1) rural residents, to capitalize rural housing loans; 2) persons or organizations furnishing farm-related services, to capitalize their loans; or 3) other persons or organizations who were eligible to borrow or participate in loans from FCSAmerica, FLCA or FCSAmerica, PCA, but who were not eligible to hold voting stock in such entities. No further Participation Certificates shall be issued. Participation Certificates shall not be entitled to vote and may be retired at the discretion of the Board and, if retired, shall be retired at book value not to exceed par value, subject to Section 710.9.
- 710.5 Class E Common Stock shall be issued to 1) rural residents, to capitalize rural housing loans; 2) persons or organizations furnishing farm-related services, to capitalize their loans; or 3) other persons or organizations who are eligible to borrow or participate in loans from the Association, FCSAmerica, FLCA or FCSAmerica, PCA, but who are not eligible to hold Class D Common Stock. Class E Common Stock may also be issued to any person who is eligible to borrow from the Association, FCSAmerica, PCA or FCSAmerica, FLCA for the purpose of qualifying such person for technical assistance, financially related services, lending services, and other services offered by the Association, FCSAmerica, FLCA and FCSAmerica, PCA. Class E Common Stock may also be issued in exchange for Class D Stock as provided in Section 710.10. Class E Common Stock shall have no voting rights and may be retired at the discretion of the Board, at book value not to exceed par, subject to Section 710.9.
- 710.8 No fractional shares of stock, or cash in lieu of fractional shares, shall be issued or paid.
- 710.9 Subject to Section 4.9A of the Act and these Bylaws, the Board is authorized to retire all or any portion of any class of stock as it may, in its sole discretion, determine as unnecessary to meet the capital requirements of the Association. All stock (other than Class B Common Stock and Participation Certificates which are retired at

par value) shall be retired at book value not to exceed par value; provided that, the Association shall not retire stock if the action would result in failure of the Association, FCSAmerica, PCA and FCSAmerica, FLCA, on a consolidated basis, to meet minimum permanent capital adequacy requirements established under Regulations issued by the FCA.

- 710.10 At any time within two (2) years after the loan of a borrower is repaid in full, any Class D Common Stock held by such borrower shall be converted to Class E Common Stock. Stock so converted may be converted back to Class D Common Stock if the owner of such stock borrows additional funds prior to retirement of such Class E Common Stock.
- 710.11 Ownership of Class B Common Stock and Class D Common Stock shall entitle the holder thereof to one vote, in accordance with Section 350.1, in the election of each Association Director and any other matter on which a stockholder vote is required.

720 APPLICATION OF EARNINGS AND LOSSES

- 720.1 At the end of each fiscal year, the Association shall, after paying or providing for any operating expense (including, without limitation, provisions for loan losses and losses on acquired property determined in accordance with Generally Accepted Accounting Principles), determine the amount of any net earnings or net losses for such year.
- 720.2 Any net earnings determined pursuant to Section 720.1 shall be applied in the following order of priority:
First, to the restoration, pro rata, of the amount of the impairment, if any, of Class A Common Stock, Class B Common Stock, Class D Common Stock, Participation Certificates, and Class E Common Stock, in proportion to the number of shares or units of each such Class of Stock then issued and outstanding, until such stock is no longer impaired;
Second, to the restoration of the allocated surplus account in the reverse order of impairment; and
Third, subject to the Act and the Regulations, in such manner as shall be determined by the Board.
- 720.3 Any net losses determined pursuant to Section 720.1, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing the allocated surplus account in the reverse order of issuance, on a pro rata basis until all allocated surplus has been exhausted, and then any remaining net losses shall be treated as impairing Class A Common Stock, Class B Common Stock, Class D Common Stock, Participation Certificates and Class E Common Stock on a pro rata basis, in proportion to the

number of shares or units of each such stock then issued and outstanding.

725 ALLOCATED SURPLUS ACCOUNTS

- 725.1 The Board may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to Section 740. 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 720 on a pro rata basis.
- 725.2 The Association, FCSAmerica, FLCA and FCSAmerica, PCA, as applicable, shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as additional collateral for the borrower's indebtedness to the Association, FCSAmerica FLCA and FCSAmerica PCA.
- 725.3 The Association may order any and all surplus account allocations owned by a borrower to be applied on the indebtedness. Any such retirement and application of surplus account allocations to indebtedness shall be before similar retirement and application of other stock or participation certificates owned by the borrower.
- 725.4 Whenever all of the stock and participation certificates owned by a borrower are retired or otherwise disposed of and the Association, FCSAmerica, FLCA and FCSAmerica, PCA, on a consolidated basis, meet regulatory capital requirements, any surplus account allocations owned by such borrower may also be retired upon request of the owner and approval of the Board, and the proceeds paid to the owner.
Alternatively, if the Association directs, such surplus account applications may be applied against any of the borrower's indebtedness to the Association, FCSAmerica, FLCA and FCSAmerica, PCA.
- 725.5 In the complete discretion of the Board, allocated surplus may be distributed, oldest allocations first, in cash or Class A Common Stock, or any combination thereof. The cash proceeds may be applied against the indebtedness of the borrower to the Association, FCSAmerica, FLCA and FCSAmerica, PCA. In no event shall such distributions reduce the surplus account of the Association, on a consolidated basis, below the minimum capital amount prescribed by the capital adequacy requirements of the FCA.
Distributions of less than the full amount of all "qualified" allocations issued as of the same date shall be on a pro rata basis. Distributions of less than the full amount of all "nonqualified" allocations issued as of the same date shall be on a pro rata basis.

730 DIVIDENDS

Subject to the Act and the Regulations (including compliance with capital adequacy requirements), and provided that at the time of declaration thereof no Association Stock shall be impaired, dividends may be declared and paid on stock, as the Board may from time to time determine, without preference among classes of common stock and participation certificates; provided, however, that in no event shall a dividend exceed eight percent (8%) of the par value of the stock on which such dividend is payable. However, any dividends paid under this Section 730 shall not reduce any portion of consolidated net earnings attributable to business done with or for Patrons, for any fiscal year for which the Association's Board has adopted a resolution under Section 740.2 hereof, obligating the Association to distribute patronage refunds to borrowers and other Patrons identified in such obligating resolution, on a patronage basis. Any dividends paid under this Section 730 are in addition to amounts otherwise payable to Patrons which are derived from business done with or for Patrons during the fiscal year. Any dividends paid under this Section 730 shall be paid out of unallocated surplus. Such dividends may be paid in stock or in cash, or any combination thereof. Except as may be provided by amendment to these Bylaws, stock dividends are non-cumulative.

740 PATRONAGE REFUNDS

740.1 Subject to the Act and the Regulations (including compliance with capital adequacy requirements), and provided that at the time of declaration thereof no class of Association Stock shall be impaired, patronage refunds may be declared and paid in such amounts as the Board from time to time may determine as further provided below. Patronage refunds may be paid in any class of stock which the recipient thereof is eligible to hold, in allocated surplus, in cash, in qualified or nonqualified notices of allocation, or in any combination thereof, and shall be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors.

740.2 Subject to the provisions of the Act and Regulations, the Association's Board may, by adoption of a resolution, obligate the Association to distribute to borrowers and other patrons identified in such obligating resolution ("Patrons"), on a patronage basis, all or any portion of the available consolidated net earnings for such fiscal year or for that and subsequent fiscal years. For this purpose, consolidated net earnings shall be defined as the net income attributable to business done with or for Patrons.

740.3 All patronage distributions shall be in proportion to the amount and/or value of business done by the Association, FCSAmerica PCA and FCSAmerica FLCA with or for each Patron as determined by the Board on an equitable and nondiscriminatory basis. Any earnings pool that may be established for the payment of patronage distributions should be established on a rational and equitable basis, provided that the Board shall retain discretion not to pay patronage distributions on one or more of such pools.

740.4 The availability of earnings for patronage distributions shall be determined after first making applications required by this Article, and providing for the transfer to unallocated surplus of the amount, if any, established by the Association's Board. 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.

740.5 Patronage distributions may be in cash, stock, allocations of earnings retained in an allocated surplus account, or any one or more of such forms of distribution. Any portion of a patronage distribution made in the form of stock which is not a multiple of \$5.00 may be distributed in cash or held by the Association for the borrower and included in subsequent distributions. A patronage distribution in the form of a notice of allocation may be qualified or nonqualified as defined in 26 U.S.C. § 1388.

740.6 Any part of the patronage distribution to a borrower, except the percent of the total required to be paid in cash in order to qualify the distribution as a deduction for federal income tax purposes, may, at the discretion of the Association, be applied against the borrower's indebtedness to the Association, FCSAmerica, PCA or FCSAmerica, FLCA.

740.7 Each holder of Class B Common Stock, Class D Common Stock, Class E Common Stock or Participation Certificates on and after the effective date of these Bylaws and who continues as a holder of Class B Common Stock, Class D Common Stock, Class E Common Stock or Participation Certificates after such date, and each person who thereafter applies for and is issued Class D Common Stock or Class E Common Stock of the Association shall, by such act alone, consent that the amount of any distributions with respect to patronage occurring after said date, which are made in, or evidenced by, qualified written notices of allocation (as defined in 26 U.S.C. § 1388), including patronage allocations of surplus account and patronage refunds paid in Class A Common Stock of the Association, and which are received from the Association, will be taken into account (as income) by the recipient at their stated

dollar amounts in the manner provided in 26 U.S.C. §1385(a) in the taxable year in which such written notices of allocation are received. Such holder of Class D Common Stock or Class E Common Stock 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 upon receipt of written notice that such amount has been applied on their indebtedness to the Association, FCSAmerica, FLCA or FCSAmerica, PCA.

The Association may also obtain from each patron such patron's consent to take into account, as income, at its stated dollar amount as provided in 26 U.S.C. §1385, the amount of their respective distribution paid in, or evidenced by, qualified written notices of allocation, including patronage allocations of surplus account and patronage refunds paid in Class A Common Stock. The Association may also obtain each patron's consent to take into account (as income) in the same manner the amount of any distributions with respect to patronage if they receive written notice that such amount has been applied on their indebtedness to the Association, FCSAmerica FLCA or FCSAmerica PCA. Consent shall be in a form prescribed by the Board and shall comply with the requirements of 26 U.S.C. §1388.

Consent may be by qualified check as described in 26 U.S.C. §1388.

740.8 Consent under this section shall be continuing in effect, provided that consent (other than consent by qualified check) may be revoked in writing, which revocation shall become effective only with respect to patronage occurring on or after the first day of the first fiscal year of the Association beginning after the revocation is filed with the Association.

740.9 Notwithstanding other provisions of this section, the Association may not obligate itself to distribute earnings on a patronage basis if the Association, FCSAmerica, FLCA and FCSAmerica, PCA, on a consolidated basis, would not, after taking into account such distribution, meet applicable capital adequacy standards as determined from time to time in accordance with the Regulations.

740.10 If the Board so provides in an obligating resolution, where the Association arranges for the provision of credit and/or related services to its Stockholders through FCSAmerica, PCA and/or FCSAmerica, FLCA, and such Stockholders avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from FCSAmerica PCA and/or FCSAmerica 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 FCSAmerica, PCA and FCSAmerica, FLCA shall be treated as business done with the Association.

750 TRANSFERABILITY

Shares of capital stock and participation certificates are transferable to any holder to which such respective classes of stock may be issued in accordance with Section 710. However, Class D Common Stock and Class E Common Stock and other stock defined as Permanent Capital by the Act may not be transferred during a period, or periods, of time when the Association, FCSAmerica, FLCA and FCSAmerica, PCA, on a consolidated basis, do not meet capital adequacy standards under FCA regulations.

760 LIEN ON BORROWER STOCK

Nothing in these Bylaws shall be interpreted to affect the rights of the Association regarding its statutory liens on borrower stock or other borrower equities and the Association's privilege, as provided in law or regulation at the time of issuance of such stock, to retire or cancel such stock or other equities for application against a borrower's indebtedness to the Association, FCSAmerica, FLCA or FCSAmerica, PCA.

770 LOAN ORIGINATION FEES

Loan origination and other fees may be charged as determined appropriate by the Board from time to time.

780 DISTRIBUTION ON LIQUIDATION

In the event of 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 in the following order of priority:

First, to the holders of Class A Common Stock, Class B Common Stock, Class D Common Stock, Participation Certificates and Class E Common Stock, equally and pro rata in proportion to the number of shares or units of each such stock issued and outstanding, until an amount equal to the aggregate par value of all such shares or units has been distributed to such holders;

Second, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed; and

Third, any remaining assets after such distributions shall be distributed among current and former stockholders in the proportion which the aggregate patronage of each Stockholder bears to the total patronage of all such Stockholders, to the extent practicable and as determined by the Board unless otherwise provided by law.

790 AMENDMENT TO CAPITALIZATION BYLAWS AND ISSUANCE OF PREFERRED STOCK

Amendments to Article VII of these Bylaws and the Capitalization Bylaws of FCSAmerica, PCA and FCSAmerica, FLCA, other than those of strictly a technical nature not affecting substantive rights, shall not become effective unless approved by a simple majority of the holders of Class B Common Stock and Class D Common Stock voting, in person or by proxy, at a meeting properly called as provided for in these Bylaws. Any amendment to this Article VII, which authorizes the issuance of preferred stock, shall require the approval of a majority of the shares of each class of stock affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.