

ship requirements may be based on the face amount of the loan, the outstanding loan balance or on a percentage of the interest payable by the borrower during any year or during any quarter thereof, or upon such other basis as the bank determines will provide adequate capital for the operation of the bank and equitable ownership thereof among borrowers. In the case of a direct loan by the Central Bank, the borrower shall be required to own or invest in the necessary stock in a district bank or banks and such district bank shall be required to own a corresponding amount of stock in the Central Bank, but voting stock shall be in the one district bank, designated by the Farm Credit Administration.

(b) Notwithstanding the provisions of subsection (a) of this section, the purchase of stock need not be required with respect to that part of any loan made by a bank for cooperatives which it sells to or makes in participation with financial institutions other than any of the banks for cooperatives. In such cases the distribution of earnings of the bank for cooperatives shall be on the basis of the interest in the loan retained by such bank.

(Pub. L. 92-181 title III, §3.9, Dec. 10, 1971, 85 Stat. 605; Pub. L. 96-592, title III, §306, Dec. 24, 1980, 94 Stat. 3445; Pub. L. 100-233, title VIII, §802(q), Jan. 6, 1988, 101 Stat. 1712.)

AMENDMENTS

1988—Subsec. (a). Pub. L. 100-233 substituted “by the bank to invest” for “by the bank with the approval of the Farm Credit Administration to invest”, “or upon such other basis as the bank determines” for “or upon such other basis as the bank, with the approval of the Farm Credit Administration, determines”, and “in a district bank or banks and such district bank shall be required” for “in a district bank or banks as may be approved by the Farm Credit Administration and such district bank shall be required”.

1980—Subsec. (a). Pub. L. 96-592 inserted provisions respecting entitlement to hold voting stock.

§ 2131. Loans

(a) Interest rates and charges

Loans made by a bank for cooperatives shall bear interest at a rate or rates determined by the board of directors of the bank from time to time. In setting rates and charges, it shall be the objective to provide the types of credit needed by eligible borrowers at the lowest reasonable cost on a sound business basis, taking into account the net cost of money to the bank, necessary reserves and expenses of the bank, and services provided. The loan documents may provide for the interest rate or rates to vary from time to time during the repayment period of the loan, in accordance with the rate or rates currently being charged by the bank.

(b) Security

Loans shall be made upon such terms, conditions, and security, if any, as may be determined by the bank in accordance with regulations of the Farm Credit Administration.

(c) Lien

Each bank for cooperatives shall have a first lien on all stock or other equities in the bank as collateral for the payment of any indebtedness

of the owner thereof to the bank. In the case of a direct loan to an eligible cooperative by the Central Bank, the Central Bank shall have a first lien on the stock and equities of the borrower in the district bank and the district bank shall have a lien thereon junior only to the lien of the Central Bank.

(d) Cancellation; application on indebtedness

In any case where the debt of a borrower is in default, or in any case of liquidation or dissolution of a present or former borrower from a bank for cooperatives, the bank may, but shall not be required to, retire and cancel all or a part of the stock, allocated surplus or contingency reserves, or any other equity in the bank owned by or allocated to such borrower, at the fair market value thereof not exceeding par, and, to the extent required in such cases, corresponding shares and allocations and other equity interests held by a district bank in another district bank on account of such indebtedness, shall be retired or equitably adjusted. In no event shall the bank's equities be retired or canceled if the retirement or cancellation would adversely affect the bank's capital structure, as determined by the Farm Credit Administration.

(Pub. L. 92-181, title III, §3.10, Dec. 10, 1971, 85 Stat. 606; Pub. L. 96-592, title III, §307, Dec. 24, 1980, 94 Stat. 3445; Pub. L. 99-509, title I, §1033(c), Oct. 21, 1986, 100 Stat. 1877.)

AMENDMENTS

1986—Subsec. (a). Pub. L. 99-509 struck out “, with the approval of the Farm Credit Administration as provided in section 2205 of this title” after “from time to time”.

1980—Subsec. (a). Pub. L. 96-592, §307(1), inserted reference to section 2205 of this title.

Subsec. (d). Pub. L. 96-592, §307(2), substituted “market” for “book” and inserted provisions respecting retirement or cancellation of equities as affected by the capital structure.

§ 2132. Earnings and reserves; application of savings

(a) Application of savings

At the end of each fiscal year, the net savings shall, under regulations prescribed by the Farm Credit Administration, continue to be applied on a cooperative basis with provision for sound, adequate capitalization to meet the changing financing needs of eligible cooperative borrowers and prudent corporate fiscal management, to the end that current year's patrons carry their fair share of the capitalization, ultimate expenses, and reserves related to the year's operations and the remaining net savings shall be distributed as patronage refunds as provided in subsections (b) and (c) of this section. Such regulations may provide for application of net savings to the restoration or maintenance of an allocated surplus account, reasonable additions to unallocated surplus, or to unallocated reserves after payment of operating expenses, and provide for allocations to patrons not qualified under title 26, or payment of such per centum of patronage refunds in cash, as the board may determine.

(b) Patronage refunds

The net savings of each district bank for cooperatives, after the earnings for the fiscal year