

stock owned by the Federal land bank association.

(b) If a production credit association or merged association forgives and writes off, under §614.4517, any of the principal outstanding on a loan made to any borrower, the association shall cancel the same dollar amount of borrower stock held by the borrower in respect of the loan, up to the total amount of such loan.

(c) Notwithstanding paragraphs (a) and (b) of this section, the borrower shall be entitled to retain at least one share of stock to maintain the borrower's membership and voting interest.

[53 FR 35457, Sept. 14, 1988, as amended at 61 FR 67188, Dec. 20, 1996]

### Subpart K—Surplus and Collateral Requirements

SOURCE: 62 FR 4447, Jan. 30, 1997, unless otherwise noted.

#### § 615.5301 Definitions.

For the purposes of this subpart, the following definitions shall apply:

(a) The terms *institution*, *permanent capital*, *risk-adjusted asset base*, and *total capital* shall have the meanings set forth in §615.5201.

(b) *Core surplus*.

(1) Core surplus means:

(i) Undistributed earnings/ unallocated surplus less, for associations only, an amount equal to the net investment in the bank;

(ii) Nonqualified allocated equities that are not distributed according to an established plan or practice, *provided that*, in the event that a nonqualified patronage allocation is distributed, other than as required by section 4.14B of the Act, or in connection with a loan default or the death of an equityholder whose loan has been repaid (to the extent provided for in the institution's capital adequacy plan), any remaining nonqualified allocations that were allocated in the same year will be excluded from core surplus.

(iii) Perpetual common or noncumulative perpetual preferred stock that is not retired according to an established plan or practice, *provided that*, in the event that stock held by a borrower is retired, other than as required by sec-

tion 4.14B of the Act or in connection with a loan default to the extent provided for in the institution's capital plan, the remaining perpetual stock of the same class or series shall be excluded from core surplus;

(iv) A capital instrument or a particular balance sheet entry or account that the Farm Credit Administration has determined to be the functional equivalent of a component of core surplus. The Farm Credit Administration may permit an institution to include all or a portion of such instrument, entry, or account as core surplus, permanently or on a temporary basis, for purposes of this subpart.

(2) For associations only, other allocated equities may also be included in the core surplus ratio to the extent permitted by §615.5330(b) if the following conditions are met:

(i) The allocated equities are includable in total surplus; and

(ii) The allocated equities, if subject to revolvement, are not scheduled for revolvement during the next 3 years.

(3) The deductions required to be made by an institution in the computation of its permanent capital pursuant to §615.5210(e) (6) and (7) shall also be made in the computation of its core surplus.

(4) Core surplus shall not include equities held by other System institutions unless approved pursuant to paragraph (b)(1)(iv) of this section.

(5) The net impact of unrealized holding gains or losses on available-for-sale securities shall be excluded from core surplus.

(6) The Farm Credit Administration may, if it finds that a particular component, balance sheet entry, or account has characteristics or terms that diminish its contribution to an institution's ability to absorb losses, require the deduction of all or a portion of such component, entry, or account from core surplus.

(c) *Net collateral* means the value of a bank's collateral as defined by §615.5050 (except that eligible investments as described in §615.5140 are to be valued at their amortized cost), less an amount equal to that portion of the allocated investments of affiliated associations that is not counted as permanent capital by the bank.

§ 615.5330

12 CFR Ch. VI (1–1–98 Edition)

(d) *Net collateral ratio* means a bank's net collateral, divided by the bank's total liabilities.

(e) *Net investment in the bank* means the total investment by an association in its affiliated bank, less reciprocal investments and investments resulting from a loan originating/service agency relationship, including participations.

(f) *Nonqualified allocated equities* means allocations of earnings designated to the institution's members that are not deducted from the gross taxable income of the allocating institution at the time of allocation.

(g) *Perpetual stock or equity* means stock or equity not having a maturity date, not redeemable at the option of the holder, and having no other provisions that will require the future redemption of the issue.

(h) *Qualified allocated equities* means allocations of earnings that are deducted from the gross taxable income of the allocating institution and designated to the institution's members.

(i) *Total surplus* means:

(1) Undistributed earnings/unallocated surplus;

(2) Allocated equities, including allocated surplus and stock which, if subject to revolvement or retirement, have an original planned revolvement or retirement date of not less than 5 years and are eligible to be included in permanent capital pursuant to § 615.5201(j)(4)(iv); and

(3) Stock that is not purchased or held as a condition of obtaining a loan, provided that it is either perpetual stock or term stock with an original maturity of at least 5 years, and provided that the institution has no established plan or practice of retiring such perpetual stock or of retiring such term stock prior to its stated maturity. The amount of term stock that is eligible to be included in total surplus shall be reduced by 20 percent (net of redemptions) at the beginning of each of the last 5 years of the term of the instrument.

(4) The total surplus of an institution shall exclude the net impact of unrealized holding gains or losses on available-for-sale securities.

(5) A capital instrument or a particular balance sheet entry or account that the Farm Credit Administration has

determined to be the functional equivalent of a component of total surplus. The Farm Credit Administration may permit one or more institutions to include all or a portion of such instrument, entry, or account as total surplus, permanently or on a temporary basis, for purposes of this subpart.

(6) The Farm Credit Administration may, if it finds that a particular component, balance sheet entry, or account has characteristics or terms that diminish its contribution to an institution's ability to absorb losses, require the deduction of all or a portion of such component, entry, or account from total surplus.

(7) Any deductions made by an institution in the computation of its permanent capital pursuant to § 615.5210(e) (6) and (7) shall also be made in the computation of its total surplus.

[62 FR 4447, Jan. 30, 1997; 62 FR 19219, Apr. 21, 1997]

**§ 615.5330 Minimum surplus ratios.**

(a) *Total surplus.*

(1) Each institution shall achieve and maintain a ratio of at least 7 percent of total surplus to the risk-adjusted asset base.

(2) Each association shall compute its total surplus ratio by deducting an amount equal to the amount of allocated bank equities counted as permanent capital by the bank;

(3) Each Farm Credit bank shall compute its total surplus ratio by deducting an amount equal to the amount of the bank's equities counted as association capital.

(b) *Core surplus.*

(1) Each institution shall achieve and maintain a ratio of core surplus to the risk-adjusted asset base of at least 3.5 percent, of which no more than 2 percentage points may consist of allocated equities otherwise includible pursuant to § 615.5301(b).

(2) Each association shall compute its core surplus ratio by deducting an amount equal to the net investment in its affiliated Farm Credit bank from its core surplus.

(c) An institution shall compute its total surplus and core surplus ratios as of the end of each month.

[62 FR 4447, Jan. 30, 1997; 62 FR 11071, Mar. 11, 1997]