|  |  |
| --- | --- |
| **Title:** | **FINAL RULE WITH REQUEST FOR COMMENT--Temporary Regulations; Farm Credit System Regulatory Accounting Practices--12 CFR Part 624** |
| **Date of Issuance:** | **12/24/1986** |
| **Agency:** | **FCA** |
| **Federal Register Cite:** | **51 FR 46597** |

FARM CREDIT ADMINISTRATION

12 CFR Part 624

Temporary Regulations; Farm Credit System Regulatory Accounting Practices

**AGENCY:** Farm Credit Administration.

**ACTION:** Final rule with request for comment.

**SUMMARY:** The Farm Credit Administration (FCA) has promulgated final regulations implementing the provision of the Farm Credit Act Amendments of 1986 (1986 Amendments) relating to the utilization of regulatory accounting practices (RAP) by Farm Credit System (System) institutions.

The 1986 Amendments authorize System institutions, during the period July 1, 1986, through December 31, 1988, to defer certain specified expenses for regulatory purposes. As these expenses are incurred, they are capitalized rather than expensed, and amortized over a period not to exceed 20 years. Deferring expenses in the manner authorized by the 1986 Amendments is not in accordance with generally accepted accounting principles (GAAP).

The 1986 Amendments provide that the use of RAP by System institutions is subject to the approval of the FCA. These regulations set forth the terms and restrictions, and accounting, reporting, and disclosure requirements applicable to the use of RAP by System institutions. The use of RAP in accordance with these regulations will achieve the principal objective of the 1986 Amendments by enhancing the ability of System institutions to reduce the interest rates charged to their borrowers and enabling certain institutions to avoid insolvency for regulatory purposes.

**DATES:** Effective December 24, 1986. Written comments must be received on or before February 24, 1987.

**ADDRESS:** Submit comments in writing (in triplicate) to Frederick R. Medero, General Counsel, Farm Credit Administration, McLean, VA 22102-5090. Copies of all communications received will be available for examination by interested parties in the Office of General Counsel, Farm Credit Administration.

**FOR FURTHER INFORMATION CONTACT:**

Robert E. Donnelly, Office of Analysis and Supervision, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4450, or

Gary L. Norton, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4025

**TEXT: SUPPLEMENTARY INFORMATION:** The 1986 Amendments, which were enacted on October 21, 1986, amended the Farm Credit Act of 1971 (1971 Act) *(12 U.S.C. 2001,* et seq.) to eliminate the authority of the FCA to approve specific interest rates charged by System institutions and to authorize System institutions to defer certain expenses and amortize them over a period of time not to exceed 20 years on the approval of and in accordance with conditions established by the FCA.

On October 16, 1986, prior to enactment of the 1986 Amendments, the FCA published proposed regulations which would eliminate the requirement for the FCA to approve specific interest rates charged by individual institutions *(*[*51 FR 36824*](file://fcahome/DavWWWRoot/readingrm/fedreg/Federal%20Register%20Documents/51%20FR%2036824.docx)*).* Many of the provisions of those regulations are related to the proposed Capital Adequacy regulations which were published on July 23, 1986 *(*[*51 FR 26402*](file://fcahome/DavWWWRoot/readingrm/fedreg/Federal%20Register%20Documents/51%20FR%2026402.docx)*).* The FCA is analyzing comments received on those proposed regulations and will be adopting final regulations in the near future.

On December 18, 1986, the FCA Board adopted final regulations implementing the provisions of the 1986 Amendments relating to the use of RAP and the reporting and disclosure requirements associated therewith.

The 1986 Amendments were enacted for the purpose of achieving two principal objectives. First, the Amendments enhanced the ability of the System to provide competitive interest rates that meet the credit needs of System borrowers. While the 1986 Amendments were designed to enable the System to reduce the interest rates charged to its borrowers, the Congress made clear that in no case would any institution be authorized to charge rates of interest below competitive market rates for similar loans made by nongovernment lenders to borrowers of equivalent credit-worthiness. This limitation ensures that System assets are not dissipated and thus are available to maintain the current levels of System capital and to provide assistance to other System institutions experiencing financial difficulties through the Farm Credit System Capital Corporation (Capital Corporation). Secondly, the 1986 Amendments authorized System institutions to use RAP to defer and amortize portions of their provisions for loan losses. The use of this authority can enable an institution to avoid insolvency for a limited period of time for regulatory purposes. Again, the use of this authority is subject to FCA approval and such conditions as it may establish.

These regulations will be codified in new Part 624 of Title 12, Code of Federal Regulations. This part sets forth temporary authorities of the System relating to the use of RAP and related reporting and disclosure requirements.

Section 624.102 authorizes a System bank to (1) capitalize and defer expenses associated with the repurchase of its obligations on outstanding Systemwide notes and bonds issued on or before December 31, 1984; (2) provide for the defeasance of such obligations through contracts with a System service corporation or independent third party; or (3) defer the interest costs paid or to be paid on such obligations during the period July 1, 1986, through December 31, 1988. With regard to the repurchase or defeasance of such obligations, the expenses authorized to be capitalized shall be the excess of the cost to repurchase the obligation over the recorded net book value of the obligation. In the case of the capitalization of interest costs, the amount to be capitalized shall be limited to the excess of the bank's costs on such obligations over the market price for those same obligations on October 21, 1986 (date of enactment of the 1986 Amendments).

The FCA analyzed alternative methods of determining the amounts of expenses to be capitalized in accordance with these authorities. As a threshold matter, the FCA determined that the comparison between outstanding obligations and current issues must be based on obligations with the same maturity dates, not obligations with the same term to maturity at the time of issuance. Only a comparison of obligations with the same maturity dates could provide an accurate comparison of actual interest differentials. The FCA also analyzed whether interest comparisons should be based on the difference between the rates on an outstanding obligation and the rate on an obligation with the same maturity dates issued on October 21, 1986. The FCA concluded that this comparison would not be usable, since there could be many circumstances in which there were no new obligations issued on or about the date of enactment with terms comparable to the issues outstanding. Accordingly, the FAC determined that the use of actual secondary market quotations for specific obligations issued prior to December 31, 1984, provides the most accurate and fair method for comparing interest rates that is consistent with the specific requirements of the Act.

Section 624.102(c) restates the statutory provision that prohibits banks that defer expenses from charging rates of interest which are less than competitive interest rates. Competitive rates are defined as rates of interest for loans with similar terms charged by private lending institutions (in the same area) to borrowers of equivalent creditworthiness and access to alternative credit. While this statutory definition does not expressly require System institutions to employ differential rates in their lending programs, System institutions that offer the same lending rates for similar loans to borrowers of dissimilar creditworthiness would be obligated under the 1986 Amendments to charge all of their borrowers the rate which would otherwise apply to their least creditworthy borrowers.

Paragraph (d) of § 624.102 identifies the interest costs and other operating expenses which will be used by the FCA in its examination and supervisory programs as a basis for determining the appropriateness of each System institution's lending rate structure. These expenses are, in the case of System banks, (1) the cost of debt determined in accordance with RAP, (2) the amortized portion of interest expense or premium deferral, and (3) all operating costs and provisions for loan losses as determined in accordance with GAAP. In the case of production credit associations (PCA), such costs include interest expenses and other operating costs, including the provision for loan losses as determined in accordance with GAAP. Items (1) and (2) are not relevant for purposes of determining appropriate lending rates for PCAs, since the balance sheets of these institutions do not include debts of the type for which interest and interest-related costs can be deferred.

Section 624.103 authorizes each System institution to capitalize a portion of its provision for loan losses made during the period July 1, 1986, through December 31, 1988, for the purpose of maintaining the value of such institution's stock and participation certificates at par or face amount. The portion eligible for deferral is the amount of the provision for loan losses made by an institution on an annual basis that is in excess of 1/2 of 1 percent of the estimated loans outstanding at the current year end. However, for the period July 1, 1986, through December 31, 1986, the portion capitalized shall in no event exceed the amount of provision made by the institution during that half-year period.

The regulation restricts the authority to defer provisions for loan losses to amounts that are necessary to prevent capital impairment (for RAP purposes) because the only purpose for such a deferral is to treat an institution as solvent for regulatory purposes. The deferral cannot be used to improve an institution's financial condition since its financial statements are maintained in accordance with GAAP. This regulation will allow a GAAP-impaired institution to issue and retire stock at par, determined in accordance with RAP, if it elects to do so in accordance with § 624.104.

Paragraph (b) of this section requires an institution that uses RAP to correct capital impairment to execute a management agreement with the Capital Corporation. It is expected that such agreements will address the actions necessary to improve the institution's prospects to regain soundness and, if necessary, to enable the institution to receive financial assistance from the Capital Corporation in the event RAP procedures prove to be, or later become, insufficient to cure impairment. This requirement is the same as a provision in the regulations governing eligibility for financial assistance from the Capital Corporation. If an institution were to fail to comply with such agreement, its authority to use RAP could be withdrawn.

Institutions are required to execute such agreements as a precondition to using RAP to prevent impairment. However, in order to provide a transitional period, institutions are authorized to use RAP to cure impairments that occur as of December 31, 1986, if they execute agreements prior to March 31, 1987.

Section 624.103(c) prohibits an institution that is using RAP to defer its provision for loan losses from paying dividends or distributing patronage refunds. When such institution is an FICB or FLB, each PCA or FLBA in its district is also prohibited from paying dividends or distributing patronage. In operational terms, an institution that is using RAP to unimpair its capital would not have retained earnings from which it could pay dividends or distribute patronage. The regulation extends the prohibition to include associations in a district where a bank has used RAP to cure an impairment in order to preserve capital within a district that is in a critically weak financial condition. To allow a bank that is impaired on a GAAP basis to pass through additional funds to its associations would result in an even larger impairment of the bank's equities. Should an association, in turn, distribute such funds in the form of patronage or dividends, the effect would be equivalent to authorizing the distribution of all of the district's remaining capital, or having distributions made even after all of the district's capital has been dissipated.

Section 624.114 prohibits System institutions from reversing any financial assistance that was contributed or received (accrued) prior to October 1, 1986, in accordance with System Capital Preservation Agreements. This prohibition will protect institutions that could be facing imminent or actual stock impairment even with the use of RAP. A related concern is that such reversal would leave some institutions in a position where they would be close to having insufficient collateral to issue long-term debt obligations. This result must be avoided since it could cause confusion among investors and borrowers as to the future viability of the System and the marketability of its securities.

The FCA is aware that efforts are under way in the System to develop and implement various steps to deal with collateralization, including agreements that would provide for the sharing of collateral among System institutions. If, at a future date, the System implements collateral-sharing agreements or other actions that are demonstrably effective in correcting existing or potential collateral deficiencies that could otherwise preclude an institution from satisfying the collateral requirements for the issuance of debt, the FCA Board will be in a position to reexamine whether, within the context of the then-existing financial condition of the System, this regulation should be modified or deleted to permit the reversal of financial assistance transferred under the Capital Preservation Agreements. In considering such action in the future, the FCA Board will also have to be assured that the System has taken such other appropriate actions as are necessary to ensure that the reversal of financial assistance will not negatively impact the solvency of the institutions that are affected.

The requirements of this part which (1) prohibit the payment of dividends and patronage refunds, (2) prohibit the consideration of deferred interest expenses as capital, (3) require the execution of management agreements with the Capital Corporation, and (4) prohibit the reversal of intra-System assistance provided prior to October 1, 1986, will enhance the ability of institutions to reduce their interest rates while at the same time preserving the soundness of the System by preserving its resources. These provisions implement the express purposes of the 1986 Amendments and are consistent with the direction of Congress that "The FCA will continue to have authority, under the so-called 'safety and soundness' and 'capital adequacy' provisions of current law to ensure that the System does not take actions that threaten its viability." (See H.R. Rep. No. 967, 99th Cong., 2nd Sess. 6 (1986))

Section 624.104 provides each institution that is capitalizing and deferring a portion of its provision for loan losses with the option of issuing and retiring its stock and participation certificates (equities) on either a RAP or GAAP basis. The FCA believes that the selection of either option is a business decision that must be made by the board of directors and management of the institution. The selection of either option has accounting, disclosure, and legal implications that must be addressed by each institution.

If an institution decides to continue to issue and retire equities on a GAAP basis, the institution's board of directors must adopt a resolution that will require the institution to issue equities at par or face amount and retire equities at the lesser of par (face) or book value as determined in accordance with GAAP. Where an institution decides to issue and retire equities on a RAP basis, the institution's board of directors must adopt a resolution authorizing equities to be issued and retired at par (face) value as determined in accordance with RAP. Under this option, however, the institution is also required to obtain a legal opinion from independent counsel that the policies and procedures to be followed conform with the requirements of all applicable laws. An independent counsel would be an attorney other than the institution's in-house counsel. In either event, stock must be purchased in accordance with the statutory requirement of $5 per share. In addition, this section requires full disclosure to stockholders, holders of participation certificates, and new loan applicants, as set forth in § 624.113.

Subpart B establishes the accounting and disclosure requirements applicable to System institutions that use the authorities contained in the 1986 Amendments. Sections 624.111 and 624.112, pertaining to the deferral and capitalization of debt costs and provisions for loan losses, provide that such costs shall be amortized on a straight-line basis over a period not to exceed 20 years. Section 624.111 provides that capitalized debt costs shall not be considered as capital of an institution for any purpose and thus will not be considered a part of an institution's net worth.

Section 624.112 affirms the requirement that an institution using RAP to defer its provisions for loan losses shall maintain a separate allowance for loan losses determined in accordance with GAAP. The use of RAP to defer and capitalize loan loss provisions does not alter the responsibility of each institution to maintain an allowance for loan losses that reflects the inherent losses within the institution's loan portfolio.

This requirement is consistent with the provision of § 624.113, which require an institution that adopts RAP to issue financial statements to its stockholders in accordance with GAAP as provided for in Part 620 of the regulations. In accordance with § 624.113, the use of RAP must be disclosed in footnotes to the financial statements, and the financial statements must reconcile the differences between the application of GAAP and RAP. With these disclosure requirements, the stockholders of the institution's will be kept fully informed on the use and effects of RAP. Moreover, this requirement is consistent with the provisions of § 5.19(b) of the 1971 Act as amended by the 1986 Amendments, which provide that financial statements must be prepared in accordance with GAAP except with respect to actions authorized by the 1986 Amendments.

The requirement to issue financial statements prepared in accordance with GAAP is necessary since any other approach to disclosure would mislead stockholders as to the institutions true financial condition. In addition, if an institution were to issue RAP financial statements, it would result in the rendering of a qualified, or possibly adverse, opinion on its published financial statements. Either type of opinion would be detrimental to the institution since stockholders and investors have doubts about the actual financial condition of the institution. Such uncertainty could cause them to reduce or terminate their business relationships with the System.

Section 624.113 establishes additional requirements relating to the content and timing of disclosures to stockholders and loan applicants when the book value of an institution's stock and participation certificates determined in accordance with GAAP is less than par. This section requires each such institution to provide a written notice to its stockholders informing them of the following matters: (1) That the value of their investment is worth less than par; (2) the actual book value of the equity determined in accordance with GAAP; (3) the content of the resolution of the institution's board of directors relating to the stock issuance and retirement policy of the institution; and (4) the possible consequences and the effects of such policy on their investment in the institution. The same written disclosure must also be provided to loan applicants at the time of application.

The FCA Board has determined that these regulations shall be effective immediately upon publication and that the public shall have a period of 60 days from the date of publication within which to submit comments thereon. This determination is based upon the FCA Board's finding, for good cause and in accordance with *5 U.S.C. 553*(b), that public comments prior to the effective date are impracticable, unnecessary, and contrary to the public interest. These regulations implement the 1986 Amendments, which were enacted in an expeditious manner to address the serious financial condition of the System and provide System institutions with the authority to use RAP accounting. Those statutory powers can only be exercised with the approval of the FCA and subject to such conditions as it imposes. These regulations implement those statutory authorities and will enable the System to take swift actions in accordance with the 1986 Amendments. Since some of these authorities must be available to certain System institutions in time to prepare financial statements for year-end 1986, it would be impracticable and contrary to the public interest to delay their effective date pending the completion of a public comment period.

For the same reasons, these regulations are effective immediately without a delayed effective date as provided for in *5 U.S.C. 553*(d). In addition, these regulations permit System institutions to deviate from GAAP accounting by the use of RAP and thus provide exceptions and relieve restrictions that would otherwise apply to those institutions.

Finally, in accordance with *12 U.S.C. 2252*(b), the FCA Board finds, for the same reasons enumerated above, that an emergency exists which authorizes the publication of these regulations without prior review by the appropriate congressional committees.

**List of Subjects in 12 CFR Part 624**

Accounting, Agriculture, Banks, Banking, Credit, Rural Areas.

As stated in the preamble, Part 624 is added to Chapter VI, Title 12, of the Code of Federal Regulations to read as follows:

**PART 624 -- TEMPORARY REGULATIONS**

**Subpart A -- Deferral and Amortization of Premiums, Interest Expenses, and Provisions for Loan Losses**

Sec.

624.100 General.

624.101 Definitions.

624.102 Deferral of interest costs on debt.

624.103 Deferral of the provisions for loan losses.

624.104 Retirement of equities.

**Subpart B -- Accounting and Disclosure**

624.110 General.

624.111 Deferral of interest costs.

624.112 Deferral of the provision for loan losses.

624.113 Financial reporting and disclosure.

624.114 Financial assistance.

**Authority:** *12 U.S.C. 2201,* 2159, 2205, 2254, Pub. L. 99-509.

**Subpart A -- Deferral and Amortization of Premiums, Interest Expenses, and Provisions for Loan Losses**

**§ 624.100 General.**

The regulations contained in this part implement the provisions of the Farm Credit Act Amendments of 1986 relating to accounting by System institutions and establish the authorities, terms, conditions, and restrictions pursuant to which a System institution may use regulatory accounting practices to defer and capitalize a portion of its interest costs, provisions for loan losses, and premiums paid to retire debt instruments, and to amortize such amounts. The regulations contained in this part are effective until December 31, 1988.

**§ 624.101 Definitions.**

For the purpose of this part, the following definitions apply:

(a) "Capital Corporation" means The Farm Credit System Capital Corporation chartered in accordance with the Act.

(b) "Competitive interest rates" means rates of interest for loans with similar terms charged by private lending institutions in the same area to borrowers of equivalent creditworthiness and access to alternative credit.

(c) "Generally accepted accounting principles (GAAP)" means that body of conventions, rules and procedures necessary to define accepted accounting practice at a particular time, as promulgated by the Financial Accounting Standards Board and other authoritative sources recognized as setting standards for the accounting profession in the United States. Generally accepted accounting principles shall include not only broad guidelines of general application but also detailed practices and procedures that constitute standards against which financial presentations are evaluated.

(d) "Institution" refers to any Federal land bank, Federal land bank association, Federal intermediate credit bank, production credit association, bank for cooperatives, and the Central Bank for Cooperatives chartered under the Act.

(e) "Loans outstanding" means gross loans outstanding net of any participations at the end of each reporting period. The term "loan" includes loans, contracts of sale, notes receivable, and other similar obligations and lease financings. The term "loan" includes loans originated through direct negotiations between the reporting institution and a borrowing entity and loans or interest in loans purchased from another lender that are recorded as assets of a reporting institution.

(f) "Operating costs" means all noninterest expenses incurred by an institution in carrying on its ordinary activities.

(g) "Regulatory accounting practices (RAP)" means those accounting methods and practices directed by statutory and regulatory requirements provided for in the Act and in this part and that are not in accordance with GAAP.

(h) "System" means the Farm Credit System organized and operating in accordance with the Act.

**§ 624.102 Deferral of interest costs on debt.**

(a) A System bank may capitalize any premium paid to repurchase the bank's obligations on consolidated Systemwide notes and bonds issued on or before December 31, 1984, and may contract with a third party, including a service corporation chartered by the Farm Credit Administration, in order to perform a defeasance of these same obligations. The premium paid shall be the excess of the cost to repurchase or redeem an obligation over the recorded net book value for such obligation.

(b) A System bank may capitalize a portion of its interest expenses which have been paid or will be paid during the period July 1, 1986, through December 31, 1988, on Systemwide consolidated notes and bonds issued on or before December 31, 1984. The amount of a bank's interest expense on an obligation that may be capitalized shall be limited to the excess of the bank's cost on the obligation over the market price for the obligation on October 21, 1986.

(c) System banks that defer expenses in accordance with this section shall not charge rates of interest which are less than competitive interest rates.

(d) For purposes of supervisory evaluations performed by the Farm Credit Administration, the interest rates charged to borrowers will be evaluated in the context of the following costs:

(1) In the case of System banks, such costs include:

(i) The cost of debt determined in accordance with RAP,

(ii) The amortized portion of interest expense or premium deferral, and

(iii) All operating costs and provisions for losses determined in accordance with GAAP.

(2) In the case of production credit associations, such costs include interest expenses and other operating costs including the provision for loan losses as determined in accordance with GAAP.

**§ 624.103 Deferral of the provisions for loan losses.**

(a) Subject to the provisions of this section, a System institution is authorized during the period July 1, 1986, through December 31, 1988, to capitalize the amount of its provision for loan losses made on an annual basis in excess of 1/2 of 1 percent of loans outstanding as is necessary to maintain the value of the institution's stock and participation certificates at par or face amount in accordance with § 624.112 of this part.

(b)(1) Except as provided in paragraph (b)(2) of this section, no institution is authorized to use RAP to capitalize and defer its provisions for loan losses until such institution has executed a management agreement with the Capital Corporation that obligates the institution to take those actions that are necessary to correct operating deficiencies, control the management of high-risk assets, and improve management efficiency.

(2) Each institution that is eligible to use RAP to capitalize and defer its provision for loan losses based on its financial condition as of December 31, 1986, shall have until March 31, 1987, to execute a management agreement with the Capital Corporation.

(c)(1) During any period in which an institution has capitalized and is deferring a portion of its provision for losses, such institution shall not distribute or allocate patronage refunds or pay dividends to its patrons or shareholders.

(2) During any period in which a Federal land bank or Federal intermediate credit bank has capitalized and deferred a portion of its expenses related to its provision for loan losses, the production credit associations, in the case of a Federal intermediate credit bank, and the Federal land bank associations, in the case of a Federal land bank, in the district, shall not distribute or allocate patronage refunds or pay dividends.

**§ 624.104 Retirement of equities.**

An institution that is capitalizing and deferring a portion of its provision for losses in accordance with this part shall operate in accordance with paragraph (a) or (b) of this section:

(a) The board of directors of the institution shall adopt a resolution which provides for the issuance of stock and participation certificates at par value or face amount and the retirement at the lesser of par (or face amount) or book value as determined in accordance with GAAP. Full disclosure shall be provided to stockholders and loan applicants in accordance with Subpart B of this part.

(b) The board of directors of the institution shall adopt a resolution which authorizes the issuance and retirement of stock and participation certificates at par or face amount as determined in accordance with RAP subject to the following requirements:

(1) The institution shall obtain an opinion from independent legal counsel indicating that the basis for the issuance and retirement of equities approved by the board of directors and the related policies and procedures to be followed by the institution are in accordance with the requirements of the law; and

(2) The institution shall provide full disclosure to stockholders and loan applicants in accordance with Subpart B of this part.

**Subpart B -- Accounting and Disclosure**

**§ 624.110 General.**

System institutions that capitalize and defer interest expenses or provisions for loan losses as authorized by Subpart A of this part shall employ accounting practices and provide disclosures to stockholders and loan applicants as provided for in this part.

**§ 624.111 Deferral of interest costs.**

A bank that defers any expenses associated with actions taken in accordance with § 624.102 of this part shall amortize such expenses over a period not to exceed 20 years using straight-line amortization. The unamortized portion of debt-related cost that is deferred or is eligible to be deferred shall not be considered as capital of the institution for any purpose.

**§ 624.112 Deferral of the provision for loan losses.**

An institution that defers a portion of its provision for loan losses in accordance with § 624.103 of this part shall amortize such amount over a period not to exceed 20 years, using straight-line amortization. Institutions using RAP to defer their provisions for loan losses shall maintain an allowance for loan losses determined in accordance with GAAP.

**§ 624.113 Financial reporting and disclosure.**

(a) Any bank that defers interest expenses or its provision for loan losses shall issue its financial statements to stockholders in accordance with Part 620 of this chapter. In addition, each institution shall disclose clearly in footnotes to its financial statements the regulatory accounting practices adopted by the institution, and shall reconcile the differences between the application of GAAP and RAP.

(b) Each Federal land bank, bank for cooperatives, the Central Bank for Cooperatives, and production credit association that is deferring its provision for loan losses in accordance with § 624.103 of this part shall comply with the requirements of this paragraph.

(1) Not later than 30 days after the institution has deferred a portion of its provision for loan losses the institution shall provide each stockholder and holder of participation certificates with a clearly written notification of the following matters:

(i) That the book value of its stock and participation certificates determined in accordance with GAAP is less than par value or stated value.

(ii) The book value of the institution's stock and participation certificates.

(iii) An explanation of the resolution of the board of directors of the institution that authorizes the issuance and retirement of stock and participation certificates and the institution's equity retirement policy.

(iv) An explanation of the financial consequences of the institution's stock policy on the value of stock and participation certificates at issuance, retirement, and in the event of liquidation of the institution.

(2) The institution shall provide a clearly written notification of the matters contained in paragraph (b)(1) of this section to each loan applicant at the time of the application.

(c) An institution that has adopted any provision of this part shall notify the Farm Credit Administration not later than 30 days after such action. Reports of condition and performance submitted in accordance with Part 621 of this chapter shall be accompanied by an additional schedule as prescribed by the Farm Credit Administration which will reconcile the differences between the application of GAAP and RAP.

**§ 624.114 Financial assistance.**

No institution shall reverse any financial assistance provided by the Capital Corporation, or under the 37-Bank Capital Preservation Agreement, or any other capital preservation/loss sharing program that was received or accrued prior to October 1, 1986.

**Kenneth J. Auberger,**

Secretary, Farm Credit Administration Board.

[FR Doc. 28864 Filed 12-23-86; 8:45 am]

BILLING CODE 6705-01-M