

# Capitalization Bylaws

## Excerpt from the Bylaws Regarding Capitalization



## 700 General Authority to Issue

The Board may determine the amount of the initial or additional stock in the Association to be subscribed for by borrowers served by the Association in order to meet the capital needs of the Association.

- 700.1 **Additional Subscriptions.** Notwithstanding the general authority to issue stock, the Association may require its shareholders to subscribe to additional capital to meet its capital requirements under minimum capital adequacy Regulations.
- 700.2 **Stock Purchased as a Condition of Obtaining a Loan.** If at any time the Association does not meet the minimum capital adequacy standard(s) established by the Farm Credit Administration, all stock or participation certificates required to be purchased as a condition of obtaining a loan shall be purchased from the Association and may not be purchased from persons other than the Association.

## 705 Ownership

Except as otherwise required by Regulations, evidence of ownership of stock and participation certificates may be by book entry, or in definitive form prescribed by the Association. All stock required to be purchased as a condition of obtaining the loan shall be paid for by the time the loan is closed.

## 710 Authorized Shares

The Association is authorized to issue such amounts of stock and participation certificates as are necessary to meet the capital adequacy standards established under Regulations and is specifically authorized to issue:

- 710.1 [Reserved]
- 710.2 An unlimited number of shares of Class A Common Stock with a par value of \$5 per share;
- 710.3 An unlimited number of shares of Class C Common Stock with a par value of \$5 per share;
- 710.4 An unlimited number of shares of Class D Common Stock may be issued to the CoBank as the need arises, with a par value of \$1,000.00 per share;
- 710.5 An unlimited number of Class F Participation Certificates with a face value of \$5 per unit, provided that the total authorized units of Class F Participation Certificates for issuance to persons or entities who sell participation interests in loans or leases shall be 20 million;
- 710.6 Up to 500 million shares of Class H Preferred Stock with a par value of \$1 per share.
- 710.7 Such number of participation certificates and shares of such other classes of capital stock, as may be provided for in an amendment or

amendments to the Bylaws adopted from time to time as provided in Article XIV and, if preferred stock, Section 770 hereof.

## 715 Capital Policy

- 715.1 The Association's Board shall establish and adopt a capitalization plan with a minimum capital policy setting forth the minimum required capital level for Members of the Association. The minimum required capital level of each Member may not be less than the lesser of two percent (2%) of the collective total balance of such Member's loan(s) with the Association and the Subsidiaries, or \$1,000 per Member (floor), nor shall it exceed seven percent (7%) (ceiling) of the face amount of the Member's note(s), and shall be evidenced by one or more classes of stock or participation certificates.
- 715.2 Unless the Board established otherwise in the capitalization plan and subject to the Act and Regulations, the required capital level of a Member shall be obtained by direct purchase of stock or participation certificates from the Association.
- 715.3 The Board has authority to reduce the minimum required capital level of a Member if the Member agrees to exchange that portion of capital held as stock or participation certificates not deemed to be Association permanent capital, for an equivalent amount of stock or participation certificates that qualifies as Association permanent capital. However, the Board may not reduce the minimum required capital level below the statutory floor.
- 715.4 The Board shall have authority, without Member approval, to change the percentages utilized to determine minimum required capital levels as long as the change is within the range authorized in Section 715.1 of these Bylaws.
- 715.5 Changes to the minimum capital policy outside the parameters set forth in Section 715.1 shall, subject to minimum statutory requirements, require Member approval as provided in Section 770 and Article XIV of these Bylaws.

## 720 Rights, Preferences, and Limitations of Classes of Stock

- 720.1 **Class A Common Stock (Nonvoting, At-risk).** Class A Common Stock shall be issued as follows: (i) in exchange for Class C Common Stock or Class F Participation Certificates as provided in Sections 720.3 and 720.4; (ii) for dividends payments; (iii) in exchange for allocated surplus; and (iv) as patronage refunds. Class A Common Stock is nonvoting and shall be retired in accordance with Section 740.1 of these Bylaws.
- 720.2 [Reserved]

720.3 **Class C Common Stock (Voting, At-risk).** Class C Common Stock shall be issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote under the provisions of the Act and Regulations. Class C Common Stock shall be retired in accordance with Section 740.1 of these Bylaws. Each Class C Common Stock holder shall hold at least one share as long as the holder continues business with the Association. Within two (2) years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock (nonvoting stock).

720.4 **Class F Participation Certificates (Nonvoting, At-risk).** Class F Participation Certificates may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class F Participation Certificates may be issued to any person who is not a stockholder but who is eligible to borrow from the Association or a Subsidiary for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association or a Subsidiary. Class F Participation Certificates may be issued at the discretion of the Association's Board to persons who sell participation interests in loans or leases to the Association or a Subsidiary.

Within two (2) years after the holder terminates its relationship with the Association, any outstanding Class F Participation Certificates shall be converted to Class A Common Stock. Class F Participation Certificates shall be retired in accordance with Section 740.1 of these Bylaws. Class F Participation Certificates shall be nonvoting.

720.5 **Class D Common Stock (Nonvoting, At-risk).** Class D Common Stock shall be issued only to the CoBank and may be retired in accordance with Section 740.1 of these Bylaws. Class D Common Stock shall be nonvoting.

720.6 **Class H Preferred Stock (Nonvoting, At-risk).** Class H Preferred Stock may be issued to, and may be acquired by, Members who at the time of such issuance or acquisition hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. Class H Preferred Stock possesses only those voting rights set forth in Section 770 hereof. Class H Preferred Stock possess such other rights as specifically

provided for herein and in the Class H Stock Disclosure Statement furnished to prospective purchasers of Class H Preferred Stock, including any amendments thereto.

720.7 Other classes of capital stock shall have such rights, designations, preferences, qualifications, limitations and restrictions as shall be provided in the amendment or amendments of the Bylaws establishing such classes of capital stock.

720.8 No fractional shares of common stock or participation certificates, or cash in lieu of fractional shares, shall be issued or paid, except when necessary to implement issuance or retirement of any nonvoting stock. Fractional shares of Class H Preferred Stock may be issued.

720.9 **Loans Designated for Sale or Sold into the Secondary Market.**

(a) Notwithstanding the foregoing stock issuance provisions of these Bylaws, no purchase or issuance of voting stock or participation certificates shall be required in the case of a loan made on or after February 10, 1996, that is designated at the time the loan is made for sale into the secondary market. Except, however, if the loan so designated for sale is not sold into the secondary market during the 180 days beginning on the date of designation, the stock or participation certificate purchase requirements shall apply. If the loan is sold into the secondary market after the end of the 180-day period, the stock or participation certificates shall be retired provided that the Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by FCA pursuant to the Act or Regulations promulgated thereunder.

(b) In the case of a loan made prior to February 10, 1996, but is thereafter sold into the secondary market, all outstanding stock or participation certificates issued in connection with the loan shall be retired provided that the Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by FCA pursuant to the Act or regulation promulgated thereunder.

(c) Parts a) and b) shall apply even though the Association retains a subordinated participation interest in a loan or pool of loans or contributes to a cash reserve.

## 725 Application of Earnings and Losses

725.1 At the end of each fiscal year, the Association shall, after paying or providing for all operating

expenses (including, without limitation, provisions for loan losses and losses on acquired property determined in accordance with generally accepted accounting principles), determine the amount of its consolidated net earnings or net losses for such year.

725.2 Any net earnings determined pursuant to Section 725.1 shall be applied in the following order of priority:

First, to the restoration of the amount of the impairment, if any, of Class H Preferred Stock on a pro-rata basis;

Second, to the restoration of the amount of the impairment, if any, of all classes of common stock and participation certificates on a pro-rata basis;

Third, to the restoration of the amount of the impairment, if any, of the allocated surplus account in the reverse order of impairment;

Fourth, to increase surplus to meet minimum capital adequacy standards established by Regulations;

Fifth, to increase surplus to meet Association capital adequacy standards, to such levels as is necessary to support competitive pricing at targeted earnings levels;

Sixth, subject to the Act and the Regulations thereunder, in such manner as shall be determined by the Board including, without limitation, to the payment of dividends, patronage refunds, and retirement of any portion of any class of stock as provided for in Sections 730, 735 and 740 of these Bylaws.

725.3 Any net losses determined pursuant to Section 725.1 to the extent they exceed any contingency reserve and unallocated surplus shall, except as otherwise provided in the Act, be treated as impairing: first, allocated surplus evidenced by nonqualified written notices of allocation in the reverse order of issuance until all such allocated surplus has been impaired; second, allocated surplus evidenced by qualified written notices of allocation in the reverse order of issuance until all such allocated surplus has been impaired; third, to all classes of common stock and participation certificates until fully impaired; and fourth, to Class H Preferred Stock until fully impaired. Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class or, with respect to allocated surplus, pro rata based on year of issuance.

declaration thereof no class of common stock and participation certificates shall be impaired, non-cumulative dividends may be declared on all classes of common stock and participation certificates as the Board from time to time may, in its sole discretion, determine. Dividends may be distributed in cash, stock which the recipient is eligible to hold, or both. Any dividends paid to the holders of common stock and participation certificates shall be on a per share basis without preference between classes of common stock and participation certificates or between holders of the same class of stock. Dividends may not be paid if the action would result in failure of the Association to meet minimum capital adequacy requirements established under Regulations. No dividends on common stock and participation certificates shall be paid with respect to any year for which the Association has passed an obligating resolution to distribute patronage under Section 735 hereof. In no event shall dividends on any class of stock or participation certificates exceed eight percent (8%) of the par value of said stock.

Notwithstanding the foregoing, the Association shall not pay a dividend on common stock or participation certificates unless all accrued dividends on Class H Preferred Stock as of the end of the most recent accrual period (as defined in Section 730.2 below) have been fully paid or declared and a sum set aside in payment thereof.

730.2 **Cumulative Dividends on Class H Preferred Stock.** Dividends on each share of Class H Preferred Stock shall accrue on a daily basis at a specified rate from and including the date of issuance of such share and to and including the date such share is retired. The rate at which dividends shall accrue shall be set, and adjusted from time to time, by the Board pursuant to the terms of the Class H Stock Disclosure Statement; provided, however, the dividend rate on Class H Preferred Stock shall not exceed eight percent (8%) per annum of the par value of said stock. Accrued dividends shall cumulate until declared and paid. Subject to the Act and the Regulations thereunder, and provided that at the time of declaration thereof no class of common stock shall be impaired, accrued dividends on Class H Preferred Stock may be declared in the Board's sole discretion in the order accrued with each calendar month representing an accrual period. The obligation of the Association to pay dividends on Class H Preferred stock may be indefinitely deferred as long as no dividend is paid to holders of common stock and participation certificates and as long as no patronage refunds have been paid. Dividends will be paid on the effective date of the declaration to holders of shares of Stock during the accrual period specified by the declaration. When declared, dividends on Class H Preferred Stock may be paid in cash or additional shares of Class H Preferred

## 730 Dividends

730.1 **Non-cumulative Dividends on Common Stock.** Subject to the Act and the Regulations thereunder, and provided that at the time of

Stock as the Board so determines. Notwithstanding the foregoing, dividends may not be paid if the action would result in failure of the Association to meet minimum capital adequacy requirements established under Regulations.

- 730.3 **Mandatory Reinvestment from Dividend Payment.** If at the time of any cash dividend payment any Member's investment is below the minimum required capital level for such Member, established pursuant to Section 715 of these Bylaws, the Association is authorized to use part of the dividend proceeds to increase the Member's investment to such minimum required level.
- 730.4 **Dividends — Other.** Any dividend that is declared by the Board on capital stock or participation certificates and distributed by the Association shall not reduce the net earnings from business done with or for Patrons for the year of distribution as defined in Section 735. Such dividends are in addition to amounts otherwise payable to Patrons which are derived from business done with or for Patrons during the fiscal year.

## 735 Patronage Refunds

- 735.1 **General.** 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 and its Subsidiaries. Patrons shall include Members and such other customers, borrowers and financial institutions with which the Association or Subsidiary conduct business on a patronage basis during the fiscal year as identified by the Board in the Patronage Resolution. Patronage-Sourced Net Earnings shall mean the net earnings of the Association and its Subsidiaries 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. Each patronage transaction shall include as part of its terms, whether the same has been expressly referred to in said transaction or not, the provisions of this Article VII of the Bylaws.

Unless a plan using an alternative equitable and nondiscriminatory basis has been approved by the Board, all patronage refunds shall be allocated based on the proportion that the average

outstanding balance of each Patron's patronage business during the earnings year bears to the average outstanding balance of all Patron's patronage business during the earnings year. Any earnings pool that may be established for the payment of patronage refunds shall be established on a rational and equitable basis and shall insure that each Patron of the Association receives its fair share of the earnings of the Association and bears its fair share of the expenses of the Association. The Board retains the discretion not to pay patronage with respect to one or more such earning pools provided that all Patrons are treated fairly and equitably.

As provided in the Agreement, the Association shall establish a separate patronage pool for Patronage-Sourced Net Earnings attributable to patronage business conducted by Southwest ACA and its subsidiaries for the period prescribed in the Agreement.

- 735.2 **Mandatory Reinvestment from Cash Patronage Refunds.** If at the time of any cash patronage refund payment any Member's investment is below the minimum required capital level for such Member, established pursuant to Section 715 of these Bylaws, the Association is authorized to use the cash patronage refund proceeds, except the portion required to be paid in cash, to increase the Member's investment to such minimum required level.

- 735.3 **Restrictions on Distributions.** The available consolidated net earnings shall be determined after (i) making provision for the requirements of Section 725, including the setting aside of a portion of the net earnings in the unallocated surplus account, as deemed prudent for sound capital accumulation; and (ii) 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 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 refund will be made.

Notwithstanding the foregoing, the Association shall not distribute a patronage refund unless all accrued dividends on Class H Preferred Stock as of the end of the most recent accrual period (as defined in Section 730.2) have been fully paid or declared and a sum set aside in payment thereof.

- 735.4 **Payment of Distributions.** Patronage refunds may be in cash, Class A Common Stock, or allocations of earnings retained in an allocated surplus account, or any combination thereof; provided that the cash portion of any patronage

refund which includes a “qualified written notice of allocation” shall not be less than the amount required to qualify such distribution as a deduction for Federal income tax purposes. Distributions in the form of Class A Common Stock and allocated surplus may be in qualified or nonqualified form, as those terms are defined in 26 U.S.C. § 1388.

In the Patronage Resolution or otherwise, the Board may provide that if a Patron’s share of a patronage refund is below a de minimis level established by the Board, the Patron shall not be eligible to participate in such patronage refund or the Patron’s share of such Patronage Refund will be applied, in part or whole, to the Patron’s indebtedness.

If the Association distributes patronage allocations to Patron who cannot be located for redemption of patronage refunds, such patronage refunds shall forfeit to the Association and be added to unallocated surplus.

735.5 **Application to Debt.** Any part of the patronage allocated to a borrower, except any portion required to be allocated in cash, may, in the sole discretion of the Association, be applied to such borrower’s indebtedness to the Association or a Subsidiary. If the debt of a borrower is in default, any part of the patronage refund to that borrower may, at the discretion of the Association, be applied against the borrower’s indebtedness to the Association or a Subsidiary.

735.6 **Patron’s Consent to Take Patronage Distribution into Income.** Each person who hereafter applies for and is accepted to membership in this Association and each member of this Association on the effective date of this bylaw who continues as a member after such date, and each person who thereafter applies for and is issued stock or participation certificates of this Association shall, by such act alone, consent that the amount of any distributions with respect to the member’s patronage occurring after the date these Bylaws were adopted, 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 stock of the Association), and which are received by the member from the Association, will be taken into account (as income) by the member 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 by the member. Such members also consent by such act alone, to take into account (as income) in the same manner, the amount of any distributions with respect to patronage provided the member receives written notice that such amount has been applied on the member’s indebtedness to the Association or a Subsidiary.

The Association may obtain the written consent of each Patron that the amount of any distributions with respect to the Patron’s patronage, 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 accounts 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 26 U.S.C. §1385(a) in the taxable year in which such written notices of allocation are received. Such written consent may include a consent 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 or a Subsidiary. The form of consent shall be prescribed by the Board, except that it 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 borrowers. Any 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. Consent may also be obtained by use of a qualified check in the manner provided for in 26 U.S.C. §1388.

735.7 **Capital Adequacy Standards.** Notwithstanding other provisions of this section, the Association may not obligate itself to distribute earnings on a patronage basis if the permanent capital of the Association would be reduced to the extent that the Association would not meet its capital adequacy standards as determined from time to time in accordance with the Regulations.

735.8 **Discretionary Retirement.** If, at any time, the Board in its sole discretion shall determine that the financial condition of the Association shall not be impaired thereby, the patronage allocated to the accounts of Patrons may be retired in full or in part. No legal or equitable right to payment or redemption shall exist unless and until the Board shall have determined that funds are available and until the holder of allocated patronage shall have responded to a call for payment duly issued by the Board. Any such retirement of allocated patronage shall be made in such order of priority as shall be determined by the Board in its sole discretion.

Notwithstanding any other provision of these Bylaws, the Board, in its sole discretion, shall have the power to retire the patronage allocated to any Patron in such events as death or bankruptcy, or to settle a dispute, on such terms and conditions as may be deemed appropriate by the Board, or in any instance in which the interests of the Association and its stockholders

are deemed to be furthered thereby; and funds are determined by the Board to be available for such purpose.

- 735.9 **Subsidiaries.** Where the Association arranges for the provision of credit and/or related services to its members through a Subsidiary, and such members avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from a Subsidiary, 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 a Subsidiary shall be treated as business done with the Association.

## 740 Retirement

- 740.1 **General.** Subject to Section 4.9A of the Act and Sections 740.3 of these Bylaws, and further subject to any limitations imposed by FCA, the Board is authorized to retire all or any portion of any class of stock or participation certificates as it may determine, in its sole discretion, is unnecessary to meet the capital requirements of the Association and not on a date certain or on the happening of any event such as repayment of a loan or pursuant to an automatic retirement or revolvement plan, provided that, the Association shall not make any such retirement if the action would result in failure of the Association to meet minimum capital adequacy requirements established under Regulations. Any common stock or participation certificates so retired shall be retired at book value not to exceed par value. Shares of Class H Preferred Stock shall be retired at book value not to exceed par value and under the terms and conditions described in the Class H Stock Disclosure Statement.
- 740.2 **Special Retirement.** Except as is provided in law or Regulations, nothing in these Bylaws shall restrict the authority of the Board to make special stock retirements on a case-by-case basis in consideration of the granting of forbearance, or the exchange of Association non-permanent capital for Association capital or any other appropriate business reason; provided that, the Association shall not retire stock if the action would result in failure of the Association to meet minimum permanent capital requirements, and provided further, that each Voting Stockholder continuing to do business with the Association shall retain at least one share of voting stock in accordance with Sections 720.3 of these Bylaws.
- 740.2.1 When the debt of a holder of Class A Common Stock, Class C Common Stock or Participation Certificates is in default on a loan or loans from the Association or the Subsidiaries, the Board may, but is not required to, retire such stock

or participation certificates at book value not to exceed par, and apply all or part of the retirement proceeds in total or partial satisfaction of the holder's indebtedness, as allowed by FCA Regulations.

- 740.3 **Mandatory Reinvestment from Retirement Proceeds.** If at the time of any stock retirement any Member's investment is below the required capital level established for such Member, pursuant to these Bylaws, or, if retirement shall cause the Member's investment to fall below such minimum capital requirement, the Association is authorized to use part of the retirement proceeds to increase the Member's investment to such minimum required level.

## 745 Allocated Surplus Account

- 745.1 As set forth in the Capitalization Plan and subject to the Regulations, the Association may create an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis. 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 year as funds are available.
- All allocations in the form of non-qualified written 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.
- In the event of a net loss for any fiscal year, such allocated surplus shall be subject to impairment in the order specified herein, and on the basis of most recent allocations first as provided in Section 725.3. Only those persons to which allocated surplus may be issued may own such allocated surplus.
- 745.2 The Association and Subsidiaries, as applicable, shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as collateral for the borrower's indebtedness to the Association and Subsidiaries.
- 745.3 When the debt of the borrower is in default or is in the process of final liquidation by payment or otherwise, the Board may, but is not required to, retire any and all surplus

allocations owned by such borrower to be applied on the indebtedness.

- 745.4 The Association's Board is authorized to retire for cash or Class A Common Stock all or any portion thereof of the allocated surplus as it may, in its sole discretion, determine unnecessary to meet the capital requirements of the Association, and not on a date certain or on the happening of any event. The Association shall not retire any allocated surplus if the action would result in the failure of the Association to meet minimum capital adequacy requirements established under Regulations. Any allocated surplus account protected under the provisions of Section 4.9A of the Act shall be retired in accordance with the provisions of said section.
- 745.5 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 the allocations of "non-qualified" amounts. Such surplus accounts shall be transferable only to the Association or to an eligible member 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.

## 750 Transferability

- 750.1 Subject to Section 700.2 of these Bylaws, all classes of stock and participation certificates shall be transferable to any holder to which such respective classes of stock and participation certificates may be issued in accordance with Section 720, et seq.
- 750.2 The Association shall be its own transfer agent in all matters relating to its capital stock and participation certificates.
- 750.3 Stock and participation certificates shall not be pledged or hypothecated by stockholders to third parties, except as provided in the Regulations and these Bylaws, and may be transferred on the Association's books only as authorized by these Bylaws.

## 755 First Lien

All capital stock and participation certificates are subject to a first lien in favor of the Association and its Subsidiaries, as applicable, to secure any indebtedness of the holder of such capital investment.

## 760 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 in the following order of priority:

First, to the holders of Class H Preferred Stock, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding, plus accrued but unpaid dividends, has been distributed to such holders;

Second, to the holders, pro rata, of all classes of common stock and participation certificates, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;

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;

Fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuance;

Fifth, any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

## 765 Loan Fees

The Association's Board shall have the authority to establish loan origination fees or other such fees as they determine appropriate.

## 770 Issuance of Preferred Stock

Any amendments to this Article VII or to the Capitalization Bylaws of a Subsidiary, except those of a technical nature not affecting substantive rights, shall not become effective unless approved by a simple majority of the holders of Class C Common Stock voting, in person or by proxy, at a meeting properly called as provided for in these Bylaws. Issuances of preferred stock shall be approved by a majority of the shares voting of each class of equity adversely affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

## 780 Regulatory Capital Treatment of Nonqualified Notices

Notwithstanding any provision herein to the contrary, any nonqualified written notice of allocation ("Notice") issued after the Effective Date of these Bylaws and which expressly states it is subject to this Section 780 (i) cannot be redeemed, other than in liquidation of the Association; (ii) cannot be considered by the Association as satisfying any borrower requirement to capitalize the Association; (iii) cannot be offset against the holder's loan in the event of a loan loss on such holder's account; and (iv) can be impaired on a pro rata basis (not on a patronage basis) in the event of an Association operating loss. If FCA determines that a Notice may be included in unallocated surplus for regulatory capital purposes absent any one of the four restrictions in the preceding sentence, then such restriction shall cease to have any effect, and the corresponding provision of Article VII of the Bylaws shall apply in lieu of such restriction.