

Budget expense categories	2000-01 (revised)	2001-02
Office Rent .....	28,000	23,300
Travel .....	21,000	20,000
Reserve (Contingencies) .....	28,550	53,185
Equipment Rental .....	8,000	9,000
Data Processing .....	5,000	4,000
Stationery & Printing .....	5,500	4,500
Office Supplies .....	5,000	4,500
Postage & Messenger .....	7,000	6,000

The Committee reviewed and unanimously recommended 2001-02 expenditures of \$403,200. Prior to arriving at this budget, the Committee considered information from various sources, such as the Committee's Executive Subcommittee. An alternative to this action would be to continue with the \$2.00 per ton assessment rate, but the reduced anticipated crop size would not be sufficient to generate monies to fund all the budget items. The assessment rate of \$2.80 per ton of salable dried prunes was determined by dividing the total recommended budget by the estimated salable dried prunes. The Committee is authorized to use excess assessment funds from the 2000-01 crop year (currently estimated at \$51,005) for up to 5 months beyond the end of the crop year to fund 2001-02 crop year expenses. At the end of the 5 months, the Committee refunds or credits excess funds to handlers (\$993.81(c)). Anticipated assessment income and interest income during 2001-02 would be adequate to cover authorized expenses.

Recent price information indicates that the grower price for the 2001-02 season should average above \$850 per salable ton of dried prunes. Based on estimated shipments of 144,000 salable tons, assessment revenue during the 2001-02 crop year is expected to be less than 1 percent of the total expected grower revenue.

This action would increase the assessment obligation imposed on handlers. While assessments impose some additional costs on all handlers, the costs are minimal and uniform on all handlers. Some of the additional costs may be passed on to producers. However, these costs would be offset by the benefits derived by the operation of the marketing order. In addition, the Committee's meeting was widely publicized throughout the California dried prune industry and all interested persons were invited to attend the meeting and participate in Committee deliberations on all issues. Like all Committee meetings, the June 28, 2001, meeting was a public meeting and all entities, both large and small, were able to express views on this issue. Finally,

interested persons are invited to submit information on the regulatory and informational impacts of this action on small businesses.

This proposed rule would impose no additional reporting or recordkeeping requirements on either small or large California dried prune handlers. As with all Federal marketing order programs, reports and forms are periodically reviewed to reduce information requirements and duplication by industry and public sector agencies.

The Department has not identified any relevant Federal rules that duplicate, overlap, or conflict with this rule.

A small business guide on complying with fruit, vegetable, and specialty crop marketing agreements and orders may be viewed at: <http://www.ams.usda.gov/fv/moab/html>. Any questions about the compliance guide should be sent to Jay Guerber at the previously mentioned address in the **FOR FURTHER INFORMATION CONTACT** section.

A 30-day comment period is provided to allow interested persons to respond to this proposed rule. Thirty days is deemed appropriate because: (1) The 2001-02 crop year begins on August 1, 2001, and the marketing order requires that the rate of assessment for each crop year apply to all assessable dried prunes handled during such crop year; (2) the proposed rule would increase the assessment rate for assessable prunes beginning with the 2001-02 crop year; and (3) handlers are aware of this action which was unanimously recommended by the Committee at a public meeting and is similar to other assessment rate actions issued in past years.

#### List of Subjects in 7 CFR Part 993

Plums, Prunes, Marketing agreements, Reporting and Recordkeeping requirements.

For the reasons set forth in the preamble, 7 CFR part 993 is proposed to be amended as follows:

#### PART 993—DRIED PRUNES PRODUCED IN CALIFORNIA

1. The authority citation for 7 CFR part 993 continues to read as follows:

**Authority:** 7 U.S.C. 601-674.

2. Section 993.347 is revised to read as follows:

#### **§ 993.347 Assessment rate.**

On and after August 1, 2001, an assessment rate of \$2.80 per ton is established for California dried prunes.

Dated: August 14, 2001.

**Kenneth C. Clayton,**

*Acting Administrator, Agricultural Marketing Service.*

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**BILLING CODE 3410-02-P**

#### **FARM CREDIT ADMINISTRATION**

#### **12 CFR Parts 611 and 614**

**RIN 3052-AB86**

#### **Organization; Loan Policies and Operations; Termination of Farm Credit Status**

**AGENCY:** Farm Credit Administration.

**ACTION:** Proposed rule.

**SUMMARY:** This current proposal would amend our regulations to allow a Farm Credit System (FCS, Farm Credit or System) institution to terminate its FCS charter and become a financial institution under another Federal or State chartering authority. Our purpose is to amend the existing regulations so they apply to all System banks and associations and to make other changes. In our current proposal, we generally value equity held by dissenters (i.e., dissenting stockholders and System institutions that choose not to hold equity in the successor institution) after the exit fee is deducted from a terminating institution's capital and assets.

**DATES:** Please send your comments to us by October 19, 2001.

**ADDRESSES:** You may send comments by electronic mail to "reg-comm@fca.gov" or through the Pending Regulations section of our Web site at "www.fca.gov." You may also send comments to Thomas G. McKenzie, Director, Regulation and Policy Division, Office of Policy and Analysis,

Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090 or by fax to (703) 734-5784. You may review copies of all comments we receive in the Office of Policy and Analysis, FCA.

**FOR FURTHER INFORMATION CONTACT:**

Alan Markowitz, Senior Policy Analyst,  
Office of Policy and Analysis, Farm  
Credit Administration, McLean, VA  
22102-5090, (703) 883-4479;  
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22102-5090, (703) 883-4020, TDD  
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**SUPPLEMENTARY INFORMATION:**

**I. Objectives**

The objectives of our current proposal are to:

- Provide a termination procedure for Farm Credit associations and banks under section 7.10 of the Farm Credit Act of 1971, as amended (1971 Act);
- Ensure that remaining FCS institutions can continue fulfilling their congressional mandate of serving the credit needs of farmers, ranchers, and cooperatives;
- Ensure that remaining FCS institutions are able to operate safely and soundly;
- Ensure that all equity holders of a terminating institution are treated fairly and equitably; and
- Ensure that stockholder disclosure materials are informative and easy to understand.

**II. Introduction**

We proposed amendments to our existing termination rule on November 5, 1999. See 64 FR 60370 for a full discussion of the 1999 proposal. We also published a sample exit fee calculation for a hypothetical FCS bank and association choosing to terminate their Farm Credit status under the 1999 proposal. (See 65 FR 5286, Feb. 3, 2000.)

After further deliberations, including discussions with the Farm Credit System Insurance Corporation (FCSIC), we believe the 1999 proposal needs revision, primarily to the method for calculating dissenters' equity. For purposes of this preamble discussion, we will use the term "dissenters" to refer generally to equity holders of a terminating institution that choose not to receive equity in the successor institution. Dissenters include System institutions, as well as "dissenting stockholders," who are defined in the regulation as equity holders other than System institutions that choose not to hold stock in the successor institution.

"Dissenting stockholders" are primarily retail borrowers of the associations and CoBank.

The 1999 proposal required a terminating institution to retire the equities of dissenters, in cash or in exchange for other debt or equity in the successor institution (if the dissenter agreed), before the exit fee was calculated. We noted in the preamble to the 1999 proposal that such a calculation would enable dissenters to receive approximately the same payment for their equities that they would receive if the institution were liquidated.

On reconsideration, we have decided to calculate the value of dissenters' equities after payment of the exit fee. Congress required System institutions to make a payment to the Farm Credit Insurance Fund (Insurance Fund) as a prerequisite to the exercise of the authority to terminate Farm Credit status. Section 7.10(a)(4) of the statute provides for the terminating institution to pay "the amount by which total capital exceeds 6 percent of assets." The 1971 Act also provides that the terminating institution must meet "such other conditions as the Farm Credit Administration Board by regulation considers appropriate" (section 7.10(a)(7)).

Calculating and deducting the exit fee before other payments maximizes the payment to the Insurance Fund. It also means that stockholders of a terminating institution will receive approximately the same proportionate value for their equities, whether they dissent or choose to be stockholders of the successor institution. Dissenters will not receive a "windfall" at the expense of the continuing stockholders, and vice versa. We believe the consequence is that stockholders will base their decision to support or dissent from termination on other aspects of the proposal, such as whether giving up Farm Credit status will benefit borrowers.

Our current proposal, described in more detail below, treats dissenters' equity similarly to the existing regulation. In the existing regulation, the calculation and deduction of the exit fee occurs before dissenters' equity is valued. System institutions' investments are retired for cash, and dissenting stockholders receive a combination of cash and subordinated debt in the successor institution. In the current proposal, we would continue to require the terminating institution to retire other System institutions' investments for cash. For dissenting stockholders' equity, we expressly mandate cash payments only on purchased equities to enable the terminating institution to

retain a larger amount of capital and capital-like instruments. The terminating institution has the choice of paying cash or issuing subordinated debt, or doing both, for a dissenting stockholder's remaining equity. We note that when dissenting stockholders receive subordinated debt rather than cash, the repayment of that debt will depend on the continued financial health of the successor institution.

Our 1999 proposal would have required the terminating institution to escrow all funds that would be paid to dissenting stockholders. In our current proposal, we have retained the escrow requirement, but only the cash portion of the payment to dissenting stockholders must be escrowed.

We propose to calculate the equity of dissenters as follows:

- First, the terminating institution's exit fee would be calculated as the capital in excess of 6 percent of (adjusted) assets. The exit fee would then be deducted from the institution's capital and assets.
- Second, the value of stockholders' equity would be computed.

Dissenting stockholders would receive cash payment equal to par or face value (less any impairment) for equities they purchased from the institution. For equity other than purchased equities—such as allocated equities, stock distributions, and a pro-rata share of unallocated surplus—dissenting stockholders would receive, at the option of the terminating institution, cash or subordinated debt with a term of up to 7 years, at a rate of interest tied to U.S. Treasury debt. System institutions that dissent would receive cash for their equity (both purchased equities and other forms of equity).

We propose a different method of calculating dissenters' equity in the case of a non-terminating association. A non-terminating association is one that chooses to reaffiliate with another System bank when its funding bank decides to terminate. If the reaffiliating association transfers all its equity, including its pro-rata share of unallocated surplus, to its newly affiliated FCS bank, all such equity will be valued and deducted from the terminating bank's assets and capital before the bank's exit fee is calculated. However, if the reaffiliating association decides *not* to transfer some of its capital to its new bank, such equity will be valued after the exit fee is deducted from the terminating bank's assets and capital.

Although allowing non-terminating associations to transfer equity to another System bank before the exit fee

calculation will reduce the payment to the Insurance Fund, we believe such a treatment effectively protects System banks and Systemwide bondholders. Capital transferred to another System bank will serve two purposes. First, the transferred capital contributes to the financial strength of both the bank and the non-terminating association, thus making a claim by that bank and association against the Insurance Fund less likely. Second, because System banks are jointly and severally liable on Systemwide obligations in the event the Insurance Fund is ever exhausted, capital at the reaffiliated association's bank remains available to repay the obligations.

Our current proposal would make the following additional changes to the existing rule:

- The current proposal applies to all FCS banks and associations;
- An institution's exit fee is calculated on the date of termination;
- Terminating institutions must escrow 110 percent of both the estimated exit fee and cash stock retirements to dissenters pending a final audit;
- A terminating association may repay its direct loan on a schedule agreed to by its bank;
- If a bank and a terminating association are unable to agree on when and how the bank will retire the association's investment in the bank, the bank must retire the investment on or before the date the association's direct loan is repaid;
- System institutions may exchange their investments in a terminating institution for equity in the successor, to the extent permitted by law; and
- A terminating bank's payment to the Farm Credit System Financial Assistance Corporation (FAC) is based on its retail loan volume, the loan volume of associations terminating with the bank, and the loan volume of associations maintaining their direct loan with the bank after termination.

We received comments on our 1999 proposal from the Farm Credit Council (Council) on behalf of its member banks and associations and from an employee of the AgFirst Farm Credit Bank. The bank employee commented generally that an institution would be more likely to liquidate than to terminate under the 1999 proposal. We also met with representatives from the Treasury Department's Office of Government-Sponsored Enterprise Policy. Treasury's and the Council's comments and our responses are described below in our section-by-section analysis.

### III. Section-by-Section Analysis

#### *Section 611.1205—Definitions That Apply in Subpart P*

We revise our previously proposed definition of "assets" by removing the phrase "(less appropriate valuation adjustments)." We agree with the Council's comment that the phrase is unnecessary because the definition states that assets must be in conformity with generally accepted accounting principles (GAAP).

The Council asked us to clarify our definition of "successor institution" to indicate whether an "other financial institution" referred to in section 7.10(a)(3) of the 1971 Act can include "finance companies that are unregulated financial institutions." We understand that an "unregulated" finance company is a financial institution that is not supervised or examined by a Federal or State banking agency. We believe that the 1971 Act allows a terminating institution to become a financial institution that is not supervised and examined by a Federal or State banking agency.

#### *Section 611.1210—Commencement Resolution and Advance Notice*

At the Council's request, we propose revising § 611.1210(b)(1) to add the FAC to the entities that receive a certified copy of a bank's resolution commencing termination. Accordingly, our current proposal requires a certified copy of the commencement resolution to be sent to the FCA, FCSIC, FAC, and the Federal Farm Credit Banks Funding Corporation (Funding Corporation), as well as certain other Farm Credit institutions.

We clarify that under the first sentence of proposed § 611.1210(e), a terminating bank can continue to issue consolidated and Systemwide debt through the close of business on the termination date. The Council requested that we clarify whether a terminating bank can issue consolidated and Systemwide debt on the termination date.

#### *Section 611.1230—FCA Review and Approval*

Section 611.1230(b) provides that we may disapprove a termination if we determine that it would have a material adverse impact on the ability of the remaining System institutions to fulfill their statutory purpose. The Council stated that, in their view, such a determination would not be fair to an institution seeking to terminate. While we understand the Council's concerns, we believe Congress intended FCA to have flexibility to condition a termination on the ability of the System

to continue to fulfill its congressional mandate of serving the credit needs of farmers, ranchers, and their cooperatives. (See section 7.10(a)(7) of the 1971 Act.) Therefore, § 611.1230(b) remains unchanged from our 1999 proposal.

We revise § 611.1230(c)(3) of our 1999 proposal by adding the phrase "including contingent liabilities" after "payments of debts." The Council requested that we insert a phrase to clarify that a terminating institution's obligation to satisfy contingencies does not end at termination.

#### *Section 611.1245—Stockholder Reconsideration*

The Council suggested that we specify in § 611.1245(a) how much time we will take to review a stockholder petition for a reconsideration vote to determine if the petition complies with section 7.9 of the 1971 Act. The 1971 Act requires a reconsideration vote to occur within 60 days of the notice to stockholders informing them of the results of a favorable vote to terminate. In the first 35 days of the 60-day period, stockholders have the right to petition us to require the institution to hold another vote on the termination. The Council raised a concern that there will be too little time for stockholders to hold a reconsideration vote if we take more than a few days to review the petition.

We are mindful that the 1971 Act gives an institution limited time to hold a reconsideration vote. While we understand the Council's concern whether there will be enough time for scheduling and holding a vote to reconsider the termination, we do not believe it is necessary to set specific timeframes for us to act. We anticipate that we will expedite our review of any petition we receive so that the reconsideration vote can be held within the 60 days specified by Congress.

#### *Section 611.1250—Preliminary Exit Fee Estimate*

We rearrange provisions of previously proposed § 611.1250(a) to clarify that the average daily balance is based on the 12-month period as of the quarterend before submission of the termination application. Section 611.1250(a)(3) is moved to § 611.1250(a)(1), and part of that provision is redesignated as § 611.1250(a)(2). Previously proposed § 611.1250(a)(2) is redesignated as § 611.1250(a)(3). We have made these same changes to the preliminary exit fee estimate and final exit fee calculations in §§ 611.1250(b), 611.1255(a), and 611.1255(b). We also revise redesignated § 611.1250(a)(3) to clarify that the audit

requirements for the financial statements apply to the account balances as of a specific date. The Council questioned whether our 1999 proposal required an audit of the average daily balances that are used to calculate the preliminary exit fee estimate. We intend the audited financial statements to be dollar amount balances, not average daily balances.

We revise previously proposed § 611.1250(a)(4)(ii)(A) to include a reference to § 611.1260(d). The Council requested that we add this reference because § 611.1260(d) describes our requirements for satisfying an association's FAC obligations to its affiliated bank when it terminates.

The Council asked us to confirm that previously proposed § 611.1250(b)(3), redesignated in the current proposal as § 611.1250(b)(4), applies to bank-only financial statements. The Council's interpretation is correct. The Council also asked if that provision requires different financial reporting for a terminating bank from the reporting required of a continuing bank. The reporting requirements of the bank-only information for a terminating bank and a continuing bank are the same.

The Council asked us to clarify the meaning of the *pro rata* portion of a terminating bank's general allowance for loan losses as described in previously proposed § 611.1250(b)(5)(i)(B). By *pro rata* we mean the proportion of the general allowance that is equal to the amount of direct loans of affiliated associations that the terminating bank expects to be paid off on or before the termination date, divided by the bank's total loans and related assets.

We revise previously proposed § 611.1250(b)(5)(iii)(A) to require a terminating bank to subtract from its assets only equity investments held by non-terminating associations that the bank expects to transfer to another System bank at or before termination. This reflects the change in our current proposal that any equity held in a terminating bank by a non-terminating association will be calculated after the exit fee is deducted unless that equity is transferred to the association's new funding bank. The Council asked us to specify in § 611.1250(b)(5)(iii)(A) how to calculate a *pro rata* share of a bank's unallocated surplus for a non-terminating association, since different methods can be used. We revise our 1999 proposal to specify that a terminating bank must generally calculate a non-terminating association's share of unallocated surplus according to the bank's liquidation bylaws. However, we may require a terminating bank to use a

different calculation method if we determine that using the bank's liquidation bylaws would be inequitable. This change will result in an unallocated surplus calculation that is more consistent with the calculation of other dissenters' equity. The change would permit calculations of unallocated surplus based on memo accounting or based on other factors, provided that the resulting calculation is equitable.

We revise previously proposed § 611.1250(b)(5)(iii)(B) to include a reference to § 611.1270(d). The Council requested that we add this reference because § 611.1270(d) describes our requirements for satisfying a bank's FAC obligations when terminating.

The Council asked us to revise previously proposed § 611.1250(c) to provide greater detail about when we would consider it necessary to adjust an institution's exit fee estimate under our 3-year look-back provision. This requirement is very similar to the existing requirement for terminating associations, found at § 611.1240(e), which we adopted in 1991. (For a further discussion of the 3-year look-back, see 55 FR 28644–46 (July 12, 1990).) Our objective is to adjust any account balance of a terminating institution if it does not reflect true value or if a transaction outside the normal course of business has had the effect of raising or lowering the exit fee. We believe our 1999 proposal adequately describes the transactions that we would most likely review to determine if adjustments to a terminating institution's business transactions are necessary. Therefore, § 611.1250(c) remains as previously proposed.

#### Section 611.1255—Exit Fee Calculation

We revise previously proposed §§ 611.1255(a)(2) and 611.1255(b)(3) (redesignated in our current proposal as §§ 611.1255(a)(3) and 611.1255(b)(4), respectively) to clarify that the audit requirements for these sections apply to the dollar amount account balances as of the termination date. The regulation does not require an audit of the average daily balances that are used to calculate the final exit fee.

We are deleting previously proposed § 611.1255(a)(4)(C) and (b)(5)(D). Our 1999 proposal authorized terminating institutions to add back to assets payments to retire the equity of dissenters and Farm Credit institutions at termination. As we explained above in the Introduction, we now propose deducting the exit fee before calculating dissenters' equity (except for equity

transferred by a non-terminating association to another System bank).

We are adding a paragraph to clarify that a terminating bank must add back the specific allowance, and a *pro rata* share of its general allowance, related to the direct loans that are deducted in the calculation. In the current proposal, the new paragraph is at § 611.1255(b)(5)(i)(B).

We revise previously proposed § 611.1255(b)(5)(iii)(A) to require a terminating bank to subtract from its assets an amount equal to any equity investments held in it by non-terminating associations that the bank expects to transfer to another System bank at or before termination. This reflects the change in our current proposal that any equity held by a non-terminating association will be valued after the exit fee calculation if the equity is not transferred to another bank.

We revise previously proposed § 611.1255(a)(4)(ii)(A) to add a reference to § 611.1260(d). The Council requested that we add this reference because § 611.1260(d) describes our requirements for satisfying an association's FAC obligations to its affiliated bank when the association terminates.

The Council asked whether § 611.1255(c) requires a terminating institution to maintain separate escrow accounts for the preliminary exit fee estimate and the estimate of equity payments to dissenting stockholders and other Farm Credit institutions. Neither our 1999 proposal nor this current proposal specifically requires two separate escrow accounts, and we will not automatically require separate accounts. However, we may require separate accounts in a situation where we believe a single account would cause confusion or raise other problems. We would inform a terminating institution whether it must maintain one or two escrow accounts when we approve its termination request.

The Council asked whether the reference to "account balances" in § 611.1255(d) refers to average daily balances or dollar amounts. The reference is to dollar amounts.

#### Section 611.1260—Payment of Debts and Assessments—Terminating Association

We revise previously proposed § 611.1260(d) to clarify how a terminating association must calculate its FAC-related payment to its affiliated bank. The Council requested that we insert the phrase "the estimated present value of" in the first sentence to more closely track the statutory language. We have done so. The Council also stated

that the System endorsed the idea of requiring terminating associations to pay their affiliated bank a portion of the capital preservation agreement payments under section 6.9 of the 1971 Act. We have decided not to require such a payment. The 1992 amendments to the 1971 Act contain specific repayment provisions when an institution terminates but do not require a terminating association to contribute to its bank's share of capital preservation agreement payments.

*Section 611.1265—Retirement of Terminating Association's Investment in Its Affiliated Bank*

We have revised previously proposed § 611.1265 to limit its application to treatment of a terminating association's investment in its affiliated bank. We have moved the provisions regarding other System institutions' investments in a terminating association to § 611.1275, as we discuss below under that section.

*Section 611.1270—Repayment of Obligations—Terminating Bank*

The Council asked that we revise previously proposed § 611.1270(a) by adding a provision addressing derivatives contracts. We do not believe this change is necessary because § 611.1270(a) includes all debt obligations, which includes derivatives contracts.

The Council also pointed out that the statute provides the authority for banks to issue individual debt. The primary liability of individual debt obligations that a terminating bank may have under section 4.2(b) of the 1971 Act is governed by the general rule stated in § 611.1270(a).

In response to the Council's request, we revise previously proposed § 611.1270(c)(1) to clarify that any payment obligation under joint and several liability will occur only when there is a call for payment. Also at the Council's request, we revise this section to require successor institutions to periodically report to the Funding Corporation so that it can fulfill its disclosure responsibilities for the System.

The Council noted that in proposed § 611.1270(c)(3) we inappropriately "mixed" obligations described in section 4.2(b) of the 1971 Act, which are individually issued obligations, with the consolidated obligations described in section 4.2(c). The previous proposal stated that a successor institution would have contingent joint and several liability not only for consolidated obligations, but also for the interest on any individual obligations issued and

outstanding on the termination date by other banks operating under the same title of the 1971 Act. In response, we have deleted references to contingent joint and several liability with respect to interest on individual obligations, because such liability is not described in those terms under section 4.4(a)(1) of the 1971 Act.

The Council correctly observed that previously proposed § 611.1270(d) does not include future interest payments on FAC debt obligations funded by the Farm Credit banks. Repayment of interest on FAC debt obligations funded by the Farm Credit banks is not covered by section 6.9(e)(3)(C)(ii) or by subparagraphs (c)(5)(E)(i) and (d)(1)(C)(iv) of section 6.26 of the 1971 Act. The 1992 amendments to the 1971 Act expressly provided for terminating institutions to make certain payments related to the FAC debt repayment, including payment of Treasury-paid interest. However, the 1992 amendments did not require payments related to future bank-paid interest. The repayment of these obligations by a terminating bank does not appear to be consistent with the FAC repayment provisions of the 1971 Act. Moreover, such payments would have the effect of reducing the exit fee, and we believe it is more appropriate for the funds to go to the Insurance Fund, to provide protection for System institutions and investors.

In response to the Council's comment, we revise previously proposed § 611.1270(d)(1) to clarify that the loan volume of reaffiliating associations remaining in the System is not included in the FAC repayment calculation by a terminating bank. The loan volume of associations that reaffiliate with another System bank will result in an increase in that bank's future FAC payments to the extent such payments are based on the association's average accruing retail loan volume. The terminating bank's FAC payment will be based on the retail loan volume that is leaving the System.

In response to the Council's comment, we revise previously proposed § 611.1270(d)(2) to provide that comparable securities used to make the present value estimation must be securities that mature no later than the due date of the terminating bank's FAC obligations. The Council also requested that we require a bank that has redeemed FAC preferred stock, but for which the underlying debt remains outstanding, to provide for this contingent liability. Our current proposal contains this change.

*Section 611.1275—Retirement of Equities Held by Other System Institutions*

We revise previously proposed § 611.1275, which had covered only a terminating bank's equity retirements, to apply instead to terminating bank and association equity held by other System institutions. (Terminating association equity was covered under previously proposed § 611.1265, which in our current proposal applies only to a terminating association's investment in its affiliated bank.) The current proposal provides that a System institution's share of the terminating institution's unallocated surplus must be valued according to the liquidation provisions of the institution's bylaws, or by another distribution method if we deem the bylaws inequitable to stockholders. We make this change in response to the Council's comment that our proposal to determine a non-terminating association's share of unallocated surplus on a pro rata basis could be inappropriate when the bank's stockholders have previously agreed to a different distribution (such as a distribution based on patronage). We agree and have revised the method of calculating the value of unallocated surplus, for both non-terminating associations and other System institutions with equity in a terminating institution. We have also revised our 1999 proposal to clarify what adjustments must be made to stockholder equity. Deductions must be made for FAC payments, taxes, and the exit fee. There may be other adjustments as we deem appropriate.

We have also clarified that a non-terminating association may reaffiliate with another Farm Credit bank either before or on the termination date. We believe that associations wishing to reaffiliate should not be required to wait to reaffiliate until the date of their bank's termination. If the transfer occurs before the termination date, the association's share of bank equities must be valued as of the monthend preceding the date of reaffiliation (and before deduction of the exit fee).

We have also added a new paragraph (d) to prohibit continuing investments by System institutions in a successor institution if the relationship is otherwise prohibited by law. In this section as well as in previously proposed § 611.1265, we had allowed System institutions with investments in a terminating institution to exchange that investment for stock in the successor institution. We retain the provision in the current proposal but we have clarified that these investments in

the successor institution must be otherwise permissible under law. We made this modification in response to comments made by Treasury, to recognize that the Federal Credit Union Act<sup>1</sup> and the Federal Deposit Insurance Act<sup>2</sup> prohibit certain affiliations and relationships between Government-sponsored enterprises, such as System institutions, and depository institutions. Depository institutions include commercial banks, savings banks and savings associations, and credit unions. If a System institution were to exchange its investment in a terminating institution for voting stock in a successor depository institution, the investment could be deemed to be an affiliation or financial support and would be a prohibited relationship. We have revised our 1999 proposal to clarify that the rule does not sanction investments that are otherwise prohibited by law.

#### *Section 611.1280—Dissenting Stockholders' Rights*

We revise previously proposed § 611.1280 (d) and (e) regarding how terminating institutions must calculate the value of equities held by dissenting stockholders, as well as the form of payment. (See our discussion of this issue under the Introduction.) Our current proposal would require payment in cash and subordinated debt, as provided by the existing rule. However, the terminating institution would also have the option to pay cash for non-purchased equities. We believe this form of payment would permit dissenting stockholders to be treated fairly and not force them to own equity in the terminating institution. This method also provides a means for the successor institution to retain capital should the terminating institution choose to seek a charter from a Federal or State chartering authority.

#### **List of Subjects**

##### *12 CFR Part 611*

Agriculture, Banks, banking, Organization and functions (Government agencies), Rural areas.

##### *12 CFR Part 614*

Agriculture, Banks, banking, Flood insurance, Foreign trade, Reporting and recordkeeping, Rural areas.

For the reasons stated in the preamble, parts 611 and 614 of chapter VI, title 12 of the Code of Federal Regulations are proposed to be amended to read as follows:

## **PART 611—ORGANIZATION**

1. The authority citation for part 611 is revised to read as follows:

**Authority:** Secs. 1.3, 1.13, 2.0, 2.10, 3.0, 3.21, 4.12, 4.15, 4.20, 4.21, 5.9, 5.10, 5.17, 6.9, 6.26, 7.0–7.13, 8.5(e) of the Farm Credit Act (12 U.S.C. 2011, 2021, 2071, 2091, 2121, 2142, 2183, 2203, 2208, 2209, 2243, 2244, 2252, 2278a–9, 2278b–6, 2279a–2279f–1, 2279aa–5(e)); secs. 411 and 412 of Pub. L. 100–233, 101 Stat. 1568, 1638; secs. 409 and 414 of Pub. L. 100–399, 102 Stat. 989, 1003, and 1004.

2. Revise subpart P to read as follows:

### **Subpart P—Termination of System Institution Status**

Sec.	
611.1200	Applicability of this subpart.
611.1205	Definitions that apply in this subpart.
611.1210	Commencement resolution and advance notice.
611.1215	Prohibited acts.
611.1220	Filing of termination application.
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### **Subpart P—Termination of System Institution Status**

#### **§ 611.1200 Applicability of this subpart.**

The regulations in this subpart apply to each bank and association that desires to terminate its System institution status and become chartered as a bank, savings association or other financial institution.

#### **§ 611.1205 Definitions that apply in this subpart.**

*Assets* means all assets determined in conformity with GAAP, except as otherwise required in this subpart.

*GAAP* means “generally accepted accounting principles” as that term is defined in § 621.2(c) of this chapter.

*OFI* means an “other financing institution” that has a funding and discount agreement with a Farm Credit bank under section 1.7(b)(1) of the Act.

*Successor institution* means the bank, savings association, or other financial institution that the terminating bank or association will become when we revoke its Farm Credit charter.

#### **§ 611.1210 Commencement resolution and advance notice.**

(a) *Adoption of commencement resolution.* Your board of directors must begin the termination process by adopting a commencement resolution stating your intention to terminate Farm Credit status under section 7.10 of the Act.

(b) *Advance notice.* Within 5 days after adopting the commencement resolution, you must:

(1) Send a certified copy of the commencement resolution to us and the Farm Credit System Insurance Corporation (FCSIC). If you are an association, also send a copy to your affiliated bank. If you are a bank, also send a copy to your affiliated associations, the other Farm Credit banks, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and the Farm Credit System Financial Assistance Corporation (FAC);

(2) Mail an announcement to all equity holders stating you are taking steps to terminate Farm Credit status and describing the following:

- (i) The process of termination;
- (ii) The expected effect of termination on equity holders, including the effect on borrower rights and the consequences of any stock retirements before termination;
- (iii) The type of charter the successor institution will have; and
- (iv) Any bylaw creating a special class of borrower stock and participation certificates under paragraph (f) of this section.

(c) *Bank negotiations on joint and several liability.* If you are a terminating bank, within 10 days of adopting the commencement resolution you and the other Farm Credit banks must begin negotiations to provide for your satisfaction of liabilities (other than your primary liability) under section 4.4 of the Act. The Funding Corporation may, at its option, be a party to the negotiations to the extent necessary to fulfill its duties with respect to financing and disclosure. The agreement must comply with the requirements in § 611.1270(c).

(d) *Disclosure to customers after commencement resolution.* Between the date of the commencement resolution and the termination date, you must give the following information to your customers:

<sup>1</sup> 12 U.S.C. 1781(e).

<sup>2</sup> 12 U.S.C. 1828(s).

(1) For each applicant who is not a current stockholder, describe at the time of loan application:

- (i) The effect of the proposed termination on the borrower's loan; and
- (ii) Whether the borrower will continue to have any of the borrower rights provided under the Act and regulations.

(2) For any equity holders who ask to have their equities retired, explain that the retirement would extinguish the holder's right to exchange those equities for an interest in the successor institution. In addition, inform holders of equities entitled to your residual assets in liquidation that retirement before termination would extinguish their right to dissent from the termination and have their equities retired.

(e) *Terminating bank's right to continue issuing debt.* Through the termination date, a terminating bank may continue to participate in the issuance of consolidated and Systemwide obligations to the same extent it would be able to participate if it were not terminating.

(f) *Special class of stock.* Notwithstanding any requirements to the contrary in § 615.5230(b) of this chapter, you may adopt bylaws providing for the issuance of a special class of stock and participation certificates between the date of adoption of a commencement resolution and the termination date. Your stockholders must approve the special class before you adopt the commencement resolution. The equities must comply with section 4.3A of the Act and be identical in all respects to existing classes of equities that are entitled to the residual assets of the institution in a liquidation, except for the value a holder will receive in a termination. In a termination, the holder of the special class of stock receives value equal to the lower of either par (or face) value, or the value calculated under § 611.1280 (c) and (d). A holder must have the same right to vote (if the equity is held on the voting record date) and to dissent as holders of similar equities issued before the commencement resolution. If the termination does not occur, the special classes of stock and participation certificates must automatically convert into shares of the otherwise identical equities.

#### **§ 611.1215 Prohibited acts.**

(a) *Statements about termination.* Neither the institution nor any director, officer, employee or agent may make any untrue or misleading statement of a material fact, or fail to disclose any

material fact, about the termination to a current or prospective equity holder.

(b) *Representations regarding FCA approval.* Neither the institution nor any director, officer, employee or agent may make an oral or written representation to anyone that a preliminary or final approval of the termination by us, directly or indirectly, either a recommendation on the merits of the proposal or an assurance that the information you give to your equity holders is adequate or accurate.

#### **§ 611.1220 Filing of termination application.**

(a) *Adoption of termination resolution.* Your board must adopt a termination resolution authorizing the application for termination and for a new charter.

(b) *Contents of termination application.* Send us an original and five copies of the termination application for review and preliminary approval. If you send us the application in electronic form, you must send us at least one hard copy application with original signatures. The application must contain:

- (1) A certified copy of the termination resolution;
- (2) A copy of the plan of termination required under § 611.1222;
- (3) An information statement that complies with § 611.1223;
- (4) All other information that you give to current or prospective equity holders in connection with the termination; and
- (5) Any additional information that either we request or your board of directors wishes to submit in support of the application.

(c) *Requirement to update application.* You must immediately send us any material changes to information in the plan of termination, including financial information, that occur between the date you file the application and the termination date. In addition, send us copies of any additional written information on the termination that you give to current or prospective equity holders before termination.

#### **§ 611.1221 Filing of termination application—timing.**

If we receive the termination application required in § 611.1220 less than 30 days after receiving the advance notice, we may in our discretion disapprove the application.

#### **§ 611.1222 Plan of termination—contents.**

The plan of termination must include:

- (a) Copies of all contracts, agreements, and other documents on the proposed

termination and organization of the successor institution.

(b) A statement of how you will transfer assets to, and have your liabilities assumed by, the successor institution.

(c) Your plan to retire outstanding equities or convert them to equities of the successor institution.

(d) A copy of the charter application for the successor institution, with any exhibits or other supporting information.

(e) A statement, if applicable, whether the successor institution will continue to borrow from a Farm Credit bank and how such a relationship will affect your provision for payment of debts. The plan of termination must include evidence of any agreement and plan for satisfaction of outstanding debts (including amounts you owe to the (FAC) because of the termination).

#### **§ 611.1223 Information statement—contents.**

(a) *Plain language requirements.* (1) Present the contents of the information statement in a clear, concise and understandable manner.

(2) Use short, explanatory sentences, bullet lists or charts where helpful, and descriptive headings and subheadings.

(3) Minimize the use of glossaries or defined terms.

(4) Write in the active voice when possible.

(5) Avoid legal and highly technical business terminology.

(b) *Disclaimer.* Place the following statement in boldface type in the material sent to equity holders, either on the notice of meeting or the first page of the information statement:

*The Farm Credit Administration has not determined if this information is accurate or complete. You should not rely on any statement to the contrary.*

(c) *Summary.* The first part of the information statement must be a summary that concisely explains:

- (1) Which stockholders have a right to vote on termination;
- (2) The material changes the termination will cause to the rights of stockholders, borrowers, and other equity holders;
- (3) The effect of those changes;
- (4) The potential benefits and disadvantages of the termination;
- (5) The right of certain stockholders to dissent and receive payment for their existing equities; and
- (6) The proposed termination date.

(d) *Remaining requirements.* The rest of the information statement must contain the following:

- (1) *Plan of termination.* Describe the plan of termination.



*(2) Benefits and disadvantages.*

Provide the following information:

(i) An enumerated statement of the anticipated benefits and potential disadvantages of the termination;

(ii) An explanation of the preliminary exit fee estimate, with any adjustments we require, and estimated expenses of termination and organization of the successor institution; and

(iii) An explanation of the board's basis for recommending the termination.

(3) *Initial board of directors.* List the initial board of directors and senior officers for the successor institution, with a brief description of the business experience of each person, including principal occupation and employment during the past 5 years.

(4) *Bylaws and charter.* Summarize the provisions of the bylaws and charter of the successor institution that differ materially from your bylaws and charter. The summary must state:

(i) Whether the successor institution will require a borrower to hold an equity interest as a condition for having a loan; and

(ii) Whether the successor institution will require stockholders to do business with the institution.

(5) *Changes to equity.* Explain any changes in the nature of equity investments in the successor institution, such as changes in dividends, patronage, voting rights, preferences, retirement of equities, and liquidation priority. If equities protected under section 4.9A of the Act are outstanding, the information statement must state that the Act's protections will be extinguished on termination.

(6) *Effect of termination on statutory and regulatory rights.* Explain the effect of termination on rights granted by the Act and FCA regulations. You must explain the effect termination will have on borrower rights granted in the Act and subparts K, L, and N of part 614 of this chapter.

(7) *Loan refinancing by borrowers.* (i) State, as applicable, that borrowers may seek to refinance their loans with the System institutions that already serve, or will be permitted to serve, your territory. State that no System institution is obligated to refinance your loans.

(ii) If we have assigned your territory to another System institution before the information statement is mailed to equity holders, or if another System institution is already chartered to make the same type of loans you make in your territory, identify such institution(s) and provide the following information:

(A) The name, address, and telephone number of the institution; and

(B) An explanation of the institution's procedures for borrowers to apply for refinancing.

(iii) If we have not assigned the territory before you mail the information statement, give the name, address and telephone number of the System institution specified by us and state that borrowers may contact the institution for information about loan refinancing.

(8) *Equity exchanges.* Explain the formula and procedure to exchange equity in your institution for equity in the successor institution.

(9) *Employment, retirement, and severance agreements.* Describe any employment agreement or arrangement between the successor institution and any of your senior officers (as defined in § 620.1 of this chapter) or directors. Describe any severance and retirement plans that cover your employees or directors and state the costs you expect to incur under the plans in connection with the termination.

(10) *Exit fee calculation.* Explain how the exit fee will be calculated.

(11) *New charter.* Describe the nature and type of financial institution the successor institution will be and any conditions of approval of the new chartering authority or regulator.

(12) *Differences in successor institution's programs and policies.* Summarize any differences between you and the successor institution on:

(i) Interest rates and fees;

(ii) Collection policies;

(iii) Services provided; and

(iv) Any other item that would affect a borrower's lending relationship with the successor institution, including whether a stockholder's ability to borrow from the institution will be restricted.

(13) *Capitalization.* Discuss expected capital requirements of the successor institution, and the amount and method of capitalization.

(14) *Sources of funding.* Explain the sources and manner of funding the successor institution's operations.

(15) *Contingent liabilities.* Describe how the successor institution will address any contingent liability it will assume from you.

(16) *Tax status.* Summarize the differences in tax status between your institution and the successor institution, and explain how the differences will affect stockholders.

(17) *Regulatory environment.* Describe briefly how the regulatory environment for the successor institution will differ from your current regulatory environment, and any effect on the cost of doing business or the value of stockholders' equity.

(18) *Dissenters' rights.* Explain which equity holders are entitled to dissenters'

rights and what those rights are. The explanation must include the estimated liquidation value of the stock, procedures for exercising dissenters' rights, and a statement of when the rights may be exercised.

(19) *Financial information.* (i) Present the following financial data:

(A) A balance sheet and income statement for each of the 3 preceding fiscal years;

(B) A balance sheet as of a date within 90 days of the date you mail the termination application to us, presented on a comparative basis with the corresponding period of the previous 2 fiscal years;

(C) An income statement for the interim period between the end of the last fiscal year and the date of the balance sheet required by paragraph (d)(19)(i)(B) of this section, presented on a comparative basis with the corresponding period of the previous 2 fiscal years;

(D) A pro forma balance sheet of the successor institution presented as if termination had occurred as of the date of the most recent balance sheet presented in the statement; and

(E) A pro forma summary of earnings for the successor institution presented as if the termination had been effective at the beginning of the interim period between the end of the last fiscal year and the date of the balance sheet presented under paragraph (d)(19)(i)(D) of this section.

(ii) The format for the balance sheet and income statement must be the same as the format in your annual report and must contain appropriate footnote disclosures, including data on high-risk assets, other property owned, and allowance for losses.

(iii) The financial statements must include either:

(A) A statement signed by the chief executive officer and each board member that the various financial statements are unaudited but have been prepared in all material respects in conformity with GAAP (except as otherwise disclosed) and are, to the best of each signer's knowledge, a fair and accurate presentation of the financial condition of the institution; or

(B) A signed opinion by an independent certified public accountant that the various financial statements have been examined in conformity with generally accepted auditing standards and included such tests of the accounting records and other such auditing procedures as were considered necessary in the circumstances, and, as of the date of the statements, present fairly the financial position of the institution in conformity with GAAP



applied on a consistent basis, except as otherwise disclosed.

(20) *Subsequent financial events.* Describe any event after the date of the financial statements, but before the date you send the termination application to us, that would have a material impact on your financial condition or the condition of the successor institution.

(21) *Other subsequent events.* Describe any event after you send the termination application to us that could have a material impact on any information in the termination application.

(22) *Other material disclosures.* Describe any other material fact or circumstance that a stockholder would need to know to make an informed decision on the termination, or that is necessary to make the disclosures not misleading.

(23) *Ballot and proxy.* Include a ballot and proxy, with instructions on the purpose and authority for their use, and the proper method for the stockholder to sign the proxy.

(24) *Board of directors certification.* Include a certification signed by the entire board of directors as to the truth, accuracy, and completeness of the information contained in the information statement. If any director refuses to sign the certification, the director must inform us of the reasons for refusing.

#### **§ 611.1230 FCA review and approval.**

(a) *FCA review period.* We will review a termination application and either give preliminary approval or disapprove the application no later than 60 days after we receive the application.

(b) *Reservation of right to disapprove termination.* In addition to any other reason for disapproval, we may disapprove a termination if we determine that the termination would have a material adverse effect on the ability of the remaining System institutions to fulfill their statutory purpose.

(c) *Conditions of final FCA approval.* We will give final approval to your termination application only if:

(1) Your stockholders vote in favor of termination in the termination vote and in any reconsideration vote;

(2) You give us executed copies of all contracts, agreements, and other documents submitted under § 611.1222;

(3) You have paid or made adequate provision for payment of debts, including responsibility for any contingent liabilities, and for retirement of equities;

(4) A Federal or State chartering authority has granted a new charter to the successor institution;

(5) You deposit into escrow an amount equal to 110 percent of the estimated exit fee plus 110 percent of the estimated amount you must pay to retire equities of dissenting stockholders and Farm Credit institutions, as described in § 611.1255(c); and

(6) You have fulfilled any other condition of termination we have imposed.

(d) *Effective date of termination.* If we grant final approval, we will revoke your charter, and the termination will be effective on the last to occur of—

(1) Fulfillment of all conditions listed in paragraph (c) of this section;

(2) Your proposed termination date;

(3) Ninety (90) days after we receive the notice described in § 611.1240(e); and

(4) Fifteen (15) days after any reconsideration vote.

#### **§ 611.1240 Voting record date and stockholder approval.**

(a) *Stockholder meeting.* You must call the meeting by written notice in compliance with your bylaws. The stockholder meeting to vote on the termination must occur within 60 days of our preliminary approval (or, if we take no action, within 60 days of the end of our approval period).

(b) *Voting record date.* The voting record date may not be more than 70 days before the stockholders' meeting.

(c) *Information statement.* You must provide all equity holders with a notice of meeting and the information statement required by § 611.1223 at least 30 days before the stockholder vote.

(d) *Voting procedures.* The voting procedures must comply with § 611.330. You must have an independent third party count the ballots. If a voting stockholder notifies you of the stockholder's intent to exercise dissenters' rights, the tabulator must be able to verify to you that the stockholder voted against the termination. Otherwise, the votes of stockholders must remain confidential.

(e) *Notice to FCA and equity holders of voting results.* Within 10 days of the termination vote, you must send us a certified record of the results of the vote. You must notify all equity holders of the results within 30 days after the stockholder meeting. If the stockholders approve the termination, you must give the following information to equity holders:

(1) Stockholders who voted against termination and equity holders who were not entitled to vote have a right to dissent as provided in § 611.1280; and

(2) Voting stockholders have a right, under § 611.1245, to file a petition with the FCA for reconsideration within 35

days after the date you mail to them the notice of the results of the termination vote.

(f) *Requirement to notify new equity holders.* You must provide the information described in paragraph (e)(1) of this section to each person that becomes an equity holder after the termination vote and before termination.

#### **§ 611.1245 Stockholder reconsideration.**

(a) *Right to reconsider termination.* Voting stockholders have the right to reconsider their approval of the termination if a petition signed by 15 percent of the stockholders is filed with us within 35 days after you mail notices to stockholders that the termination was approved. If we determine that the petition complies with the requirements of section 7.9 of the Act, you must call a special stockholders' meeting to reconsider the vote. The meeting must occur within 60 days after the date on which you mailed to stockholders the results of the termination vote. If a majority of the stockholders voting, in person or by proxy, vote against the termination, the termination may not take place.

(b) *Stockholder list and expenses.* You must, at your expense, timely give stockholders who request it a list of the names and addresses of stockholders eligible to vote in the reconsideration vote. The petitioners must pay all other expenses for the petition. You must pay expenses that you incur for the reconsideration vote.

#### **§ 611.1250 Preliminary exit fee estimate.**

(a) *Preliminary exit fee estimate-terminating association.* You must provide a preliminary exit fee estimate to us when you submit the termination application. Calculate the preliminary exit fee estimate in the following order:

(1) Base your exit fee calculation on the average daily balances of assets and liabilities for the 12-month period as of the quarterend immediately before the date you send us your termination application.

(2) Any amounts we refer to in this section are average daily balances unless we specify that they are not. Amounts that are not average daily balances will be referred to as "dollar amount."

(3) Compute the average daily balances based on financial statements that comply with GAAP. The financial statements, as of the quarterend immediately before the date you send us your termination application, must be independently audited by a qualified public accountant, as defined in § 621.2(i) of this chapter. We may, in our discretion, waive the audit

requirement if an independent audit was performed as of a date less than 6 months before you submit the termination application.

(4) Make adjustments to assets as follows:

(i) Add back expenses you have incurred related to termination. Related expenses include, but are not limited to, legal services, accounting services, auditing, business planning, and application fees for the termination and reorganization.

(ii) Subtract the following:

(A) The dollar amount of your estimated payment (to your affiliated bank) related to FAC obligations as described in § 611.1260(d); and

(B) The dollar amount of your estimated taxes due to the termination.

(iii) Adjust for the dollar amount of significant transactions you reasonably expect to occur between the quarterend before you file your termination application and termination. Examples of these transactions include, but are not limited to, gains or losses on the sale of assets, retirements of equity, loan repayments, and patronage distributions. Do not make adjustments for future expenses related to termination, such as severance or special retirement payments, or stock retirements to dissenting stockholders and Farm Credit institutions.

(5) Subtract from liabilities any liability that we treat as regulatory capital under the capital or collateral requirements in subparts H and K of part 615 of this chapter.

(6) Make any adjustments we require under paragraph (c) of this section.

(7) After making these adjustments to assets and liabilities, subtract liabilities from assets. This is your preliminary total capital for purposes of termination.

(8) Multiply assets as adjusted above by 6 percent, and subtract this amount from preliminary total capital. This is your preliminary exit fee estimate.

(b) *Preliminary exit fee estimate—terminating bank.* (1) Affiliated associations that are terminating with you must calculate their individual preliminary exit fee estimates as described in paragraph (a) of this section.

(2) Base your exit fee calculation on the average daily balances of assets and liabilities for the 12-month period as of the quarterend immediately before the date you send us your termination application.

(3) Any amounts we refer to in this section are average daily balances unless we specify that they are not. Amounts that are not average daily balances will be referred to as “dollar amount.”

(4) Compute the average daily balances based on bank-only financial statements that comply with GAAP. The financial statements, as of the quarterend immediately before the date you send us your termination application, must be independently audited by a qualified public accountant, as defined in § 621.2(i) of this chapter. We may, in our discretion, waive this requirement if an independent audit was performed as of a date less than 6 months before you submit the termination application.

(5) Make adjustments to assets and liabilities as follows:

(i) Add back to assets the following:

(A) Expenses you have incurred related to termination. Related expenses include, but are not limited to, legal services, accounting services, auditing, business planning, and application fees for the termination and reorganization; and

(B) Any specific allowance for losses, and a *pro rata* portion of any general allowance for loan losses, on direct loans to associations that you do not expect to incur before or at termination.

(ii) Subtract from your assets and liabilities an amount equal to your direct loans to your affiliated associations that are not terminating.

(iii) Subtract the following from assets:

(A) Equity investments in you that are held by non-terminating associations and that you expect to transfer to another System bank before or at termination. A non-terminating association's investment consists of purchased equities, allocated equities, and a share of the bank's unallocated surplus calculated in accordance with the bank's bylaw provisions on liquidation. We may require a different calculation method for the unallocated surplus if we determine that using the liquidation provision would be inequitable to stockholders;

(B) The dollar amount of your estimated termination payment to the FAC, as described in § 611.1270(d); and

(C) The dollar amount of estimated taxes due to the termination.

(iv) Subtract from liabilities any liability that we treat as regulatory capital under the capital or collateral requirements in subparts H and K of part 615 of this chapter.

(v) Adjust for the dollar amount of significant transactions you reasonably expect to occur between the quarterend before you file your termination application and termination. Examples of these transactions include, but are not limited to, retirements of equity, loan repayments, and patronage distributions. Do not make adjustments

for future expenses related to termination, such as severance or special retirement payments, or stock retirements to dissenting stockholders and Farm Credit institutions.

(6) Add to assets the dollar amount of estimated termination payments of the terminating associations related to FAC obligations.

(7) Make any adjustments we require under paragraph (c) of this section.

(8) After the above adjustments, combine your balance sheet with the balance sheets of your terminating associations after they have made the adjustments required in paragraph (a) of this section. Subtract liabilities from assets. This is your preliminary total capital estimate for purposes of termination.

(9) Multiply the assets of the combined balance sheet after the above adjustments by 6 percent. Subtract this amount from the preliminary total capital estimate of the combined balance sheet. The remainder is the preliminary exit fee estimate of the bank and terminating affiliated associations.

(10) Your preliminary exit fee estimate is the amount by which the preliminary exit fee estimate for the combined entity exceeds the total of the individual preliminary exit fee estimates of your affiliated terminating associations.

(c) *Three-year look-back.* (1) We will review your transactions over the 3 years before the date of the termination resolution under § 611.1220. Our review will include, but not be limited to, the following:

(i) Additions to or subtractions from any allowance for losses;

(ii) Additions to assets or liabilities, or subtractions from assets or liabilities, due to transactions that are outside your ordinary course of business;

(iii) Dividends or patronage refunds exceeding your usual practices;

(iv) Changes in the institution's capital plan, or in implementing the plan, that increased or decreased the level of borrower investment;

(v) Contingent liabilities, such as loss-sharing obligations, that can be reasonably quantified; and

(vi) Assets that may be overvalued, undervalued or not recorded on your books.

(2) If we determine the account balances do not accurately show the value of your assets and liabilities (whether the assets and liabilities were booked before or during the 3-year look-back period), we will make any adjustments we deem necessary.

(3) We may require you to reverse the effect of a transaction if we determine that:

(i) You have retired capital outside the ordinary course of business,

(ii) You have taken any other actions unrelated to core business that have the effect of changing the exit fee, or

(iii) You incurred expenses related to termination prior to the 12-month average daily balance period on which the exit fee calculation is based.

(4) We may require you to make these adjustments to the preliminary exit fee estimate that is disclosed in the information statement, the final exit fee calculation, and the calculations of the value of equities held by dissenting stockholders, Farm Credit institutions that choose to have their equities retired at termination, and reaffiliating associations.

#### **§ 611.1255 Exit fee calculation.**

(a) *Final exit fee calculation—terminating association.* Calculate the final exit fee in the following order:

(1) Base your exit fee calculation on the average daily balances of assets and liabilities for the 12-month period preceding the termination date. Assume for this calculation that you have not paid or accrued the items described in paragraph (a)(4)(ii) of this section.

(2) Any amounts we refer to in this section are average daily balances unless we specify that they are not. Amounts that are not average daily balances will be referred to as “dollar amount.”

(3) Compute the average daily balances based on financial statements that comply with GAAP. The financial statements, as of the termination date, must be independently audited by a qualified public accountant, as defined in § 621.2(i) of this chapter.

(4) Make adjustments to assets and liabilities as follows:

(i) Add back expenses related to termination incurred in the 12 months before termination. Related expenses include, but are not limited to, legal services, accounting services, auditing, business planning, payments of severance and special retirements, and application fees for the termination and reorganization.

(ii) Subtract from assets the following:

(A) The dollar amount of your termination payment (to your affiliated bank) related to FAC obligations as described in § 611.1260(d); and

(B) The dollar amount of taxes you will have to pay due to the termination;

(iii) Subtract from liabilities any liability that we treat as regulatory capital under the capital or collateral requirements in subparts H and K of part 615 of this chapter.

(iv) Make the adjustments that we require under § 611.1250(c). For the

final exit fee, we will review and may require additional adjustments for transactions between the date you adopted the termination resolution and the termination date.

(5) After making these adjustments to assets and liabilities, subtract liabilities from assets. This is your total capital for purposes of termination.

(6) Multiply assets by 6 percent, and subtract this amount from total capital. This is your final exit fee.

(b) *Final exit fee calculation—terminating bank.* (1) The individual exit fees of affiliated associations that are terminating with you must be calculated as described in paragraph (a) of this section.

(2) Base your exit fee calculation on the average daily balances of assets and liabilities for the 12-month period preceding the termination date. Assume for this calculation that you have not paid or accrued the items described in paragraph (b)(5)(iii)(B), (C), and (D) of this section.

(3) Any amounts we refer to in this section are average daily balances unless we specify that they are not. Amounts that are not average daily balances will be referred to as “dollar amount.”

(4) Compute the average daily balances based on bank-only financial statements that comply with GAAP. The financial statements, as of the termination date, must be independently audited by a qualified public accountant, as defined in § 621.2(i) of this chapter.

(5) Make adjustments to assets and liabilities as follows:

(i) Add back the following to your assets:

(A) Expenses you have incurred related to termination. Related expenses include, but are not limited to, legal services, accounting services, auditing, business planning, payments of severance and special retirements, and application fees for the termination and reorganization.

(B) The dollar amount of the termination payments to you by the terminating associations related to FAC obligations.

(C) Any specific allowance for losses, and a pro rata share of any general allowance for losses, on direct loans to associations that are paid off or transferred before or at termination.

(ii) Subtract from your assets and liabilities your direct loans to affiliated associations that were paid off or transferred in the 12-month period before termination or at termination.

(iii) Subtract from your assets the following:

(A) Equity investments held in you by affiliated associations that you transferred at termination or during the 12 months before termination;

(B) The dollar amount of your termination payment to the FAC; and

(C) The dollar amount of taxes paid or accrued due to the termination;

(iv) Subtract from liabilities any liability that we treat as regulatory capital (or that we do not treat as a liability) under the capital or collateral requirements in subparts H and K of part 615 of this chapter.

(v) Make the adjustments that we require under § 611.1250(c). For the final exit fee, we will review and may require additional adjustments for transactions between the date you adopted the termination resolution and the termination date.

(6) After the above adjustments, combine your balance sheet with the balance sheets of terminating associations after making the adjustments required in paragraph (a) of this section.

(7) Subtract combined liabilities from combined assets. This is the total capital of the combined balance sheet.

(8) Multiply the assets of the combined balance sheet after the above adjustments by 6 percent. Subtract this amount from the total capital of the combined balance sheet. This amount is the combined final exit fee for you and the terminating affiliated associations.

(9) Your final exit fee is the amount by which the combined final exit fee exceeds the total of the individual final exit fees of your affiliated terminating associations.

(c) *Payment of exit fee.* On the termination date, you must:

(1) Deposit into an escrow account acceptable to us and the FCSIC an amount equal to 110 percent of the preliminary exit fee estimate, adjusted to account for stock retirements to dissenting stockholders and Farm Credit institutions, and any other adjustments we require.

(2) Deposit into an escrow account acceptable to us an amount equal to 110 percent of the equity you must retire for dissenting stockholders and System institutions holding stock that would be entitled to a share of the remaining assets in a liquidation.

(d) *Pay-out of escrow.* Following the independent audit of the institution's account balances as of the termination date, we will determine the amount of the final exit fee and the amounts owed to stockholders to retire their equities. We will then direct the escrow agent to:

(1) Pay the exit fee to the Farm Credit Insurance Fund;

(2) Pay the amounts owed to dissenting stockholders and Farm Credit institutions; and

(3) Return any remaining amounts to the successor institution.

(e) *Additional payment.* If the amount held in escrow is not enough to pay the amounts under paragraph (d)(1) and (2) of this section, the successor institution must pay any remaining liability to the escrow agent for distribution to the appropriate parties. The termination application must include evidence that, after termination, the successor institution will pay any remaining amounts owed.

**§ 611.1260 Payment of debts and assessments—terminating association.**

(a) *General rule.* If you are a terminating association, you must pay or make adequate provision for the payment of all outstanding debt obligations and assessments.

(b) *No OFI relationship.* If the successor institution will not become an OFI, you must either:

(1) Pay debts and assessments owed to your affiliated Farm Credit bank at termination; or

(2) With your affiliated Farm Credit bank's concurrence, arrange to pay any obligations or assessments to the bank after termination.

(c) *Obligations to other Farm Credit institutions.* You must pay or make adequate provision for payment of obligations to any Farm Credit institution (other than your affiliated bank) under any loss-sharing or other agreement.

(d) *FAC payments.* Before termination, you must pay the estimated present value of future assessments and payment obligations to your affiliated Farm Credit bank to the extent required by subparagraphs (c)(5)(F) and (d)(1)(C)(v) of section 6.26 of the Act. The FAC must make the present value estimations, subject to our approval, based on an appropriate discount rate. The appropriate discount rate is the non-interest bearing U.S. Treasury security rate for securities with a maturity as near as possible to the period remaining until the terminating association's obligations under this paragraph would be due (but before the due date).

**§ 611.1265 Retirement of a terminating association's investment in its affiliated bank.**

(a) *Safety and soundness restrictions.* Notwithstanding anything in this subpart to the contrary, we may prohibit a bank from retiring the equities you hold in the bank if the retirement would cause the bank to fall below its

regulatory capital requirements after retirement, or if we determine that the bank would be in an unsafe or unsound condition after retirement.

(b) *Retirement agreement.* Your affiliated bank may retire the purchased and allocated equities held by you in the bank according to the terms of the bank's capital revolvment plan or an agreement between you and the bank.

(c) *Retirement in absence of agreement.* Your affiliated bank must retire any equities not subject to an agreement or revolvment plan no later than when you or the successor institution pays off your loan from the bank.

(d) *No retirement of unallocated surplus.* When your bank retires equities you own in the bank, the bank must pay par or face value for purchased and allocated equities, less any impairment. The bank may not pay you any portion of its unallocated surplus.

(e) *Exclusion of equities from capital ratios.* If another Farm Credit institution makes an agreement to retire equities you hold in that institution after termination, we may require that institution to exclude part or all of those equities from assets and capital when the institution calculates its capital and net collateral ratios under subparts H and K of part 615 of this chapter.

**§ 611.1270 Repayment of obligations—terminating bank.**

(a) *General rule.* If you are a terminating bank, you must pay or make adequate provision for the payment of all outstanding debt obligations, and provide for your responsibility for any probable contingent liabilities identified.

(b) *Satisfaction of primary liability on consolidated or Systemwide obligations.* After consulting with the other Farm Credit banks, the Funding Corporation, and the FCSIC, you must pay or make adequate provision for payment of your primary liability on consolidated or Systemwide obligations in a method that we deem acceptable. Before we make a final decision on your proposal and as we deem necessary, we may consult with the other Farm Credit banks, the Funding Corporation, and the FCSIC.

(c) *Satisfaction of joint and several liability and liability for interest on individual obligations.* (1) You and the other Farm Credit banks must enter into an agreement, which is subject to our approval, covering obligations issued under section 4.2 of the Act and outstanding on the termination date. The agreement must specify how you and your successor institution will make adequate provision for the

payment of your joint and several liability to holders of obligations other than those obligations on which you are primarily liable, in the event we make calls for payment under section 4.4 of the Act. You and your successor institution must also provide for your liability under section 4.4(a)(1) of the Act to pay interest on the individual obligations issued by other System banks. As a part of the agreement, you must also agree that your successor institution will provide ongoing information to the Funding Corporation to enable it to fulfill its funding and disclosure duties. The Funding Corporation may, at its option, be a party to the agreement to the extent necessary to fulfill its duties with respect to financing and disclosure.

(2) If you and the other Farm Credit banks are unable to reach agreement within 90 days before the proposed termination date, we will specify the manner in which you will make adequate provision for the payment of the liabilities in question and how we will make joint and several calls for those obligations outstanding on the termination date.

(3) Notwithstanding any other provision in these regulations, the successor institution will be jointly and severally liable for consolidated and Systemwide debt outstanding on the termination date (other than the obligations on which you are primarily liable). The successor institution will also be liable for interest on other banks' individual obligations as described in section 4.4(a)(1) of the Act and outstanding on the termination date. The termination application must include evidence that the successor institution will continue to be liable for consolidated and Systemwide debt and for interest on other banks' individual obligations.

(d) *Payment to the FAC.* (1) Before termination, you must pay to the FAC the amounts required by section 6.9(e)(3)(C)(ii) of the Act and by subparagraphs (c)(5)(E)(i) and (d)(1)(C)(iv) of section 6.26 of the Act. To make the calculations for section 6.26, you must include your retail loan volume, the retail loan volume of the associations that are terminating with you, and the retail loan volume of the affiliated associations that continue their direct lending relationships with the successor institution, but you must not include the retail loan volume of associations that reaffiliate with another bank and transfer or repay their direct loan on or before termination.

(2) The FAC must make the present value estimation, subject to our approval, based on an appropriate

discount rate. The appropriate discount rate is the non-interest bearing U.S. Treasury security rate for securities with a maturity as near as possible to the period remaining until your obligations under this paragraph would be due (but before the due date).

(3) If you or your predecessor bank has redeemed early any preferred stock issued to the FAC, we may require you to confirm in writing that your successor institution will assume responsibility for any and all of your contingent liabilities under any FAC preferred stock redemption agreement and indemnification agreement.

**§ 611.1275 Retirement of equities held by other System institutions.**

(a) *Retirement at option of equity holder.* If you are a terminating institution, System institutions that own your equities have the right to require you to retire the equities on the termination date.

(b) *Value of equity holders' interests.* You must retire the equities in accordance with the liquidation provisions in your bylaws unless we determine that the liquidation provisions would result in an inequitable distribution to stockholders. If we make such a determination, we will require you to distribute the equity in accordance with another method that we deem equitable to stockholders. Before you retire any equity, you must make the following adjustments to the amount of stockholder equity as stated in the financial statements on the termination date:

(1) Make deductions for any FAC obligations and taxes due to the termination that you have not yet recorded;

(2) Deduct the amount of the exit fee; and

(3) Make any adjustments described under § 611.1250(c) that we may require as we deem appropriate.

(c) *Transfer of affiliated association's investment.* As an alternative to equity retirement, an affiliated association that reaffiliates with another Farm Credit bank instead of terminating with its bank has the right to require the terminating bank to transfer its investment to its new affiliated bank when it reaffiliates. If you are a terminating bank, at the time of reaffiliation you must transfer the purchased and allocated equities held by the association, as well as its share of unallocated surplus, to the new affiliated bank. Calculate the association's share before deduction of the exit fee as of the monthend preceding the reaffiliation date (or the termination date if it is the same as the

reaffiliation date) in accordance with the liquidation provisions of your bylaws, unless we determine that the liquidation provisions would result in an inequitable distribution. If we make such a determination, we will require you to distribute the association's share of your unallocated surplus in accordance with another method that we deem equitable to stockholders. Before you distribute any unallocated surplus, you must make the following adjustments to stockholder equity as stated in the financial statements as of the monthend preceding the reaffiliation date (or the termination date if it is the same as the reaffiliation date):

(1) Add back any deductions of FAC obligations due to the termination, taxes due to the termination, and the exit fee; and

(2) Make any adjustments described under § 611.1250(c) that we may require as we deem appropriate.

(d) *Prohibition on certain affiliations.* No Farm Credit institution may retain an equity interest otherwise prohibited by law in a successor institution.

**§ 611.1280 Dissenting stockholders' rights.**

(a) *Definition.* A dissenting stockholder is an equity holder (other than a System institution) in a terminating institution on the termination date who either:

(1) Was eligible to vote on the termination resolution and voted against termination;

(2) Was an equity holder on the voting record date but was not eligible to vote; or

(3) Became an equity holder after the voting record date.

(b) *Retirement at option of dissenting stockholder.* A dissenting stockholder may require a terminating institution to retire the stockholder's equity interest in the terminating institution.

(c) *Value of a dissenting stockholder's interest.* You must pay a dissenting stockholder according to the liquidation provision in your bylaws, except that you must pay at least par or face value for eligible borrower stock (as defined in section 4.9A(d)(2) of the Act). If we determine that the liquidation provision is inequitable to stockholders, we will require you to calculate their share in accordance with another formula that we deem equitable.

(d) *Calculation of interest of a dissenting stockholder.* Before you retire any equity, you must make the following adjustments to the amount of stockholder equity as stated in the financial statements on the termination date:

(1) Deduct any FAC obligations and taxes due to the termination that you have not yet recorded;

(2) Deduct the amount of the exit fee; and

(3) Make any adjustments described under § 611.1250(c) that we may require as we deem appropriate.

(e) *Form of payment to a dissenting stockholder.* You must pay a dissenting stockholder for his equities as follows:

(1) Pay cash for the par or face value of purchased stock, less any impairment;

(2) For equities other than purchased equities, you may:

(i) Pay cash;

(ii) Cause or otherwise provide for the successor institution to issue, on the date of termination, subordinated debt to the stockholder with a face value equal to the value of the remaining equities. This subordinated debt must have a maturity date of 7 years or less, must have priority in liquidation ahead of all equity, and must carry a rate of interest not less than the rate (at the time of termination) for debt of comparable maturity issued by the U.S. Treasury plus 1 percent; or

(iii) Provide for a combination of cash and subordinated debt as described above.

(f) *Payment to holders of special class of stock.* If you have adopted bylaws under § 611.1210(f), you must pay a dissenting stockholder who owns shares of the special class of stock an amount equal to the lower of the par (or face) value or the value of such stock as determined under § 611.1280(c) and (d).

(g) *Notice to equity holders.* The notice to equity holders required in § 611.1240(e) must include a form for stockholders to send back to you, stating their intention to exercise dissenters' rights. The notice must contain the following information:

(1) A description of the rights of dissenting stockholders set forth in this section, and the approximate value per share that a dissenting stockholder can expect to receive. State whether the successor institution will require borrowers to be stockholders or whether it will require stockholders to be borrowers.

(2) A description of the current book and par value per share of each class of equities, and the expected book and market value of the stockholder's interest in the successor institution.

(3) A statement that that a stockholder must return the enclosed form to you within 30 days if the stockholder chooses to exercise dissenters' rights.

(h) *Notice to subsequent equity holders.* Equity holders that acquire their equities after the termination vote

must also receive the notice described in paragraph (g) of this section. You must give them at least 5 business days to decide whether to request retirement of their stock.

(i) *Reconsideration.* If a reconsideration vote is held and the termination is disapproved, the right of stockholders to exercise dissenters' rights is rescinded. If a reconsideration vote is held and the termination is approved, you must retire the equities of dissenting stockholders as if there had been no reconsideration vote.

#### **§ 611.1285 Loan refinancing by borrowers.**

(a) *Disclosure of credit and loan information.* At the request of a borrower seeking refinancing with another System institution before you terminate, you must give credit and loan information about the borrower to such institution.

(b) *No reassignment of territory.* If, at the termination date, we have not assigned your territory to another System institution, any System institution may lend in your territory, to the extent otherwise permitted by the Act and the regulations in this chapter.

#### **§ 611.1290 Continuation of borrower rights.**

You may not require a waiver of contractual borrower rights provisions as a condition of borrowing from and owning equity in the successor institution. Institutions that become other financing institutions on termination must comply with the applicable borrower rights provisions in the Act and subparts K, L, and N of part 614 of this chapter.

### **PART 614—LOAN POLICIES AND OPERATIONS**

1. The authority citation for part 614 continues to read as follows:

**Authority:** 42 U.S.C. 4012a, 4104a, 4104b, 4106, and 4128; secs. 1.3, 1.5, 1.6, 1.7, 1.9, 1.10, 1.11, 2.0, 2.2, 2.3, 2.4, 2.10, 2.12, 2.13, 2.15, 3.0, 3.1, 3.3, 3.7, 3.8, 3.10, 3.20, 3.28, 4.12, 4.12A, 4.13, 4.13B, 4.14, 4.14A, 4.14C, 4.14D, 4.14E, 4.18, 4.18A, 4.19, 4.25, 4.26, 4.27, 4.28, 4.36, 4.37, 5.9, 5.10, 5.17, 7.0, 7.2, 7.6, 7.8, 7.12, 7.13, 8.0, 8.5, of the Farm Credit Act (12 U.S.C. 2011, 2013, 2014, 2015, 2017, 2018, 2019, 2071, 2073, 2074, 2075, 2091, 2093, 2094, 2097, 2121, 2122, 2124, 2128, 2129, 2131, 2141, 2149, 2183, 2184, 2199, 2201, 2202, 2202a, 2202c, 2202d, 2202e, 2206, 2206a, 2207, 2211, 2212, 2213, 2214, 2219a, 2219b, 2243, 2244, 2252, 2279a, 2279a-2, 2279b, 2279c-1, 2279f, 2279f-1, 2279aa, 2279aa-5); sec. 413 of Pub. L. 100-233, 101 Stat. 1568, 1639.

### **Subpart C—Bank/Association Lending Relationship**

#### **§ 614.4130 [Amended]**

2. Amend § 614.4130 by removing the reference “§ 611.1205(c)” and adding in its place the reference “§ 611.1205” in paragraph (a).

Dated: August 15, 2001.

**Jeanette C. Brinkley,**

*Acting Secretary, Farm Credit Administration Board.*

[FR Doc. 01-20907 Filed 8-17-01; 8:45 am]

**BILLING CODE 6705-01-P**

### **ENVIRONMENTAL PROTECTION AGENCY**

#### **40 CFR Part 52**

[CA 207-0277b; FRL-7026-4]

#### **Revision to the California State Implementation Plan, South Coast Air Quality Management District**

**AGENCY:** Environmental Protection Agency (EPA).

**ACTION:** Proposed rule.

**SUMMARY:** EPA is proposing to approve a revision to the South Coast Air Quality Management District (SCAQMD) portion of the California State Implementation Plan (SIP). This revision concerns volatile organic compound (VOC) emissions from Phase I gasoline transfer into stationary storage tanks and Phase II gasoline transfer into vehicle fuel tanks. We are proposing to approve a local rule to regulate this emission source under the Clean Air Act as amended in 1990 (CAA or the Act).

**DATE:** Any comments on this proposal must arrive by September 19, 2001.

**ADDRESSES:** Mail comments to Andy Steckel, Rulemaking Office Chief (AIR-4), U.S. Environmental Protection Agency, Region IX, 75 Hawthorne Street, San Francisco, CA 94105.

You can inspect a copy of the submitted rule revision and EPA's technical support document (TSD) at our Region IX office during normal business hours. You may also see a copy of the submitted rule revision at the following locations:

Environmental Protection Agency, Air Docket (6102), Ariel Rios Building, 1200 Pennsylvania Avenue, N.W., Washington D.C. 20460.

California Air Resources Board, Stationary Source Division, Rule Evaluation Section, 1001 “I” Street, Sacramento, CA 95814.

South Coast Air Quality Management District, 21865 East Copley Drive, Diamond Bar, CA 91765.

**FOR FURTHER INFORMATION CONTACT:** Al Petersen, Rulemaking Office (AIR-4), U.S. Environmental Protection Agency, Region IX; (415) 744-1135.

**SUPPLEMENTARY INFORMATION:** This proposal addresses the approval of the local SCAQMD Rule 461. In the Rules and Regulations section of this **Federal Register**, we are approving this local rule in a direct final action without prior proposal because we believe this SIP revision is not controversial. If we receive adverse comments, however, we will publish a timely withdrawal of the direct final rule and address the comments in subsequent action based on this proposed rule. We do not plan to open a second comment period, so anyone interested in commenting should do so at this time. If we do not receive adverse comments, no further activity is planned. For further information, please see the direct final action.

Dated: July 27, 2001.

**Jane Diamond,**

*Acting Regional Administrator, Region IX.*

[FR Doc. 01-20781 Filed 8-17-01; 8:45 am]

**BILLING CODE 6560-50-P**

### **ENVIRONMENTAL PROTECTION AGENCY**

#### **40 CFR Part 52**

[MD064/122/123-3069b; FRL-7021-4]

#### **Approval and Promulgation of Air Quality Implementation Plans; Maryland; Administrative Revisions of General Provisions Related to Definitions of Terms and Ambient Air Quality Standards**

**AGENCY:** Environmental Protection Agency (EPA).

**ACTION:** Proposed rule.

**SUMMARY:** EPA is proposing approval of revisions to the Maryland State Implementation Plan (SIP). In this action, EPA is proposing approval of revisions which reorganize the structure of the general administrative provisions describing definitions of terms used throughout Maryland's air pollution control regulations, amend the definition of the term “source;” and reorganize the provisions governing ambient air quality standards. EPA is approving these revisions in accordance with the requirements of the Clean Air Act. In the Final Rules section of this **Federal Register**, EPA is approving the State's SIP submittals as a direct final rule without prior proposal because the Agency views them as noncontroversial submittals and anticipates no adverse