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FARM CREDIT ADMINISTRATION

RIN 3052-AC64

Joint and Several Liability Reallocation Agreement

AGENCY: Farm Credit Administration.

ACTION: Notice of joint and several liability reallocation agreement; request for comments.

SUMMARY: The Farm Credit Administration (FCA or we) is publishing for comment a Joint and Several Liability Reallocation Agreement (Agreement) to be entered into by all of the banks of the Farm Credit System (Farm Credit or System) and the Federal Farm Credit Banks Funding Corporation (Funding Corporation). The Agreement is designed to establish a procedure for nondefaulting banks to pay maturing System-wide debt on behalf of defaulting banks prior to a statutory joint and several call by the FCA.

DATES: You may send comments on or before September 17, 2010.

ADDRESSES: There are several methods for you to submit your comments. For accuracy and efficiency reasons, commenters are encouraged to submit comments by e-mail or through the FCA's Web site. As facsimiles (faxes) are difficult for us to process and achieve compliance with section 508 of the Rehabilitation Act (29 U.S.C. 794d), we are no longer accepting comments submitted by fax. Please do not submit your comment multiple times via different methods. You may submit comments by any of the following methods:

- E-mail: Send us an e-mail at reg-comm@fca.gov.
- FCA Web site: <http://www.fca.gov>. Select "Public Commenters," then "Public Comments," and follow the directions for "Submitting a Comment."
- Federal E-Rulemaking Web site: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- Mail: Send mail to Gary K. Van Meter, Deputy Director, Office of Regulatory Policy, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090.

You may review copies of comments we receive at our office in McLean, Virginia, or on our Web site at <http://www.fca.gov>. Once you are in the Web site, select "Public Commenters," then "Public Comments," and follow the directions for "Reading Submitted Public Comments." We will show your comments as submitted, but for technical reasons we may omit items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. We will attempt to remove e-mail addresses from comments (other than those submitted in a ".pdf" format) to help reduce Internet spam.

FOR FURTHER INFORMATION CONTACT:

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or

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SUPPLEMENTARY INFORMATION:

I. Objective

Our objective in publishing the Agreement is to seek public comment on the Agreement before the FCA Board determines whether or not to approve it.

II. Background

System associations obtain funding by means of direct loans from their affiliated Farm Credit Banks or Agricultural Credit Bank (collectively, System Banks or Banks). The Banks in turn obtain their funding primarily by issuing System-wide obligations to investors through the Funding Corporation.¹ The Banks' authority to issue System-wide obligations is provided in section 4.2(d) of the Farm Credit Act of 1971, as amended (Act).² Section 4.2(c) of the Act also authorizes the Banks to obtain funding by issuing consolidated obligations with other Banks operating under the same title of the Act, but all of the System's joint funding at the present time is through System-wide obligations. Consolidated and System-wide obligations (also referred to as insured obligations) are insured by the Farm Credit System Insurance Corporation (FCSIC) using funds in the Farm Credit Insurance Fund (Insurance Fund).

Investors in consolidated and System-wide obligations have three levels of repayment sources. The first level is each Bank's own primary liability under section 4.4(a)(2)(A) of the Act³ for its portion of any consolidated or System-wide obligation from which it received the proceeds. The second level is payments made by the FCSIC out of the Insurance Fund under section 4.4(d) of the Act if the Bank that is primarily liable (defaulting Bank) is unable to pay. The third level is joint and several calls made by the FCA on nondefaulting Banks under section 4.4(a)(2) of the Act as follows:

- The FCA will make calls on nondefaulting Banks in proportion to each Bank's proportionate share of the aggregate available collateral held by all nondefaulting Banks. A Bank's "aggregate available collateral" is defined in section 4.4(a)(2)(C) of the Act as "the amount (determined at the close of the last calendar quarter ending before such call) by which a bank's collateral . . . exceeds the collateral required to support the bank's outstanding notes, bonds, debentures, and other similar obligations."
- If the aggregate available collateral does not fully satisfy the insured obligations of the defaulting Bank, the FCA will make calls on all nondefaulting Banks in proportion to each Bank's remaining assets.

Section 4.4(d) of the Act prohibits the FCA from making joint and several calls "before the Farm Credit Insurance Fund is exhausted, even if the Fund is only able to make a partial payment because of insufficient amounts in the Fund."

The Act provides subrogation rights⁴ to both the Banks and the FCSIC for payments of insured obligations made under the Act on behalf of a defaulting Bank. With respect to System Banks, section 4.4(a)(2)(E) provides:

Any System bank that, pursuant to a call by the [FCA], makes a payment of principal or interest to the holder of any consolidated or System-wide obligations issued on behalf of another System bank shall be subrogated to the rights of the holder against such other bank to the extent of such payment.

With respect to the FCSIC, section 5.61(c)(1) and (2) of the Act⁵ provides:

[O]n the payment to an owner of an insured obligation issued on behalf of an insured System bank in receivership, the [FCSIC] shall be subrogated to all rights of the owner against the bank to the extent of the payment. . . . Subrogation . . . shall include the right on the part of the [FCSIC] to receive the same dividends from the proceeds of the assets of the bank as would have been payable to the owner on a claim for the insured obligation.

In 2007, the FCA amended the priority of claims regulation in § 627.2750 of our regulations⁶ to give priority rights to System Banks for payments made under a joint and several reallocation agreement to holders of insured obligations on behalf of a defaulting Bank (72 FR 54527 (September 26, 2007)). That provision now accords the priority, prior to payment of the claims of general creditors, as follows:

(h) All claims of holders of consolidated and System-wide bonds and all claims of the other Farm Credit banks arising from their payments on consolidated and System-wide bonds pursuant to 12 U.S.C. 2155 [section 4.4 of the Act] or pursuant to an agreement among the banks to reallocate the payments, provided that agreement is in writing and approved by the Farm Credit Administration.

This regulation means that System Banks will have the same subrogation rights for payments made under a reallocation agreement that they would have if they made payments under joint and several calls by the FCA as provided for in section 4.4 of the Act.

III. System Banks' and Funding Corporation's Request for Approval of the Agreement

The System Banks and the Funding Corporation (collectively the “parties”) have informed us that they have reached a consensus on a formula for allocating a defaulting bank’s portion of consolidated or System-wide obligations (after exhaustion of the Insurance Fund) based on each Bank’s percentage of insured obligations and accrued interest outstanding to the total amount of insured obligations outstanding (debt-based method) and have drafted an agreement (Agreement) to that effect. The parties indicated they believe the debt-based method of allocation is more equitable than the collateral-based allocation method provided in the Act. The boards of directors of all the Banks and the board of directors of the Funding Corporation have each adopted resolutions authorizing their institutions to enter into the Agreement, and the boards of the Banks have authorized the issuance of insured obligations to satisfy joint and several payments under the Agreement. The parties have submitted the proposed Agreement to the FCA for our approval under § 627.2750(h) and have requested the FCSIC to provide an expression of non-objection to the Agreement.

The boards of directors of the parties have also authorized their institutions to make conforming amendments to the Amended and Restated Market Access Agreement (MAA) to allow certain actions

under the Agreement.⁷ The MAA is an agreement among the Banks and the Funding Corporation that establishes criteria and procedures to provide oversight and control of a Bank's access to System-wide debt funding if the creditworthiness of the Bank declines below specified levels. Banks not meeting the criteria are placed in one of three categories depending on the severity of the problems. A Category I Bank has additional reporting requirements. A Category II Bank's ability to participate in issuances of System-wide obligations may be restricted. A Category III Bank may be prohibited from participating in System-wide obligations. The proposed amendments to the MAA provide that, in a circumstance where the joint and several payment provisions of the Agreement have been triggered, all nondefaulting Banks will be able to issue System-wide obligations to fund payments under the Agreement. This means that even Banks in Category II and III could participate in such issuances. Therefore, the Banks and the Funding Corporation have proposed amendments to the MAA to permit this. Should the FCA approve the Agreement, the FCA expects also to approve the amendments to the MAA and will publish the amendments in the Federal Register.

IV. Effect of the Agreement

In general, the alternative debt-based methodology requires System Banks with higher relative amounts of outstanding debt to pay a proportionately larger share under the Agreement. In contrast, under the statutory collateral-based method, Banks that maintain higher levels of excess collateral are required to pay a proportionately greater amount under a joint and several call.

We believe the likelihood of the Agreement actually being used is remote. For a joint and several call to be issued to nondefaulting System Banks, a System Bank would first have to default on a maturing insured obligation and the amount of such obligation would have to exceed the amounts in the Insurance Fund available to pay defaulted insured obligations. In our judgment, it is reasonable to believe that the Banks may build more capital under the Agreement. Consequently, we believe that holders of consolidated and System-wide debt obligations are unlikely to be harmed by the alternative debt-based methodology. However, we are asking commenters to specifically comment on the comparisons and differences of each method in terms of how they benefit the Banks in their ability to pay insured obligations when one or more of the Banks default.

V. Description of the Agreement

Article I sets forth defined terms. An included term is "Funding Certificate," which is a notification by the FCSIC to the Banks and the Funding Corporation that the Insurance Fund will not have enough funds to make an upcoming payment on maturing insured obligations that is due on behalf of a defaulting Bank. This will be the FCSIC's signal that the Insurance Fund is about to be exhausted, and the notification is intended to start the allocation payment procedure specified in the Agreement before the actual exhaustion of the Fund (and before the FCA is required by the Act to commence joint and several calls in accordance with the statutory collateral-based method). Another key definition is "Initial Allocation Percentage," which is a nondefaulting Bank's proportion of a defaulting Bank's insured obligation. This percentage is calculated by dividing a nondefaulting Bank's insured obligations by an amount equal to the sum of all nondefaulting Banks' insured obligations.

Article II sets forth the steps of the Agreement's allocation procedure, including providing for the Funding Corporation to issue new insured obligations to pay the maturing obligations of a defaulting bank under certain circumstances.

Article III contains the parties' representations and warranties, as well as certain covenants.

Article IV describes the effect of the Agreement. It states that the parties agree that nothing in the Agreement or the FCA's approval of the Agreement or the FCSIC's non-objection restricts or qualifies the authority of the FCA or the FCSIC to exercise any of their powers, rights, or duties, including the FCA's power to make joint and several calls under section 4.4 of the Act and to appoint conservators and receivers under section 4.12 of the Act. Furthermore, the parties agree that the Agreement does not provide any grounds for challenging the actions of the FCA and the FCSIC with respect to the creation or conduct of conservatorships or receiverships.

Article V provides that the parties will arbitrate any disputes relating to the Agreement.

Article VI provides indemnification for the Banks, the Funding Corporation, and their directors, officers, stockholders, employees, and agents.

Article VII sets forth how the Agreement can be terminated. Some of the termination events are unanimous agreement by the parties (other than defaulting Banks not entitled to vote) to terminate; and withdrawal of the FCA's approval of, or withdrawal of the FCSIC's non-objection to, the Agreement. Should the Agreement terminate, the FCA would make any subsequent joint and several calls according to the Act.

Article VIII contains confidentiality provisions, and Article IX contains miscellaneous provisions.

The FCA is now seeking public comment on the Agreement, which is set forth below:

JOINT AND SEVERAL LIABILITY REALLOCATION AGREEMENT

This **JOINT AND SEVERAL LIABILITY REALLOCATION AGREEMENT** (the "Agreement") is made as of the [____] day of [_____] (the "Effective Date"), by and among AgFirst Farm Credit Bank; AgriBank, FCB; CoBank, ACB; the Farm Credit Bank of Texas; and the U.S. AgBank, FCB (each, a "Bank," and collectively, the "Banks"), and the Federal Farm Credit Banks Funding Corporation (the "Funding Corporation").

WHEREAS, Section 4.4 of the Farm Credit Act of 1971, as amended (the "Act"), sets forth a collateral-based allocation methodology (the "Collateral Method") for addressing the joint and several obligations of the Banks to make, as called upon by the Farm Credit Administration (the "FCA"), payments of principal and interest due on Insured Debt Obligations (as defined herein) for which the Bank that is primarily liable thereon is unable to pay;

WHEREAS, the parties hereto desire to adopt the debt-based allocation methodology (the "Debt-Based Method") set forth herein for allocating, prior to a statutory call by the FCA pursuant to Section 4.4 of the Act, the joint and several obligations of the Banks to make payments of principal and interest due on Insured Debt Obligations for which the Bank that is primarily liable thereon is unable to pay;

WHEREAS, the boards of directors of the Banks and of the Funding Corporation gave approval to the Agreement subject to certain conditions;

WHEREAS, the Agreement was submitted to FCA for approval and to the Farm Credit System Insurance Corporation (the "Insurance Corporation") for an expression of no objection;

WHEREAS, the FCA published this Agreement in the *Federal Register* on [_____] and sought comments thereon;

WHEREAS, after receiving comments, the FCA, on _____, approved this Agreement subject to modifications, if any, that are acceptable to the parties and a notice of such approval was published in the *Federal Register* on [_____];

WHEREAS, pursuant to the letter dated [_____], from the FCA to the Banks and the Funding Corporation, the FCA approved this Agreement and confirmed, based on its statutory authority, that for the purpose of causing payment as set forth in this Agreement, it will consider a Bank Notice or Alternative to the Bank Notice relating to a Bank not in receivership as a request to make the determinations needed for a Default Certificate, and will consider a Bank Notice or an Alternative to the Bank Notice as a request to make the determinations needed for an MPI Certificate, and, if any such determinations are made, to provide notice of such to the Banks and the Funding Corporation;

WHEREAS, the Insurance Corporation, pursuant to the letter dated [_____], from the Insurance Corporation to the Banks and the Funding Corporation, expressed no objection to this Agreement and confirmed that for the purposes of causing payment as set forth in this Agreement, it will consider a Bank Notice or Alternative to the Bank Notice relating to a Bank in receivership as a request to make the determinations needed for a Default Certificate, and a Bank Notice or Alternative to the Bank Notice as a request to make the determinations needed for a Funding Certificate, and, if any such determinations are made, to provide notice of such to the Banks and the Funding Corporation;

WHEREAS, the parties hereto are entering this Agreement in reliance on § 611.1270, § 627.2750, and § 627.2755 of FCA's regulations in their present form, respectively;

WHEREAS, the parties are mindful of FCA's independent authority under Section 5.17(a)(10) of the Act to ensure the safety and soundness of banks, FCA's independent authority under Sections 4.2 and 4.9 of the Act to approve the terms of specific issuances of debt securities, the Insurance Corporation's independent authority under Part E of Title V of the Act, and the banks' independent obligations under Section 4.3(c) of the Act to maintain necessary collateral levels for debt securities;

WHEREAS, the Banks are entering into this Agreement pursuant to Section 1.5, Section 3.1, Section 4.2(c), and Section 4.2(d) of the Act; and

WHEREAS, the Funding Corporation is entering into this Agreement pursuant to Section 4.9(b) of the Act;

NOW THEREFORE, in consideration of the foregoing, the mutual promises and agreements herein contained, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

Article I. Definitions

As used in this Agreement, the following defined terms shall have the meanings described below:

Section 1.01 "Act" shall have the meaning set forth in the Recitals hereto.

Section 1.02 "Agreement" shall have the meaning set forth in the Preamble hereto.

Section 1.03 "Allocation Payment(s)" shall have the meaning set forth in Section 2.01 hereof.

Section 1.04 “Allocation Payment Debt” shall have the meaning set forth in Section 2.03(a) hereof.

Section 1.05 “Allocation Payment Investments” shall mean the assets or investments, including but not limited to cash or cash equivalents, of a Bank that is a Category II or Category III Bank under the Market Access Agreement (as defined herein), to the extent those assets may be sold at market value (as defined in § 615.5045 of the FCA Regulations).

Section 1.06 “Alternative to the Bank Notice” shall have the meaning set forth in Section 2.02(b) hereof.

Section 1.07 “Assertion” shall have the meaning set forth in Section 6.04(a) hereof.

Section 1.08 “Average Insured Debt Obligations” shall mean a Bank’s twelve (12) month average daily balance of principal and interest accrued on Insured Debt Obligations, with the average daily balance for each Bank calculated in accordance with generally accepted accounting principles (“GAAP”), on the basis of the 12-month period ending on the last day of the last month prior to the receipt of the Bank Notice or the findings of an Alternative to the Bank Notice.

Section 1.09 “Bank” or “Banks” shall have the meaning set forth in the Preamble hereto.

Section 1.10 “Bank Notice” shall have the meaning set forth in Section 2.02(a)(ii) hereof.

Section 1.11 “Business Day” shall mean any day other than (1) a Saturday or Sunday, (2) a day on which the Federal Reserve Bank of New York is closed for business, or (3) with respect to any payment in respect of any book-entry security, a day on which the Federal Reserve Bank maintaining the book-entry account relating to such book-entry security is closed for business.

Section 1.12 “Collateral Method” shall have the meaning set forth in the Recitals hereto.

Section 1.13 “Debt-Based Method” shall have the meaning set forth in the Recitals hereto.

Section 1.14 “Default Certificate” shall mean a certificate prepared by the FCA, in the case of a Bank not in receivership, or the Insurance Corporation (acting in its corporate capacity), in the case of a Bank in receivership, in such form as the FCA or the Insurance Corporation may, in their respective discretion, provide, determining that a Bank is a Defaulting Bank, and specifying the Defaulted Maturing Obligation Amount.

Section 1.15 “Defaulted Maturing Obligation” shall mean a Maturing Obligation for which the Bank primarily liable thereon is unable to pay in full when due.

Section 1.16 “Defaulted Maturing Obligation Allocation Amount” shall mean the amount of the Defaulted Maturing Obligation Amount that remains unpaid after exhausting the Fund, as specified in the Funding Certificate, reduced by the amount of any payment by a Bank, as required pursuant to § 611.1270, to make provision for such Bank’s joint and several liability.

Section 1.17 “Defaulted Maturing Obligation Amount” shall mean the amount due on a Defaulted Maturing Obligation that the Defaulting Bank primarily liable for such Defaulted Maturing Obligation is unable to pay.

Section 1.18 “Defaulting Bank” shall mean a Bank that is unable to make full payment on a Maturing Obligation for which it is primarily liable.

Section 1.19 “Effective Date” shall have the meaning set forth in the Preamble hereto.

Section 1.20 “FCA” shall have the meaning set forth in the Recitals hereto.

Section 1.21 “Fund” shall mean the Farm Credit Insurance Fund established under the Act.

Section 1.22 “Funding Certificate” shall mean a certificate prepared by the Insurance Corporation (acting in its corporate capacity), in such form as the Insurance Corporation may, in its discretion, prescribe, specifying (i) that the Fund will have insufficient funds to pay a Defaulted Maturing Obligation Amount in full, and (ii) the amount of the Defaulted Maturing Obligation Amount that remains unpaid after exhausting the Fund in making payment of the Defaulted Maturing Obligation Amount.

Section 1.23 “Funding Corporation” shall have the meaning set forth in the Preamble hereto.

Section 1.24 “Funding Notice” shall have the meaning set forth in Section 2.03(b) hereof.

Section 1.25 “Initial Allocation Amount” shall have the meaning set forth in Section 2.01 hereof.

Section 1.26 “Initial Allocation Percentage” shall mean the percentage that (i) a single Non-Defaulting Bank’s Average Insured Debt Obligations represents of (ii) the sum of all Non-Defaulting Banks’ Average Insured Debt Obligations.

Section 1.27 “Insurance Corporation” shall have the meaning set forth in the Recitals hereto.

Section 1.28 “Insured Debt Obligation(s)” shall mean an “insured obligation” as defined in Section 5.51(3) of the Act.

Section 1.29 “Market Access Agreement” shall mean the Amended and Restated Market Access Agreement, dated July 1, 2003, by and among AgFirst Farm Credit Bank; AgriBank, FCB; CoBank, ACB; the Farm Credit Bank of Texas; and U.S. AgBank, FCB (as successor to the Farm Credit Bank of Wichita and the Western Farm Credit Bank under Section 7.12 of the Amended and Restated Market Access Agreement); and the Federal Farm Credit Banks Funding Corporation, as the same may be supplemented, amended, or restated from time to time as provided for therein.

Section 1.30 “Maturing Obligation(s)” shall mean the principal and/or interest on an Insured Debt Obligation payable on a specific date for which one Bank is primarily liable.

Section 1.31 “Maximum Permitted Indebtedness” shall mean the maximum amount of Insured Debt Obligations that a Bank is permitted to issue on the basis of its available collateral as defined in Sections 4.3 and 4.4 of the Act.

Section 1.32 “MPI Adjustment” shall have the meaning set forth in Section 2.02(b)(iv) hereof.

Section 1.33 “MPI Bank(s)” shall mean a Non-Defaulting Bank that has previously reached its Maximum Permitted Indebtedness, or would exceed its Maximum Permitted Indebtedness without an “MPI Adjustment” as provided in Section 2.02(b)(iv) hereof.

Section 1.34 “MPI Certificate” shall mean a certificate prepared by the FCA, in such form as the FCA may, in its discretion, prescribe, specifying the Maximum Permitted Indebtedness for each of the Non-Defaulting Banks.

Section 1.35 “Non-Defaulting Bank(s)” shall mean, with respect to a Defaulted Maturing Obligation for which such Bank(s) is jointly and severally liable under the Collateral Method, a Bank other than a Defaulting Bank.

Section 1.36 “Notice” shall have the meaning set forth in Section 9.07 hereof.

Section 1.37 “Payment Conditions” shall have the meaning set forth in Section 2.02(c) hereof.

Section 1.38 “Payment Date” shall be the date that a payment on a Defaulted Maturing Obligation is due.

Section 1.39 “Preliminary Bank Notice” shall have the meaning set forth in Section 2.02(a) hereof.

Section 1.40 “System” shall mean the Farm Credit System.

Section 1.41 “Systemwide Debt” shall mean debt issued under Section 4.2(d) of the Act.

Section 1.42 “Termination Date” shall have the meaning set forth in Section 7.01 hereof.

Section 1.43 “U.S. Arbitration Act” shall mean 9 U.S.C. 1 et seq., as amended from time to time.

Section 1.44 “Voting Bank(s)” shall have the meaning set forth in Section 7.01(a) hereof.

Article II. Terms of Reallocation

Section 2.01 Debt-Based Allocation.

With respect to each Defaulted Maturing Obligation for which the Payment Conditions have been met, each Non-Defaulting Bank shall make joint and several liability payments pursuant to the Debt-Based Method as described herein (in lieu of application of the Collateral Method) through the Funding Corporation of a portion of the Defaulted Maturing Obligation Allocation Amount equal to such Non-Defaulting Bank’s Initial Allocation Percentage, calculated as of the date on which the Payment Conditions under Section 2.02(c) hereof have been satisfied, multiplied by the total amount of such Defaulted Maturing Obligation Allocation Amount (each an “Initial Allocation Amount”), as adjusted pursuant to Section 2.02(b)(iv) if any adjustment is required thereunder (each Initial Allocation Amount, adjusted if required pursuant to Section 2.02(b)(iv), an “Allocation Payment”).

Section 2.02 Allocation Procedure.

(a) Each Bank shall make a good faith effort to determine as promptly as practicable whether it will be able to make full payment when due on each Maturing Obligation for which it is primarily liable. As promptly as practicable after a Bank determines that there is a reasonable likelihood that it will not be able to make full payment on a Maturing Obligation for which it is primarily liable, such Bank shall deliver a notice to each of the other Banks, the Funding Corporation, the FCA, and the Insurance Corporation indicating that it anticipates not being able to make full payment when due on such Maturing

Obligation (each, a “Preliminary Bank Notice”).

(i) As promptly as practicable after such determination, such Bank shall make a good faith effort to determine the amount of such Maturing Obligation as to which it will not be able to make payment when due.

(ii) After a Bank has determined the amount of the Maturing Obligation for which it is primarily liable but for which such Bank will not be able to make payment when due, such Bank shall promptly deliver a notice to each of the other Banks, the Funding Corporation, the FCA, and the Insurance Corporation indicating the amount of the Maturing Obligation that it will be unable to pay (the “Bank Notice”).

(b) Upon the delivery of a Bank Notice under Section 2.02(a)(ii) hereto, or, in the absence of delivery of a Bank Notice, if the FCA or the Insurance Corporation (acting in its corporate capacity) believes there is a reasonable basis that a Bank will be unable to make full payment on a Maturing Obligation for which it is primarily liable (an “Alternative to the Bank Notice”), the following steps shall occur in the following order for each such Maturing Obligation:

(i) The Funding Corporation shall determine the Defaulted Maturing Obligation Allocation Amount. Before such determination shall be made, the following shall have been delivered to the Banks and the Funding Corporation:

(1) A Default Certificate with respect to the Bank primarily liable for such Maturing Obligation;

(2) A Funding Certificate with respect to the Defaulted Maturing Obligation Amount; and

(3) An MPI Certificate.

(ii) The Funding Corporation shall determine the Initial Allocation Percentage for each Non-Defaulting Bank with respect to the Defaulted Maturing Obligation Allocation Amount, and the Initial Allocation Amount for each such Bank, pursuant to Section 2.01 hereto.

(iii) The Funding Corporation shall determine whether an MPI Adjustment shall be made pursuant to Section 2.02(b)(iv) hereof. In the event no Non-Defaulting Banks are MPI Banks, or would become MPI Banks as a result of making full payment of their respective Initial Allocation Amounts, no MPI Adjustment shall be made to any Non-Defaulting Bank’s Allocation Payment, and each Non-Defaulting Bank’s Initial Allocation Amount shall be its Allocation Payment. In the event any Non-Defaulting Bank is an MPI Bank, or would become an MPI Bank as a result of making full payment of its Initial Allocation Amount, an MPI Adjustment shall be made to each Non-Defaulting Bank’s Initial Allocation Amount pursuant to Section 2.02(b)(iv) hereof. Any Bank that has terminated its System status shall be deemed to be an MPI Bank for purposes of calculating the MPI Adjustment, and any such Bank’s Allocation Payment shall be zero.

(iv) If there is one (or more) MPI Bank, the Funding Corporation shall determine the MPI Adjustment for each Non-Defaulting Bank, as follows (the adjustment as calculated under this subsection, the “MPI Adjustment”):

(1) Such adjustment shall be made by first reducing the amount of the Defaulted Maturing Obligation Allocation Amount allocated to each MPI Bank such that each MPI Bank’s allocation does not cause each such Bank to exceed its Maximum Permitted Indebtedness.

(2) An increase equal to the amount of the reduction described in Section 2.02(b)(iv)(1) above shall be made by increasing the amount of the Defaulted Maturing Obligation Allocation Amount allocated to each remaining Non-Defaulting Bank that is not an MPI Bank before such adjustment, in proportion to the ratio of such remaining Non-Defaulting Bank's Average Insured Debt Obligations compared to the sum of the Average Insured Debt Obligations for each Non-Defaulting Bank that is not an MPI Bank before such adjustment.

(3) In the event the adjustment in Section 2.02(b)(iv)(2) shall cause any Non-Defaulting Bank to become an MPI Bank, the steps in Section 2.02(b)(iv)(1) and Section 2.02(b)(iv)(2) shall be repeated with respect to the amount of the Defaulted Maturing Obligation Allocation Amount allocated to such MPI Bank in excess of its Maximum Permitted Indebtedness, until the entire Defaulted Maturing Obligation Allocation Amount has been allocated among the Non-Defaulting Banks or cannot be so allocated because each Non-Defaulting Bank would exceed its Maximum Permitted Indebtedness.

(4) In the event the entire Defaulted Maturing Obligation Allocation Amount cannot be so allocated under the Debt-Based Method, the Funding Corporation shall promptly notify the FCA and Insurance Corporation that a default on a payment of principal or interest on Insured Debt Obligations is imminent. Notwithstanding any such notification, this Agreement shall continue in effect unless terminated pursuant to Section 7.01.

(c) *Payment Conditions.* Each of the following conditions must be satisfied before a Non-Defaulting Bank shall be obligated to make an Allocation Payment (collectively, the "Payment Conditions") pursuant to this Agreement:

(i) *Default Certification.* A Default Certificate has been delivered to each of the Banks and the Funding Corporation.

(ii) *Funding Certification.* A Funding Certificate has been delivered to each of the Banks and the Funding Corporation.

(iii) *MPI Certification.* An MPI Certificate has been delivered to each of the Banks and the Funding Corporation.

(iv) *No Call.* The FCA shall not have invoked its statutory call authority under Section 4.4 of the Act with respect to the Defaulted Maturing Obligation.

Section 2.03 Satisfaction of Allocation Payment.

(a) With respect to a Defaulted Maturing Obligation Allocation Amount, each Non-Defaulting Bank hereby authorizes the Funding Corporation, for the purpose of making such Non-Defaulting Bank's Allocation Payment, to issue Systemwide Debt on such Non-Defaulting Bank's behalf on the Payment Date in the amount of the Non-Defaulting Bank's Allocation Payment, increased by the amount of any dealer concessions and other applicable fees required to issue Systemwide Debt ("Allocation Payment Debt"); provided that (i) the Payment Conditions have been satisfied as of the date and time of such issuance, (ii) the Funding Notice has been given as provided herein, and (iii) such Non-Defaulting Bank that is eligible to make an election under Section 2.03(c) hereof has not made such an election with respect to funding such Allocation Payment with cash, or, if such election has been made such Bank making the election has not fully paid its Allocation Payment in cash by the agreed upon date and time under Section 2.03(c). Each Non-Defaulting Bank hereby irrevocably authorizes the Funding

Corporation to apply the net proceeds of any issuance pursuant to the preceding sentence to the payment of such Non-Defaulting Bank's Allocation Payment, provided that the Payment Conditions have been satisfied at the Payment Date. Each Non-Defaulting Bank for which Allocation Payment Debt will be issued may propose to the Funding Corporation preferred terms and conditions for such Allocation Payment Debt. After consultation on an individual basis with each Non-Defaulting Bank for which Allocation Payment Debt will be issued, the Funding Corporation, acting for each Non-Defaulting Bank, shall issue Allocation Payment Debt on behalf of each Non-Defaulting Bank in accordance with Section 4.9 of the Act, taking into consideration the preferred terms and conditions proposed by such Non-Defaulting Bank. Each Non-Defaulting Bank liable for an Allocation Payment under this Agreement shall fund such Allocation Payment, or any portion thereof, with cash upon its election under Section 2.03(c) or if required to do so under Section 2.03(d) hereof.

(b) The Funding Corporation shall give each Bank, the FCA and the Insurance Corporation notice no later than the Payment Date of its intent to exercise its authority under Section 2.03(a) hereto to issue Allocation Payment Debt (each a "Funding Notice"), which Funding Notice shall also state the applicable Allocation Payment for each Non-Defaulting Bank, and the Payment Date.

(c) A Non-Defaulting Bank may elect to make its Allocation Payment in cash in lieu of issuing Allocation Payment Debt. Each Non-Defaulting Bank must deliver notice of its election under this Section 2.03(c) to the Funding Corporation within time limits prescribed by the Funding Corporation, which time limits shall be set in accordance with the Funding Corporation's deadlines for issuing Insured Debt Obligations. Each Non-Defaulting Bank funding its Allocation Payment with cash and the Funding Corporation shall use reasonable and timely efforts to agree on a date and time by which such Non-Defaulting Bank must deliver the cash to the Funding Corporation. If the Funding Corporation does not receive the cash by the agreed upon date and time, the Funding Corporation shall issue Allocation Payment Debt in accordance with Section 2.03(a) hereto.

(d) Notwithstanding the provisions of Section 2.03(c) hereto, any Non-Defaulting Bank that is in Category II or Category III under the Market Access Agreement shall be required to submit a cash payment to the Funding Corporation, in an amount equal to the lesser of (i) such Bank's Allocation Payment, or (ii) such Bank's Allocation Payment Investments. Any such Non-Defaulting Bank that is in Category II or Category III under the Market Access Agreement shall submit such a cash payment to the Funding Corporation to be held in escrow on the later of (i) the date such Bank is notified of its Allocation Payment or (ii) two (2) Business Days prior to the Payment Date. A Non-Defaulting Bank that is obligated to make a cash payment under this Section 2.03(d) in an amount less than its full Allocation Payment shall nevertheless be liable for the full amount of its Allocation Payment. The Funding Corporation shall be permitted to issue Allocation Payment Debt on behalf of any Bank making a cash payment pursuant to this Section 2.03(d) in an amount not to exceed the excess of such Bank's Allocation Payment (increased by the amount of any dealer concessions and other applicable fees required to issue Allocation Payment Debt) over such Bank's Allocation Payment Investments.

(e) The proceeds of Allocation Payment Debt or any cash delivered pursuant to Section 2.03(c) or Section 2.03(d) shall be used by the Funding Corporation solely to satisfy the Defaulted Maturing Obligation Allocation Amount with respect to which it was issued and for no other purpose, except that any portion of Allocation Payment Debt issued to cover dealer concessions and other applicable fees required to issue Allocation Payment Debt may be used for that limited purpose.

(f) The inability or failure of the Funding Corporation to issue Allocation Payment Debt shall not relieve the Non-Defaulting Banks from the obligation to make their respective Allocation Payments.

(g) Any Bank that makes an Allocation Payment to a holder of a Defaulted Maturing Obligation, directly or indirectly pursuant to this Agreement, shall have a priority of claim in accordance with § 627.2750 and § 627.2755 of FCA's regulations.

Section 2.04 Market Access Agreement.

The limitations under the Market Access Agreement on the amount of Insured Debt Obligations that a Bank is permitted to issue shall not be applicable to Allocation Payment Debt.

Section 2.05 Provision of Information.

Each Bank shall provide to the Funding Corporation pertinent materials and information requested by the Funding Corporation with respect to the calculations to be performed by the Funding Corporation under this Article II, as the Funding Corporation shall reasonably request in writing from the Banks. All Banks shall summarize, aggregate, or analyze data, as well as provide raw data, in such manner as the Funding Corporation may reasonably request. Such information shall be promptly updated or supplemented as the Funding Corporation so requests in writing of the Banks by such deadlines as the Funding Corporation may reasonably specify. Each Bank attests that any information delivered to the Funding Corporation pursuant to this Section 2.05 is true to the best of such Bank's knowledge. The Funding Corporation shall be entitled to rely on information provided to it pursuant to this Section without independently verifying the information.

Article III. Representations and Warranties and Certain Covenants

Section 3.01 Representations and Warranties of Each Bank to Every Other Bank and the Funding Corporation.

Each Bank represents, warrants and acknowledges to each of the other parties to this Agreement that:

(a) *Organization.* Such Bank is an instrumentality, duly organized and validly existing under the laws of the United States. Such Bank has all requisite power and authority (corporate and other) to own, lease and operate the properties used in its business as now being conducted.

(b) *Corporate Authority.* Such Bank has the corporate power and authority to enter into contracts and to exercise such other incidental powers as are necessary to carry out its powers, duties and functions in accordance with its charter and the Act. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized and approved by such Bank's board of directors and no other corporate proceedings on the part of such Bank are necessary to authorize or approve this Agreement and the transactions contemplated hereby.

(c) *Agreement Binding and Enforceable.* This Agreement has been duly executed and delivered by such Bank and is a valid and binding agreement of such Bank, enforceable against it in accordance with its terms, except that (i) such enforcement may be subject to those provisions of the Act and the regulations thereunder relating to the liquidation, receivership or conservatorship of institutions of the System and to other bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding thereof may be brought.

(d) *Compliance with Law.* The execution, delivery and performance by such Bank of this Agreement and the performance by it of the transactions contemplated hereby do not and will not violate or conflict with any other applicable law or regulation, or any order, judgment, injunction or decree of any court or governmental authority of competent jurisdiction which is binding on such Bank or by which the assets of such Bank are bound.

(e) *Compliance with Obligations.* The execution, delivery and performance by such Bank of this Agreement and the performance by it of the transactions contemplated hereby do not and will not violate, conflict with or constitute breach of or a default under its charter or bylaws or any other agreement or instrument to which it is a party (or which is binding on its assets), such that any such violation, conflict, breach or default, after giving effect to the transactions contemplated hereby, is reasonably likely to have a material adverse effect on such Bank's observance or performance of this Agreement or the performance of the transactions contemplated hereby.

(f) *Claims, Suits.* There is no governmental or non-governmental action, suit, or proceeding (or claim of which it has been notified) which is pending or, to the best knowledge of such Bank, threatened against or affecting such Bank that would (i) materially and adversely affect the ability of such Bank to conduct its business as presently conducted, or (ii) prevent, hinder or delay the consummation of the transactions contemplated hereby.

(g) *Funding Resolution.* Such Bank has amended its current standing funding resolution adopted by its board of directors to authorize issuances of Allocation Payment Debt without any limitation on the amount of Allocation Payment Debt that could be issued to the fullest extent permitted by applicable law.

Section 3.02 Representations and Warranties of the Funding Corporation to each Bank.

The Funding Corporation hereby represents, warrants and acknowledges to each of the other parties to this Agreement that:

(a) *Organization.* The Funding Corporation is an instrumentality, duly organized and validly existing under the laws of the United States. The Funding Corporation has all requisite power and authority (corporate and other) to own, lease and operate the properties used in its business as now being conducted.

(b) *Corporate Authority.* The Funding Corporation has the corporate power and authority to enter into contracts and to exercise such other incidental powers as are necessary to carry out its powers, duties and functions in accordance with its charter and the Act. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized and approved by the board of directors of the Funding Corporation and no other corporate proceedings on the part of the Funding Corporation are necessary to authorize or approve this Agreement and the transactions contemplated hereby.

(c) *Binding Agreement.* This Agreement has been duly executed and delivered by the Funding Corporation and is valid, binding and enforceable against the Funding Corporation in accordance with its terms, except that (i) such enforcement may be subject to those provisions of the Act and the regulations thereunder relating to the liquidation, receivership or conservatorship of institutions of the System and to other bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive and other forms of

equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding thereof may be brought.

(d) *Compliance with Law.* The execution, delivery and performance by the Funding Corporation of this Agreement and the performance by it of the transactions contemplated hereby do not and will not violate or conflict with any applicable law or regulation, or any order, judgment, injunction or decree of any court or governmental authority of competent jurisdiction which is binding on the Funding Corporation or by which the assets of the Funding Corporation are bound.

(e) *Compliance with Obligations.* The execution, delivery and performance by the Funding Corporation of this Agreement and the performance by the Funding Corporation of the transactions contemplated hereby do not and will not violate, conflict with or constitute breach of or a default under the charter or bylaws of the Funding Corporation or any other agreement or instrument to which the Funding Corporation is a party (or which is binding on its assets), such that any said violation, conflict, breach or default, after giving effect to the transactions contemplated hereby, is reasonably likely to have a material adverse effect on the Funding Corporation's observance or performance of this Agreement or the performance by the Funding Corporation of the transactions contemplated hereby.

(f) *Claims, Suits.* There is no governmental or non-governmental action, suit, or proceeding (or claim of which the Funding Corporation has been notified) which is pending or, to the best knowledge of the Funding Corporation, threatened against or affecting the Funding Corporation that would (i) materially and adversely affect the ability of the Funding Corporation to conduct its business as presently conducted, or (ii) prevent, hinder or delay the consummation of the transactions contemplated hereby.

Section 3.03 Covenants of the Parties.

(a) *Further Assurances.* Subject to the terms and conditions of this Agreement, each party hereto shall use all reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations or otherwise to fulfill its obligations under this Agreement.

(b) *Organizational Documents.* Each party hereto shall not (i) amend, modify or otherwise supplement its charter or bylaws, or (ii) amend, modify, supplement, terminate or withdraw its standing funding resolution referenced in Section 3.01(g) hereof, if such action under (i) or (ii) could, directly or indirectly, impede the issuance of Allocation Payment Debt. If any of the actions specified in (i) or (ii) of this Section 3.03(b) are taken by the Board of Directors of any party, and such action could, directly or indirectly, impede the issuance of Allocation Payment Debt, such action shall be deemed a breach of this Agreement.

(c) *No Challenge to this Agreement.* Without implying that judicial action, arbitration, or other similar proceeding may be brought on any other matter, each Bank and the Funding Corporation specifically agree not to bring any judicial action, arbitration, or other similar proceeding to challenge the validity or enforceability of this Agreement.

Article IV. Effect of this Agreement

Section 4.01 Effect of this Agreement.

(a) Notwithstanding any other provision of this agreement and FCA's approval of the agreement, including through *Federal Register* notice and comment, it is expressly agreed by the parties hereto that

neither this agreement, nor the execution or approval of this agreement, nor the insurance corporation's expression of no objection shall be interpreted to restrict or qualify, in any way, the authority of the FCA or the Insurance Corporation to exercise any of their respective powers, rights or duties, including the FCA's ability to invoke the joint and several liability provisions set forth in Section 4.4 of the Act, or to appoint a receiver or conservator.

(b) Notwithstanding any other provision of this agreement, it is expressly agreed that this agreement, FCA's approval thereof, and the Insurance Corporation's expression of no objection do not provide any grounds for challenging FCA or Insurance Corporation actions with respect to the creation of or the conduct of receiverships or conservatorships. Without limiting the preceding statement, each bank specifically and expressly agrees and acknowledges that it cannot, and agrees that it shall not, attempt to challenge FCA's appointment of a receiver or conservator for itself or any other System institution or FCA's or the Insurance Corporation's actions in the conduct of any receivership or conservatorship on the basis of this agreement or FCA's approval thereof or the Insurance Corporation's expression of no objection. The banks jointly and severally agree that they shall indemnify and hold harmless FCA and the Insurance Corporation against all costs, expenses and damages, including without limitation, attorneys' fees and litigation costs, resulting from any such challenge by any party.

Article V. Arbitration

Section 5.01 Agreement to Arbitrate.

All disputes between or among the parties hereto relating to this Agreement or arising hereunder shall be submitted to final and binding arbitration pursuant to the U.S. Arbitration Act. Arbitrations shall be conducted under the Commercial Arbitration Rules of the American Arbitration Association before a single arbitrator. Neither the fact of the existence of an arbitration or any part of the records of such arbitration shall be divulged without the consent of the parties hereto, provided, however, that any party bringing an arbitration action against another party to this Agreement shall provide notice to the FCA and the Insurance Corporation that arbitration among the parties is pending.

Section 5.02 Procedure; Location.

The location of any arbitration proceedings under this Agreement shall be New York City, but such location may be changed by mutual agreement of the parties to such arbitration. An arbitrator shall be selected within fourteen (14) days of the initiation of arbitration by any party hereto, and the arbitrator shall render a decision within thirty (30) days of his or her selection, or as otherwise agreed to by the parties hereto. It is expressly agreed by the parties hereto that the arbitrator may order specific performance.

Section 5.03 Consistent Treatment of Each Bank.

This Agreement will be interpreted and applied in arbitration in a fashion that ensures that each Bank is treated consistently.

Section 5.04 Arbitration Principles.

If any party to this Agreement has taken any action or failed to take any action that results in the payment, in part or in full, of a Defaulted Maturing Obligation Allocation Amount by means of a statutory call by the FCA rather than pursuant to this Agreement, and such statutory call would not have been made but for the action or inaction of such a party to this Agreement, such action or inaction shall be

deemed a breach of this Agreement. The arbitrator in any subsequent arbitration arising out of such action or inaction shall take the following principles into account in fashioning any remedies awarded in arbitration:

(a) The parties intend that the arbitrator give economic effect to this Agreement in the event a Defaulted Maturing Obligation Allocation Amount is funded, in part or in full, through a statutory call that would not have been made but for the action or inaction of a party to this Agreement.

(b) In the event of such action or inaction, the parties intend that each party to this Agreement will be put in the same economic position as each party would have occupied had the Defaulted Maturing Obligation Allocation Amount been allocated under this Agreement.

(c) Notwithstanding any failure of the payment condition specified in Section 2.02(c)(iv) to be met, the arbitrator shall be permitted to afford relief to the parties as indicated pursuant to the principles set forth in this Section 5.04.

(d) The arbitration principles set forth in this section shall not be construed to limit or affect the availability of any other relief that an arbitrator may choose to award in any arbitration pursuant to this Article V, including but not limited to an award of interest or consequential damages arising out of the actions or inactions of a party to this Agreement.

(e) The principles set forth in this Section 5.04 shall not apply to any Bank for which this Agreement has been repudiated by the conservator or receiver on behalf of such a Bank in conservatorship or receivership.

Article VI. Indemnification

Section 6.01 Definitions.

As used in this Article VI:

(a) “Damages” shall mean any and all losses, costs, liabilities, damages and expenses, including, without limitation, court costs and reasonable fees and expenses of attorneys expended in investigation, settlement and defense (at the trial and appellate levels and otherwise), which are incurred by an Indemnified Party as a result of or in connection with any third-party claim alleging liability for actions taken pursuant to or in connection with this Agreement, excepting any of the aforesaid to the extent such amounts are incurred by an Indemnified Party as a result of breaching any of such Indemnified Party’s duties or obligations under this Agreement or for the violation of any provision under Article III herein. Except to the extent otherwise provided in this Article VI, Damages shall be deemed to have been incurred by reason of a final settlement or the dismissal with prejudice of any such claim, or the issuance of a final nonappealable order by a court of competent jurisdiction which ultimately disposes of such a claim, whether favorable or unfavorable.

(b) “Indemnified Party” shall mean any Bank or the Funding Corporation, or any of the past, present or future directors, officers, stockholders, employees or agents of the foregoing.

(c) “Indemnity Payment” shall have the meaning set forth in Section 6.07(a) hereof.

Section 6.02 Indemnity.

To the extent consistent with applicable law, the Banks (including any Bank seeking indemnification under the Agreement) shall indemnify and hold harmless each Indemnified Party against and in respect of Damages to the extent provided in Section 6.07, provided, however, that an Indemnified Party shall not be entitled to indemnification under this Article VI in connection with conduct of such Indemnified Party constituting gross negligence, willful misconduct, intentional tort or criminal act, or in connection with civil money penalties imposed by FCA; and provided further that no past, present or future directors, officers, stockholders, employees or agents of a Bank shall be entitled to indemnification under this Article VI in respect of Damages for which they could not be indemnified by such Bank pursuant to its bylaws, charter, or other agreements or instruments in effect as of the date of the act for which indemnification is being sought. Damages for which an Indemnified Party is entitled to indemnification shall be allocated to and payable by each Bank in proportion to such Bank's Average Insured Debt Obligations divided by the aggregate Average Insured Debt Obligations for all Banks, all of which shall be calculated in accordance with generally accepted accounting principles ("GAAP"), on the basis of the 12-month period ending on the last day of the last month prior to the date of the Assertion (as defined below).

Section 6.03 Advancement of Expenses.

The Banks shall advance to an Indemnified Party, as and when incurred by the Indemnified Party, all reasonable expenses, court costs and attorneys' fees incurred by such Indemnified Party in defending any proceeding involving a claim against such Indemnified Party based upon or alleging any matter that constitutes, or if sustained would constitute a matter in respect of which indemnification is provided for in Section 6.02, so long as the Indemnified Party provides the Banks with a written undertaking to repay all amounts so advanced if it is ultimately determined by a court in a final nonappealable order or by agreement of the Banks and the Indemnified Party that the Indemnified Party is not entitled to be indemnified under Section 6.02. Expenses advanced to an Indemnified Party pursuant to this Section 6.03 shall be allocated to and payable by each Bank in proportion to such Bank's Average Insured Debt Obligations divided by the aggregate Average Insured Debt Obligations for all Banks, all of which shall be calculated in accordance with generally accepted accounting principles ("GAAP"), on the basis of the 12-month period ending on the last day of the last month prior to the date of the Assertion (as defined below).

Section 6.04 Assertion of Claim.

(a) Promptly after the receipt by an Indemnified Party of notice of the assertion of any claim or the commencement of any action against him, her or it in respect of which indemnification may be sought against the Banks hereunder (each, an "Assertion"), such Indemnified Party shall provide written notice of such Assertion to the Banks. The failure to so notify the Banks shall not relieve the Banks of liability they may have to such Indemnified Party hereunder, except to the extent that failure to give such notice results in material prejudice to the Banks.

(b) The Banks shall be entitled to participate in, and to the extent the Banks elect in writing on thirty (30) days' notice, to assume, the defense of an Assertion, at their own expense, with counsel chosen by them and satisfactory to the Indemnified Party. Notwithstanding that the Banks shall have elected by such written notice to assume the defense of any Assertion, such Indemnified Party shall have the right to participate in the investigation and defense thereof, with separate counsel chosen by such Indemnified Party, but in such event the fees and expenses of such separate counsel shall be paid by such Indemnified Party and shall not be subject to indemnification by the Banks unless, in the absence of reasonable

objections to the selection of such counsel by the Banks, (i) the Banks shall have agreed to pay such fees and expenses, (ii) the Banks shall have failed to assume the defense of such Assertion, or (iii) in the reasonable judgment of such Indemnified Party, based upon advice of his, her or its counsel, a conflict of interest may exist between the Banks and such Indemnified Party with respect to such Assertion, in which case, if such Indemnified Party timely notifies the Banks that such Indemnified Party elects to employ separate counsel at the Banks' expense, the Banks shall not have the right to assume the defense of such Assertion on behalf of such Indemnified Party. Notwithstanding anything to the contrary in this Article VI, neither the Banks, nor the Indemnified Party shall settle or compromise any action or consent to the entering of any judgment (a) without the prior written consent of the other, which consent shall not be unreasonably withheld, and (b) without obtaining, as an unconditional term of such settlement, compromise or consent, the delivery by the claimant or plaintiff to such Indemnified Party of a duly executed written release of such Indemnified Party from all liability in respect of such Assertion, which release shall be satisfactory in form and substance to counsel to such Indemnified Party.

Section 6.05 Remedies; Survival.

The indemnification, rights and remedies provided to an Indemnified Party under this Article VI shall be (i) in addition to and not in substitution for any other rights and remedies to which any of the Indemnified Parties may be entitled, under any other agreement with any other person, or otherwise at law or in equity, and (ii) except as otherwise specified in Section 6.07, provided prior to and without regard to any other indemnification available to any Indemnified Party. This Article VI shall survive the termination of this Agreement.

Section 6.06 No Rights in Third Parties.

This Agreement shall not confer upon any person other than the Indemnified Party any rights or remedies of any nature or kind whatsoever under or by reason of the indemnification provided for in this Article VI.

Section 6.07 Indemnification Obligations Net of Insurance Proceeds and Other Amounts.

(a) The parties intend that any Damages subject to indemnification or reimbursement pursuant to this Article VI will be net of applicable insurance recoveries. Accordingly, the amount which any Bank is required to pay to any Indemnified Party will be reduced by any insurance proceeds theretofore actually recovered by or on behalf of the Indemnified Party for the related Damages. If an Indemnified Party receives a payment required by this Agreement from a Bank (an "Indemnity Payment") in respect of any Damages and subsequently receives insurance proceeds applicable to those Damages, then the Indemnified Party will pay to such Bank an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the insurance proceeds had been received, realized or recovered before the Indemnity Payment was made.

(b) An insurer that would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit it would not be entitled to receive in the absence of the indemnification provisions) by virtue of the indemnification provisions of this Article VI.

Section 6.08 Prevention of Duplication of Claims for Indemnification of Damages.

(a) In the event a Bank or the Funding Corporation, Pursuant to its bylaws or an agreement (not

including this Agreement) advances expenses to any of its past, present or future directors, officers, stockholders, employees or agents, or indemnifies them for Damages, such Bank or the Funding Corporation shall be entitled to be indemnified by each Bank to the same extent such past, present or future directors, officers, stockholders, employees or agents that received such advancement of expenses or indemnification of Damages would have been entitled to advancement or indemnification by such Bank under this Agreement.

(b) To the extent any past, present or future directors, officers, stockholders, employees or agents of a Bank or the Funding Corporation has been indemnified by such Bank or the Funding Corporation pursuant to their respective bylaws or an agreement (not including this Agreement), such past, present or future directors, officers, stockholders, employees or agents shall not be entitled to Indemnification under this Agreement.

Article VII. Term and Termination

Section 7.01 Term.

This Agreement shall take effect on the Effective Date and shall terminate upon the first to occur of the following (the "Termination Date"):

(a) upon the date specified in a notice to the Funding Corporation that the Voting Banks, as defined herein, elect to terminate the Agreement. Such notice shall be executed by each Bank (including a Bank in conservatorship or receivership provided that the conservator or receiver has not repudiated this Agreement on behalf of such Bank) that is not currently in default on any Maturing Obligation or identified as a Bank that will be unable to pay a Maturing Obligation for which it is primarily liable in a Default Certificate, is a member of the System subject to the obligation to make Allocation Payments, is fully performing on that obligation, and if the certifications listed in Section 2.02(c) hereof have been delivered to the Banks, the Bank would be able to fully fund its next anticipated Allocation Payment under this Agreement as determined in the Funding Corporation's reasonable discretion (each, a "Voting Bank," and collectively, the "Voting Banks"). The executed notice shall provide that the Voting Banks, by unanimous vote, have agreed to terminate this Agreement as of a specified date, which notice shall be delivered to the Funding Corporation not less than two (2) Business Days before the date specified in the notice for the termination of this Agreement;

(b) upon the effective date of action by the FCA that withdraws FCA's approval of this Agreement;

(c) upon the effective date of action by the FCA that amends the FCA's priority of claims regulations, including FCA regulations §§ 627.2750 and 627.2755, with respect to any payments made to holders of Insured Debt Obligations;

(d) upon the effective date of any action by the Insurance Corporation that withdraws the Insurance Corporation's expression of no objection to this Agreement;

(e) any part or provision of this Agreement has been deemed void or unenforceable by a court of competent jurisdiction pursuant to a final, nonappealable order; or

(f) upon the effective date of action by the FCA that amends FCA regulation § 611.1270, with respect to making provision for joint and several liability payments subsequent to termination of System status.

Notwithstanding the foregoing, if the Banks and the Funding Corporation unanimously agree to continue this Agreement within five (5) Business Days of an event set forth in (b), (c), (d), (e), or (f) of this Section, this Agreement shall not terminate. After such unanimous agreement, the Banks and the Funding Corporation shall work in good faith to execute an amendment to this Agreement to accomplish its essential purposes notwithstanding the occurrence of the events specified in such subsections.

Section 7.02 Effect of Termination.

In an event of termination under Section 7.01 hereto, (i) the transactions contemplated by this Agreement shall be terminated and abandoned without further action by the parties and no party shall have any further obligations hereunder to any other party except for those obligations that specifically survive termination, and (ii) with respect to any Insured Debt Obligation maturing after the Termination Date, the methodology for joint and several liability allocation shall revert to the Collateral Method. The termination of this Agreement shall not in any way affect (a) any Allocation Payments made before the Termination Date, (b) the Banks' subrogation rights with respect to any such Allocation Payments made before the Termination Date, (c) the indemnification rights and obligations under Articles IV or VI, or (d) rights to arbitration under Article V for breaches of this Agreement that occur prior to termination.

Section 7.03 Severability.

In the event the conservator or receiver, on behalf of a Bank in conservatorship or receivership, repudiates this Agreement, this Agreement shall remain effective as to the other Banks, except that strictly for purposes of Section 2.02(b) hereto, the Bank for which this Agreement has been repudiated shall be deemed to be an MPI Bank for purposes of calculating the MPI Adjustment, and any such Bank's Allocation Payment shall be zero pursuant to this Agreement. The repudiation of this Agreement shall not affect the rights of any party to pursue a claim for damages or other relief against a Bank in conservatorship or receivership that has repudiated this Agreement, if such claim either (i) arose under this Agreement prior to the appointment of a conservator or receiver, or (ii) did not arise under this Agreement.

Article VIII. Confidentiality

Section 8.01 Confidentiality.

The parties may disclose this Agreement and any amendments to it and may also disclose any actions taken pursuant to this Agreement in order to effect funding of a Defaulted Maturing Obligation Allocation Amount. All other information relating to this Agreement shall be kept confidential and shall be used solely for purpose of this Agreement, except that, to the extent permitted by applicable law, such information may be disclosed (a) by any party in order to comply with legal or regulatory obligations, (b) under the Farm Credit System Disclosure Program, (c) by a party, as such party deems appropriate for purposes of such party's disclosures to borrowers, shareholders, creditors, investors, or rating agencies, or (d) by a party for purposes of disclosure to any other transacting party (subject to such a transacting party's agreement to keep the information confidential, to the extent such party can reasonably obtain such agreement) of material information relating to any party. Notwithstanding the preceding sentence, the parties shall make every reasonable effort, to the extent consistent with legal requirements, securities disclosure obligations and other business necessities, to preserve the confidentiality of information provided to any party and designated as "Proprietary and Confidential." Any expert or consultant retained in connection with this Agreement shall execute a written undertaking to preserve the confidentiality of any information received in connection with this Agreement. Notwithstanding the

foregoing, nothing in this Agreement shall prevent the parties from disclosing information to FCA or the Insurance Corporation.

Article IX. Miscellaneous

Section 9.01 Relation to Market Access Agreement.

This Agreement and the Market Access Agreement are separate agreements, and invalidation or termination of one shall not affect the other.

Section 9.02 Relation to the Act.

It is expressly agreed by the parties hereto that this Agreement shall be interpreted to be coextensive with the Act and the regulations and the obligations thereunder.

Section 9.03 Statutory Collateral Requirement.

Nothing in this Agreement shall be construed to permit a Bank to participate in issuances of Insured Debt Obligations or other obligations if it does not satisfy the collateral requirements of Section 4.3(c) of the Act.

Section 9.04 Termination of System Status.

Nothing in this Agreement shall be construed to preclude a Bank from terminating its status as a System institution pursuant to Section 7.10 of the Act, or from withdrawing, as from that time forward, the funding resolution it has adopted pursuant to Section 4.4(b) of the Act with respect to Insured Debt Obligations. Notwithstanding the foregoing, termination of System status does not terminate obligations under this Agreement. A Bank that terminates its status as a System institution shall remain liable for any obligations imposed pursuant to FCA regulation § 611.1270.

Section 9.05 Restrictions Concerning Subsequent Litigation.

It is expressly agreed by the Banks that (a) characterization or categorization of Banks, (b) information furnished to the Banks, (c) discussions or decisions of the Banks or the Funding Corporation under this Agreement, (d) FCA's approval of this Agreement, and (e) the Insurance Corporation's expression of no objection, shall not be used in any subsequent litigation challenging FCA's or the Insurance Corporation's action or inaction.

Section 9.06 Headings.

The section headings contained in this Agreement are for reference and convenience only, do not constitute a part of this Agreement, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

Section 9.07 Notices.

All notices, requests, demands and other communications which are required or may be given pursuant to the terms of this Agreement (each a "Notice") by parties to the Agreement, including notice of a change of address, shall be (i) in writing, and (ii) sent by facsimile or other electronic transmission (and promptly confirmed by registered or certified mail or courier service, as provided herein); the

confirmation of a facsimile or other electronic transmission may be sent by a reputable independent courier service appropriate to the circumstances, or sent by registered or certified mail, postage prepaid, return receipt requested, addressed to a party at the applicable address set forth herein (or at such other address as a party may designate upon ten (10) days' prior written notice to the Banks, the Funding Corporation, FCA, and the Insurance Corporation). Any such communication shall be deemed to have been validly delivered and received effective on the earlier of (a) the date of transmission when sent by facsimile or other electronic transmission, or (b) the date of delivery when delivered by a reputable courier service maintaining records of receipt or by the applicable national postal service. Any such communication shall be addressed as follows:

To AgFirst Farm Credit Bank:

AgFirst Farm Credit Bank
Farm Credit Bank Building
1401 Hampton Street
Columbia, South Carolina 29201
Attention: President and Chief Executive Officer
Fax: 803-254-1776

To AgriBank, FCB:

AgriBank, FCB
375 Jackson Street
St. Paul, Minnesota 55101
Attention: President and Chief Executive Officer
Fax: 651-282-8511

To CoBank, ACB:

CoBank, ACB
5500 South Quebec Street
Greenwood Village, Colorado 80111
Attention: President and Chief Executive Officer
Fax: 303-740-4002

To the Farm Credit Bank of Texas:

Farm Credit Bank of Texas
4801 Plaza on the Lake Drive
Austin, Texas 78746
Attention: President and Chief Executive Officer
Fax: 512-465-0775

To U.S. AgBank, FCB:

U.S. AgBank, FCB
245 North Waco
Wichita, KS 67202
Attention: President and Chief Executive Officer
Fax: 316-266-5126

To Federal Farm Credit Banks Funding Corporation:

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
Attention: President and Chief Executive Officer
Fax: 201-200-8109

To the Farm Credit System Insurance Corporation:

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102
Attention: Chairman
Fax: 703-790-9088

To the Farm Credit Administration:

Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Attention: Chairman
Fax: 703-734-5784

or to such other address, facsimile number or individual as any Bank or the Funding Corporation, or any successor thereto, shall have designated.

Section 9.08 Cumulative Rights and No Waiver.

Each and every right granted to a party hereunder, or allowed it by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of any party to exercise any right shall operate as a waiver thereof, nor shall any single or partial exercise by any party of any right preclude any other exercise thereof or the exercise of any other right.

Section 9.09 Transfers and Assignments; Binding Agreement.

This Agreement shall not be transferable or assignable by any party without the prior written consent of the other parties hereto, and any attempted transfer or assignment shall be void and of no effect, except no prior written consent of the other parties hereto shall be required for the merger or consolidation of one or more Banks. Except as otherwise expressly provided herein, the rights and obligations of the parties hereto shall inure to the benefit of and be binding upon the successors, transferees and assigns of each of them, including entities resulting from the merger or consolidation of one or more Banks.

Section 9.10 Governing Law.

This Agreement shall be governed by and construed in accordance with the Federal laws and regulations of the United States of America, and, to the extent of the absence of Federal law, in

accordance with the laws of the State of New York, excluding any conflicts of law provisions that would cause the law of any jurisdiction other than New York to be applied; provided, however, that in the event of any conflict between the U.S. Arbitration Act and applicable Federal or New York law, the U.S. Arbitration Act shall control.

Section 9.11 Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute a single document.

Section 9.12 Amendments.

This Agreement may be modified, supplemented or amended only by an agreement in writing executed by all of the parties hereto. In addition, the FCA must approve such modification, supplement or amendment and the Insurance Corporation must deliver an expression of no objection to such modification, supplement or amendment.

Section 9.13 Entire Agreement.

This Agreement constitutes the entire agreement of the parties hereto with respect to its subject matter hereof, and supersedes any and all prior negotiations, correspondence, understandings and agreements among the parties or between two of the parties, oral or written, respecting the subject matter hereof.

Section 9.14 Time Is Of The Essence.

Time is of the essence in interpreting and performing this Agreement.

¹The Funding Corporation is the fiscal agent of the System established under section 4.9 of the Farm Credit Act of 1971, as amended (12 U.S.C. 2160). The Farm Credit Act is set forth in 12 U.S.C. 2001-2279cc.

²Section 4.2 of the Act is codified at 12 U.S.C. 2153.

³Section 4.4 of the Act is codified at 12 U.S.C. 2155.

⁴A right of subrogation means to stand in the place or “shoes” of another with regard to a legal right or claim.

⁵Section 5.61 is codified at 12 U.S.C. 2277a-10.

⁶The FCA’s regulations are in Title 12, Chapter VI, Parts 600-end of the Code of Federal Regulations.

⁷The MAA is available at <http://www.farmcredit-ffcb.com/pdfs/MarketAccessAgreement.pdf>. The FCA published the original version of the MAA in the Federal Register (59 FR 25644 (May 17, 1994)), and

also published the Restated MAA (68 FR 2037 (January 15, 2003)).

Date: August 12, 2010

**Roland E. Smith,
Secretary,
Farm Credit Administration Board.**