

Information Concerning Your Investment in Colonial Farm Credit, ACA

Each borrower of Colonial Farm Credit (Association) is required by law to purchase Association Stock or Participation Certificates. The amount of Stock or Participation Certificates that borrowers are required to purchase is determined by the Board of Directors, subject to the legal minimum of \$1,000 or 2% of the amount of the loan, whichever is less, and any other limitations set forth in the Association's Bylaws. Presently, the Association requires the minimum investment as described above.

Stock and Participation Certificates are purchased at their par or face value of \$5 per share or unit. The borrower may purchase the Stock or Participation Certificates with cash or from loan proceeds. The total amount borrowed, including the amount borrowed to purchase these equities, is a legally enforceable obligation that the borrower is required to repay according to the terms of the loan documentation.

All Stock and Participation Certificates are at risk and are not a compensating balance. When retired, the equities are retired at the lesser of par (face) value or book value. If the book value at the time of retirement has fallen below the par (face) value as a result of Association losses or otherwise, the borrower will receive less than was paid to purchase the equities. In addition, the borrower will remain liable to repay any amount borrowed to purchase the equities.

Class B Voting Stock is issued to borrowers who are eligible under the Association's Bylaws to hold such Stock. Holders of this class of Stock may vote in the election of stockholder-elected directors and other matters requiring stockholder approval. Other borrowers are issued Participation Certificates, which generally do not carry voting rights. Any Class B Stock or Participation Certificates still outstanding two years after the holder ceases to be a borrower of the Association may be retired or converted into non-voting A Stock.

Under the Association's Bylaws, Stock and Participation Certificates are retired only at the discretion of the Board, and only if regulatory minimum permanent capital standards (including interim standards) are met, and that such retirement may also require the approval of the Farm Credit Administration. There is no obligation to retire such equities upon repayment of the loan. However, the Board may (subject to the regulatory capital standards just referenced) adopt a program for the retirement of excess Stock and Participation Certificates as the borrower's principal balance is reduced, provided that each retirement under such a program remains subject to the Board's discretion after an evaluation of the Association's capital position and also provided that such program may be suspended by the Board at any time. Presently, the Association meets all regulatory minimum permanent capital standards (including interim standards) and has no reason to believe that it will not meet such standards on the next earnings distribution date.

Annual distribution of patronage will be established by the approval of a resolution by the Board of Directors. The parameters of the program may change from year to year based on the resolution. Additional information regarding the current year's program can be found in the Patronage Program section of the Management's Discussion and Analysis of the Annual Report.

Additional information regarding Stock and Participation Certificates and the rights they carry is set forth in the Association's Capitalization Bylaw below and most recent Annual Report (and Quarterly Report if more recent than the Annual Report), which have been furnished to you.

Bylaws Article VIII Capital Stock and Participation Certificates

800 Authorization, Classes and Par or Face Value

The Association is authorized to have outstanding stock designated as Class A Common Stock, Class B Common Stock and Class C Preferred Stock, respectively, and Participation Certificates in the amounts as authorized herein and as may be necessary to conduct its business. Class B Common Stock possesses full voting rights. Class A Common Stock, Class C Preferred Stock and Participation Certificates possess voting rights only as provided in this Article. Each share of Stock and unit of Participation Certificates shall have a par or face value of \$5. Fractional shares of Stock or units of

Participation Certificates shall not be issued. All transfers, exchanges, conversions and retirements of Stock and Participation Certificates shall be at book value not to exceed par or face value.

810 Evidence of Ownership

Evidence of ownership of Stock and Participation Certificates may be by book entry or in definitive form as prescribed by the Board in accordance with the Act and the Regulations.

820 Issue

820.1 Up to 10,027,196 shares of Class C Preferred Stock may be issued to investors in accordance with the Act, the Regulations, and the bylaws, when authorized by a majority of the shares of each class of Stock and Participation Certificates affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

820.2 Up to fifty million shares of Class A Common Stock may be issued: (i) to borrowers holding Class B Common Stock or Participation Certificates who cease to be a borrower for more than two years; (ii) to the Bank; (iii) to investors under a plan adopted by the Board; (iv) for dividend payments; and (v) for patronage distributions.

820.3 An unlimited amount of Class B Common Stock may be issued to bona fide farmers, ranchers, producers or harvesters of aquatic products, who are borrowers or are about to become borrowers.

820.4 An unlimited number of Participation Certificates (hereinafter "Participation Certificates") may be issued to borrowers or applicants who are (a) rural residents for housing financing; (b) persons or organizations furnishing to farmers farm-related services and (c) persons or organizations who are eligible to borrow or participate in loans from the Association, PCA or FLCA but are not eligible to hold voting stock. Participation Certificates also may be issued for allocated surplus distributions, dividend payments and patronage distributions in accordance with Article IX of these bylaws. In addition, Participation Certificates may be issued to any person who is eligible to be a Voting Stockholder for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association, PCA or FLCA.

820.5 Class B Common Stock and Participation Certificates shall be purchased by borrowers eligible to hold such equities as a condition for obtaining a loan from Association, PCA and FLCA in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2%) of the loan amount or \$1,000.00, whichever is less, and a maximum not to exceed ten percent (10%) of the loan amount; provided, however, the Board may require new borrowers to purchase more Class B Common Stock or Participation Certificates if the Association is deemed not to be in compliance with the capital requirements of the Act and Regulations.

820.6 Dividends on any of the foregoing classes of Stock shall be payable solely at the discretion of the Board and shall be non-cumulative.

825 Loans Designated for Sale or Sold Into the Secondary Market

825.1 Notwithstanding any other provision of these bylaws, no voting stock or participation certificate purchase requirement shall apply with respect to a loan that is made on or after February 22, 1996, and is designated at the time made for sale into a secondary market; provided that, if a loan designated for sale into a secondary market is not sold within 180 days following the date of such designation, the voting stock or participation certificate requirement otherwise applicable to the loan in the absence of this bylaw provision shall apply.

825.2 Notwithstanding any other provision of these bylaws, all outstanding voting stock or participation certificates held by a borrower with respect to a loan shall be retired if: (a) the loan is made prior to February 22, 1996, it is sold into a secondary market, and the permanent capital of the Association, would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations; or (b) the loan is made on or after February 22, 1996, it is designated at the time made for sale into the secondary market, it is sold into such market after the 180 day period beginning on the date of such designation, and the permanent capital of this Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations.

830 Transfer

830.1 Class A Common Stock, Class B Common Stock, and Participation Certificates may be transferred to persons or organizations eligible to receive or to hold such Stock or Participation Certificates as provided in Section 820 of these bylaws. Class C Preferred Stock may be transferred in the manner set forth in the resolution authorizing the issuance of such stock.

830.2 The Association shall serve as its own transfer agent in all matters relating to its stock and participation certificates.

840 Conversion

840.1 Each class of Stock and Participation Certificates may be converted into any other class of Stock (except Class C Preferred Stock) or Participation Certificates for which the holder is eligible as provided in Section 820.

840.2 Class B Common Stock and Participation Certificates shall be converted into Class A Common Stock within two years after the holder thereof ceases to be a borrower from the Association, PCA and FLCA.

850 Retirement

850.1 Class A Common Stock, Class B Common Stock and Participation Certificates may be retired by the Association, at the sole discretion of the Board, provided minimum permanent capital standards are met and continue to be met. If retired, Class A Common Stock, Class B Common Stock and Participation Certificates, shall be retired at book value not to exceed par. The proceeds thereof shall be paid to the holder or applied against the borrower's indebtedness to the Association, PCA and FLCA.

850.2 Subject to Regulations, when a borrower is in default, the Association may, upon notice to such borrower, order the retirement of any Stock or Participation Certificates held by the borrower and the proceeds thereof applied against the borrower's indebtedness to the Association, PCA and FLCA.

860 Impairment

860.1 Any losses which result in an impairment of the Association's capital shall be borne ratably by, first, each share of Class A Common Stock, Class B Common Stock, and unit of Participation Certificates outstanding; second, each share of Class C Preferred Stock outstanding, all as of the date such losses are determined.

860.2 Impaired Stock and Participation Certificates shall be restored in the reverse of the sequence set forth in Section 860.1 until each share of Stock and unit of Participation Certificates has a book value equal to the par value or face value respectively.

870 Lien

Except with respect to Stock or Participation Certifications held by other system institutions, the Association, PCA and FLCA, as applicable, shall have a lien on all Stock and Participation Certificates in the Association owned by any borrower as additional collateral for any indebtedness of such borrower to the Association, PCA and FLCA.

880 Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

- a) First, to the holders of Class C Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,
- b) Second, to the holders of Class A Common Stock, Class B Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) Third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such allocated surplus has been distributed;
- d) Fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of the year of issuance, until the total amount of such allocated surplus has been distributed;
- e) Fifth, any remaining assets shall be distributed to all Patrons in proportion to which the aggregate patronage of each such party bears to the total patronage of all such parties, to the extent practicable, unless otherwise provided by law.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

885 Special Notice

The Stock and Participation Certificate investments required of Members of the Association can be changed (increased or decreased) from time to time, by action of the Association Board. The Board can take such actions to assure that Association capitalization is maintained at a level which is deemed adequate to assure the efficient, safe, and sound operation of the Association. This means that the required Stock and Participation Certificate requirements can be increased or decreased from requirements set forth in these bylaws or the capitalization plan.

Stock and Participation Certificates and all other classes of equities can be redeemed and retired only at the discretion of the Association Board. There is no expressed or implied right granted to any member to have any Stock or Participation Certificate equities redeemed or retired at any time or in conjunction with any specified cycle or revolving period.

Should circumstances warrant, in the sole discretion of the Association Board, the Board can require members to purchase additional amounts and classes of equities including allocated surplus if it becomes necessary to increase capital to meet financial objectives or regulatory requirements.

Article IX Earnings, Surplus, Dividends and Patronage Distributions

900 Capitalization Plan

The Board shall adopt, maintain and amend from time to time, as Board deems appropriate, a consolidated capitalized plan for the Association, PCA and FLCA. The capitalization plan shall be designed to enable the Association to meet the capital adequacy standards established in the Regulations. Subject to these bylaws, the capitalization plan shall provide for, among other things, the manner in which the Association's Stock and Participation Certificates and allocated equities shall be issued, transferred and retired. In connection with the Capitalization Plan, no dividends shall be cumulated.

910 Application of Earnings or Losses

910.1 At the end of the fiscal year, the Association shall apply its earnings (including patronage allocations and refunds received from the FCB) for such fiscal year in the following order:

- a) to cover operating expenses, including additions to loan valuation reserves as provided by law;
- b) to restore the amount of any impairment of Stock and Participation Certificates as prescribed in Section 860.2 of these bylaws;
- c) to restore the amount of any impairment of allocated surplus in the reverse order of impairment;
- d) to create and maintain an unallocated surplus as provided in Section 920 of these bylaws;
- e) to pay dividends on Stock of the Association if authorized pursuant to Section 940 of these bylaws;
- f) to make patronage distributions if authorized pursuant to Section 950 of these bylaws.

910.2 In the event of a net loss for any fiscal year, after applying earnings for such fiscal year as provided in Section 910.1(a) above, such loss shall be absorbed: first, by charges to the unallocated surplus account; second, impairment of allocated surplus evidenced by nonqualified written notices of allocation in the reverse order of issuance and pro-rata by year of issuance; third, impairment of allocated surplus evidenced by qualified written notices of allocation in the reverse order of issuance and pro-rata by year of issuance; fourth, impairment of Class A Common Stock, Class B Common Stock and Participation Certificates, concurrently, and fifth, impairment of Class C Preferred Stock.

920 Surplus Accounts

The Association shall create and maintain an unallocated surplus account and may maintain an allocated surplus account. The minimum aggregate amounts of these two accounts shall be as prescribed by the Board. Except as provided in Section 910, the unallocated surplus account may not be reduced and no part thereof may be transferred to the allocated surplus account.

930 Allocated Surplus Account

930.1 As set forth in the Capitalization Plan, the Association may create, and subject to the Regulations, and Association policy, may maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis. Allocated surplus may be issued as either "qualified written notices of allocation" or "non-qualified written notices of allocations," or both, as those terms are defined under Internal Revenue Code ("Code") Section 1388:

- a) All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the Board, in order of issuance by year as funds are available.
- b) All allocations in the form of non-qualified written notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between 2 or more classes. Each such series, or class thereof, shall be retired at the sole discretion of the Board.

In the event of a net loss for any fiscal year, such allocated surplus shall be subject to impairment in the order specified herein, and on the basis of most recent allocations first as provided in Section 910. Only those persons to which allocated surplus may be issued may own such allocated surplus. Notice of allocations to evidence the amount of earnings distributed to Members shall be given to all participants.

- 930.2 The Association, PCA and FLCA, as applicable, shall have a lien and security interest on all surplus account allocations owned by any borrowers, and all distributions thereof, as additional collateral for such borrower's indebtedness to the Association, PCA and FLCA.
- 930.3 When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all surplus account allocations owned by such borrower to be applied against the indebtedness based on its fair value.
- 930.4 Any surplus allocated to a borrower shall be retired at the sole discretion of the Board. There is no express or implied right granted to a Member to have such allocated surplus retired upon request.
- 930.5 Upon approval of the Board, any retirement of surplus allocated may be paid, oldest allocations first, in cash, in other forms of available equities or applied against any of the Member's indebtedness to the Association, PCA or FLCA in accordance with Section 930.3. In no event shall such retirement reduce the Association's permanent capital below the minimum required by Regulations. Retirements of less than the full amount of allocations issued in the same series shall be on a pro rata basis. Any part of a surplus allocated distribution in stock to one Member that is less than the par amount of one share may be held by the Association and included with subsequent shares of Class A Common Stock.
- 930.6 A record of the holders of allocated surplus shall be kept and maintained by the Association. Allocations of "qualified" amounts will be maintained separately from the allocations of "non-qualified" amounts. Such surplus accounts shall be transferable only to the Association or to an eligible Member of the Association in the manner established by the Board, and no transfer thereof shall be binding upon the Association unless so transferred on the books of the Association.

940 Dividends

- 940.1 The Board, at its sole discretion, may declare dividends on the Stock and Participation Certificates of the Association; provided, however, that no dividend shall exceed eight percent (8%) per annum of the par value of the respective Stock and Participation Certificates. Such dividends may be paid on Class C Preferred Stock alone or on all classes of Stock and Participation Certificates. No dividends may be paid on common stock or Participation Certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to these bylaws. The rate of dividends paid on Class A Common Stock, Class B Common Stock and Participation Certificates shall be the same for any fiscal year. All dividends shall be paid on a per share or unit basis and without preference between classes of common stock and participation certificates.
- 940.2 Dividends may be paid to holders of record on the effective date of the declaration, provided the Stock or Participation Certificates were outstanding for at least thirty calendar days prior to the effective date of the declaration.
- 940.3 Dividends on Stock and Participation Certificates may be paid in cash, Class A Common Stock, or partly in cash and partly in stock, except that dividends on Stock held by the FCB shall be paid in cash. If any part of such dividends payable in Stock to one borrower are less than \$5, the dividends may be distributed in cash or held by the Association and accumulated with subsequent dividends until the retained dividends equal \$5, so that the dividends may be distributed as one whole share of Class A Common Stock.
- 940.4 Dividends on Class C Preferred Stock shall be paid in accordance with, and subject to, the resolution authorizing the issue of such Stock.

950 Patronage Distributions

- 950.1 Subject to the provisions of the Act and Regulations, prior to the beginning of any fiscal year, the Association's Board may, by adoption of a resolution, obligate the Association to distribute as patronage dividends, as defined in 26 U.S.C 1388, to Patrons (defined as Members and any non-Member patrons identified by the Board in the obligating resolution), on the basis of quantity or value of business done with the Association and its Subsidiaries, all or any portion of the available consolidated net earnings of the Association and its Subsidiaries for such fiscal year or for that and subsequent fiscal years. For this purpose, the available consolidated net earnings shall be defined as the consolidated pre-tax net income of the Association, PCA and FLCA before extraordinary items and cumulative effects of changes in accounting principles for such fiscal year attributable to business done with or for

Patrons. Such resolution shall establish an irrevocable, legal obligation to distribute patronage in accordance with the provisions hereof.

- 950.2 All patronage distributions shall be in the proportion that the amount of interest earned by the Association, PCA and FLCA on their loans to each Patron bears to the total interest earned by the Association, PCA and FLCA on all such loans outstanding during the fiscal year, except that another proportionate patronage basis consistent with cooperative principles may be used upon approval by the Board. The Board may establish earning pools for the payment of patronage distributions, provided such pools are rational and equitable basis and insure that each patron of the Association receives its fair share of the earnings of the Association and bears its fair share of the expenses of the Association. The Board shall retain discretion not to pay patronage distributions on one or more of such pools provided all Patrons are treated fairly.
- 950.3 Net earnings of any fiscal year shall be available for patronage distribution only after making the applications as required in (a) through (f) of Section 910.1, including the setting aside of a portion of the net earnings in the unallocated surplus account, as deemed prudent for sound capital accumulation; and (ii) making provision for payment of the Association's federal income or related taxes for the fiscal year; provided, that, these amounts shall first come from net earnings, if any, attributable to sources other than patronage transactions with or for Patrons of the Association and any non-patronage sourced net earnings not so applied shall be set aside in the unallocated surplus account. The Board in its resolution may establish a minimum level of available earnings and if the available earnings fall below this level no patronage distribution will be made.
- 950.4 Patronage distributions may be in cash, Class A Common Stock, allocations of earnings retained in an allocated surplus account or any one or more of such forms of distribution, provided however, that if a distribution of Class A Common Stock or allocated surplus represents a qualified written notice of allocation (as defined in 26 U.S.C. Section 1388), at least twenty percent (20%) of the total amount of such distribution shall be in cash. In the event that the total patronage distribution to a Patron is less than \$50, such distribution may be paid entirely in cash notwithstanding the fact that distributions of \$50 or more are paid partially in cash and partially in stock or allocated surplus.
- 950.5 Each holder of Class B Common Stock as of the effective date of these bylaws and each person who thereafter applies for and receives Class B Common Stock shall, by such act alone, consent that the amount of any distributions with respect to patronage which are made in, or evidenced by, qualified written notices of allocation, as defined in 26 U.S.C. 1388 (including allocations of surplus and patronage refunds paid in Class A Common Stock), and which are received by him or her from the Association, will be taken into account as income by such person at the stated dollar amount in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. Such holder of Class B Common Stock also consents by such act alone, to take into account as income in the same manner the amount of any distributions with respect to patronage provided he or she receives written notice that such amount has been applied on his or her indebtedness to the Association, PCA or FLCA.
- 950.6 The Association may obtain the written consent of each Patron that the amount of any distributions with respect to the Patron's patronage, which are made in, or evidenced by, qualified written notices of allocation, as defined in 26 U.S.C. 1388 (including patronage allocations of surplus accounts and patronage refunds paid in Class A Common Stock), and which are received by him or her from the Association, will be taken into account as income by such person at the stated dollar amount in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. Such written consent may include a consent to take into account as income in the same manner the amount of any distributions with respect to patronage provided he or she receives written notice that such amount has been applied on his or her indebtedness to the Association, PCA or FLCA. The form of consent shall be prescribed by the Board and shall be continuing in effect until revoked by the Patron, and it may be included as part of the loan application or other appropriate form signed by borrowers. Consent may also be obtained by use of a qualified check in the manner provided for in 26 U.S.C. 1388.
- 950.7 PCA and FLCA - In the event of an Authorization Event under Section 210 hereof, where the Association arranges for the provision of credit and/or related services to its Patrons through PCA and/or FLCA, and such Patrons avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from PCA and/or FLCA, all net earnings or loss attributable to such provision of credit and/or related services shall be treated as net earnings or loss of the Association from business done with its Patrons and all business done with PCA and FLCA shall be treated as business done with the Association.