

ARKANSAS STATE BANK DEPARTMENT EXAMINATION POLICY

Policy Number	<u>14-03</u>
Effective Date	<u>08/01/14</u>
Supersedes	<u>92-04</u>
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SUBJECT: Treatment of Certificates of Equity and Capital Based Certificates

Agriculture and/or marketing cooperatives frequently issue certificates of equity and capital based certificates to farmers who market their crops through the cooperative. These certificates represent the farmer's ownership in the cooperative and are a "deferred payment" or a "receivable" to the farmer as a portion of payments which the cooperative withholds from the cash amount it pays the farmer for the value of his crop.

The traditional method of payment for such certificates has been full payment of face value at the end of the ten to twelve years. However, any determination of payment is made by the Board of Directors of the cooperative. These certificates have no maturity, have no established market, and are highly illiquid.

POLICY

State chartered banks that receive certificates of equity and/or capital based certificates through default of the loan customer will be permitted to retain certificates of equity and/or capital based certificates on their books at a fair market value. Market value must be established by an acceptable valuation method according to industry standards and the Bank Commissioner. This valuation must be fully documented and maintained by the bank.

It is the opinion of the Bank Commissioner that the legislative intent of A.C.A. Sec. 23-47-507 addressing the holding period for all kinds of property coming into a bank's possession as collateral security for loans or any ordinary collection of debts extends to all assets not specifically excluded by statute. Accordingly, these certificates of equity and/or capital based certificates may not be recorded as a bank asset for a period longer than twelve months.

Under no circumstances may a bank purchase as an investment a certificate of equity and/or capital based certificate.