

**INTERPRETIVE LETTER 88-6 (OCTOBER 11, 1988)**

**State bank may make a capital contribution to the Federal Agricultural Mortgage Corporation ("Farmer Mac") in exchange for stock in order to participate in Farmer Mac's secondary market program.**

This is in response to your inquiry whether, and to what extent, Illinois state banks can hold stocks in the Federal Agricultural Mortgage Corporation ("Farmer MAC") which is authorized by the Agricultural Credit Act of 1987 ("ACA Act").

As has been the case in a number of federal instrumentalities created for similar purposes, banks which are originators of the types of loans to be purchased by the instrumentality are required to make an initial capital contribution for which they are issued "stock." Section 8.4 of ACA Act. A reading of the ACA Act makes clear no bank would purchase such "stock" as an investment, but only as the price of participating in this secondary market.

Therefore the Commissioner concludes, after our legal staff examination and review, that the making of this "non-refundable capital contribution" for which stock is issued is necessary to dispose of its loans. Section 5(10) of the Illinois Banking Act describes just such disposition of loans to an "agency" of the United States and while Farmer MAC may be an "instrumentality," in the Commissioner's view the bank's power to purchase stock in Farmer MAC is incidental to its power to do a general banking business as authorized by Section 3 of the Illinois Banking Act.

It is the Commissioner's interpretation that state banks in Illinois can purchase Farmer MAC stock in nominal amounts but no more than necessary to participate in the program and so long as the purchases are consistent with safe and sound banking practices.