

UNDERSTANDING YOUR CAPITAL STOCK AND PARTICIPATION CERTIFICATES



FARM CREDIT SERVICES OF HAWAII, ACA, FEDERAL LAND BANK ASSOCIATION OF HAWAII, FLCA HAWAII PRODUCTION CREDIT ASSOCIATION

To borrow through a Federal Land Bank Association, FLCA or from the Hawaii Production Credit Association (HPCA) you must invest in the capital of the Association. This notice contains information about the stock and participation certificates issued by your Association to its member-borrowers after October 5, 1988. Please read it carefully and make sure that you understand both the benefits and risks of an investment in your Association.

Under the Agricultural Credit Act of 1987 ("1987 Act"), borrower stock and participation certificates issued prior to October 6, 1988, are generally protected against loss. In retiring such pre-October 6 equities, the Association is generally required to retire the stock and participation certificates at their par or face value.

However, these provisions are not applicable to stock or participation certificates issued after October 5, 1988. Stock and participation certificates issued after October 5, 1988, as a condition of obtaining or servicing a loan (which may include stock issued in connection with loan assumptions, additional advances, refinancing, restructures, reamortizations, etc.) are an investment in the Association that is at-risk and are not a compensating balance.

The 1987 Act required all Farm Credit System institutions' boards of directors ("Board") to develop new capitalization plans and bylaws designed to permit the institutions to meet the minimum permanent capital adequacy standards of seven percent (7%) ("Capital Adequacy Standards") including interim capital adequacy standards ("Interim Standards"), established by the Farm Credit Administration ("FCA"), the institutions' regulator, by January 1, 1993. The stock and participation certificates described below are issued pursuant to these bylaws, as amended from time to time.

Voting Stock and Participation Certificates

Under the 1987 Act, borrowers from the Association are required by law to make a minimum purchase of voting stock or participation certificates in the Association in the amount of \$1,000 or 2 percent of the loan, whichever is less. Purchases above the minimum required by law may be established by the Board from time to time.

Currently, the Farm Credit Services of Hawaii, ACA, Federal Land Bank Association of Hawaii, FLCA and the Hawaii Production Credit Association bylaws and capital plan require a minimum purchase of \$1,000 or 2 percent of the loan amount, whichever is less. The Associations will make a corresponding investment in the Bank.

How Stock and Participation Certificates are Purchased

Shares of Stock (and units of Certificates) are sold for their par value (or face amount), which is \$5 each and can be paid for either with cash before the loan is made or with the proceeds of the loan from the Associations.

When the purchase price is borrowed, the amount of the loan includes the cost of the Stock or Certificates and interest is charged on the entire loan. The Bank credits the Association with the portion of the loan proceeds equal to the purchase price of the Association Stock or Certificates issued to the borrower. The association utilizes this amount to purchase a like amount of stock or participation certificates in the Bank. The total amount of the loan, including the portion used to pay for the Stock or Certificates, is a legally enforceable obligation that must be repaid in full.

Associations do not issue physical certificates for Stock or Certificates. Instead, the ownership of Stock or Certificates is evidenced by entries recorded on the books of the Association.

Certain Important Characteristics of Stock and Participation Certificates

The principal difference between Stock and Certificates is that the Stock entitles its holder to one vote (regardless of how many shares are owned) with respect to the election of directors and other matters on which stockholders are entitled to vote. Holders of Certificates have no voting rights. In all other respects, Stock and Certificates have substantially the same rights and restrictions.

Under the 1987 Act, dividends may not be paid, if after or due to such action, the permanent capital of the Association would fail to meet the minimum Capital Adequacy Standards, including Interim Standards, established by FCA.

The Bank and the Association have a first lien on the Stock or Certificates held by a member-borrower as additional security for the member's loan from the Bank. If the member defaults, the value of the member's investment (not to exceed par value or face amount) may be applied against the balance due on the loan. If the member's Stock or Certificates are transferred, they are still subject to this lien. In any event, Stock and Certificates are transferable only to persons eligible to purchase such equities in the first place.

Stock and Certificates do not appreciate in value. Any retirement or conversion will be at their original issue price or, if less, their book value. The possibility that this investment may result in a loss is discussed below under the heading "Impairment."

Retirement of Stock and Participation Certificates

Under the 1987 Act, there is no longer an "automatic" right to have Stock or Certificates issued after October 5, 1988, retired upon repayment of the member's loan. Under the Associations bylaws, such Stock and Certificates are retireable only at the discretion of the Boards. If retired, Stock is retired at the lower of book value or par value, while Certificates are retired at the lower of book value or face amount. Book value will be determined in accordance with generally accepted accounting principles.

Impairment

Your ownership of Stock or Certificates in your Association is an investment and is subject to certain risks that could result in a partial or complete loss of the investment. You are responsible for repayment of the entire amount of your loan, including the amount borrowed to pay for your Stock or Certificates regardless of the value of your Stock or Certificates.

These risks include impairment of the Bank's stock owned by the Association due to loan losses and operating expenses of the Bank or the Bank's joint and several liability on systemwide debt securities issued by other banks in the national Farm Credit System.

As a result of impairment of Bank stock or any other risks, the capital of the Association could become impaired. Impairment means that the book value of the Stock or Certificates has declined below par value (or face amount), which is \$5 per share or unit.

As long as the capital of an Association was impaired, its members would receive less upon retirement than they had paid for their Stock or Certificates. If the Association were to be liquidated at a time when its capital was impaired, holders of Stock or Certificates would receive less than the par value or face amount of their investment and may suffer total loss of their investment in the Association. However, in any event, member-borrowers would remain liable for the full amount of their loan from the Bank, including the portion used to pay for the purchase of Stock or Certificates.

The Association and the Bank will take all feasible action to prevent their capital from becoming impaired. Farm Credit System associations and banks maintain loss reserves and surplus accounts to protect against this possibility. In addition, the 1987 Act provides a mechanism for providing financial assistance to distressed associations and banks, although this assistance mechanism is no assurance to members that Stock and Certificates issued after October 5, 1988, will be protected. The best assurance against impairment of Stock and Certificate is an adequately capitalized Association and Bank.

Permanent Capital

Presently the Associations meet the regulatory Capital Adequacy Standards (including Interim Standards) and has no reason to believe that it will not meet such standards on the next earning distribution date. The Bank has met the regulatory 7% Capital Adequacy Standards.

Additional information regarding Stock and Participation Certificates and the rights they carry is set forth in the Associations capitalization bylaws, capitalization plan, its most recent annual report and the Bank's quarterly report if more recent than the annual report, which have been furnished to you. Your loan officer will be happy to answer any questions you have.