

**Application for Recognition of Exemption
 Under Section 501(c)(3) of the Internal Revenue Code**

OMB No. 1545-0056
 Expires 5-31-96
 If exempt status is approved, this application will be open for public inspection.

Read the instructions for each Part carefully.

A User Fee must be attached to this application.

If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to you.

Complete the Procedural Checklist on page 7 of the instructions.

Part I Identification of Applicant

1a Full name of organization (as shown in organizing document) Rural Investment Corporation		2 Employer identification number (If none, see instructions.) 47 : 0796719
1b c/o Name (if applicable)		3 Name and telephone number of person to be contacted if additional information is needed Nana G. H. Smith (402) 474-0321
1c Address (number, street, and room or suite no.) F. O. Box 406		
1d City or town, state, and ZIP code Nelthill, NE 68067		4 Month the annual accounting period ends December
5 Date incorporated or formed January 10, 1996	6 Activity codes (See instructions.) 353 351 402	7 Check here if applying under section: a <input type="checkbox"/> 501(e) b <input type="checkbox"/> 501(f) c <input type="checkbox"/> 501(k)
8 Did the organization previously apply for recognition of exemption under this Code section or under any other section of the Code? If "Yes," attach an explanation. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
9 Is the organization required to file Form 990 (or Form 990-EZ)? If "No," attach an explanation (see instructions). <input type="checkbox"/> N/A <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
10 Has the organization filed Federal income tax returns or exempt organization information returns? If "Yes," state the form numbers, years filed, and Internal Revenue office where filed. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

11 Check the box for the type of organization. BE SURE TO ATTACH A CONFORMED COPY OF THE CORRESPONDING DOCUMENTS TO THE APPLICATION BEFORE MAILING (See Specific Instructions, Part I, Line 11.) Get Pub. 557, Tax-Exempt Status for Your Organization, for examples of organizational documents.)


a Corporation—Attach a copy of the Articles of Incorporation (including amendments and restatements) showing approval by the appropriate state official; also include a copy of the bylaws.

b Trust—Attach a copy of the Trust Indenture or Agreement, including all appropriate signatures and dates.

c Association—Attach a copy of the Articles of Association, Constitution, or other creating document, with a declaration (see instructions) or other evidence the organization was formed by adoption of the document by more than one person; also include a copy of the bylaws.

If the organization is a corporation or an unincorporated association that has not yet adopted bylaws, check here

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please Sign Here  PRESIDENT 4/8/96
 (Signature) President (Title or authority of signer) (Date)

Part II Activities and Operational Information

- 1 Provide a detailed narrative description of all the activities of the organization—past, present, and planned. Do not merely refer to or repeat the language in the organizational document. Describe each activity separately in the order of importance. Each description should include, as a minimum, the following: (a) a detailed description of the activity including its purpose; (b) when the activity was or will be initiated; and (c) where and by whom the activity will be conducted.

See Attached.

-
- 2 What are or will be the organization's sources of financial support? List in order of size.

See Attached.

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- 3 Describe the organization's fundraising program, both actual and planned, and explain to what extent it has been put into effect. Include details of fundraising activities such as selective mailings, formation of fundraising committees, use of volunteers or professional fundraisers, etc. Attach representative copies of solicitations for financial support.

See Attached.

Part II Activities and Operational Information (Continued)

4 Give the following information about the organization's governing body:

a Names, addresses, and titles of officers, directors, trustees, etc.

See Attached.

b Annual compensation

0

c Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
If "Yes," name those persons and explain the basis of their selection or appointment.

d Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? (See Specific Instructions, Part II, Line 4d.) Yes No
If "Yes," explain.

5 Does the organization control or is it controlled by any other organization? Yes No
Is the organization the outgrowth of (or successor to) another organization, or does it have a special relationship with another organization by reason of interlocking directorates or other factors? Yes No
If either of these questions is answered "Yes," explain.

See Attached.

6 Does or will the organization directly or indirectly engage in any of the following transactions with any political organization or other exempt organization (other than a 501(c)(3) organization): (a) grants; (b) purchases or sales of assets; (c) rental of facilities or equipment; (d) loans or loan guarantees; (e) reimbursement arrangements; (f) performance of services, membership, or fundraising solicitations; or (g) sharing of facilities, equipment, mailing lists or other assets, or paid employees? Yes No
If "Yes," explain fully and identify the other organizations involved.

See Attached.

7 Is the organization financially accountable to any other organization? Yes No
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted.

Part II Activities and Operational Information (Continued)

8 What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. If "None," indicate "N/A."

N/A

9 Will the organization be the beneficiary of tax-exempt bond financing within the next 2 years? Yes No

10a Will any of the organization's facilities or operations be managed by another organization or individual under a contractual agreement? Yes No

b Is the organization a party to any leases? Yes No

If either of these questions is answered "Yes," attach a copy of the contracts and explain the relationship between the applicant and the other parties.

See Attached.

11 Is the organization a membership organization? Yes No

If "Yes," complete the following:

a Describe the organization's membership requirements, and attach a schedule of membership fees and dues.

See Attached.

b Describe the organization's present and proposed efforts to attract members, and attach a copy of any descriptive literature or promotional material used for this purpose.

See Attached.

c What benefits do (or will) the members receive in exchange for their payment of dues?

See Attached.

12a If the organization provides benefits, services, or products, are the recipients required, or will they be required, to pay for them? N/A Yes No

If "Yes," explain how the charges are determined, and attach a copy of the current fee schedule.

See Attached.

b Does or will the organization limit its benefits, services, or products to specific individuals or classes of individuals? N/A Yes No

If "Yes," explain how the recipients or beneficiaries are or will be selected.

See Attached.

13 Does or will the organization attempt to influence legislation? Yes No

If "Yes," explain. Also, give an estimate of the percentage of the organization's time and funds that it devotes or plans to devote to this activity.

14 Does or will the organization intervene in any way in political campaigns, including the publication or distribution of statements? Yes No

If "Yes," explain fully.

Part III Technical Requirements

1 Are you filing Form 1023 within 15 months from the end of the month in which your organization was created or formed? Yes No
If you answer "Yes," do not answer questions on lines 2 through 7.

2 If one of the exceptions to the 15-month filing requirement shown below applies, check the appropriate box and proceed to question 8.

Exceptions—You are not required to file an exemption application within 15 months if the organization:

- a Is a church, interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church (see instructions);
- b Is not a private foundation and normally has gross receipts of not more than \$5,000 in each tax year; or
- c Is a subordinate organization covered by a group exemption letter, but only if the parent or supervisory organization timely submitted a notice covering the subordinate.

3 If the organization does not meet any of the exceptions on line 2, are you filing Form 1023 within 27 months from the end of the month in which the organization was created or formed? Yes No

If "Yes," your organization qualifies under section 4.01 of Rev. Proc. 92-85, 1992-42 I.R.B. 32, for an automatic 12-month extension of the 15-month filing requirement. Do not answer questions 4 through 7.

If "No," answer question 4.

4 If you answer "No" to question 3, has the organization been contacted by the IRS regarding its failure to file Form 1023 within 27 months from the end of the month in which the organization was created or formed? Yes No

If "No," your organization qualifies for an extension of time to apply under the "reasonable action and good faith" requirements of section 5.01 of Rev. Proc. 92-85. Do not answer questions 5 through 7.

If "Yes," answer question 5.

5 If you answer "Yes" to question 4, does the organization wish to request relief from the 15-month filing requirement? Yes No

If "Yes," give the reasons for not filing this application prior to being contacted by the IRS. See Specific Instructions, Part III, Line 5, before completing this item. Do not answer questions 6 and 7.

If "No," answer question 6.

6 If you answer "No" to question 5, your organization's qualification as a section 501(c)(3) organization can be recognized only from the date this application is filed with your key District Director. Therefore, do you want us to consider the application as a request for recognition of exemption as a section 501(c)(3) organization from the date the application is received and not retroactively to the date the organization was created or formed? Yes No

7 If you answer "Yes" to the question on line 6 above and wish to request recognition of section 501(c)(4) status for the period beginning with the date the organization was formed and ending with the date the Form 1023 application was received (the effective date of the organization's section 501(c)(3) status), check here and attach a completed page 1 of Form 1024 to this application.

Part III Technical Requirements (Continued)

- 8 Is the organization a private foundation?
- Yes (Answer question on line 9.)
- No (Answer question on line 10 and proceed as instructed.)

- 9 If you answer "Yes" to the question on line 8, does the organization claim to be a private operating foundation?
- Yes (Complete Schedule E)
- No

After answering the question on this line, go to Part IV.

- 10 If you answer "No" to the question on line 8, indicate the public charity classification the organization is requesting by checking the box below that most appropriately applies:

THE ORGANIZATION IS NOT A PRIVATE FOUNDATION BECAUSE IT QUALIFIES:

- | | | |
|---|--|--|
| a | <input type="checkbox"/> As a church or a convention or association of churches
(CHURCHES MUST COMPLETE SCHEDULE A.) | Sections 509(a)(1)
and 170(b)(1)(A)(i) |
| b | <input type="checkbox"/> As a school (MUST COMPLETE SCHEDULE B.) | Sections 509(a)(1)
and 170(b)(1)(A)(ii) |
| c | <input type="checkbox"/> As a hospital or a cooperative hospital service organization, or a
medical research organization operated in conjunction with a
hospital (MUST COMPLETE SCHEDULE C.) | Sections 509(a)(1)
and 170(b)(1)(A)(iii) |
| d | <input type="checkbox"/> As a governmental unit described in section 170(c)(1). | Sections 509(a)(1)
and 170(b)(1)(A)(v) |
| e | <input type="checkbox"/> As being operated solely for the benefit of, or in connection with,
one or more of the organizations described in a through d, g, h, or i
(MUST COMPLETE SCHEDULE D.) | Section 509(a)(3) |
| f | <input type="checkbox"/> As being organized and operated exclusively for testing for public
safety. | Section 509(a)(4) |
| g | <input type="checkbox"/> As being operated for the benefit of a college or university that is
owned or operated by a governmental unit. | Sections 509(a)(1)
and 170(b)(1)(A)(iv) |
| h | <input type="checkbox"/> As receiving a substantial part of its support in the form of
contributions from publicly supported organizations, from a
governmental unit, or from the general public. | Sections 509(a)(1)
and 170(b)(1)(A)(vi) |
| i | <input checked="" type="checkbox"/> As normally receiving not more than one-third of its support from
gross investment income and more than one-third of its support from
contributions, membership fees, and gross receipts from activities
related to its exempt functions (subject to certain exceptions). | Section 509(a)(2) |
| j | <input type="checkbox"/> The organization is a publicly supported organization but is not sure
whether it meets the public support test of block h or block i. The
organization would like the IRS to decide the proper classification. | Sections 509(a)(1)
and 170(b)(1)(A)(v)
or
Section 509(a)(2) |

If you checked one of the boxes a through f in question 10, go to question 15. If you checked box g in question 10, go to questions 12 and 13. If you checked box h, i, or j, go to question 11.

Part III Technical Requirements (Continued)

- 11 If you checked box h, i, or j on line 10, has the organization completed a tax year of at least 8 months?
- Yes—Indicate whether you are requesting:
 - A definitive ruling (Answer questions on lines 12 through 15.)
 - An advance ruling (Answer questions on lines 12 and 15 and attach two Forms 872-C completed and signed.)
 - No—You must request an advance ruling by completing and signing two Forms 872-C and attaching them to the application.

- 12 If the organization received any unusual grants during any of the tax years shown in Part IV-A, attach a list for each year showing the name of the contributor; the date and the amount of the grant; and a brief description of the nature of the grant.

- 13 If you are requesting a definitive ruling under section 170(b)(1)(A)(iv) or (vi), check here and:

- a Enter 2% of line 8, column (e) of Part IV-A _____
- b Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts, grants, contributions, etc., were more than the amount entered on line 13a above.

- 14 If you are requesting a definitive ruling under section 509(a)(2), check here and:

- a For each of the years included on lines 1, 2, and 9 of Part IV-A, attach a list showing the name of and amount received from each "disqualified person." (For a definition of "disqualified person," see **Specific Instructions, Part II, Line 4d.**)
- b For each of the years included on line 9 of Part IV-A, attach a list showing the name of and amount received from each payer (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payer" includes, but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any governmental agency or bureau.

15 Indicate if your organization is one of the following. If so, complete the required schedule. (Submit only those schedules that apply to your organization. Do not submit blank schedules.)	Yes	No	If "Yes," complete Schedule:
Is the organization a church?		X	A
Is the organization, or any part of it, a school?		X	B
Is the organization, or any part of it, a hospital or medical research organization?		X	C
Is the organization a section 509(a)(3) supporting organization?		X	D
Is the organization a private operating foundation?		X	E
Is the organization, or any part of it, a home for the aged or handicapped?		X	F
Is the organization, or any part of it, a child care organization?		X	G
Does the organization provide or administer any scholarship benefits, student aid, etc.?		X	H
Has the organization taken over, or will it take over, the facilities of a "for profit" institution?		X	I

Part IV Financial Data

Complete the financial statements for the current year and for each of the 3 years immediately before it. If in existence less than 4 years, complete the statements for each year in existence. If in existence less than 1 year, also provide proposed budgets for the 2 years following the current year.

A. Statement of Revenue and Expenses

(See Attached)		Current tax year	3 prior tax years or proposed budget for 2 years			(e) TOTAL
		(a) From 1/96 to 3/96	(b) 19...96.	(c) 19.97...	(d) 19...98..	
Revenue	1 Gifts, grants, and contributions received (not including unusual grants—see instructions) . . .	0	0	0	0	0
	2 Membership fees received . . .	0	0	0	0	0
	3 Gross investment income (see instructions for definition) . . .	0	0	0	0	0
	4 Net income from organization's unrelated business activities not included on line 3	0	0	0	0	0
	5 Tax revenues levied for and either paid to or spent on behalf of the organization	0	0	0	0	0
	6 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge)	0	0	0	0	0
	7 Other income (not including gain or loss from sale of capital assets) (attach schedule) . . .	0	0	0	0	0
	8 Total (add lines 1 through 7)	0	0	0	0	0
	9 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity that is not an unrelated business within the meaning of section 513	0	35,000	85,000	50,000	170,000
	10 Total (add lines 8 and 9) . . .	0	35,000	85,000	50,000	170,000
	11 Gain or loss from sale of capital assets (attach schedule) . . .	0	0	0	0	0
	12 Unusual grants	0	0	0	0	0
	13 Total revenue (add lines 10 through 12)	0	35,000	85,000	50,000	170,000
Expenses	14 Fundraising expenses	0	0	0	0	
	15 Contributions, gifts, grants, and similar amounts paid (attach schedule)	0	0	0	0	
	16 Disbursements to or for benefit of members (attach schedule)	0	0	0	0	
	17 Compensation of officers, directors, and trustees (attach schedule)	0	0	0	0	
	18 Other salaries and wages . . .	0	20,000	40,000	50,000	
	19 Interest	0	0	0	0	
	20 Occupancy (rent, utilities, etc.)	0	14,000	14,000	14,000	
	21 Depreciation and depletion	0	0	0	0	
	22 Other (attach schedule)	0	0	0	0	
	23 Total expenses (add lines 14 through 22)	0	34,000	54,000	64,000	
	24 Excess of revenue over expenses (line 13 minus line 23)	0	1,000	31,000	(14,000)	

Part IV Financial Data (Continued) (See attached)

B. Balance Sheet (at the end of the period shown)

Current tax year
Date 3/31/96

Assets

1	Cash	1	0
2	Accounts receivable, net	2	0
3	Inventories	3	0
4	Bonds and notes receivable (attach schedule)	4	0
5	Corporate stocks (attach schedule)	5	0
6	Mortgage loans (attach schedule)	6	0
7	Other investments (attach schedule)	7	0
8	Depreciable and depletable assets (attach schedule)	8	0
9	Land	9	0
10	Other assets (attach schedule)	10	0
11	Total assets (add lines 1 through 10)	11	0

Liabilities

12	Accounts payable	12	0
13	Contributions, gifts, grants, etc., payable	13	0
14	Mortgages and notes payable (attach schedule)	14	0
15	Other liabilities (attach schedule)	15	0
16	Total liabilities (add lines 12 through 15)	16	0

Fund Balances or Net Assets

17	Total fund balances or net assets	17	0
18	Total liabilities and fund balances or net assets (add line 16 and line 17)	18	0

If there has been any substantial change in any aspect of the organization's financial activities since the end of the period shown above, check the box and attach a detailed explanation

THIS ATTACHMENT RELATES TO THE FORM 1023 OF THE RURAL INVESTMENT CORPORATION, E.I.N. 47-0796719, P.O. BOX 406, WALTHILL, NEBRASKA 68067.

SCHEDULE OF ATTACHMENTS

- Part I, Line 11 (Articles of Incorporation and Bylaws)
- Part II, Line 1 (Statement of Activities)
- Part II, Line 2 (Sources of Financial Support)
- Part II, Line 3 (Fundraising Activities)
- Part II, Line 4 (Officers and Directors)
- Part II, Line 5 (Relationship to the Center for Rural Affairs)
- Part II, Line 6 (Transactions with Other Exempt Organizations)
- Part II, Line 10 (Sharing of Personnel and Facilities with the Center for Rural Affairs)
- Part II, Line 11 (Membership Information)
- Part II, Line 12a (Fees for Services)
- Part II, Line 12b (Beneficiaries of Services)
- Part IV (Financial Data)
- Form 872-C (Consent Fixing Period of Limitation Upon Assessment of Tax Under Section 4940 of the Internal Revenue Code) (two originals)
- Form 8718 (User Fee for Exempt Organization Determination Letter Request)
- Form 2848 (Power of Attorney and Declaration of Personal Representative)

Cited Legal Authority:

- Rev. Rul. 80-278, 1980-2 C.B. 175
- Rev. Rul. 80-279, 1980-2 C.B. 176
- Rev. Rul. 79-316, 1979-2 C.B. 228
- Rev. Rul. 76-204, 1976-1 C.B. 152
- Rev. Rul. 72-560, 1972-2 C.B. 248
- Rev. Rul. 70-186, 1970-1 C.B. 128
- Dumaine Farms v. Commissioner, 73 T.C. 650 (1980), acq. 1980-2 C.B. 1, nonacq. 1980-2 C.B. 2

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**Part II, Line 1
Statement of Activities**

The Rural Investment Corporation ("RIC") was incorporated under the Nebraska Nonprofit Corporation Act (the "Nonprofit Act") in January of 1996 under the direction of the Center for Rural Affairs (the "Center"), a Nebraska nonprofit corporation organized in 1972 which is exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

The Center's central mission is to build sustainable rural communities consistent with social and economic justice, stewardship of the natural environment and broad distribution of wealth. The Center works to advance its vision of rural America through research, education, advocacy, organizing and leadership development.

The Center organized RIC for the sole purpose of administering a new farm and ranch lending program conceived by the Center as a crucial element of its Land Link project. The Center's Land Link project combines several programs aimed at assisting beginning farmers and ranchers in their efforts to establish viable family farms and ranches utilizing environmentally excellent farming and ranching practices and sound conservation measures.

The Center's newest Land Link program, which is to be administered by and through RIC and is the subject of this Form 1023, will provide affordable credit to first-time farmers and ranchers who cannot otherwise obtain such credit, in exchange for the farmer's or rancher's agreement to adopt outstanding conservation measures and environmental practices, developed as a collaborative effort between the farmer or rancher and RIC, and to participate in an educational outreach service coordinated by RIC with respect thereto. *The primary purposes of this program are to promote the conservation of natural resources, including soil, water, and energy, and to reduce water and soil pollution and otherwise combat the environmental deterioration resulting from farming activities, for the benefit of the general public.*

RIC intends to accomplish these purposes through the creation of one or more fixed investment trusts. The first of these trusts, the Stewardship Investment Finance Fund (the "Stewardship Fund"), will finance approximately \$10 million in farm loans to approximately 70 first-time farmers and ranchers in Nebraska and Iowa. *The mission of the Stewardship Fund and those fixed investment trusts which may follow it will be to provide affordable credit to beginning farmers and ranchers, who cannot otherwise obtain such financing, in order that they may acquire and operate commercially viable family farms and ranches in a manner consistent with excellent conservation measures and environmental protection.*

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The Stewardship Fund is intended to serve as a demonstration model for future fixed investment trusts of greater loan volume and geographic diversity which might be sponsored by RIC or the private sector should the environmentally excellent family farms and ranches financed by the Stewardship Fund prove to be financially viable. RIC is hopeful that the success of the Stewardship Fund will encourage the public offering of interests in fixed investment trusts such as the Stewardship Fund to finance family farms and ranches throughout this country that utilize sustainable agriculture techniques and environmentally excellent practices.

RIC will target first-time farmers and ranchers for participation in the Stewardship Fund and later trusts, because research completed by the Center indicates that beginning farmers and ranchers are most receptive to education and counseling regarding conservation measures and excellent environmental practices in farming and ranching operations. Moreover, the Center has determined that beginning farmers and ranchers are the most likely to adopt and retain such measures and practices in their own farms and ranches. The Center's analysis of these issues also has shown that once a farmer or rancher has incurred the capital expenditures associated with more traditional farming and ranching techniques involving excessive pesticide and chemical fertilizer use and irrigation, he or she is much less likely to abandon such techniques for the less capital intensive practices espoused by the Center. In other words, the farm and ranch management methods promoted by the RIC program, which reflect sound conservation methods and excellent environmental practices, are a "nice fit" with the first-time farmer or rancher who has not yet committed to the high debt service typically associated with more traditional farming and ranching methods.

The RIC program will represent a collaborative effort among a variety of private and public partners, including the Farm Credit System, local community banks, the Nebraska Investment Finance Authority ("NIFA"), the Iowa Agricultural Development Authority ("IADA"), and the Center. It will function generally as follows with respect to the Stewardship Fund, its first fixed investment trust:

1. RIC is in the process of developing a network throughout rural Nebraska and Iowa of 100 to 120 lenders, composed of local community banks and Farm Credit Services offices, that desire to participate in the RIC program. Participating lenders will originate loans to first-time farmers in Nebraska and Iowa for the purpose of acquiring farm land, using predetermined origination and underwriting criteria and loan documentation that reflect environmental and conservation goals developed by RIC. These origination and underwriting criteria are still being developed by RIC in cooperation with the Center, but will generally include the following concepts:

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Loan Criteria

- a. Loan proceeds must be used to acquire farm or ranch land in Nebraska or Iowa;
- b. Loan size of no greater than \$250,000;
- c. Loans will have 20 year term loans with fixed interest rate ;
- d. Farm or ranch must have a loan-to-value ratio of no greater than 85%;
- e. Projected cash flow from farming or ranching operations and all other borrower income sources must equal at least 110% of all projected living expenses, operating costs and debt service requirements; and
- f. Loan must be structured to meet NIFA or IADA requirements for issuance of Tax-Exempt Obligations.

Borrower Criteria

- a. The borrower must be the individual who will own and operate the proposed farm or ranch. i.e., engage in the day-to-day labor and management of the farm or ranch;
- b. The borrower must demonstrate competence in basic farming or ranching skills;
- c. The borrower cannot have operated a farm or ranch for longer than 10 years;
- d. The borrower must constitute a first-time farmer within the meaning of Section 147(c)(2)(C) of the Code;
- e. Net worth of borrower cannot exceed \$100,000; and
- f. Value of all owned and leased assets of borrower cannot exceed \$400,000.

Program Criteria

- a. The borrower must present an Integrated Farm Resource and Management Plan (the "Plan") as part of the loan application which demonstrates both financial viability of the proposed farm or ranch and commits the borrower to operate the farm or ranch in accordance with conservation measures and environmental practices developed in cooperation with and acceptable to RIC;
- b. The borrower must agree to participate in a two-year educational program at a nearby community college regarding environmental and conservation matters as well as other farm and ranch management issues during the first two years of the loan; and
- c. The borrower must submit to RIC's supervision of the borrower's compliance with the environmental and conservation matters addressed in Borrower's Plan.

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2. As noted above, the borrower's Plan must include provisions for conservation and environmental protection of the Borrower's farm or ranch land developed in cooperation with and acceptable to RIC as well as provisions relating to crop and livestock production. The provisions of the Plan relating to conservation measures and environmental protection must provide, to the satisfaction of RIC, for:
 - a. soil conservation;
 - b. soil testing and proper application rates for inputs;
 - c. full compliance with Natural Resource District requirements, if applicable, and all other Federal and State statutory schemes promoting, encouraging or requiring the adoption of specific conservation and natural resource management techniques;
 - d. monitoring and scheduling irrigation;
 - e. waste management plans for livestock operations that address both nitrogen and phosphorous levels;
 - f. energy conservation;
 - g. floodplain management, if applicable; and
 - h. provision of wildlife habitat.

RIC will receive a one-time environmental consulting fee, stated as a specific number of basis points per loan in the Stewardship Fund, which RIC will collect out of loan proceeds at the loan closing only with respect to those loans that are approved and closed. The amount of the fee will be established so as to cover RIC's actual costs in assisting potential borrowers in developing the environmental and conservation measures appropriate for the farm or ranch in question. In the unlikely event that the amount of fee income received by RIC exceeds its actual costs, any excess will be reinvested by RIC in activities furthering its charitable and educational purposes.

3. RIC will counsel and assist the potential borrower upon request in preparing the Plan. There will be a one-time application fee (anticipated to be in the range of \$300) for this service payable by the borrower regardless of whether the loan closes. Again, this fee is established at a level anticipated to be sufficient solely to cover RIC's costs in assisting the potential borrower in this manner, but should RIC's fee income from this activity exceed its costs, any excess will be reinvested by RIC in activities furthering its charitable and educational purposes.
4. Participating lenders will receive a modest origination fee for their services out of loan proceeds at closing.

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5. In each case, NIFA (in the case of Nebraska farm or ranch land) or IADA (in the case of Iowa farm land) will issue a tax-exempt obligation (each, a "Tax-Exempt Obligation") to the lender at closing in exchange for assignment of the farm loan documentation.
6. Simultaneously with the loan closing, the Tax-Exempt Obligation will be purchased from the lender at face value by RIC, using funds advanced to RIC for this purpose by private institutional investors and private foundations in a private offering in exchange for short-term promissory notes repayable at RIC's option with interests in the Stewardship Fund represented by trust certificates. It is anticipated that institutional investors in the Stewardship Fund will provide approximately 90% of the funds needed by RIC to purchase the Tax-Exempt Obligations and that private foundations will provide the remaining 10% of such funds on a subordinated basis as a program-related investment. (Later fixed investment trusts may require a smaller subordinated investment as an institutional understanding of the collateral and its payment history is developed from prior trusts.)
7. When approximately 70 farm loans have been closed by participating lenders and RIC therefore holds approximately \$10 million in Tax-Exempt Obligations, RIC will contribute them to the Stewardship Fund in exchange for senior and subordinated interests therein. It is hoped that 70 such loans can be closed within a single winter "loan season" of two or three months in early 1997.
8. RIC will then exercise its right to repay its promissory notes to the institutional investors with senior interests in the Stewardship Fund and its right to repay its promissory notes to the private foundations with subordinated interests in the Stewardship Fund. These interests will be evidenced by senior trust certificates and subordinated trust certificates.
9. The participating lenders which originated the underlying farm loans will service them in exchange for modest servicing fees. All loan payments collected by the participating lenders, net of such servicing fees, will be forwarded to the trustee of the Stewardship Fund, which will be a regulated financial institution.
10. The trustee of the Stewardship Fund will distribute all payments on the Tax-Exempt Obligations, net of servicing fees and other operating expenses of the Stewardship Fund, to the interestholders as such payments are received by the trustee.
11. For Federal income tax purposes, the distributions to interestholders of payments on the Tax-Exempt Obligations will retain their character as tax-exempt interest and nontaxable return

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of principal in the hands of the interestholders. This fact will keep borrowing costs lower and thus make it possible to pass through to the first-time farmers and ranchers participating in the Stewardship Fund a very favorable interest rate which they could not otherwise procure from a commercial lender.

12. RIC will assume the servicing obligation with respect to any farm loan which is more than 180 days' delinquent, using guidelines that reflect the social and environmental goals of RIC and the Stewardship Fund. Losses to the Stewardship Fund will be absorbed first by the subordinated interestholders (i.e., the private foundations which have invested in the Stewardship Fund as a program-related investment).
13. RIC staff also will actively monitor compliance with the environmental and conservation requirements contained in each borrower's Plan throughout the term of each loan. RIC will receive an annual fee for this service to the Stewardship Fund, payable out of trust income. This fee will only be sufficient to cover RIC's estimated cost of performing the service, and will be stated as a certain number of basis points per loan in the Stewardship Fund. Failure to comply with the conservation and environmental practices set forth in the Plan will constitute a default under the loan, triggering a penalty rate of interest. In this manner RIC hopes to strongly encourage its borrowers to use sound conservation and environmental practices.
14. RIC will develop a network of qualified universities, community colleges, extension offices, and mentors actively engaged in sustainable agriculture throughout Nebraska and Iowa whereby first-time farmers and ranchers participating in the Stewardship Fund program will have convenient access to the required education and counseling on conservation methods and environmental practices appropriate to their farms or ranches.

The interest rate charged to first-time farmers and ranchers participating in the RIC program will be determined by market forces. Specifically, the interest rate will be dependent on the tax-exempt rate of return demanded by institutional investors in the Stewardship Fund, the even smaller interest rate offered by RIC to private foundations for their program-related investment in the Stewardship Fund, and the originating, servicing, monitoring, trustee, and professional fees borne by the Stewardship Fund, which may be partially underwritten by grants from the Center and/or one or more private foundations. RIC intends to adjust the size of the subordinated piece of the Stewardship Fund to the extent necessary to achieve a tax-exempt rate of return to the institutional investors similar to that demanded by such investors from other tax-exempt investments. At any rate, the cost of funds to first-time farmers and ranchers participating in the Stewardship Fund should be equal to or less than the rate enjoyed by the best agricultural borrowers.

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Analysis of Charitable and Education Purposes of RIC

It is generally recognized that efforts to preserve and protect the natural environment for the benefit of the public serve a charitable purpose within the meaning of Treas. Reg. § 1.501(c)(3)-1(d)(2). See, e.g., Rev. Rul. 80-278, 1980-2 C.B. 175; Rev. Rul. 76-204, 1976-1 C.B. 152; Rev. Rul. 72-560, 1972-2 C.B. 248; Dumaine Farms v. Commissioner, 73 T.C. 650 (1980), acq. 1980-2 C.B. 1, nonacq. 1980-2 C.B. 2. The adoption by farmers and ranchers of the sound conservation measures and state-of-the-art environmental practices promoted by RIC will produce significant, direct, long-lasting and widespread public benefits, including without limitation the following:

1. The reduction of soil and water pollution which will result from improved soil fertility management, e.g., less reliance on synthetic fertilizers and more emphasis on crop rotations and improved manure management, will thereby preserve our nation's underground aquifers and waterways for human and livestock consumption and crop irrigation.
2. Water conservation techniques, such as improved irrigation scheduling and moisture management, will help insure that the public's sources of drinking water and irrigation water are not depleted.
3. Soil conservation techniques, including increased crop rotations, intercropping, and planting soil-conserving crops, including perennials, will result in less erosion, which in turn helps preserve the ability of America's farm belt to continue to produce food to feed America's families and the livestock we consume and to support all Americans dependent in one way or another on the health of our country's agricultural economy.
4. Agriforestry techniques, including planting field wind breaks, protect the soil from wind erosion, help conserve moisture and combat adverse climate changes known as the "Greenhouse Effect" by removing carbon dioxide from the atmosphere, converting it to carbon, and sequestering it in the soil. Any reduction in the Greenhouse Effect clearly benefits the general public.
5. Energy conservation techniques, including the use of solar grain dryers, solar water heaters, and multipurpose portable solar collectors, result in the reduction of energy consumption which, in turn, reduces the emission of carbon dioxide into the atmosphere. In other words, energy conservation also combats the Greenhouse Effect to the direct benefit of the general public.

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Congress has recognized on numerous occasions the national interest served in promoting resource conservation techniques among family farmers. For example, both the Food, Agriculture, Conservation, and Trade Act of 1990, P.L. 101-624, 104 Stat. 3359 (the "1990 Farm Bill"), and the Food Security Act of 1985, P.L. 99-198, 99 Stat. 1354 (the "1985 Farm Bill"), contained extensive provisions concerning conservation requirements for farmers. See, e.g., the *Erodible Land and Wetland Conservation and Reserve Program* set forth at 16 U.S.C. § 3801 et seq. The legislative history of the 1990 Farm Bill explains the Congressional motivation for these requirements as follows:

"Although national agricultural commodity support policy has always been the cornerstone of farm legislation, other agriculture-related concerns have almost as long a legislative history. Among the first of these is resource conservation. . . Prior to the farm bill debate in 1985, analyses of new natural resource data showed that despite intensive efforts, both erosion and wetland conversions were still occurring at unacceptable levels. In consequence, Congress passed several landmark conservation provisions in the Food Security Act of 1985. The Conservation Reserve Program (CRP), which pays farmers to retire highly erodible land from production for at least 10 years, and conservation compliance, sodbuster, and swampbuster provisions, which make producers ineligible for most Federal farm program benefits if they improperly cultivate highly erodible land or convert wetlands to cropland, represent the most significant changes in conservation legislation in 50 years. . . Without a healthy and stable farm sector, owned and controlled by independent family farmers, the food security of the American public is at risk. In addition to producing a dependable supply of food at a reasonable cost for consumers, American farmers produce safe and nutritious food, while at the same time protecting the rural landscape on which they live and earn their living. Family farmers are the stewards of our Nation's soil and water resources. This is why both food quality and safety, along with protection of water and soil are major priorities of this legislation."

Report of the Committee on Agriculture, Nutrition and Forestry, U.S. Senate (the "1990 Farm Bill Report"), at 12-25 (emphasis supplied).

Section 1238 of the 1990 Farm Bill established a voluntary program, called the Water Quality Incentive Program ("WQIP"), that provided incentive payments for farmers who develop and implement three to five year farm management plans to protect water quality through reduction in the waste stream of pollutants, including through improved efficiency of chemical input use. The 1990 Farm Bill Report provided as follows with regard to the WQIP:

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"Protection of the Nation's surface waters and groundwater supplies is of vital importance to American agriculture and to the country as a whole. In a significant portion of the United States, agriculture has been identified as a principal contributor to the degradation of water quality. . . . By including this section, the Committee makes water quality a priority of the conservation title, approving new programs and policies that are intended to help farmers reduce substantially agriculture's contribution to water quality problems over the next five years. The Committee gives high priority in the title to this program which will help farmers modify or change their management practices to reduce or prevent the potential for water pollution at its source."

1990 Farm Bill Report. at 206 (emphasis supplied).

The Internal Revenue Service (the "Service") has repeatedly acknowledged that the promotion of conservation and protection of natural resources has been recognized by Congress as serving a broad public benefit. See, e.g., Rev. Rul. 80-278, 1980-2 C.B. at 176; Rev. Rul. 80-279, 1980-2 C.B. 176, 177. The Integrated Farm Resource and Management Plans developed by RIC for use by farmers and ranchers participating in the Stewardship Fund program will conform to all Federal and State conservation and environmental management policies, as reflected in numerous Federal and State government programs.

Any perceived private benefit to Stewardship Fund borrowers, in the form of access to financing at affordable rates, or to investors in the Stewardship Fund, in the form of a tax-exempt rate of return on their investment, are purely incidental to the public benefits derived from the encouragement of farming and ranching techniques which encompass excellent environmental management and sound conservation measures. See, e.g., Rev. Rul. 79-316, 1979-2 C.B. 228 (private benefits of organization formed to prevent and clean up oil spills within a city port area, specifically, that membership enabled some members to meet state licensing requirements and the port community to enjoy lower insurance rates, were purely incidental to primary activity of organization); Rev. Rul. 70-186, 1970-1 C.B. 128 (benefit to lakefront property owners of organization formed to preserve lake as public recreational facility and to improve the quality of the water therein to enhance its recreational features was purely incidental to the accomplishment of broader environmental and recreational purposes). The provision of affordable financing to first-time farmers and ranchers willing to adopt environmentally excellent operational techniques and take part in an educational outreach program is purely a means to an end; the financing is intended to motivate young farmers and ranchers to give these techniques a try and to learn more about them at a time in their careers when such farmers and ranchers are more likely to adopt such techniques permanently.

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The purposes and intent of the Stewardship Fund are similar in many ways to those of the taxpayer in the Dumaine Farms case cited above. Dumaine Farms was an irrevocable trust, the only asset of which was a 75 acre farm in North Carolina. The stated mission of the trust was to operate the farm as "an experimental and demonstration farm for the benefit of the general public." 73 T.C. 651. The purpose of the trust was "to improve the quality of farming by the selection and types of crops grown, the management and restructuring of the land, the planting and harvesting of trees, the selective preservation of native growth in such manner as to demonstrate that farming can be profitable while maintaining sound, ecological principles and native wildlife." Id. The Tax Court found that the trust was organized as an experimental demonstration farm, the purpose of which was to demonstrate to local farmers and the general public the economic feasibility of experimental farming practices which will conserve the area's ecology and native wildlife. 73 T.C. at 652. The Tax Court in Dumaine Farms held that the trust was organized and operated exclusively for scientific and educational purposes under Section 501(c)(3) of the Code and did not benefit primarily private rather than public interests. As noted above, the Service later acquiesced with respect to the Court's findings that the trust was operated for exempt purposes and served public rather than private interests.

As in Dumaine Farms, the farming and ranching techniques promoted by RIC through the Stewardship Fund program are perceived as experimental and economically nonviable by many members of the lending community and many farmers and ranchers themselves. While RIC's methods tend to produce lower yields, they do so at far less cost, because smaller amounts of chemicals are utilized, and require significantly less investment in expensive farm equipment and improvements. RIC hopes to demonstrate that the end result of adopting its environmentally sound farming and ranching techniques and conservation measures is a farm or ranch that generates positive cash flows and supports a family from year to year as well as or even better than one operated in accordance with more traditional farming and ranching methods. At present, the lending community is hesitant to lend funds to farmers and ranchers who propose to adopt RIC's methods. RIC anticipates that the Stewardship Fund and later trusts modeled after it will prove to potential investors that the adoption of sound conservation techniques and environmentally excellent farming methods makes good economic sense. RIC also hopes to demonstrate to Wall Street that agricultural loans with an environmental component are "poolable," in hopes of increasing the availability of financing for farms and ranches that adopt the sustainable agriculture techniques RIC espouses. Thus, the Stewardship Fund has a "demonstration model" component to it just as the farm in Dumaine Farms did.

A second similarity between RIC's program and the farm in Dumaine Farms is that there is an educational component to RIC's program. RIC's staff, comprised of individuals with

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postgraduate training in agriculture, will educate beginning farmers and ranchers interested in participating in the RIC program regarding the current environmental management and conservation techniques that would be appropriate for the farm or ranch in question and assist all applicants in developing a management plan incorporating such elements. In addition, each borrower will be required to undergo a two-year education program coordinated by RIC with the cooperation of the community college systems in Nebraska and Iowa, which will address environmental and conservation issues in farming and ranching today. Moreover, RIC anticipates that contemporary environmental and conservation techniques will evolve and mature based on the results of the farming and ranching operations participating in the RIC program. In other words, the RIC program has an experimental component that will ultimately lead to a greater public and academic awareness and understanding of environmental and conservation issues facing farming and ranching today.

In Rev. Rul. 78-384, 1978-2 C.B. 174, the Service ruled that an organization that owned certain farmland and restricted its use to farming and such other uses as the organization deemed ecologically suitable for the land was not preserving land that has any distinctive ecological significance, and that the public benefit from the organization's self-imposed restrictions on its own land were too indirect and insignificant to establish that the organization served a charitable purpose.

As in Dumaine Farms, which did not involve ecologically significant farm land, the fact that the farm and ranch land involved in RIC's program may not be ecologically significant should have no adverse impact on the Service's analysis of whether RIC is organized and operated exclusively for charitable and educational purposes. In fact, as in Dumaine Farms, it is imperative to RIC's program that the participating farm and ranch land be ordinary and typical of the area in question in order to satisfy RIC's demonstration goals. The RIC program should be distinguished from those charitable activities of other organizations involving the acquisition of title to ecologically significant tracts for preservation or recreational purposes. RIC is not proposing to acquire or operate any real property. Instead, RIC is promoting and facilitating the utilization of sustainable agricultural techniques among farmers and ranchers and providing educational outreach with respect thereto, as a means of preserving natural resources for all of us and reducing pollution within the environment we all depend on. In this sense, the public benefit of RIC's program is much more direct and significant than that found in Rev. Rul. 78-384. Rather than resembling the title-acquiring organizations described in Rev. Rul. 78-384 and its progeny, RIC's purposes and activities are directly analogous to any public interest organization whose mission it is to encourage a particular industry to reduce its pollution levels and better conserve the natural resources employed by its members in their production processes.

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**Part II, Line 2
Sources of Financial Support**

The primary source of ongoing financial support for the Rural Investment Corporation ("RIC") will be fee income generated by its activities.

Specifically, RIC will assist potential borrowers in preparing the financial information necessary to support their loan applications for a modest one-time fee (i.e., a few hundred dollars) paid directly by the applicant to RIC intended solely to recoup RIC's costs in providing such a service to loan applicants. It is estimated that RIC's income for loan application preparation work with respect to the Stewardship Fund will not exceed \$20,000 in the aggregate, all of which will be recognized in RIC's first year of operations. Any income derived from this activity with respect to any future fixed investment trust sponsored by RIC will depend on the number of applicants requesting such assistance.

In addition, RIC will receive a reasonable fee from the borrower at the closing of each loan (which will be financed by the borrower out of loan proceeds) in exchange for RIC's services in consulting with the borrower to develop a viable plan addressing conservation and environmental management issues. This fee, which will be stated as a certain number of basis points of the principal amount of each loan, also will be established at a level sufficient solely to cover the estimated cost to RIC of delivering this service to borrowers. It is estimated that RIC's fee income for environmental plan development assistance in connection with the Stewardship Fund will not exceed \$50,000 in the aggregate, all of which will be recognized in the first year of RIC's operations. Any income derived from this activity with respect to any future fixed investment trust sponsored by RIC will depend on the size of the trust in question.

In addition, RIC will receive an annual fee from the trustee of the Stewardship Investment Finance Fund (the "Stewardship Fund") for each loan in the Stewardship Fund in exchange for RIC's services in monitoring the borrower's compliance with and otherwise counseling the borrower with respect to the terms of his or her environmental plan and any amendments thereto. It is estimated that RIC's fee income for such monitoring and counseling services will not exceed \$50,000 a year during the term of the Stewardship Fund. Any income derived from this activity with respect to any future fixed investment trust sponsored by RIC will depend on the size of the trust in question.

A secondary source of RIC's financial support will be private foundation grants and in-kind support from the Center for Rural Affairs, a Nebraska nonprofit corporation which is exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). RIC will not have separate office space or employees; instead, the Center will share its office facilities and staff with RIC. Any fee income generated by RIC will be delivered to the

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Center in partial repayment of the Center's costs allocable to RIC. Any unreimbursed portion will be treated as a contribution by the Center to RIC. It is not anticipated that RIC's fee income will exceed the Center's overhead costs allocated to RIC. However, any such excess fee income would be reinvested by RIC in activities furthering its exempt purposes. See Part II, Line 3 and Part II, Line 10.

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**Part II, Line 3
Fundraising Activities**

The Rural Investment Corporation ("RIC") does not have a fundraising program in the traditional sense of the word. From time to time the Center and/or RIC may submit a grant application to a particular private foundation or private corporation to support organizational or other overhead costs associated with the RIC program, including some or all of the professional fees involved in forming RIC and the Stewardship Investment Finance Fund (the "Stewardship Fund") and offering interests in the Stewardship Fund to institutional investors and private foundations. The Center for Rural Affairs (the "Center") also has already applied funds received from various private foundations to underwrite the costs incurred by the Center in organizing RIC and the Stewardship Fund, including professional fees associated with preparing this Form 1023.

RIC does intend to raise \$10 million in investment capital from institutional investors and private foundations to capitalize the Stewardship Fund, pursuant to a private offering exempt from registration with the Securities and Exchange Commission. The private offering memorandum which will be disseminated to investors has not yet been prepared by legal counsel. However, an informal "terms sheet" has been drafted for internal discussion purposes only describing the basic structure of the Stewardship Fund. This terms sheet will be used as a "talk piece" in developing the project with attorneys, accountants, investment bankers, and other professionals as the project progresses. A copy of the terms sheet is attached hereto.

Future fixed investment trusts sponsored by RIC, if any, would also be funded with investment capital raised by RIC through private or public offering similarly to the offering of interests in the Stewardship Fund. It is the hope of RIC that future trusts would be larger, less expensive, and self-supporting and therefore would rely less or not at all upon grant moneys to fund organizational or other administrative costs of RIC.

**SUMMARY OF TERMS FOR
STEWARDSHIP INVESTMENT FINANCE FUND**

- Sponsor:** The Rural Investment Corporation, a special purpose non-profit subsidiary of the Center For Rural Affairs will act as sponsor. The Center for Rural Affairs is a 501-C-3 non-profit corporation, organized in 1972 and "committed to building sustainable rural communities consistent with social and economic justice, stewardship of the natural environment and broad distribution of wealth. We work to advance our vision of rural America through research, education, advocacy, organizing and leadership development."
- Purpose of program:** To promote mortgage financing for beginning farmers in Nebraska and Iowa who are committed to employing environmentally sound agricultural practices. Beginning farmers cannot have a net worth in excess of \$[100,00], have total owned and leased assets (excluding leased real estate) that exceed \$[400,000], have owned land exceeding 15% of the average size farm in their area, and have farmed longer than 10 years. They must be the owner-operator of the proposed farm and agree to participate in the borrower training and supervision requirements of the loan. The program will be conducted in cooperation with the Nebraska Investment Finance Authority (NIFA) and the Iowa Agricultural Development Authority.(IADA)
- Securities to be Offered:** The Sponsor will issue and privately place \$10 million of short-term debt securities ("Notes"), which the Sponsor will repay, in whole or in part, by delivering, in exchange for the Notes, tax-exempt Trust Certificates evidencing interests in a Trust Fund.
- The Trust Fund; Issuance of Trust Certificates:** The Trust Fund will consist of tax-exempt obligations issued by NIFA or IADA ("Exempt Obligations"). The Trust Fund will be established pursuant to a Trust Agreement between the Sponsor and [] as trustee.
- Participating lenders will originate mortgages with qualified farmers who agree to employ environmentally sound agricultural practices. The lenders will obtain tax-exempt status for the mortgages from NIFA or IADA making them Exempt Obligations. There will be no recourse to NIFA or IADA with respect to the Exempt Obligations.
- The Sponsor will purchase the Exempt Obligations from the participating lenders from time to time

with proceeds of the sale of the Notes and will deposit the Exempt Obligations into the Trust Fund in exchange for Trust Certificates. When substantially all of the Note proceeds have been applied or, if earlier, when the Notes mature, the Sponsor will deliver the Trust Certificates plus any unapplied Note proceeds and principal payments received to date on the Trust Certificates to the Note holders in full repayment of the Notes.

Terms of Notes:

Maturity Date: _____ months from issuance.

Principal Amount:

\$10 million, consisting of \$[9] million of "Class A Notes" and \$[1] million of "Class B Notes."

Interest:

To bear interest, payable at maturity, at a rate determined by reference to interest earned on (i) temporary investment of Note proceeds in government securities and (ii) the Exempt Obligations and Trust Certificates to the extent earned prior to delivery of Trust Certificates to investors.

Repayment:

Repaid by delivery of Trust Certificates and, if applicable, cash described above. Holders of the Class A Notes will receive Senior Trust Certificates and holders of the Class B Notes will receive Subordinate Trust Certificates.

Terms of the Trust Certificates:

Principal Amount:

Approximately \$10 million, consisting of approximately \$[9] million of Senior Trust Certificates and approximately \$[1] million in Subordinate Trust Certificates.

Principal Payments:

Principal received on the Exempt Obligations will be passed through to the Senior Trust Certificates until retired and then to the Subordinate Certificates.

Interest Payments:

Interest received on the Exempt Obligations, less applicable trustee, administration and servicing fees, will be passed through as interest on the Trust Certificates.

Subordination:

The [primary] credit support for the Senior Trust Certificates will be the subordination of the Subordinate Trust Certificates. No principal payments will be made on the Subordinate Trust Certificates until the Senior Trust Certificates have been retired. The Senior Trust Certificates will be entitled to receive payments of all interest due on each payment date (including any overdue interest) before any distribution is made to the Subordinate Certificates on that date. Any losses will be allocated to the Subordinate Trust Certificates before being allocated to the Senior Trust Certificates.

Additional Credit Enhancement:

There is no other credit enhancement at this time. Other forms of credit enhancement are being reviewed.

Servicing of Mortgages:

The sponsor will act as the Master Servicer.

Other Terms:

Structure Considerations:

The Trust Certificates are complex securities, and each investor in the Trust Certificates should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the Trust Certificates in the context of that investor's financial situation. Additionally, investors in the Trust Certificates (especially the Subordinate Trust Certificates) should understand that it is possible that, under certain scenarios, such investors may not fully recover their investments.

Payments made on the Trust Certificates from payments made on the Exempt Obligations in the trust as principal and interest payments and other proceeds (e.g., from foreclosures) are received by the participating lenders in respect of the mortgages underlying the Exempt Obligation. Thus, the timing and amount of payments of the Trust Certificates will be determined by the timing and amount of payments received on the mortgages. Principal payments on the mortgages will be affected by a variety of economic, geographic, legal, tax and social factors. [The mortgages are prepayable by the borrowers at any time.]

The mortgages will not be guaranteed or insured by NIFA or IADA or any other entity. Thus, any losses experienced with respect to the mortgages (including losses resulting from borrower default or foreclosure) will be allocated to the Trust Certificates. As a result of the subordination of the Subordinate Trust Certificates, any such losses will be allocated to the Subordinate Trust Certificates before being allocated to the Senior Trust Certificates.

The mortgages underlying the Exempt Obligations will be concentrated in Nebraska and Iowa. The repayment capacity of the borrowers can be affected by weather and crop conditions as well as regional market forces. The real estate security will be subject to changes in this regional market. There is no comparable record for environmentally sound beginning farmer loans. Therefore, the Trust Certificates may be illiquid and should be considered as such.

Tax Treatment: The interest on the Notes will be taxable. The Trust Certificates will be tax-exempt to the same extent as the Exempt Obligations.

Rating of Notes and Trust Certificates:

The Notes and Trust Certificates will not be rated. If a comparable market analysis can be completed, it will be made available. Each investor should make an analysis as they feel appropriate, in addition to any information offered by the Rural Investment Corporation.

Method of Distribution:

Private placement through [_____] as placement agent. Offered solely to sophisticated institutions by means of a private placement memorandum and in minimum denominations of \$[1 million].

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**Part II, Line 5
Relationship to the Center for Rural Affairs**

The Center for Rural Affairs (the "Center"), a Nebraska nonprofit corporation exempt from Federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") pursuant to Section 501(c)(3) of the Code, is the sole member of the Rural Investment Corporation ("RIC") and as such, has the sole power to elect the directors of RIC. In addition, by their express terms, the Articles of Incorporation and Bylaws of RIC cannot be amended without the Center's consent.

RIC does not control any other organization.

RIC was formed by the Center as a part of the Center's Land Link project, to administer the Stewardship Investment Finance Fund and any future fixed investment trusts aimed at promoting environmental excellence, including reduced pesticide and herbicide use, and sound water and soil conservation measures among farmers. RIC was formed using grant funds provided to the Center by a number of private foundations for such purpose. See Part II, Line 1.

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**Part II, Line 6
Transactions with Other Exempt Organizations**

The Rural Investment Corporation ("RIC") anticipates that it will engage in transactions with exempt organizations other than those described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). For example, the Nebraska Investment Finance Authority ("NIFA") and the Iowa Agricultural Development Authority ("IADA") will both play an important role in the RIC program described in Part II, Line 1 of this Form 1023, taking whatever action may be necessary to issue tax-exempt obligations to the participating lenders backed by the borrowers' obligations and to consent to the sale of such tax-exempt obligations to the fixed investment trust. Both NIFA and IADA were created by specific State legislation and are exempt from Federal income taxation as instrumentalities of State government.

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Part II, Line 10

Sharing of Personnel and Facilities with the Center for Rural Affairs

The Rural Investment Corporation ("RIC"), at least initially, will not have its own office space, personnel or office equipment but will share personnel and facilities with the Center for Rural Affairs, a Nebraska nonprofit corporation exempt from Federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to Section 501(c)(3) of the Code. Any fee income received by RIC for counseling or other services provided to borrowers or potential borrowers or to investors will be paid over to the Center in partial reimbursement for the Center's actual overhead costs in supporting RIC's activities. Any costs not reimbursed in this manner will simply be deemed to have been contributed by the Center to RIC's operations. It is not anticipated that RIC's fee income will exceed the Center's costs allocated to RIC. However, any such excess would not be distributed to the Center but would be reinvested in RIC's exempt activities.

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**Part II, Line 11
Membership Information**

The Rural Investment Corporation ("RIC") technically is a membership organization. However, the sole member is the Center for Rural Affairs (the "Center"), a Nebraska nonprofit corporation exempt from Federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") pursuant to Section 501(c)(3) of the Code. RIC is structured as a membership organization solely to provide a mechanism under the Nebraska Nonprofit Corporation Act for the Center to have the power to elect RIC's board of directors (rather than having a self-perpetuating board of directors). In other words, the only clear way to create a parent-subsidary relationship between two Nebraska nonprofit corporations is to make the intended parent the sole member of the intended subsidiary. That is what the Center did in this case in forming RIC. The Center receives no distributions or other benefits for being the sole member of RIC. Membership in RIC is not open to third parties. There are no membership requirements or efforts to attract members.

THIS ATTACHMENT RELATES TO THE FORM 1023 OF THE RURAL INVESTMENT CORPORATION, E.I.N. 47-0796719, P.O. BOX 406, WALTHILL, NEBRASKA 68067.

**Part II, Line 12a
Fees for Services**

The Rural Investment Corporation ("RIC") will charge modest fees for the time RIC personnel spend assisting potential borrowers in the preparation of their Integrated Farm Resource and Management Plans (the "Plans"), monitoring compliance of existing borrowers with their respective Plans, and otherwise administering the Stewardship Fund program. The fees charged by RIC for these services are intended simply to recoup overhead costs of the Center in lending its personnel and facilities to RIC for this project. As set forth in more detail elsewhere herein, the fee proposed to be charged by RIC for assisting potential borrowers in preparing the Plans will only be payable from loan proceeds by a borrower only if the loan application is approved and the loan closes. The fee proposed to be charged by RIC for monitoring compliance of existing borrowers with the environmental and conservation provisions of their respective Plans will be payable annually by the trustee out of gross trust receipts prior to distributing net receipts to investors and therefore is borne by investors.

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**Part II, Line 12b
Beneficiaries of Services**

The Rural Investment Corporation ("RIC") will impose origination and underwriting criteria on its network of participating lenders in the Stewardship Investment Finance Fund ("Stewardship Fund") and any future fixed investment trusts sponsored by RIC. These criteria will limit the individuals who are eligible to borrow funds under the RIC program to those first-time farmers and ranchers who satisfy certain net worth and other underwriting criteria and agree to adopt farming or ranching methods which reflect sound conservation practices and environmental excellence and participate in an educational outreach program coordinated by RIC. See Part II, Line 1. However, the principal benefits of the Stewardship Fund are the conservation of natural resources, reduction of soil and water pollution, and the lessening of environmental deterioration to be effected as a result of the farming and ranching techniques required in order for beginning farmers and ranchers to borrow funds under the program. These benefits flow to the general public, not just to the particular individuals who borrow money under the proposed RIC program.

The positive impact on the environment as a whole of about 70 new farms and ranches in two States operated consistently with sound conservation and environmental practices is admittedly small. However, the Stewardship Fund, as noted in Part II, Line 1, is intended largely to serve as a demonstration model fund for future, larger funds with more geographic diversity which might be sponsored by RIC and/or the private sector should the Stewardship Fund be successful. (A typical fixed investment trust sponsored by the private sector would be at least ten times the size of the Stewardship Fund.) Until now, farm loans backed by tax-exempt obligations have not been successfully pooled. Moreover, this program is targeting first-time farmers and ranchers who would be denied traditional financing because of their lack of financial resources. This program also unique in its approach of combining the structure of a mortgage pool with clearly articulated environmental and conservation objectives. The significant benefit to the general public of the conservation methods and environmental practices espoused by the RIC program should be magnified considerably through future RIC trusts and trusts sponsored by the private sector if the Stewardship Fund is a financial success.

THIS ATTACHMENT RELATES TO PART IV OF THE FORM 1023 OF THE RURAL INVESTMENT CORPORATION, E.I.N. 47-0796719, P.O. BOX 406, WALTHILL, NEBRASKA 68067.

In addition to the amounts included within the budget for the 1996 calendar year, the Center for Rural Affairs (the "Center"), a Nebraska nonprofit corporation exempt from Federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, has underwritten all of the organizational costs, including legal and accounting fees, associated with forming RIC and obtaining its tax exempt status. The Center also has committed its own staff and resources to develop the Stewardship Fund program.