NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-Q
January 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended November 30, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From To

Commission File Number 1-7102

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

DISTRICT OF COLUMBIA
(State or other jurisdiction of incorporation or organization)

52-0891669
(I.R.S. Employer Identification Number)

2201 COOPERATIVE WAY, HERNDON, VA 20171
(Address of principal executive offices)

Registrant's telephone number, including area code, is 703-709-6700.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

The Registrant is a tax-exempt cooperative and consequently is unable to issue any equity capital stock.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands)

A S S E T S

	November 30, 2009	May 31, 2009
Cash and cash equivalents	$ 355,900}	$ 504,999
Restricted cash	17,598}	8,207
Investments in equity securities	73,076}	47,000
Loans to members	19,732,902}	20,192,309
Less: Allowance for loan losses	(608,458)	(622,960)
Loans to members, net	19,124,444}	19,569,349
Accrued interest and other receivables	225,800}	260,428
Fixed assets, net	48,843}	43,162
Debt service reserve funds	45,662}	46,662
Bond issuance costs, net	50,856}	50,414
Foreclosed assets, net	47,579}	48,721
Derivative assets	429,401}	381,356
Other assets	18,767}	22,407
	$ 20,437,926}	$ 20,982,705

See accompanying notes.

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands)

L I A B I L I T I E S A N D E Q U I T Y

	November 30, 2009	May 31, 2009
Short-term debt	$ 4,187,659}	$ 4,867,864
Accrued interest payable	226,539}	249,601
Long-term debt	12,784,373}	12,720,055
Deferred income	19,445}	18,962
Guarantee liability	25,113}	29,672
Other liabilities	32,895}	32,955
Derivative liabilities	544,655}	493,002
Subordinated deferrable debt	311,440}	311,440
Members' subordinated certificates:		
Membership subordinated certificates	643,148}	642,960
Loan and guarantee subordinated certificates	786,633}	818,999
Member capital securities	360,425}	278,095
Total members' subordinated certificates	1,790,206}	1,740,054
Commitments and contingencies		
CFC equity:		
Retained equity	499,066}	500,823
Accumulated other comprehensive income	7,789}	8,115
Total CFC equity	506,855}	508,938
Noncontrolling interest	8,746}	10,162
Total equity	515,601}	519,100
	$ 20,437,926}	$ 20,982,705

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands)

	Three months ended November 30, 2009	2008	Six months ended November 30, 2009	2008
Interest income	$ 264,919}	$ 266,746	$ 534,376}	$ 529,863
Interest expense	(226,977)	(234,187)	(469,606)	(454,336)
Net interest income	37,942}	32,559	64,770}	75,527
(Provision for) recovery of loan losses	(1,577)	(126,311)	14,594}	(136,992)
Net interest income (loss) after (provision for) recovery of loan losses	36,365}	(93,752)	79,364}	(61,465)
Non-interest income:				
Fee and other income	4,106}	2,737	7,840}	6,319
Derivative cash settlements	(10,706)	12,503	(14,200)	12,934
Results of operations of foreclosed assets	21}	1,211	608}	2,457
Total non-interest income	(6,579)	16,451	(5,752)	21,710
Non-interest expense:				
Salaries and employee benefits	(9,766)	(9,912)	(19,684)	(19,763)
Other general and administrative expenses	(6,650)	(5,182)	(13,758)	(9,924)
Recovery of (provision for) guarantee liability	821}	(5,686)	3,216}	(4,981)
Derivative forward value	7,562}	(139,383)	(3,272)	(150,411)
Market adjustment on foreclosed assets	-}	(153)	(1,750)	(153)
Other	(175)	(138)	(321)	(298)
Total non-interest expense	(8,208)	(160,454)	(35,569)	(185,530)
Income (loss) prior to income taxes	21,578}	(237,755)	38,043}	(225,285)

Income tax benefit	841}	6,400	809}	7,160
Net income (loss)	22,419}	(231,355)	38,852}	(218,125)
Less: Net loss attributable to the noncontrolling interest	1,568}	1,738	1,377}	2,979
Net income (loss) attributable to CFC	$ 23,987}	$(229,617)	$ 40,229}	$(215,146)

See accompanying notes.

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(in thousands)

For the Six Months Ended November 30, 2009 and 2008

	Total	Noncontrolling Interest	National Rural Total Equity	Accumulated Other Comprehensive Income (Loss)	National Rural Retained Equity	Unallocated Net Income	Members' Capital Reserve	Patronage Capital Allocated	Membership Fees and Education Fund
Six months ended November 30, 2009:									
Balance as of May 31, 2009	$ 519,100}	$ 10,162}	$ 508,938}	$ 8,115}	$ 500,823}	$(109,691)	$ 187,098}	$ 420,834}	$ 2,582}
Patronage capital retirement	(41,400)	-}	(41,400)	-}	(41,400)	-}	-}	(41,400)	-}
Net income (loss)	38,852}	(1,377)	40,229}	-}	40,229}	40,229}	-}	-}	-}
Other comprehensive loss	(340)	(14)	(326)	(326)	-}	-}	-}	-}	-}
Other	(611)	(25)	(586)	-}	(586)	-}	-}	-}	(586)
Balance as of November 30, 2009	$ 515,601}	$ 8,746}	$ 506,855}	$ 7,789}	$ 499,066}	$ (69,462)	$ 187,098}	$ 379,434}	$ 1,996}
Six months ended November 30, 2008:									
Balance as of May 31, 2008	$ 680,212}	$ 14,247}	$ 665,965}	$ 8,827}	$ 657,138}	$ 44,003}	$ 187,409}	$ 423,249}	$ 2,477}
Patronage capital retirement	(85,454)	-	(85,454)	-	(85,454)	-	(217)	(85,237)	-
Net loss	(218,125)	(2,979)	(215,146)	-	(215,146)	(215,146)	-	-	-
Other comprehensive loss	(411)	(12)	(399)	(399)	-	-	-	-	-
Other	(609)	4}	(613)	-	(613)	-	(93)	93}	(613)
Balance as of November 30, 2008	$ 375,613}	$ 11,260}	$ 364,353}	$ 8,428}	$ 355,925}	$ (171,143)	$ 187,099}	$ 338,105}	$ 1,864}

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

For the Six Months Ended November 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 38,852}	$ (218,125)
Add (deduct):		
Amortization of deferred income	(3,087)	(3,273)
Amortization of bond issuance costs and deferred charges	10,842}	5,102
Depreciation	1,069}	1,176
Provision for (recovery of) loan losses	(14,594)	136,992
Provision for (recovery of) guarantee liability	(3,216)	4,981
Results of operations of foreclosed assets	(608)	(2,457)
Market adjustment on foreclosed assets	1,750}	153
Derivative forward value	3,272}	150,411
Purchases of trading securities	-}	(71,405)
Sales of trading securities	-}	59,870
Changes in operating assets and liabilities:		
Accrued interest and other receivables	25,375}	(49,542)
Accrued interest payable	(23,062)	30,856
Other	(3,382)	6,763
Net cash provided by operating activities	33,211}	51,502
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances made on loans	(3,781,896)	(4,943,573)
Principal collected on loans	4,212,578}	4,402,006
Net investment in fixed assets	(6,750)	760
Net proceeds from sale of loans	28,626}	-
Investments in equity securities	(26,089)	-
Change in restricted cash	(9,391)	5,374
Net cash provided by (used in) investing activities	417,078}	(535,433)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayments) issuances of short-term debt, net	(237,818)	253,271

Proceeds from issuance of long-term debt, net	1,502,215}	3,237,972
Payments for retirement of long-term debt	(1,885,195)	(2,695,698)
Proceeds from issuance of members' subordinated certificates	103,262}	71,675
Payments for retirement of members' subordinated certificates	(38,524)	(9,345)
Payments for retirement of patronage capital	(43,328)	(78,479)
Net cash (used in) provided by financing activities	(599,388)	779,396
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(149,099)	295,465
BEGINNING CASH AND CASH EQUIVALENTS	504,999}	177,809
ENDING CASH AND CASH EQUIVALENTS	$ 355,900}	$ 473,274

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

For the Six Months Ended November 30, 2009 and 2008

	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 481,827	$ 418,575
Cash paid for income taxes	206	52
Non-cash financing and investing activities:		
Subordinated certificates applied against loan balances	$ -	$ 675
Patronage capital applied against loan balances	-	15
Membership fee applied against loan balances	1	-
Net decrease in debt service reserve funds/debt service reserve certificates	(4,673)	(4,658)

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) General Information and Accounting Policies

(a) General Information

National Rural Utilities Cooperative Finance Corporation (referred to as "CFC," "we," "our," or "us") is a private, cooperative association incorporated under the laws of the District of Columbia in April 1969. The principal purpose of CFC is to provide its members with a source of financing to supplement the loan programs of the Rural Utilities Service ("RUS") of the United States Department of Agriculture. CFC makes loans to its rural utility system members ("utility members") to enable them to acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. CFC is exempt from payment of federal income taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. As a member owned cooperative, our objective is not to maximize net income, but to offer our members financial products and services at the lowest cost that is consistent with sound financial management.

Rural Telephone Finance Cooperative ("RTFC") was incorporated as a private cooperative association in the state of South Dakota in September 1987. In February 2005, RTFC reincorporated as a cooperative association in the District of Columbia. RTFC’s principal purpose is to provide and arrange financing for its rural telecommunications members and their affiliates. As a member owned cooperative, RTFC’s objective is not to maximize its net income, but to offer its members financial products and services at the lowest cost that is consistent with sound financial management. RTFC's results of operations and financial condition are consolidated with CFC in the accompanying financial statements. RTFC is headquartered with CFC in Herndon, Virginia. RTFC is a taxable cooperative that pays income tax based on its net income, excluding net income allocated to its members, as allowed by law under Subchapter T of the Internal Revenue Code.

National Cooperative Services Corporation ("NCSC") was incorporated in 1981 in the District of Columbia as a private cooperative association. NCSC’s principal purpose is to provide financing to the for-profit or non-profit entities that are owned, operated or controlled by or provide substantial benefit to, members of CFC. NCSC is a member-owned finance cooperative, therefore its objective is not to maximize its net income, but to offer its members financial products and services at the lowest cost that is consistent with sound financial management. NCSC's membership consists of CFC and distribution systems that are members of CFC or are eligible for such membership. NCSC's results of operations and financial condition are consolidated with those of CFC in the accompanying financial statements. NCSC is headquartered with CFC in Herndon, Virginia. NCSC is a taxable corporation.

Our consolidated membership totaling 1,518 members at November 30, 2009 is made up of:

- 831 distribution systems and 68 generation and transmission ("power supply") systems, totaling 899 utility members, the majority of which are consumer-owned electric cooperatives;
- 495 telecommunications members;
- 65 service members; and
- 59 associates.

Our members are located in 49 states, the District of Columbia and two U.S. territories. Memberships between CFC, RTFC and NCSC have been eliminated in consolidation. All references to members within this document include members and associates.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments (which consist only of normal recurring accruals) necessary for a fair statement of our results for the interim periods presented.

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

(b) Principles of Consolidation

The accompanying financial statements include the consolidated accounts of CFC, RTFC and NCSC and certain entities created and controlled by CFC to hold foreclosed assets and accommodate loan securitization transactions, after elimination of intercompany accounts and transactions. We are required to consolidate the financial results of RTFC and NCSC because we are the primary beneficiary of variable interests in RTFC and NCSC due to our exposure to absorbing the majority of expected losses.

CFC is the sole lender to and manages the lending activities and business affairs of RTFC through a management agreement in effect until December 1, 2016. Under a guarantee agreement, RTFC pays CFC a fee to reimburse RTFC for its loan losses. All loans that require RTFC board approval also require approval by CFC for funding under RTFC's credit facilities with CFC. CFC is not a member of RTFC and does not elect directors to the RTFC board. RTFC has a non-voting associate relationship with CFC. RTFC members elect directors to the RTFC board based on one vote for each member.

CFC is the primary source of funding to and manages the lending and financial affairs of NCSC through a management agreement which is automatically renewable on an annual basis unless terminated by either party. NCSC funds its lending programs either through loans from CFC or commercial paper and long-term notes issued by NCSC and guaranteed by CFC. In connection with these guarantees, NCSC must pay a guarantee fee and purchase from CFC interest-bearing subordinated term certificates in proportion to the related guarantee. Under a guarantee agreement, NCSC pays CFC a fee to reimburse NCSC for its loan losses, excluding losses in the consumer loan program. All loans that require NCSC board approval also require CFC approval. CFC controls the nomination process for one out of 11 NCSC directors. NCSC members elect directors to the NCSC board based on one vote for each member. NCSC is a service organization member of CFC.

RTFC and NCSC creditors have no recourse against CFC in the event of a default by RTFC and NCSC, unless there is a guarantee agreement under which CFC has guaranteed NCSC or RTFC debt obligations to a third party. At November 30, 2009, CFC had guaranteed $329 million of NCSC debt, derivative instruments and guarantees with third parties. The maturities for NCSC obligations guaranteed by CFC run through 2031. At November 30, 2009, CFC's maximum potential exposure totaled $345 million for guarantees of NCSC debt, derivatives and guarantees with third parties. Guarantees related to NCSC debt and derivative instruments are not included in Note 10, Guarantees at November 30, 2009 as the debt and derivatives are reported on the consolidated balance sheet. At November 30, 2009, CFC had $0.6 million of guarantees of RTFC debt to third party creditors. All CFC loans to RTFC and NCSC are secured by all assets and revenues of RTFC and NCSC. At November 30, 2009, RTFC had total assets of $1,896 million including loans outstanding to members of $1,718 million and NCSC had total assets of $405 million including loans outstanding of $361 million. At November 30, 2009, CFC had committed to lend RTFC up to $4 billion of which $1,706 million was outstanding. At November 30, 2009, CFC had committed to provide up to $1.5 billion of credit to NCSC of which $459 million was outstanding, representing $130 million of outstanding loans and $329 million of credit enhancements.

CFC has established limited liability corporations and partnerships to hold foreclosed assets and facilitate loan securitization transactions. CFC owns and controls all of these entities and therefore consolidates their financial results. CFC presents the companies formed to hold foreclosed assets in one line on the consolidated balance sheets and the consolidated statements of operations. A full consolidation is presented for the entity formed for loan securitization transactions.

Unless stated otherwise, references to "we," "our," or "us" represent the consolidation of CFC, RTFC, NCSC and certain entities created and controlled by CFC to hold foreclosed assets and to accommodate loan securitization transactions.

Based on the accounting guidance governing consolidations, affiliate equity controlled by RTFC and NCSC is classified as noncontrolling interest on the consolidated balance sheet and the subsidiary earnings controlled by RTFC and NCSC is net income attributable to the noncontrolling interest on the consolidated statement of operations.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. While we use our best estimates and judgments based on the known facts at the date of the financial statements, actual results could differ from these estimates as future events occur.

(d) Subsequent Events

We evaluated all subsequent events that occurred after the balance sheet date and through the date our unaudited consolidated financial statements were issued on January 13, 2010.

(e) Reclassifications

Reclassifications of prior period amounts have been made to conform to the current reporting format and the presentation in our Form 10-K for the year ended May 31, 2009. Fees and other income totaling $2 million and $6 million for the three and six months ended November 30, 2008, respectively, have been reclassified from interest income to the fee and other income line of non-interest income on the consolidated statements of operations to conform with the November 30, 2009 presentation. Other expense totaling $0.2 million for the six months ended November 30, 2008 has been reclassified from interest expense to the other expense line item in non-interest expense on the consolidated statements of operations to conform with the November 30, 2009 presentation.

(f) Interest Income

The following table presents the components of interest income:

	For the three months ended November 30,		For the six months ended November 30,	
(dollar amounts in thousands)	2009	2008	2009	2008
Interest on long-term fixed rate loans (1)	$ 225,550}	$224,261	$ 449,076}	$448,663
Interest on long-term variable rate loans (1)	21,686}	18,469	48,251}	33,649
Interest on short-term loans (1)	14,641}	20,942	30,676}	40,446
Interest on investments (2)	1,329}	1,444	2,986}	3,625
Fee income	1,713}	1,630	3,387}	3,480
Total interest income	$ 264,919}	$266,746	$ 534,376}	$529,863

(1) Represents interest income on loans to members.
(2) Represents interest income on the investment of cash and trading securities.

Deferred income on the consolidated balance sheets is comprised primarily of deferred conversion fees totaling $14 million and $16 million at November 30, 2009 and May 31, 2009, respectively.

(g) Interest Expense

The following table presents the components of interest expense:

	For the three months ended November 30,		For the six months ended November 30,	
(dollar amounts in thousands)	2009	2008	2009	2008
Interest expense (1):				
Commercial paper and bank bid notes	$ 1,964}	$ 23,638	$ 5,186}	$ 40,076
Medium-term notes	65,902}	81,055	150,497}	161,513
Collateral trust bonds	81,585}	68,035	160,178}	130,955
Subordinated deferrable debt	4,915}	4,915	9,831}	9,831
Subordinated certificates	19,787}	12,831	38,807}	25,248
Long-term private debt	47,568}	38,916	93,554}	78,355
Debt issuance costs (2)	2,625}	2,391	5,605}	4,526
Fee expense (3)	2,631}	2,406	5,948}	3,832
Total interest expense	$ 226,977}	$234,187	$ 469,606}	$454,336

(1) Represents interest expense and the amortization of discounts on debt.
(2) Includes amortization of all deferred charges related to the issuance of debt, principally underwriter's fees, legal fees, printing costs and comfort letter fees. Amortization is calculated on the effective interest method. Also includes

issuance costs related to dealer commercial paper which are recognized as incurred
(3) Includes various fees related to funding activities, including fees paid to banks participating in our revolving credit agreements. Fees are recognized as incurred or amortized on a straight-line basis over the life of the respective agreement.

We do not include indirect costs, if any, related to funding activities in interest expense.

(h) Comprehensive Income

Comprehensive income includes our net income, as well as other comprehensive income related to derivatives. Comprehensive income is calculated as follows:

	For the three months ended November 30,		For the six months ended November 30,	
(dollar amounts in thousands)	2009	2008	2009	2008
Net income (loss)	$ 22,419	$(231,355)	$ 38,852}	$(218,125)
Other comprehensive income:				
Unrealized loss on securities	(12)	-	(12)	-
Less: Realized gain on derivatives	(166)	(212)	(328)	(411)
Comprehensive income (loss)	22,241	(231,567)	38,512}	(218,536)
Less: Comprehensive loss attributable to the noncontrolling interest	1,576	1,745	1,391}	2,991
Comprehensive income (loss) attributable to CFC	$ 23,817	$(229,822)	$ 39,903}	$(215,545)

Due to our adoption of new accounting guidance related to noncontrolling interest on June 1, 2009, our consolidated comprehensive income for the three and six months ended November 30, 2008 was adjusted to include comprehensive income attributable to our noncontrolling interest.

(2) Investments in Equity Securities

Our investments in equity securities at November 30, 2009 and May 31, 2009 includes Farmer Mac Series B-1 preferred stock and Farmer Mac Series C preferred stock totaling $73 million. The preferred stock is valued at cost. At November 30, 2009, our investments in equity securities also include investments in Farmer Mac Series A common stock totaling less than $1 million, which is accounted for as available-for-sale securities and recorded in the consolidated balance sheets at fair value.

(3) Loans and Commitments

Loans to members bear interest at rates determined from time to time by us after considering our interest expense, operating expenses, provision for loan losses and the maintenance of reasonable earnings levels. As a member-owned cooperative, our objective is to set interest rates at the lowest level we consider to be consistent with sound financial management.

Loans outstanding to members and unadvanced commitments by loan type and by segment are summarized as follows:

	November 30, 2009		May 31, 2009	
(dollar amounts in thousands)	Loans Outstanding	Unadvanced Commitments (1)	Loans Outstanding	Unadvanced Commitments (1)
Total by loan type (2) (3):				
Long-term fixed-rate loans (4)	$ 15,185,508}	$ -}	$ 14,602,365	$ -
Long-term variable-rate loans (4)	2,574,801}	5,594,800}	3,243,716	5,609,977

Loans guaranteed by RUS	239,482}	-}	243,997	-
Short-term loans	1,729,503}	8,319,095}	2,098,129	7,941,146
Total loans outstanding	19,729,294}	13,913,895}	20,188,207	13,551,123
Deferred origination fees	3,608}	-}	4,102	-
Less: Allowance for loan losses	(608,458)	-}	(622,960)	-
Net loans outstanding	$ 19,124,444}	$ 13,913,895}	$ 19,569,349	$ 13,551,123
Total by segment (2):				
CFC:				
Distribution	$ 13,536,574}	$ 9,467,148}	$ 13,730,511	$ 9,472,849
Power supply	4,024,587}	3,560,065}	4,268,244	3,178,471
Statewide and associate	89,072}	120,081}	92,578	152,701
CFC total	17,650,233}	13,147,294}	18,091,333	12,804,021
RTFC	1,717,962}	446,428}	1,680,154	457,022
NCSC	361,099}	320,173}	416,720	290,080
Total loans outstanding	$ 19,729,294}	$ 13,913,895}	$ 20,188,207	$ 13,551,123

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(1) Unadvanced loan commitments include loans for which loan contracts have been approved and executed, but funds have not been advanced. Before advancing funds, additional information may be required to assure that all conditions for the advance of funds have been fully met and there has been no material change in the member's condition as represented in the supporting documents. Since commitments may expire without being fully drawn upon and a significant amount of the commitments are for standby liquidity purposes, the total unadvanced loan commitments do not necessarily represent our future cash requirements. Collateral and security requirements for advances on commitments are identical to those required at the time of the initial loan approval.
(2) Includes non-performing and restructured loans.
(3) Loans are classified as long-term or short-term based on their original maturity.
(4) Because the interest rate on unadvanced commitments is not set until drawn, long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

Non-Performing and Restructured Loans
Non-performing and restructured loans outstanding and unadvanced commitments to members by loan type and by segment included in the table above are summarized as follows:

(dollar amounts in thousands)	November 30, 2009 Loans Outstanding	November 30, 2009 Unadvanced Commitments (1)	May 31, 2009 Loans Outstanding	May 31, 2009 Unadvanced Commitments (1)
Non-performing and restructured loans:				
Non-performing loans (2):				
RTFC:				
Long-term fixed-rate loans	$ 8,960}	$ -}	$ 8,960	$ -
Long-term variable-rate loans	457,504}	-}	457,504	-
Short-term loans	57,385}	-}	57,294	-
Total non-performing loans	$ 523,849}	$ -}	$ 523,758	$ -
Restructured loans (2):				
CFC:				
Long-term fixed-rate loans (3)	$ 41,726}	$ -}	$ 41,907	$ -
Long-term variable-rate loans (3)	476,612}	186,673}	490,827	186,673
Short-term loans	-}	12,500}	-	12,500
CFC total restructured loans	518,338}	199,173}	532,734	199,173
RTFC:				
Long-term fixed-rate loans	4,488}	-}	4,853	-
Total restructured loans	$ 522,826}	$ 199,173}	$ 537,587	$ 199,173

(1) Unadvanced loan commitments include loans for which loan contracts have been approved and executed, but funds have not been advanced. Before advancing funds, additional information may be required to assure that all conditions for the advance of funds have been fully met and there has been no material change in the member's

condition as represented in the supporting documents. Since commitments may expire without being fully drawn upon and a significant amount of the commitments are for standby liquidity purposes, the total unadvanced loan commitments do not necessarily represent our future cash requirements. Collateral and security requirements for advances on commitments are identical to those required at the time of the initial loan approval.
(2) Loans are classified as long-term or short-term based on their original maturity.
(3) Because the interest rate on unadvanced commitments is not set until drawn, long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

Loan Loss Allowance
We maintain an allowance for loan losses at a level estimated by management to provide for probable losses inherent in the loan portfolio.

Activity in the loan loss allowance account is summarized below:

	For the six months ended and as of November 30,		For the year ended and as of May 31,
(dollar amounts in thousands)	2009	2008	2009
Balance at beginning of period	$ 622,960}	$ 514,906	$ 514,906
(Recovery of) provision for loan losses	(14,594)	136,992	113,699
Charge-offs	(56)	(3,118)	(5,988)
Recoveries	148}	166	343
Balance at end of period	$ 608,458}	$ 648,946	$ 622,960

Loan Security
We evaluate each borrower's creditworthiness on a case-by-case basis. It is generally our policy to require collateral for long-term loans. Such collateral usually consists of a first mortgage lien on the borrower's total assets, including plant and equipment, and a pledge of future revenues. The loan and security documents also contain various provisions with respect to

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the mortgaging of the borrower's property and debt service coverage ratios, maintenance of adequate insurance coverage as well as certain other restrictive covenants.

The following tables summarize our secured and unsecured loans outstanding by loan type and by segment:

(dollar amounts in thousands)	November 30, 2009				May 31, 2009			
Total by loan type:	Secured	%	Unsecured	%	Secured	%	Unsecured	%
Long-term fixed-rate loans	$ 14,568,846}	96%	$ 616,662}	4 %	$ 14,044,469	96%	$ 557,896	4%
Long-term variable-rate loans	2,301,177}	89	273,624}	11	2,835,451	87	408,265	13
Loans guaranteed by RUS	239,482}	100	-}	-	243,997	100	-	-
Short-term loans	234,430}	14	1,495,073}	86	233,179	11	1,864,950	89
Total loans	$ 17,343,935}	88	$ 2,385,359}	12	$ 17,357,096	86	$ 2,831,111	14
Total by segment:								
CFC	$ 15,572,397}	88%	$ 2,077,836}	12%	$ 15,562,761	86%	$ 2,528,572	14%
RTFC	1,474,350}	86	243,612}	14	1,443,395	86	236,759	14
NCSC	297,188}	82	63,911}	18	350,940	84	65,780	16
Total loans	$ 17,343,935}	88	$ 2,385,359}	12	$ 17,357,096	86	$ 2,831,111	14

Pledging of Loans and Loans on Deposit

The following table summarizes our collateral pledged to secure our collateral trust bonds, Clean Renewable Energy Bonds (“CREBs”) and notes payable to the Federal Agricultural Mortgage Corporation ("Farmer Mac") (see Note 5, Long-Term Debt) and the amount of the corresponding debt outstanding:

(dollar amounts in thousands)	November 30, 2009	May 31, 2009
Collateral trust bonds:		
2007 indenture		
Distribution system mortgage notes	$ 4,000,398}	$ 4,176,760
Collateral trust bonds outstanding	3,500,000}	3,000,000
1994 indenture		
Distribution system mortgage notes	$ 2,235,215}	$ 2,308,713
RUS guaranteed loans qualifying as permitted investments	209,262}	211,337
Total pledged collateral	$ 2,444,477}	$ 2,520,050
Collateral trust bonds outstanding	2,185,000}	2,190,000
1972 indenture		
Cash	$ 2,032}	$ 2,032
Collateral trust bonds outstanding	1,736}	1,736
Farmer Mac:		
Utility system notes	$ 2,228,800}	$ 1,488,929
Farmer Mac notes payable	1,825,000}	1,200,000

CREBs:		
Utility system notes	$ 35,651}	$ -
CREB's notes payable	28,908}	-

The following table shows the collateral on deposit for the notes payable to the Federal Financing Bank ("FFB") of the United States Treasury as part of the Rural Economic Development Loan and Grant ("REDLG") program (see Note 5, Long-Term Debt) and the amount of the corresponding debt outstanding:

(dollar amounts in thousands)	November 30, 2009	May 31, 2009
Utility system mortgage notes on deposit	$ 3,699,532}	$ 3,770,983
REDLG notes payable	3,000,000}	3,000,000

The $3 billion of notes payable to the FFB at November 30, 2009 and May 31, 2009 contain a rating trigger related to our senior secured credit ratings from Standard & Poor's Corporation, Moody's Investors Service and Fitch Ratings. A rating trigger event exists if our senior secured debt does not have at least two of the following ratings: (i) A- or higher from Standard & Poor's Corporation, (ii) A3 or higher from Moody's Investors Service, (iii) A- or higher from Fitch Ratings and (iv) an equivalent rating from a successor rating agency to any of the above rating agencies. If our senior secured credit ratings fall below the levels listed above, the mortgage notes on deposit at that time, which totaled $3,700 million at

November 30, 2009, would be pledged as collateral rather than held on deposit. At November 30, 2009 and May 31, 2009, our senior secured debt ratings were above the rating trigger threshold.

A total of $2 billion of notes payable to the FFB at November 30, 2009 and May 31, 2009 have a second trigger requiring that a director on the CFC board satisfies the requirements of a financial expert as defined by Section 407 of the Sarbanes-Oxley Act of 2002. A financial expert triggering event will occur if the financial expert position remains vacant for more than 90 consecutive days. If we do not satisfy the financial expert requirement, the mortgage notes on deposit at that time, which totaled $2,476 million at November 30, 2009, would be pledged as collateral rather than held on deposit. The financial expert position on CFC's board of directors has been filled since March 2007.

(4) Foreclosed Assets

Assets received in satisfaction of loan receivables are recorded at cost and are evaluated periodically for impairment. These assets are classified on the consolidated balance sheets as foreclosed assets, net. These assets do not meet the criteria to be classified as held for sale at November 30, 2009 and May 31, 2009.

The activity for foreclosed assets is summarized below:

	Six months ended November 30,		Year ended
(dollar amounts in thousands)	2009	2008	May 31, 2009
Beginning balance	$ 48,721}	$ 58,961	$ 58,961
Results of operations	608}	2,457	3,774
Net cash provided by foreclosed assets	-}	-	(6,000)
Market adjustment	(1,750)	(153)	(8,014)
Ending balance	$ 47,579}	$ 61,265	$ 48,721

The balance of foreclosed assets includes land development loans and limited partnership interests in certain real estate developments for all periods presented. In the first quarter of fiscal year 2010, we had a $2 million reduction in the fair value of the collateral supporting these land development loans primarily due to lower gas prices which decreased the fair value of the underlying collateral. There was no further reduction in the second quarter of fiscal year 2010 due to a recovery in gas prices offsetting a reduction in commercial property values. At November 30, 2009, both land development loans were impaired and on non-accrual status.

(5) Short-Term Debt and Credit Arrangements

The following is a summary of short-term debt outstanding:

(dollar amounts in thousands)	November 30, 2009	May 31, 2009
Short-term debt:		
Commercial paper sold through dealers, net of discounts	$ 338,492}	$ 594,533
Commercial paper sold directly to members, at par	1,016,673}	934,897
Commercial paper sold directly to non-members, at par	57,585}	12,502

Total commercial paper	1,412,750}	1,541,932
Daily liquidity fund sold directly to members	537,705}	291,341
Term loan	-}	200,000
Bank bid notes	100,000}	255,000
Subtotal short-term debt	2,050,455}	2,288,273
Long-term debt maturing within one year:		
Medium-term notes sold through dealers	406,030}	1,674,760
Medium-term notes sold to members	425,669}	502,396
Secured collateral trust bonds	1,111,241}	209,985
Secured notes payable	189,607}	187,800
Unsecured notes payable	4,657}	4,650
Total long-term debt maturing within one year	2,137,204}	2,579,591
Total short-term debt	$ 4,187,659}	$ 4,867,864

We issue commercial paper for periods of one to 270 days. We also enter into short-term bank bid note agreements, which are unsecured obligations that do not require backup bank lines for liquidity purposes. We do not pay a commitment fee for bank bid notes. The commitments are generally subject to termination at the discretion of the individual banks.

Revolving Credit Agreements

The following is a summary of the amounts available under our revolving credit agreements:

(dollar amounts in thousands)	November 30, 2009	May 31, 2009	Termination Date	Facility fee per year (1)
Five-year agreement (2)	$ 1,049,000	$1,125,000	March 16, 2012	6 basis points
Five-year agreement (2)	967,313	1,025,000	March 22, 2011	6 basis points
364-day agreement	1,000,000	1,000,000	March 12, 2010	12.5 basis points
Total	$ 3,016,313	$3,150,000		

(1) Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the initiation of the related agreement.

(2) Amounts as of November 30, 2009 exclude Lehman Brothers Bank, FSB's portion of the credit facility totaling $134 million allocated as follows: $76 million under the five-year facility maturing 2012, and $58 million under the five-year facility maturing in 2011. These amounts were assigned to NCSC by Lehman Brothers Bank, FSB in September 2009 and are eliminated in consolidation.

At November 30, 2009 and May 31, 2009, we were in compliance with all covenants and conditions under our revolving credit agreements and there were no borrowings outstanding under these agreements.

The following represents our required and actual financial ratios under the revolving credit agreements:

		Actual	
	Requirement	November 30, 2009	May 31, 2009
Minimum average adjusted TIER over the six most recent fiscal quarters	1.025	1.15	1.18
Minimum adjusted TIER at fiscal year end (1)	1.05	NA	1.10
Maximum ratio of senior debt to total equity	10.00	6.52	6.90

(1) We must meet this requirement to retire patronage capital.

The revolving credit agreements do not contain a material adverse change clause or ratings trigger that limit the banks' obligations to fund under the terms of the agreements, but we must be in compliance with the other requirements, including financial ratios, to draw down on the facilities.

(6) Long-Term Debt

The following is a summary of long-term debt outstanding:

(dollar amounts in thousands)

	November 30, 2009	May 31, 2009
Unsecured long-term debt:		
Medium-term notes sold through dealers	$ 3,306,844}	$ 3,469,580