

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-K
August 17, 2009

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2009

OR
.. 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered	Title of each class	Name of each exchange on which registered
5.70% Collateral Trust Bonds, due 2010	NYSE NYSE	6.75% Subordinated Notes, due 2043	NYSE NYSE

7.20% Collateral Trust Bonds, due 2015		6.10% Subordinated Notes, due 2044	
6.55% Collateral Trust Bonds, due 2018	NYSE	5.95% Subordinated Notes, due 2045	NYSE
7.35% Collateral Trust Bonds, due 2026	NYSE		

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
 No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements defined by the Securities Act of 1933, as amended, and the Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity," and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan growth, the adequacy of the loan loss allowance, net income growth, leverage and debt to equity ratios, and borrower financial performance, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance could materially differ. Factors that could cause future results to vary from current expectations include, but are not limited to, general economic conditions, legislative changes, governmental monetary and fiscal policies, changes in tax policies, changes in interest rates, demand for our loan products, changes in the quality or composition of our loan and investment portfolios, changes in accounting principles, policies or guidelines, changes in our ability to access external financing and other economic and governmental factors affecting our operations. Some of these and other factors are discussed in our annual and quarterly reports previously filed with the Securities and Exchange Commission ("SEC"). Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

The information in this section should be read with our consolidated financial statements and related notes and the information contained elsewhere in this Form 10-K, including that set forth under Item 1A, Risk Factors.

PART I

Item 1. Business.

General

National Rural Utilities Cooperative Finance Corporation (referred to as "National Rural," "we," "our," or "us") is a private, cooperative association incorporated under the laws of the District of Columbia in April 1969. Our principal purpose is to provide our members with financing to supplement the loan programs of the Rural Utilities Service ("RUS") of the United States Department of Agriculture. We make loans to our rural utility system members ("utility members") so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. We also provide our members with credit enhancements in the form of letters of credit and guarantees of debt obligations. We are exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. National Rural's objective is not to maximize net income, but to offer our members low cost financial products and services consistent with sound financial management.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are available, free of charge, at www.nrucfc.coop (select "Investors," then "Financial Reports") as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. They are also available free of charge on the SEC's website at www.sec.gov. Information posted on our website is not incorporated by reference into this Form 10-K.

For financial statement purposes, National Rural's results of operations and financial condition are consolidated with and include Rural Telephone Finance Cooperative ("RTFC") and National Cooperative Services Corporation ("NCSC"). Unless stated otherwise, references to "we," "our," or "us" relate to the consolidation of National Rural, RTFC, NCSC and certain entities created and controlled by National Rural to hold foreclosed assets and accommodate loan securitization transactions. The operations for National Rural, RTFC and NCSC are reported as separate

segments. See Note 17 to the consolidated financial statements for further information on our segment reporting.

RTFC is a private cooperative association originally incorporated in South Dakota in 1987 and reincorporated in the District of Columbia in 2005. RTFC's principal purpose is to provide and arrange financing for its rural telecommunications members and their affiliates. National Rural is the sole lender to and manages the lending activities and business affairs of RTFC through a long-term management agreement. Under a guarantee agreement, RTFC pays National Rural a fee and in exchange National Rural reimburses RTFC for loan losses. RTFC is headquartered with National Rural 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.

NCSC was incorporated in 1981 in the District of Columbia as a private cooperative association. The principal purpose of NCSC is to provide financing to the for-profit and non-profit entities that are owned, operated or controlled by, or provide substantial benefit to, members of National Rural. NCSC's membership consists of National Rural and distribution systems that are members of National Rural or are eligible for such membership. National Rural is the primary source of funding to and manages the lending activities and business affairs of NCSC through a management agreement which is automatically

renewable on an annual basis unless terminated by either party. Under a guarantee agreement, NCSC pays National Rural a fee and in exchange National Rural reimburses NCSC for loan losses. NCSC is headquartered with National Rural in Herndon, Virginia. NCSC is a taxable corporation.

Members

Our consolidated membership totaling 1,522 members at May 31, 2009 is made up of:

- 829 distribution systems and 68 generation and transmission ("power supply") systems, totaling 897 utility members, the majority of which are consumer-owned electric cooperatives;
 - 498 telecommunications members;
 - 66 service members; and
 - 61 associates.

Each member (other than associates) is entitled to one vote. Our members are located in 49 states, the District of Columbia and two U.S. territories. Memberships between National Rural, RTFC and NCSC have been eliminated in consolidation.

We currently have four classes of electric members:

- Class A - cooperative or not-for-profit distribution systems that receive or are eligible to receive loans or other assistance from RUS;
 - Class B - cooperative or not-for-profit power supply systems;
- Class C - statewide and regional associations wholly-owned or controlled by Class A or Class B members; and
 - Class D - national associations of cooperatives.

In addition to members, associates are not-for-profit entities organized on a cooperative basis which are owned, controlled or operated by Class A, B or C members and which provide non-electric services primarily for the benefit of consumers. Associates are not entitled to vote at any meeting of the members and are not eligible to be represented on our board of directors. All references to members within this document include members and associates.

Membership in RTFC is limited to commercial (for-profit) or cooperative (not-for-profit) telecommunications systems that receive or are eligible to receive loans or other assistance from RUS, and that are engaged (or plan to be engaged) in providing telecommunications services to their users.

Membership in NCSC is limited to National Rural and organizations that are Class A members of National Rural or are eligible to be Class A members of National Rural.

In many cases, the residential and commercial customers of our electric members are also the customers of RTFC's telecommunications members, as the service territories of the electric and telecommunications members overlap in many of the rural areas of the United States.

The table below shows the total number of National Rural, RTFC and NCSC members by state or U.S. territory, the percentage of total loans, and the percentage of total loans and guarantees outstanding at May 31, 2009.

State/Territory	Number of Members	Loan %	Loan and Guarantee %	State/Territory	Number of Members	Loan %	Loan and Guarantee %
Alabama	30	2.13%	2.93%	Missouri	64	3.94%	4.03%
Alaska	30	1.69	1.61	Montana	39	0.64	0.66
American Samoa	1	-	-	Nebraska	40	0.07	0.06
Arizona	26	1.22	1.29	Nevada	7	0.85	0.97
Arkansas	30	3.05	2.90	New Hampshire	4	0.66	0.73
California	10	0.18	0.20	New Jersey	1	0.09	0.09
Colorado	39	4.68	4.65	New Mexico	25	0.16	0.16
Connecticut	1	0.99	0.93	New York	20	0.07	0.07
Delaware	1	0.18	0.17	North Carolina	40	2.32	2.67
District of Columbia	4	0.05	0.12	North Dakota	32	0.34	0.35
Florida	19	3.23	3.05	Ohio	42	2.20	2.10
Georgia	67	7.85	7.49	Oklahoma	49	2.48	2.33
Guam	1	-	-	Oregon	39	1.50	1.55
Hawaii	1	0.03	0.04	Pennsylvania	23	1.86	1.84
Idaho	17	0.78	0.75	South Carolina	38	2.30	2.16
Illinois	52	3.28	3.47	South Dakota	46	0.71	0.66
Indiana	53	4.16	3.91	Tennessee	29	0.38	0.38
Iowa	118	2.45	2.33	Texas	107	16.51	16.53
Kansas	49	3.97	3.93	Utah	11	2.78	2.65
Kentucky	33	2.34	2.63	Vermont	7	0.39	0.37
Louisiana	17	1.92	1.81	Virgin Islands	-	2.59	2.44
Maine	5	0.02	0.02	Virginia	27	1.00	0.95
Maryland	2	1.07	1.25	Washington	19	0.80	0.84
Massachusetts	1	-	-	West Virginia	4	0.01	0.01
Michigan	27	1.38	1.33	Wisconsin	60	2.08	1.95
Minnesota	73	3.93	3.70	Wyoming	15	0.60	0.59
Mississippi	27	2.09	2.35	Total	1,522	100.00%	100.00%

Distribution Systems

Distribution systems are utilities engaged in retail sales of electricity to consumers in their defined service areas on an exclusive basis. Most distribution systems have all-requirements power purchase contracts with their power supply systems, which are owned and controlled by the member distribution systems. Wholesale power for resale also comes from other sources, including power supply contracts with government agencies, investor-owned utilities and other entities, and in rare cases, the distribution systems own generating facilities.

Wholesale power supply contracts ordinarily do not guarantee an uninterrupted supply nor a constant cost of power. Contracts with RUS-financed power supply systems (which generally require the distribution system to purchase all its power requirements from the power supply system) provide for rate increases to pass along increases in sellers' costs. The wholesale power contracts permit the power supply system, subject to approval by RUS and, in certain circumstances, regulatory agencies, to establish rates to its members so as to produce revenues sufficient, with

revenues from all other sources, to meet the costs of operation and maintenance (including replacements, insurance, taxes and administrative and general overhead expenses) of all generating, transmission and related facilities, to pay the cost of any power and energy purchased for resale, to pay the costs of generation and transmission, to make all payments on account of all indebtedness and lease obligations of the power supply system and to provide for the establishment and maintenance of reasonable reserves. The board of directors of the power supply system typically review the rates under the wholesale power contracts at least annually.

Power contracts with investor-owned utilities and power supply systems which do not borrow from RUS generally have rates subject to regulation by the Federal Energy Regulatory Commission ("FERC"). Contracts with federal agencies generally permit rate changes by the selling agency (subject, in some cases, to federal regulatory approval).

Power Supply Systems

Power supply systems are utilities that purchase or generate electric power and provide it on a wholesale basis to distribution systems for delivery to the consumer. Of the 61 operating power supply systems that have financing commitments from us at December 31, 2008 (the most recent year for which data is available as of the date of filing this Form 10-K), 35 had generating capacity of at least 100 megawatts, 7 had less than 100 megawatts of generating capacity and 19 had no generating capacity. The systems with no generating capacity generally operated transmission lines to supply certain distribution systems or managed power supply purchase arrangements for the benefit of their distribution system members. Certain other power supply systems have been formed but do not yet own generating or transmission facilities or have financing commitments from us.

Service Organizations and Associate Systems

Service organizations include National Rural Electric Cooperative Association ("NRECA"), statewide and regional cooperative associations. NRECA represents cooperatives nationally.

Associates include organizations that are owned, controlled or operated by Class A, B or C members and that provide non-electric services primarily for the benefit of consumers.

Telecommunications Systems

Telecommunications systems include not-for-profit cooperative organizations and for-profit commercial organizations that primarily provide local exchange and access telecommunications services to rural areas.

Independent rural telecommunications companies provide service throughout many of the rural areas of the United States. These approximately 1,300 companies are called independent because they are not affiliated with Verizon, AT&T or Qwest. Included in the 1,300 total are approximately 250 not-for-profit cooperative telecommunications companies. A majority of the remainder of these independent rural telecommunications companies are family-owned or privately-held commercial companies. Less than 20 of these commercial companies are publicly traded or have issued bonds in the capital markets.

Rural telecommunications companies, including all local exchange carriers ("LECs") other than Verizon, AT&T, Qwest, Cincinnati Bell and Embarq (formerly Sprint's local exchange properties) comprise less than 15% of a local exchange telecommunications industry that provides service to over 163 million access lines. These rural companies range in size from fewer than 100 customers to more than three million. Rural telecommunications companies' annual operating revenues range from less than \$100,000 to over \$2 billion. In addition to basic local exchange and access telecommunications service, most independents offer other communications services including wireless telephone, cable television and internet access. Most rural telecommunications companies' networks incorporate digital switching, fiber optics, internet protocol telephony and other advanced technologies.

Loan Programs

The table below shows the weighted-average loans outstanding to borrowers and the weighted-average interest rates thereon by loan type and by segment during fiscal years ended May 31:

	2009		2008	
	Weighted- average loans outstanding	Weighted- average interest rate	Weighted- average loans outstanding	Weighted- average interest rate
(dollar amounts in thousands)				
Total by loan type: (1)				
Long-term fixed-rate loans	\$14,710,754	5.93%	\$14,573,227	5.90%
Long-term variable-rate loans	1,654,355	5.34	1,170,017	6.94
Loans guaranteed by RUS	246,789	5.09	252,788	5.49
Short-term loans	2,034,736	4.05	1,310,313	5.89
Non-performing loans	495,014	-	504,310	0.01
Restructured loans	556,892	0.63	589,662	0.64
Total loans	\$19,698,540	5.38	\$18,400,317	5.63
Total by segment:				
National Rural	\$17,579,888	5.43%	\$16,167,441	5.67%

RTFC	1,693,123	4.50	1,791,100	4.96
NCSC	425,529	6.59	441,776	7.10
Total	\$19,698,540	5.38	\$18,400,317	5.63

(1) Loans are classified as long-term or short-term based on their original maturity.

Total loans outstanding by state or U.S. territory based on the location of the system's headquarters are summarized below at May 31:

(dollar amounts in thousands)

State/Territory	2009	2008	2007	State/Territory	2009	2008	2007
Alabama	\$ 430,065	\$ 414,961	\$ 347,723	Montana	\$ 128,563	\$ 133,655	\$ 132,603
Alaska	340,861	371,768	335,352	Nebraska	13,844	18,756	16,447
American Samoa	489	769	769	Nevada	171,754	155,625	147,401
Arizona	246,171	206,558	178,659	New Hampshire	132,741	143,417	149,496
Arkansas	615,429	522,018	518,273	New Jersey	18,806	17,747	18,217
California	37,270	25,968	27,283	New Mexico	32,254	36,636	32,344
Colorado	944,938	942,179	922,558	New York	14,523	19,735	19,844
Connecticut	200,000	200,000	200,000	North Carolina	468,240	487,249	519,214
Delaware	36,253	37,950	39,582	North Dakota	68,758	69,120	77,072
District of Columbia	9,298	9,514	9,717	Ohio	444,565	455,491	390,350
Florida	651,564	677,365	617,010	Oklahoma	500,189	483,623	480,536
Georgia	1,584,178	1,567,108	1,566,308	Oregon	303,926	303,166	305,506
Hawaii	6,443	6,804	7,157	Pennsylvania	375,549	357,337	376,193
Idaho	158,013	157,703	168,253	South Carolina	464,125	484,733	476,139
Illinois	661,632	600,571	543,389	South Dakota	142,582	147,916	161,247
Indiana	839,473	530,008	481,243	Tennessee	76,553	107,575	96,073
Iowa	493,722	465,056	482,513	Texas	3,332,283	3,044,117	2,618,010
Kansas	801,389	878,630	849,864	Utah	561,050	570,971	565,768
Kentucky	472,693	363,720	355,503	Vermont	79,131	74,957	75,905
Louisiana	388,490	333,984	320,765	Virgin Islands	523,758	491,706	492,795
Maine	4,093	4,566	9,884	Virginia	201,798	235,916	184,986
Maryland	216,468	224,754	206,491	Washington	161,099	122,674	110,907
Michigan	279,490	265,116	271,541	West Virginia	2,341	6,109	5,355
Minnesota	792,863	655,576	731,883	Wisconsin	418,898	384,748	369,427
Mississippi	422,625	395,423	366,989	Wyoming	121,011	133,087	117,374
Missouri	795,956	682,860	630,289	Total	\$ 20,188,207	\$ 19,026,995	\$ 18,128,207

Our loan portfolio is widely dispersed throughout the United States and its territories, including 49 states, the District of Columbia, American Samoa and the U.S. Virgin Islands. At May 31, 2009, 2008 and 2007, loans outstanding to borrowers located in any one state or territory did not exceed 17 percent, 16 percent and 15 percent, respectively, of total loans outstanding.

Interest Rates on Loans

As a cooperatively-owned finance company, we set rates that provide our members with low cost financing while maintaining investment grade credit ratings on our debt instruments. Our interest rates are set primarily based on our cost of funding, as well as applicable discounts, general and administrative expenses, the loan loss provision and a

reasonable level of earnings. Various discounts reduce the stated interest rates for borrowers meeting certain criteria related to business type, performance, volume and whether they only borrow from us.

National Rural Loan Programs

Long-Term Loans

National Rural's long-term loans generally have the following characteristics:

- terms of up to 35 years on a senior secured basis;
- either amortizing or bullet loans with serial payment structures;
- used to finance electric plant and equipment which typically have a useful life equal to or in excess of the loan maturity;
 - borrower can select a fixed interest rate for periods of one to 35 years or a variable rate; and
 - may be divided into various tranches with either a fixed or variable interest rate for each tranche.

When a selected fixed interest rate term expires, the borrower may select another fixed-rate term or the variable rate. We set electric long-term fixed rates daily and the long-term variable rate is set on the first business day of each month. The fixed rate on a loan is determined on the day the loan is advanced or repriced based on the term selected.

In addition to our customary loan standards, to be eligible for long-term loan advances, distribution systems generally must maintain an average modified debt service coverage ratio ("MDSC"), as defined in the loan agreement, of 1.35 or greater. Similarly, power supply systems generally must maintain an average times interest earned ratio ("TIER") and MDSC, as defined in the loan agreement, of 1.0 or greater. We may make long-term loans to distribution and power supply systems that do not meet these criteria as these are only general guidelines.

Short-Term Loans

Our line of credit loans are generally advanced at variable interest rates. These variable interest rates may be set on the first business day of each month or mid-month. The principal amount of line of credit loans with maturities of greater than one year generally must be paid down to a zero outstanding principal balance for five consecutive days during each 12-month period.

Interim financing line of credit loans are also made available to our members that have a loan application pending with RUS and have received approval from RUS to obtain interim financing. Advances under these interim facilities must be repaid with advances from RUS long-term loans.

RTFC Loan Programs

The RTFC loan portfolio is concentrated in the core rural local exchange carrier ("RLEC") segment of the telecommunications market. Most of these RLECs have evolved from solely being voice service providers to being providers of voice, data and, often times, video and wireless services. RLECs are generally characterized by the low population density of their service territories. Services are generally delivered over networks that include fiber optic cable and digital switching. There is generally a significant barrier to competitive entry.

The businesses to which the remaining RTFC loans have been made support the operations of the RLECs and are owned, operated or controlled by RLECs. Many such loans are supported by payment guarantees from the sponsoring RLECs.

Long-Term Loans

RTFC makes long-term loans to rural telecommunications companies and their affiliates for the acquisition, construction or upgrade of wireline telecommunications systems, wireless telecommunications systems, fiber optic networks, cable television systems and other corporate purposes. RTFC's long-term loans generally have the following characteristics:

- terms not exceeding 10 years on a senior secured basis;
- borrower can select a fixed interest rate for periods from one year to the final loan maturity or a variable interest rate;
- may be divided into various tranches with either a fixed or variable interest rate for each tranche.

When a selected fixed interest rate term expires, the borrower may select another fixed-rate term or a variable rate. We set

long-term fixed rates for telecommunications loans daily and the long-term variable rate is set on the first business day of each month. The fixed rate on a loan is determined on the day the loan is advanced or converted to a fixed rate based on the term selected.

To borrow from RTFC, a wireline telecommunications system generally must be able to demonstrate the ability to achieve and maintain an annual debt service coverage ratio ("DSC") and an annual TIER of 1.25 and 1.50, respectively. To borrow from RTFC, a cable television system, fiber optic network or wireless telecommunications system generally must be able to demonstrate the ability to achieve and maintain an annual DSC of 1.25.

Short-Term Loans

RTFC provides line of credit loans to telecommunications systems for periods generally not to exceed five years. These line of credit loans are typically revolving facilities and generally require the borrower to pay off the principal balance for five consecutive business days at least once during each 12-month period. These line of credit loans may be provided on a secured or unsecured basis and are designed primarily to assist borrowers with liquidity and cash management.

Interim financing line of credit loans are also made available to telecommunications systems that have a loan application pending with RUS and have received approval from RUS to obtain interim financing. These loans are for

terms up to 24 months and the borrower must repay the RTFC loan with advances from the RUS long-term loans.

NCSC Loan Programs

NCSC makes long-term and short-term loans to rural utility members and organizations affiliated with its members. Loans may be secured or unsecured. The loans to the affiliated organizations may have a guarantee of repayment to NCSC from the National Rural member cooperative with which it is affiliated.

Lease and General Loan Program

NCSC has, in the past, provided financing for the purchase of utility plant and/or related equipment, in some cases by a third party in a sale/leaseback transaction. Collateral for these loans consists of a senior secured mortgage on the leased utility asset, utility plant and/or related utility equipment. NCSC is not a party to these lease agreements. NCSC no longer provides new financing of this type.

Associate Member Loan Program

NCSC provides financing to for-profit or not-for-profit affiliated entities of member cooperatives for economic and community development purposes. Collateral for these loans generally consists of a first mortgage lien on the assets of the associate member and/or project. These loans are also generally guaranteed by the sponsoring cooperative.

RUS Guaranteed Loans for Rural Electric Systems

At May 31, 2009 and 2008, we had \$244 million and \$250 million, respectively, of loans outstanding on which RUS had guaranteed the repayment of all principal and interest. There are two programs under which these loans were advanced. We have been an eligible lender in the RUS loan guarantee program under the terms and conditions of a master loan guarantee and servicing agreement between RUS and National Rural since February 1999. Under this agreement, we may make long-term secured loans to eligible members for periods of up to 35 years, at fixed or variable rates established. RUS guarantees the full amount of principal and interest payments on the notes evidencing such loans. At May 31, 2009 and 2008, we had a total of \$211 million and \$215 million, respectively, under this program. In addition, at May 31, 2009 and 2008, we held certificates totaling \$33 million and \$35 million which represent interests in trusts that hold RUS guaranteed loans. These certificates were the result of a program in which RUS previously allowed certain qualifying cooperatives to repay loans held by the Federal Financing Bank ("FFB") early, and allowed the transfer of the guarantee to a new lender.

Conversion of Loans

A borrower may convert a long-term loan from a variable interest rate to a fixed interest rate at any time without a fee. Such conversion will be effective on the first day of the following month. Generally, in exchange for a fee, a borrower may convert its long-term loan from a fixed rate to another fixed rate or to a variable rate at any time. The fee on the conversion of a fixed interest rate to a variable interest rate is 25 basis points plus a make-whole premium, if applicable, per current loan policies.

Prepayment of Loans

Generally, borrowers may prepay long-term loans at any time, subject to a prepayment fee of 33 to 50 basis points and a make-whole premium, if applicable. Variable-rate line of credit loans may be repaid at any time without a premium.

Loan Security

Except when providing short-term loans, we typically lend to our members on a senior secured basis. Long-term loans are typically secured on parity with other secured lenders (primarily RUS), if any, by all assets and revenues of the borrower with exceptions typical in utility mortgages. Short-term loans are generally unsecured lines of credit.

The following tables summarize our secured and unsecured loans outstanding by loan type and by segment at May 31:

(dollar amounts in thousands)	2009				2008			
	Secured	%	Unsecured	%	Secured	%	Unsecured	%
Total by loan type:								
Long-term fixed-rate loans	\$ 14,044,469	96	\$ 557,896	4	\$ 14,732,058	97	\$ 472,556	3%
Long-term variable-rate loans	2,835,451	87	408,265	13	1,728,803	92	153,292	8
Loans guaranteed by RUS	243,997	100	-	-	250,169	100	-	-
Short-term loans	233,179	11	1,864,950	89	165,226	10	1,524,891	90
Total loans	\$ 17,357,096	86	\$ 2,831,111	14	\$ 16,876,256	89	\$ 2,150,739	11

Total by segment:

National Rural	\$ 15,562,761	86 %	\$ 2,528,572	14%	\$ 15,021,067	89%	\$ 1,865,340	11%
RTFC	1,443,395	86	236,759	14	1,497,487	87	229,027	13
NCSC	350,940	84	65,780	16	357,702	86	56,372	14
Total loans	\$ 17,357,096	86	\$ 2,831,111	14	\$ 16,876,256	89	\$ 2,150,739	11

Guarantee Programs

We use the same credit policies and monitoring procedures for guarantees as for loans and commitments. The following table provides a breakout of guarantees outstanding by type and segment at May 31:

(dollar amounts in thousands)	2009	2008
Long-term tax-exempt bonds	\$ 644,540	\$ 498,495
Indemnifications of tax benefit transfers	81,574	94,821
Letters of credit	450,659	343,424
Other guarantees	98,682	100,400
Total	\$ 1,275,455	\$ 1,037,140

(dollar amounts in thousands)

National Rural:	2009		2008	
Distribution	\$ 264,084	21%	\$ 184,459	18%
Power supply	945,624	74	786,455	76
Statewide and associate	23,625	2	22,785	2
National Rural Total	1,233,333	97	993,699	96
RTFC	500	-	260	-
NCSC	41,622	3	43,181	4
Total	\$1,275,455	100%	\$1,037,140	100%

Guarantees of Long-Term Tax-Exempt Bonds

We guarantee debt issued for our members' construction or acquisition of pollution control, solid waste disposal, industrial development and electric distribution facilities. Governmental authorities issue such debt and the interest thereon is exempt from federal taxation. The proceeds of the offering are made available to the member system, which in turn is obligated to pay the governmental authority amounts sufficient to service the debt. The debt, which we guarantee, may include short- and long-term obligations.

If a system defaults because it doesn't make the debt payments, we are obligated to pay, after available debt service reserve funds have been exhausted, scheduled debt service under our guarantee. The bond issue may not be accelerated because of non-payment by the system as long as we perform under our guarantee. The system is required to repay, on demand, any amount that we advance pursuant to our guarantee. This repayment obligation is secured on parity with other lenders (including, in most cases, RUS), by a lien on substantially all of the system's assets. If the security instrument is a common mortgage with RUS, then in general, we may not exercise remedies for up to two years following default. However, if the debt is accelerated under the common mortgage because of a determination that the related interest is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan. The system is required to pay us initial and/or on-going guarantee fees in connection with these transactions.

Certain guaranteed long-term debt bears interest at variable rates which are adjusted at intervals of one to 270 days, weekly, each five weeks or semi-annually to a level favorable to their resale or auction at par. If funding sources are available, the member who issued the debt may choose a fixed interest rate on the debt. When the variable rate is reset, holders of variable-rate debt have the right to tender the debt for purchase at par. We have committed to purchase this debt as liquidity provider if it cannot otherwise be remarketed. If we hold the securities, the cooperative pays interest to us at our short-term variable rate. At May 31, 2009, we were the guarantor and liquidity provider for \$643 million of tax-exempt bonds issued for our member cooperatives. During the year ended May 31, 2009, we purchased \$72 million of these securities pursuant to our obligation as the liquidity provider. At May 31, 2009, all tax-exempt bonds we held had been redeemed or repurchased by third-party investors with no gain or loss on the transactions.

Guarantees of Tax Benefit Transfers

We have also guaranteed members' obligations to indemnify against loss of tax benefits in certain tax benefit transfers that occurred in 1981 and 1982. A member's obligation to reimburse us for any guarantee payments would be treated as a long-term loan, secured proportionally with RUS by a first lien on substantially all the member's property to the extent of any cash received by the member at the outset of the transaction. The remainder would be treated as a short-term loan secured by a subordinated mortgage on substantially all of the member's property. Due to changes in federal tax law, no guarantees of this nature have been put in place since 1982. The maturities for this type of guarantee run through 2015.

Letters of Credit

In exchange for a fee, we issue irrevocable letters of credit to support members' obligations to energy marketers, other third parties and to the Rural Business and Cooperative Development Service. Letters of credit may be on a secured or unsecured basis. Each letter of credit is supported by a reimbursement agreement with the member on whose behalf the letter of credit was issued. In the event a beneficiary draws on a letter of credit, the agreement generally requires the member to reimburse us within one year from the date of the draw, with interest accruing from that date at our short-term variable interest rate.

Other Guarantees

We may provide other guarantees as requested by our members. These guarantees may be made on a secured or unsecured basis with guarantee fees set to cover our general and administrative expenses, a provision for losses and a reasonable margin.

Total guarantees outstanding by state and territory based on the location of the system's headquarters, is summarized as follows at May 31:

(dollar amounts in thousands)

State/Territory	2009	2008	2007	State/Territory	2009	2008	2007
Alabama	\$ 198,506	\$ 72,070	\$ 72,348	Missouri	\$ 68,363	\$ 75,102	\$ 85,268
Alaska	3,860	1,900	1,900	Montana	12,772	9,056	9,029
Arizona	29,869	33,745	38,301	Nebraska	7	4	6
Arkansas	6,166	8,008	12,027	Nevada	37,452	5,400	5,400
	6,247			New Hampshire	24,763		
California		6,110	1,010	New Mexico		32,767	34,550
Colorado	52,690	53,467	54,236	New York	1,036	1,048	1,020
Delaware	8	-	-	North Carolina	113	-	-
District of Columbia				North Dakota	105,905		
Florida	16,000	17,448	20,998	Ohio		99,729	100,630
Georgia	2,851	3,725	4,623	Oklahoma	5,825	6,474	7,115
Hawaii	23,718	26,775	26,027		7,000	8,000	5,500
	1,300				764		