NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-Q
April 12, 2013

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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 February 28, 2013

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)

20701 COOPERATIVE WAY, DULLES, VA 20166
(Address of principal executive offices)
(Registrant's telephone number, including area code, is 703-467-1800)

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 x 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 does not issue capital stock because it is a tax-exempt cooperative.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands)

A S S E T S

	February 28, 2013	May 31, 2012
Cash and cash equivalents	$ 789,227	$ 191,167
Restricted cash	7,219	7,694
Investments	481,875	59,045
Loans to members	19,486,148	18,919,612
Less: Allowance for loan losses	(148,411)	(143,326)
Loans to members, net	19,337,737	18,776,286
Accrued interest and other receivables	162,288	185,827
Fixed assets, net	103,434	102,770
Debt service reserve funds	39,803	39,803
Debt issuance costs, net	39,709	43,515
Foreclosed assets, net	257,368	223,476
Derivative assets	251,534	296,036
Other assets	28,007	25,716
	$ 21,498,201	$ 19,951,335

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED 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

	February 28, 2013	May 31, 2012
Short-term debt	$ 6,951,311	$ 4,493,434
Accrued interest payable	212,505	161,817
Long-term debt	11,125,319	12,151,967
Deferred income	26,797	26,131
Other liabilities	80,237	63,922
Derivative liabilities	547,894	654,125
Subordinated deferrable debt	186,440	186,440
Members' subordinated certificates:		
Membership subordinated certificates	644,650	646,279
Loan and guarantee subordinated certificates	718,363	678,115
Member capital securities	387,650	398,350
Total members' subordinated certificates	1,750,663	1,722,744
Commitments and contingencies		
CFC equity:		
Retained equity	598,225	473,964
Accumulated other comprehensive income	8,867	9,199
Total CFC equity	607,092	483,163
Noncontrolling interest	9,943	7,592
Total equity	617,035	490,755
	$ 21,498,201	$ 19,951,335

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands)

	For the three months ended		For the nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Interest income	$ 234,021	$ 238,018	$ 715,736	$ 723,023
Interest expense	(171,899)	(190,294)	(522,796)	(587,018)
Net interest income	62,122	47,724	192,940	136,005
Recovery of (provision for) loan losses	378	(263)	(4,927)	11,862
Net interest income after recovery of (provision for) loan losses	62,500	47,461	188,013	147,867
Non-interest income:				
Fee and other income	6,337	4,716	29,102	13,425
Derivative gains (losses)	46,626	(25,563)	18,268	(184,887)
Results of operations of foreclosed assets	6,478	(45,569)	804	(62,035)
Total non-interest income	59,441	(66,416)	48,174	(233,497)
Non-interest expense:				
Salaries and employee benefits	(23,627)	(10,959)	(44,180)	(31,191)
Other general and administrative expenses	(6,652)	(5,635)	(22,720)	(18,484)
Recovery of (provision for) guarantee liability	46	(1,576)	147	(1,504)
Loss on early extinguishment of debt	-	-	-	(15,525)
Other	(554)	(176)	(5,101)	(991)
Total non-interest expense	(30,787)	(18,346)	(71,854)	(67,695)
Income (loss) prior to income taxes	91,154	(37,301)	164,333	(153,325)
Income tax (expense) benefit	(1,067)	2	(1,519)	2,110
Net income (loss)	90,087	(37,299)	162,814	(151,215)
	(1,664)	56	(2,368)	3,179

Less: Net (income) loss attributable to the noncontrolling interest				
Net income (loss) attributable to CFC	$ 88,423	$ (37,243)	$ 160,446	$ (148,036)

See accompanying notes.

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	For the three months ended		For the nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net income (loss)	$ 90,087	$ (37,299)	$ 162,814	$ (151,215)
Other comprehensive income (loss):				
Add: Unrealized (losses) gains on securities	(479)	219	408	120
Less: Realized gains on derivatives	(251)	(257)	(756)	(775)
Other comprehensive loss	(730)	(38)	(348)	(655)
Total comprehensive income (loss)	89,357	(37,337)	162,466	(151,870)
Less: Total comprehensive (income) loss attributable to noncontrolling interest	(1,659)	62	(2,352)	3,198
Total comprehensive income (loss) attributable to CFC	$ 87,698	$ (37,275)	$ 160,114	$ (148,672)

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
(in thousands)

For the nine months ended February 28, 2013 and February 29, 2012

	Total	Noncontrolling interest	Total CFC equity	Accumulated other comprehensive income	CFC retained equity	Unallocated net income (loss)	Members' capital reserve	Patronage capital allocated	Me f ec
Balance as of May 31, 2012	$ 490,755	$ 7,592	$ 483,163	$ 9,199	$ 473,964	$ (346,941)	$ 272,126	$ 546,366	
Patronage capital retirement	(35,646)	-	(35,646)	-	(35,646)	429	-	(36,075)	
Net income	162,814	2,368	160,446	-	160,446	160,446	-	-	
Other comprehensive loss	(348)	(16)	(332)	(332)	-	-	-	-	
Other	(540)	(1)	(539)	-	(539)	-	-	-	
Balance as of February 28, 2013	$ 617,035	$ 9,943	$ 607,092	$ 8,867	$ 598,225	$ (186,066)	$ 272,126	$ 510,291	
Balance as of May 31, 2011	$ 687,309	$ 11,786	$ 675,523	$ 9,758	$ 665,765	$ (130,689)	$ 272,126	$ 521,897	
Patronage capital retirement	(46,265)	(44)	(46,221)	-	(46,221)	-	-	(46,221)	
Net loss	(151,215)	(3,179)	(148,036)	-	(148,036)	(148,036)	-	-	
Other comprehensive loss	(655)	(19)	(636)	(636)	-	-	-	-	
Other	(517)	(5)	(512)	-	(512)	-	-	-	
Balance as of February 29, 2012	$ 488,657	$ 8,539	$ 480,118	$ 9,122	$ 470,996	$ (278,725)	$ 272,126	$ 475,676	

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

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

	For the nine months ended February 28, 2013	February 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 162,814	$ (151,215)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of deferred income	(6,879)	(8,026)
Amortization of debt issuance costs and deferred charges	5,733	8,590
Amortization of discount on long-term debt	2,953	-
Amortization of issuance costs for revolving bank lines of credit	2,159	-
Depreciation	3,984	2,982
Provision for (recovery of) loan losses	4,927	(11,862)
Recovery of guarantee liability	(147)	1,504
Results of operations of foreclosed assets	(804)	62,035
Derivative forward value	(62,194)	184,604
Changes in operating assets and liabilities:		
Accrued interest and other receivables	27,948	1,760
Accrued interest payable	50,688	79,050
Other	13,118	29,509
Net cash provided by operating activities	204,300	198,931
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances made on loans	(6,021,056)	(4,747,221)
Principal collected on loans	5,455,065	5,457,983
Net investment in fixed assets	(4,648)	(14,618)
Proceeds from foreclosed assets	46,284	33,387
Investments in foreclosed assets	(79,372)	(37,794)
Investments in time deposits	(450,000)	-
Proceeds from early redemption of investments	57,578	-
Investments in equity securities	(30,000)	-
Change in restricted cash	475	(1,075,776)
Net cash used in investing activities	(1,025,674)	(384,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuances of short-term debt, net	686,383	253,845
	370,949	312,088

Proceeds from issuances of short term debt with original maturity greater than 90 days		
Repayments of short term debt with original maturity greater than 90 days	(394,366)	(485,810)
Issuance costs for revolving bank lines of credit	(50)	(3,626)
Proceeds from issuance of long-term debt	1,945,944	1,461,604
Payments for retirement of long-term debt	(1,062,956)	(1,169,170)
Proceeds from issuance of members' subordinated certificates	57,166	28,521
Payments for retirement of members' subordinated certificates	(15,358)	(80,162)
Payments for retirement of patronage capital	(34,872)	(44,403)
Cash portion of debt exchange premium	(133,406)	-
Net cash provided by financing activities	1,419,434	272,887
NET INCREASE IN CASH AND CASH EQUIVALENTS	598,060	87,779
BEGINNING CASH AND CASH EQUIVALENTS	191,167	293,615
ENDING CASH AND CASH EQUIVALENTS	$ 789,227	$ 381,394

See accompanying notes.

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

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

	For the nine months ended	
	February 28, 2013	February 29, 2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 461,263	$ 499,378
Cash paid for income taxes	97	210
Non-cash financing and investing activities:		
Subordinated certificates applied against loan balances	-	534
Patronage capital applied against loan balances	-	134
Noncontrolling interest patronage capital applied against loan balances	-	44
Net decrease in debt service reserve funds/debt service reserve certificates	$ -	$ (5,859)
Collateral trust bonds issued as debt exchange premium	39,647	-

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) General Information and Accounting Policies

(a) Basis of Presentation

The accompanying financial statements include the consolidated accounts of National Rural Utilities Cooperative Finance Corporation ("CFC"), Rural Telephone Finance Cooperative ("RTFC"), National Cooperative Services Corporation ("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.

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 accommodate loan securitization transactions. CFC 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. A full consolidation is presented for the entity formed for loan securitization transactions. CFC presents the companies formed to hold foreclosed assets in one line on the consolidated balance sheets and the consolidated statements of operations. Foreclosed assets are held by two groups of subsidiaries wholly-owned by CFC. Our Denton Realty Partners entities ("DRP") hold assets, including a land development loan, limited partnership interests in certain real estate developments and developed lots and land and raw land in Texas. Caribbean Asset Holdings LLC ("CAH") holds our investment in cable and telecommunications operating entities in the United States Virgin Islands ("USVI"), British Virgin Islands and St. Maarten.

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, revenue and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. The accounting estimates that require our most significant and subjective judgments include the allowance for loan losses and the determination of the fair value of our derivatives and certain aspects of our foreclosed assets. 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.

These interim unaudited condensed 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, 2012.

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

(b) Variable Interest Entities

We are required to consolidate the financial results of RTFC and NCSC because CFC is the primary beneficiary of variable interests in RTFC and NCSC due to its exposure to absorbing the majority of their expected losses and because CFC manages the business activities of RTFC and NCSC. Under separate guarantee agreements, RTFC and NCSC pay CFC a fee to indemnify against loan losses. CFC manages the business activities of RTFC and NCSC through separate management agreements. Additionally, CFC is the sole lender to RTFC and the primary source of funding to NCSC. NCSC funds its lending programs through loans from CFC and debt guaranteed by 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 February 28, 2013, CFC had guaranteed $78 million of NCSC debt, derivative instruments and guarantees with third parties, and CFC's maximum potential exposure for these instruments totaled $87 million. The maturities for NCSC obligations guaranteed by CFC run through 2031. Guarantees of NCSC debt and derivative instruments are not included in Note 10, Guarantees, as the debt and derivatives are reported on the condensed consolidated balance sheet. At February 28, 2013, CFC guaranteed $4 million of RTFC guarantees with third parties. The maturities for RTFC obligations guaranteed by CFC run through 2013. All CFC loans to RTFC and NCSC are secured by all assets and revenue of RTFC and NCSC. At February 28, 2013, RTFC had total assets of $646 million and NCSC had total assets of $751 million. At February 28, 2013, CFC had committed to lend RTFC up to $4,000 million, of which $507 million was outstanding. At February 28, 2013, CFC had committed to provide up to

$3,000 million of credit to NCSC, of which $784 million was outstanding, representing $706 million of outstanding loans and $78 million of credit enhancements.

(c) Loan Sales

We account for the sale of loans resulting from direct loan sales to third parties and securitization transactions by removing the financial assets from our condensed consolidated balance sheets when control has been surrendered. We recognize related servicing fees on an accrual basis over the period for which servicing activity is provided. Deferred transaction costs and unamortized deferred loan origination costs related to the loans sold are included in the calculation of the gain or loss on the sale. We do not hold any continuing interest in the loans sold to date other than servicing performance obligations. We have no obligation to repurchase loans from the purchaser, except in the case of breaches of representations and warranties. We retain the servicing performance obligations on these loans. We have not recorded a servicing asset or liability.

During the nine months ended February 28, 2013 and February 29, 2012, we sold CFC loans with outstanding balances totaling $121 million and $112 million, respectively, at par for cash. We recorded a loss on sale of loans, representing the unamortized deferred loan origination costs and transaction costs for the loans sold, which was immaterial during the nine months ended February 28, 2013 and February 29, 2012.

(d) Interest Income

Interest income on loans is recognized using the effective interest method. The following table presents the components of interest income:

(dollar amounts in thousands)	For the three months ended February 28, 2013	For the three months ended February 29, 2012	For the nine months ended February 28, 2013	For the nine months ended February 29, 2012
Interest on long-term fixed-rate loans	$ 216,716	$ 216,948	$ 652,903	$ 662,135
Interest on long-term variable-rate loans	5,203	5,197	16,121	18,104
Interest on line of credit loans	7,961	7,243	23,066	23,607
Interest on restructured loans	436	5,761	13,523	10,537
Interest on investments	1,864	1,305	4,378	3,086
Fee income (1)	1,841	1,564	5,745	5,554
Total interest income	$ 234,021	$ 238,018	$ 715,736	$ 723,023

(1) Primarily related to conversion fees that are deferred and recognized using the effective interest method over the remaining original loan interest rate pricing term, except for a small portion of the total fee charged to cover administrative costs related to the conversion, which is recognized immediately.

Deferred income on the consolidated balance sheets primarily includes deferred conversion fees totaling $21 million and $20 million at February 28, 2013 and May 31, 2012, respectively.

(e) Interest Expense

The following table presents the components of interest expense:

(dollar amounts in thousands)	For the three months ended February 28, 2013	February 29, 2012	For the nine months ended February 28, 2013	February 29, 2012
Interest expense on debt (1):				
Commercial paper and bank bid notes	$ 1,717	$ 1,298	$ 5,033	$ 4,458
Medium-term notes	21,294	44,954	74,010	146,528
Collateral trust bonds	84,197	78,587	247,907	233,205
Subordinated deferrable debt	2,806	2,806	8,419	8,419
Subordinated certificates	20,345	20,052	61,227	58,428
Long-term notes payable	37,622	38,024	113,933	116,922
Debt issuance costs (2)	1,891	2,128	5,733	9,633
Fee expense (3)	2,027	2,445	6,534	9,425
Total interest expense	$ 171,899	$ 190,294	$ 522,796	$ 587,018

(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 underwriters' fees, legal fees, printing costs and comfort letter fees. Amortization is calculated using the effective interest method or a method approximating 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 exclude indirect costs, if any, related to funding activities from interest expense.

(f) Derivative Financial Instruments

We are an end user of financial derivative instruments. We use derivatives such as interest rate swaps and treasury rate locks to mitigate interest rate risk. Consistent with the accounting standards for derivative financial instruments, we record derivative instruments on the consolidated balance sheets as either an asset or liability measured at fair value. In recording the fair value of derivative assets and liabilities, we do not net our positions under contracts with individual counterparties. Changes in the fair value of derivative instruments along with realized gains and losses from cash settlements are recognized in the derivative gains (losses) line item of the consolidated statement of operations unless specific hedge accounting criteria are met.

We formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. If applicable hedge accounting criteria are satisfied, the change in fair value of derivative instruments is recorded to other comprehensive income, and net cash settlements are recorded in interest expense. The gain or loss on derivatives used as a cash flow hedge of a forecasted debt transaction is recorded as a component of other comprehensive income (loss) and amortized through interest expense using the effective interest method over the term of the hedged debt. Any ineffectiveness in the hedging relationship is recognized in the derivative gains (losses) line of the statement of operations.

A transition adjustment was recorded as an other comprehensive loss on June 1, 2001, the date we implemented the accounting standards for derivative financial instruments. This amount will be amortized into earnings through April 2029 in the derivative gains (losses) line of the statement of operations.

Cash activity associated with interest rate swaps is classified as an operating activity in the consolidated statements of cash flows.

(g) Early Extinguishment of Debt

We redeem outstanding debt early from time to time to manage liquidity and interest rate risk. When we redeem outstanding debt early, we recognize a gain or loss related to the difference between the amount paid to redeem the debt and the net book value of the extinguished debt as a component of non-interest expense in the gain (loss) on early extinguishment of debt line item.

(h) Reclassifications

Reclassifications of prior period amounts have been made to conform to the current reporting format and the presentation in our Form 10-Q for the three and nine months ended February 28, 2013. Specifically, the fair value adjustments on DRP foreclosed assets have been reclassified into results of operations of foreclosed assets in the condensed consolidated statement of operations for the three and nine months ended February 29, 2012. The corresponding non-cash adjustments were reclassified to the results of operations of foreclosed assets on the condensed consolidated statement of cash flows for the nine months ended February 29, 2012.

(i) Immaterial Correction of Errors

During the third quarter of fiscal year 2013, we identified two errors in the condensed consolidated statement of cash flows related to (1) the classification of advances and sale proceeds of loans sold and (2) the presentation of short-term debt with an original maturity of greater than 90 days. On January 30, 2013, we filed a Form 8-K with the SEC, which discloses the correction of the errors in our previously reported results for the three years ended May 31, 2012, the six months ended November 30, 2012 and 2011, and the three months ended August 31, 2012 and 2011. We have corrected our previously reported condensed consolidated statement of cash flows for the nine months ended February

29, 2012 herein to reflect the impact of the immaterial errors. The errors and the corrections have no effect on the change in cash, our total cash balance, liquidity, condensed consolidated balance sheet, condensed consolidated statement of operations, key ratios or covenant compliance for any period. We concluded that the errors were not material to any of the previously reported quarterly and annual periods.

The effect of recording the correction of the immaterial errors in the condensed consolidated statement of cash flows for the nine months ended February 29, 2012 is presented below:

	For the nine months ended February 29, 2012		
(dollar amounts in thousands)	As Filed	Adjustment	Corrected
Advances made on loans	$(4,859,321)	$ 112,100	$ (4,747,221)
Net proceeds from sale of loans	112,100	(112,100)	-
Proceeds from issuances of short-term debt, net	80,123	173,722	253,845
Proceeds from issuances of short term debt with original maturity greater than 90 days	-	312,088	312,088
Repayments of short term debt with original maturity greater than 90 days	-	(485,810)	(485,810)

(2) Investments

Our investments at February 28, 2013 and May 31, 2012 include Federal Agricultural Mortgage Corporation Series A preferred stock totaling $30 million and Federal Agricultural Mortgage Corporation Series C preferred stock totaling $58 million, respectively, and Federal Agricultural Mortgage Corporation Series A common stock totaling $2 million and $1 million, respectively. On January 17, 2013, the Federal Agricultural Mortgage Corporation redeemed the full amount of the Series C preferred stock we held and we purchased $30 million of Series A preferred stock at a dividend rate of 5.875 percent. The Series C preferred stock was valued at cost, while the Series A preferred stock and Series A common stock are accounted for as available-for-sale and recorded at fair value. Our investments at February 28, 2013 also include $450 million in deposits that we made with financial institutions in interest bearing accounts with maturities of less than one year at the reporting date.

(3) Loans and Commitments

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

	February 28, 2013		May 31, 2012	
(dollar amounts in thousands)	Loans outstanding	Unadvanced commitments (1)	Loans outstanding	Unadvanced commitments (1)
Total by loan type (2):				
Long-term fixed-rate loans	$ 16,981,402	$ -	$ 16,742,914	$ -
Long-term variable-rate loans	794,552	5,513,783	764,815	5,437,881
Loans guaranteed by RUS (3)	212,054	-	219,084	-
Line of credit loans	1,489,726	9,170,314	1,184,929	8,691,543
Total loans outstanding	19,477,734	14,684,097	18,911,742	14,129,424
Deferred origination costs	8,414	-	7,870	-
Less: Allowance for loan losses	(148,411)	-	(143,326)	-
Net loans outstanding	$ 19,337,737	$ 14,684,097	$ 18,776,286	$ 14,129,424
Total by member class (2):				
CFC:				
Distribution	$ 14,124,887	$ 9,398,568	$ 14,075,471	$ 9,191,227

Power supply	4,038,770	3,650,476	3,596,820	3,714,241
Statewide and associate	68,685	124,263	73,606	123,189
CFC total	18,232,342	13,173,307	17,745,897	13,028,657
RTFC	521,618	305,645	571,566	341,792
NCSC	723,774	1,205,145	594,279	758,975
Total loans outstanding	$ 19,477,734	$ 14,684,097	$ 18,911,742	$ 14,129,424

(1) The interest rate on unadvanced commitments is not set until drawn, therefore, the 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.
(2) Includes non-performing and restructured loans.
(3) "RUS" is the Rural Utilities Service.

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

(dollar amounts in thousands)	February 28, 2013 Loans outstanding	February 28, 2013 Unadvanced commitments (1)	May 31, 2012 Loans outstanding	May 31, 2012 Unadvanced commitments (1)
Non-performing and restructured loans:				
Non-performing loans:				
CFC:				
Long-term variable-rate loans	$ 8,194	$ -	$ 8,194	$ -
Line of credit loans (2)	27,164	2,472	26,049	-
RTFC:				
Long-term fixed-rate loans	6,456	-	6,970	-
Total non-performing loans	$ 41,814	$ 2,472	$ 41,213	$ -
Restructured loans:				
CFC:				
Long-term fixed-rate loans	$ 39,544	$ -	$ 455,689	$ -
Long-term variable-rate loans (3)	-	-	-	45,918
Line of credit loans (3)	-	5,000	-	5,000
Total restructured loans	$ 39,544	$ 5,000	$ 455,689	$ 50,918

(1) The interest rate on unadvanced commitments is not set until drawn, therefore, the 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.
(2) The unadvanced commitment is available under a debtor-in-possession facility for which the principal and interest has priority over all other claims.
(3) The unadvanced commitment is part of the terms outlined in the related restructure agreement. Loans advanced under these commitments would be classified as performing. Principal and interest due under these performing loans would be in addition to scheduled payments due under the restructured loan agreement.

Unadvanced Loan Commitments

A total of $1,544 million and $1,303 million of unadvanced commitments at February 28, 2013 and May 31, 2012, respectively, represented unadvanced commitments related to committed lines of credit loans that are not subject to a material adverse change clause at the time of each loan advance. As such, we will be required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the facility.

The following table summarizes the available balance under committed lines of credit at February 28, 2013, and the related maturities by fiscal year and thereafter as follows:

(dollar amounts in thousands)	Available balance	Notional maturities of committed lines of credit 2013	2014	2015	2016	2017	Thereafter
Committed lines of credit	$1,543,656	$ -	$ 280,461	$ 135,354	$ 273,487	$ 448,751	$ 405,603

The remaining unadvanced commitments totaling $13,140 million and $12,826 million at February 28, 2013 and May 31, 2012, respectively, were generally subject to material adverse change clauses. Prior to making an advance on these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by the imposition of borrower-specific restrictions, or by additional conditions that must be met prior to advancing funds.

Unadvanced commitments related to line of credit loans are typically for periods not to exceed five years and are generally revolving facilities used for working capital and backup liquidity purposes. Historically, we have experienced a very low utilization rate on line of credit loan facilities, whether or not there is a material adverse change clause. Since we generally do not charge a fee on the unadvanced portion of the majority of our loan facilities, our borrowers will typically request long-term facilities to cover maintenance and capital expenditure work plans for periods of up to five years and draw down on the facility over that time. In addition, borrowers will typically request an amount in excess of their immediate estimated loan requirements to avoid the expense related to seeking additional loan funding for unexpected items.

The above items all contribute to our expectation that the majority of the unadvanced commitments will expire without being fully drawn upon and that the total unadvanced amount does not necessarily represent future cash funding requirements.

Payment Status of Loans

The tables below show an analysis of the age of the recorded investment in loans outstanding by member class:

	February 28, 2013					
(dollar amounts in thousands)	30-89 days past due	90 days or more past due (1)	Total past due	Current	Total financing receivables	Non-accrual loans
CFC:						
Distribution	$ -	$ 30,358	$ 30,358	$ 14,094,529	$ 14,124,887	$ 30,358
Power supply	-	5,000	5,000	4,033,770	4,038,770	5,000
Statewide and associate	-	-	-	68,685	68,685	-
CFC total	-	35,358	35,358	18,196,984	18,232,342	35,358
RTFC	-	4,156	4,156	517,462	521,618	6,456
NCSC	-	-	-	723,774	723,774	-
Total loans outstanding	$ -	$ 39,514	$ 39,514	$ 19,438,220	$ 19,477,734	$ 41,814
As a % of total loans	-%	0.20%	0.20%	99.80%	100.00%	0.21%

(1) All loans 90 days or more past due are on non-accrual status.

	May 31, 2012					
(dollar amounts in thousands)	30-89 days past due	90 days or more past due (1)	Total past due	Current	Total financing receivables	Non-accrual loans
CFC:						
Distribution	$ -	$ 29,243	$ 29,243	$ 14,046,228	$ 14,075,471	$ 29,243
Power supply	-	5,000	5,000	3,591,820	3,596,820	5,000
Statewide and associate	-	-	-	73,606	73,606	-
CFC total	-	34,243	34,243	17,711,654	17,745,897	34,243
RTFC	-	4,306	4,306	567,260	571,566	6,970
NCSC	-	-	-	594,279	594,279	-
Total loans outstanding	$ -	$ 38,549	$ 38,549	$ 18,873,193	$ 18,911,742	$ 41,213
As a % of total loans	-%	0.20%	0.20%	99.80%	100.00%	0.22%

(1) All loans 90 days or more past due are on non-accrual status.

Credit Quality

We monitor the credit quality and performance statistics of our financing receivables in an ongoing manner to provide a balance between the credit needs of our members and the requirements for sound credit quality of the loan portfolio. We evaluate the credit quality of our loans using an internal risk rating system that employs similar criteria for all member classes.

Our internal risk rating system is based on a determination of a borrower's risk of default utilizing both quantitative and qualitative measurements.

We have grouped our risk ratings into the categories of pass and criticized based on the criteria below.
(i) Pass: Borrowers that are not experiencing difficulty and/or not showing a potential or well-defined credit weakness.
(ii) Criticized: Includes borrowers categorized as special mention, substandard and doubtful as described below:

- Special mention: Borrowers that may be characterized by a potential credit weakness or deteriorating financial condition that is not sufficiently serious to warrant a classification of substandard or doubtful.
- Substandard: Borrowers that display a well-defined credit weakness that may jeopardize the full collection of principal and interest.
- Doubtful: Borrowers that have a well-defined weakness and the full collection of principal and interest is questionable or improbable.

Each risk rating is reassessed annually based on the receipt of the borrower's audited financial statements; however, interim downgrades and upgrades may take place at any time as significant events or trends occur.

The following table presents our loan portfolio by risk rating category and member class based on available data as of:

	February 28, 2013			May 31, 2012		
(dollar amounts in thousands)	Pass	Criticized	Total	Pass	Criticized	Total
CFC:						
Distribution	$ 14,093,132	$ 31,755	$ 14,124,887	$ 14,046,228	$ 29,243	$ 14,075,471
Power supply	4,033,770	5,000	4,038,770	3,591,820	5,000	3,596,820
Statewide and associate	68,685	-	68,685	73,606	-	73,606
CFC total	18,195,587	36,755	18,232,342	17,711,654	34,243	17,745,897
RTFC	509,635	11,983	521,618	564,596	6,970	571,566
NCSC	723,774	-	723,774	594,279	-	594,279
Total loans outstanding	$ 19,428,996	$ 48,738	$ 19,477,734	$ 18,870,529	$ 41,213	$ 18,911,742

Loan Security
Except when providing line of credit loans, we typically lend to our members on a senior secured basis. Long-term loans are typically secured on a parity with other secured lenders (primarily RUS), if any, by all assets and revenue of the borrower with exceptions typical in utility mortgages. Line of credit loans are generally unsecured. In addition to the lien and security interest we receive under the mortgage, our member borrowers are also required to achieve certain financial ratios as required by loan covenants.

The following table summarizes our secured and unsecured loans outstanding by loan type and by company:

(dollar amounts in thousands)	February 28, 2013				May 31, 2012			
Total by loan type:	Secured	%	Unsecured	%	Secured	%	Unsecured	%
Long-term fixed-rate loans	$ 16,314,432	96%	$ 666,970	4%	$ 16,168,857	97%	$ 574,057	3%
Long-term variable-rate loans	677,611	85	116,941	15	661,115	86	103,700	14
Loans guaranteed by RUS	212,054	100	-	-	219,084	100	-	-
Line of credit loans	281,623	19	1,208,103	81	205,143	17	979,786	83
Total loans outstanding	$ 17,485,720	90	$ 1,992,014	10	$ 17,254,199	91	$ 1,657,543	9
Total by company:								
CFC	$ 16,512,548	91%	$ 1,719,794	9%	$ 16,317,195	92%	$ 1,428,702	8%
RTFC	495,376	95	26,242	5	549,085	96	22,481	4
NCSC	477,796	66	245,978	34	387,919	65	206,360	35
Total loans outstanding	$ 17,485,720	90	$ 1,992,014	10	$ 17,254,199	91	$ 1,657,543	9

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. Under a guarantee agreement, CFC reimburses RTFC and NCSC for loan losses, therefore, RTFC and NCSC do not maintain separate loan loss allowances.

The activity in the loan loss allowance summarized in the tables below reflects a disaggregation by company of the allowance for loan losses held at CFC based on borrower type:

	As of and for the three months ended February 28, 2013			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total
Balance as of November 30, 2012	$ 133,578	$ 8,314	$ 6,845	$ 148,737
Provision for (recovery of) loan losses	432	(214)	(596)	(378)
Recoveries of loans previously charged-off	52	-	-	52
Balance as of February 28, 2013	$ 134,062	$ 8,100	$ 6,249	$ 148,411

	As of and for the three months ended February 29, 2012			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total
Balance as of November 30, 2011	$ 130,885	$ 9,473	$ 8,800	$ 149,158
Provision for (recovery of) loan losses	1,331	(914)	(154)	263
Recoveries of loans previously charged-off	53	-	-	53
Balance as of February 29, 2012	$ 132,269	$ 8,559	$ 8,646	$ 149,474

	As of and for the nine months ended February 28, 2013			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2012	$ 126,941	$ 8,562	$ 7,823	$ 143,326
Provision for (recovery of) loan losses	6,963	(462)	(1,574)	4,927
Recoveries of loans previously charged-off	158	-	-	158
Balance as of February 28, 2013	$ 134,062	$ 8,100	$ 6,249	$ 148,411

	As of and for the nine months ended February 29, 2012			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2011	$ 143,706	$ 8,389	$ 9,082	$ 161,177
(Recovery of) provision for loan losses	(11,596)	170	(436)	(11,862)
Recoveries of loans previously charged-off	159	-	-	159
Balance as of February 29, 2012	$ 132,269	$ 8,559	$ 8,646	$ 149,474

Our allowance for loan losses includes a specific valuation allowance related to individually-evaluated impaired loans, as well as a general reserve for other probable incurred losses for loans that are collectively evaluated. The tables below present the loan loss allowance and the recorded investment in outstanding loans by impairment methodology and by company:

	February 28, 2013			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total

Ending balance of the allowance:				
Collectively evaluated	$ 118,039	$ 6,381	$ 6,249	$ 130,669
Individually evaluated	16,023	1,719	-	17,742
Total ending balance of the allowance	$ 134,062	$ 8,100	$ 6,249	$ 148,411
Recorded investment in loans:				
Collectively evaluated	$ 18,157,440	$ 515,162	$ 723,774	$ 19,396,376
Individually evaluated	74,902	6,456	-	81,358
Total recorded investment in loans	$ 18,232,342	$ 521,618	$ 723,774	$ 19,477,734
Loans to members, net (1)	$ 18,098,280	$ 513,518	$ 717,525	$ 19,329,323

	May 31, 2012			
(dollar amounts in thousands)	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated	$ 103,681	$ 6,561	$ 7,823	$ 118,065
Individually evaluated	23,260	2,001	-	25,261
Total ending balance of the allowance	$ 126,941	$ 8,562	$ 7,823	$ 143,326
Recorded investment in loans:				
Collectively evaluated	$ 17,255,965	$ 564,596	$ 594,279	$ 18,414,840
Individually evaluated	489,932	6,970	-	496,902
Total recorded investment in loans	$ 17,745,897	$ 571,566	$ 594,279	$ 18,911,742
Loans to members, net (1)	$ 17,618,956	$ 563,004	$ 586,456	$ 18,768,416

(1) Excludes deferred origination costs of $8 million at February 28, 2013 and May 31, 2012.

Impaired Loans

Our recorded investment in individually-impaired loans and the related specific valuation allowance is summarized below by member class:

	February 28, 2013		May 31, 2012	
(dollar amounts in thousands)	Recorded investment	Related allowance	Recorded investment	Related allowance
With no specific allowance recorded:				
CFC/Distribution	$ 39,544	$ -	$ 415,692	$ -
With a specific allowance recorded:				
CFC/Distribution	30,358	15,782	69,240	23,009
CFC/Power Supply	5,000	241	5,000	251
RTFC	6,456	1,719	6,970	2,001
Total	41,814	17,742	81,210	25,261
Total impaired loans	$ 81,358	$ 17,742	$ 496,902	$ 25,261

The recorded investment for impaired loans was equal to the total unpaid principal balance for impaired loans as of February 28, 2013 and May 31, 2012. The table below represents the average recorded investment in impaired loans and the interest income recognized by member class:

	For the three months ended			
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
(dollar amounts in thousands)	Average recorded investment		Interest income recognized	
CFC/Distribution	$ 70,111	$ 488,040	$ 435	$ 5,761
CFC/Power Supply	5,000	5,000	-	-
RTFC	6,497	7,130	-	-
Total impaired loans	$ 81,608	$ 500,170	$ 435	$ 5,761

	For the nine months ended			
	Average recorded investment		Interest income recognized	
(dollar amounts in thousands)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
CFC/Distribution	$ 208,632	$ 492,427	$ 13,522	$ 10,537
CFC/Power Supply	5,000	2,556	-	-
RTFC	6,668	5,924	-	-
Total impaired loans	$ 220,300	$ 500,907	$ 13,522	$ 10,537

Non-performing and Restructured Loans

Interest income was reduced as a result of holding loans on non-accrual status as follows:

For the three months ended	For the nine months ended

(dollar amounts in thousands)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Non-performing loans	$ 355	$ 444	$ 1,135	$ 1,249
Restructured loans	-	-	-	6,714
Total	$ 355	$ 444	$ 1,135	$ 7,963

At February 28, 2013 and May 31, 2012, non-performing loans totaled $42 million, or 0.2 percent, of loans outstanding and $41 million or 0.2 percent, of loans outstanding, respectively. Two borrowers in this group are currently in bankruptcy. In one of the bankruptcy cases, the borrower filed a disclosure statement and draft plan of reorganization on November 27, 2012. An amended disclosure statement and plan of reorganization was filed with the court on January 25, 2013. The plan of reorganization was approved by the court on April 1, 2013, with the effective date to be on or after the date that executed plan documents are distributed to creditors. In the other bankruptcy case, a trustee for the borrower filed a disclosure statement and draft plan of reorganization on February 15, 2013. The proposed disclosure statement and draft plan are subject to certain changes and ultimate approval of the bankruptcy court, which is expected to occur following a hearing on April 23, 2013. There are two other borrowers that are currently seeking buyers for their systems, as it is not anticipated that they will have sufficient cash flow to repay their loans without the proceeds from the sale of the business. It is currently anticipated that even with the sale of the business, there will not be sufficient funds to repay the full amount owed. We have approval rights with respect to the sale of either of these companies.

At February 28, 2013 and May 31, 2012, we had restructured loans totaling $40 million, or 0.2 percent, of loans outstanding and $456 million, or 2.4 percent, of loans outstanding, respectively, all of which were performing according to their restructured terms. Approximately $0.4 million and $14 million of interest income was accrued on restructured loans during the three and nine months ended February 28, 2013, respectively, compared with $6 million and $11 million of interest income in the prior-year periods, respectively. One of the restructured loans totaling $40 million at February 28, 2013 and May 31, 2012 has been on accrual status since the time of restructuring. The other restructured loan totaling $416 million at May 31, 2012, was on non-accrual status through September 30, 2011, with all amounts collected being applied against the principal balance. On October 1, 2011, the principal balance of the loan was reduced below the level of a prepayment option and as such we placed the loan on accrual status at that time at a rate based on the effective rate returned by the future scheduled cash flows. This loan was paid off early by the borrower on September 13, 2012.

We believe our allowance for loan loss is adequate to cover the losses inherent in our loan portfolio at February 28, 2013.

Pledging of Loans and Loans on Deposit

We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt.

The following table summarizes our loans outstanding as collateral pledged to secure our collateral trust bonds, Clean Renewable Energy Bonds and notes payable to the Federal Agricultural Mortgage Corporation and the amount of the corresponding debt outstanding (see Note 5, Short-Term Debt and Credit Arrangements and Note 6, Long-Term Debt).

(dollar amounts in thousands)	February 28, 2013	May 31, 2012
Collateral trust bonds:		
2007 indenture		
Distribution system mortgage notes	$ 5,805,575	$ 5,833,475
RUS guaranteed loans qualifying as permitted investments	166,896	170,024
Total pledged collateral	$ 5,972,471	$ 6,003,499
Collateral trust bonds outstanding	4,979,372	4,850,000
1994 indenture		
Distribution system mortgage notes	$ 1,697,804	$ 1,574,823
Collateral trust bonds outstanding	1,465,000	1,470,000
Federal Agricultural Mortgage Corporation:		
Distribution and power supply system mortgage notes	$ 1,566,245	$ 1,379,989
Notes payable outstanding	1,296,690	1,165,100
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes	$ 24,071	$ 25,640
Cash	7,219	7,669

Total pledged collateral	$ 31,290	$ 33,309
Notes payable outstanding	19,888	23,487

We are required to maintain collateral on deposit in an amount at least equal to the balance of debt outstanding to the Federal Financing Bank of the United States Treasury issued under the Guaranteed Underwriter program of the U.S. Department of Agriculture (the "Guaranteed Underwriter Program"). See Note 6, Long-Term Debt.

The following table shows the collateral on deposit and the amount of the corresponding debt outstanding:

(dollar amounts in thousands)	February 28, 2013	May 31, 2012
Federal Financing Bank		
Distribution and power supply system mortgage notes on deposit	$ 4,007,404	$ 3,814,311
Notes payable outstanding	3,674,000	3,419,000

(4) Foreclosed Assets

Assets received in satisfaction of loan receivables are initially recorded at fair value when received and are subsequently evaluated periodically for impairment. These assets are classified on the consolidated balance sheets as foreclosed assets. At February 28, 2013 all foreclosed assets were held by DRP and CAH, which are wholly-owned subsidiaries of CFC.

The activity for foreclosed assets is summarized below:

	As of and for the nine months ended February 28, 2013		
(dollar amounts in thousands)	CAH	DRP	Total
Balance as of May 31, 2012	$ 201,558	$ 21,918	$ 223,476
Results of operations	2,267	(1,463)	804
Cash investments (proceeds)	40,088	(7,000)	33,088
Balance as of February 28, 2013	$ 243,913	$ 13,455	$ 257,368

In February 2013, CAH received approval on the renewal of an economic development tax credit arrangement, which resulted in the reversal of $10 million of previously accrued expenses and improvement to the results of operations for the period. In February 2013, DRP received net cash proceeds from the sale of foreclosed assets of $4 million resulting in a decrease in our investment.

(5) Short-Term Debt and Credit Arrangements

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

(dollar amounts in thousands)	February 28, 2013	May 31, 2012
Short-term debt:		
Commercial paper sold through dealers, net of discounts (1)	$ 1,824,830	$ 1,404,901
Commercial paper sold directly to members, at par (1)	905,105	997,778
Commercial paper sold directly to non-members, at par (1)	35,738	70,479
Select notes	376,857	-
Daily liquidity fund notes sold directly to members	617,000	478,406
Bank bid notes	150,000	295,000
Subtotal short-term debt	3,909,530	3,246,564
Long-term debt maturing within one year:		
Medium-term notes sold through dealers	796,916	232,830
Medium-term notes sold to members	420,562	409,961
Secured collateral trust bonds	1,204,870	254,962
Member subordinated certificates	28,188	16,710
Secured notes payable	587,349	327,006
Unsecured notes payable	3,896	5,401
Total long-term debt maturing within one year	3,041,781	1,246,870
Total short-term debt	$ 6,951,311	$ 4,493,434

(1) Backup liquidity is provided by our revolving credit agreements.

Revolving Credit Agreements

At February 28, 2013 and May 31, 2012, we had $2,845 million of commitments under revolving credit agreements. We may request letters of credit for up to $100 million under each agreement in place at February 28, 2013, which then reduces the amount available under the facility. The following table presents the total available and the outstanding letters of credit under our revolving credit agreements:

	Total available		Letters of credit outstanding			
(dollar amounts in thousands)	February 28, 2013	May 31, 2012	February 28, 2013	May 31, 2012	Original maturity	Facility fee per year (1)
Three-year agreement	$ 1,125,000	$1,125,000	$ -	$ -	March 21, 2014	15 basis points
Four-year agreement	884,875	883,875	-	1,000	October 21, 2015	10 basis points
Five-year agreement	831,387	834,875	3,488	-	October 21, 2016	10 basis points
Total	$ 2,841,262	$2,843,750	$ 3,488	$ 1,000		

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

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

		Actual	
	Requirement	February 28, 2013	May 31, 2012
Minimum average adjusted TIER over the six most recent fiscal quarters (1)	1.025	1.18	1.21
Minimum adjusted TIER for the most recent fiscal year (1) (2)	1.05	1.18	1.18
Maximum ratio of adjusted senior debt to total equity (1)	10.00	6.23	5.97

(1) In addition to the adjustments made to the leverage ratio set forth in the Non-GAAP Financial Measures section, senior debt excludes guarantees to member systems that have certain investment-grade ratings from Moody's Investors Service and Standard & Poor's Corporation. The TIER and debt-to-equity calculations include the adjustments set forth in the Non-GAAP Financial Measures section and exclude the results of operations for CAH.
(2) We must meet this requirement to retire patronage capital.

At February 28, 2013 and May 31, 2012, we were in compliance with all covenants and conditions under our revolving credit agreements and there were no borrowings outstanding under these agreements.

On March 28, 2013, we amended our $1,125 million three-year, $885 million four-year, and $835 million five-year revolving credit agreements to (i) extend the maturity dates for the three-year, four-year, and five-year revolving credit agreements to October 21, 2015, 2016, and 2017, respectively, and (ii) lower the facility fee for the three-year revolving credit agreement to 10 basis points. With respect to the three-year agreement, $219 million of commitments will expire at the original maturity date of March 21, 2014 and the facility fee for lenders holding such commitments will continue to be 15 basis points until maturity. In addition, we exercised our option to increase the commitment levels for the four-year and five-year revolving credit agreements to $1,008 million, and $958 million, respectively. The facility fee and applicable margin under each agreement are determined by the pricing matrices in the agreements based on our senior unsecured credit ratings. With respect to the borrowings, we have the right to choose between a (i) Eurodollar rate plus an applicable margin or (ii) base rate calculated based on the greater of prime rate, the federal funds effective rate plus 0.50 percent or the one-month LIBOR rate plus 1 percent, plus an applicable margin. Our ability to borrow or obtain a letter of credit under all of the agreements is not conditioned on the absence of material adverse changes with regard to CFC. We also have the right, subject to certain terms and conditions, to increase the aggregate amount of the commitments under (i) the three-year credit facility to a maximum of $1,500 million, (ii) the four-year credit facility to a maximum of $1,300 million and (iii) the five-year credit facility to a maximum of $1,300 million.

(6) Long-Term Debt

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

(dollar amounts in thousands)	February 28, 2013	May 31, 2012
Unsecured long-term debt:		
Medium-term notes sold through dealers	$ 1,468,920	$ 1,692,605

Medium-term notes sold to members	161,188	89,261
Subtotal	1,630,108	1,781,866
Unamortized discount	(631)	(971)
Total unsecured medium-term notes	1,629,477	1,780,895
Unsecured notes payable	3,711,075	3,457,982
Unamortized discount	(958)	(1,093)
Total unsecured notes payable	3,710,117	3,456,889
Total unsecured long-term debt	5,339,594	5,237,784
Secured long-term debt:		
Collateral trust bonds	5,239,372	6,065,000
Unamortized discount	(182,877)	(12,398)
Total secured collateral trust bonds	5,056,495	6,052,602
Secured notes payable	729,230	861,581
Total secured long-term debt	5,785,725	6,914,183
Total long-term debt	$ 11,125,319	$ 12,151,967

At February 28, 2013 and May 31, 2012, we had unsecured notes payable totaling $3,674 million and $3,419 million, respectively, outstanding under bond purchase agreements with the Federal Financing Bank and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program, which provides guarantees to the Federal Financing Bank. All bond guarantee agreements previously entered into with RUS were consolidated into one amended, restated, and consolidated bond guarantee agreement in December 2012. All pledge agreements previously entered into with RUS and U.S. Bank National Association were consolidated into one amended, restated and consolidated pledge agreement in December 2012. During the nine months ended February 28, 2013, we borrowed $255 million under our committed loan facilities with the

Federal Financing Bank. In December 2012, we closed a $424 million commitment from RUS to guarantee a loan from the Federal Financing Bank as part of the Guaranteed Underwriter Program that is available for advance through October 15, 2015. Advances under this facility have a 20-year maturity repayment period. At February 28, 2013, we had up to $749 million available under committed loan facilities from the Federal Financing Bank as part of this program.

At February 28, 2013 and May 31, 2012, secured notes payable include $1,297 million and $1,165 million, respectively, in debt outstanding to the Federal Agricultural Mortgage Corporation under a note purchase agreement totaling $3,900 million. Under the terms of the note purchase agreement, we can borrow up to $3,900 million at any time from the date of the agreement through January 11, 2016, and thereafter automatically extend the agreement on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, the Federal Agricultural Mortgage Corporation provides CFC with a notice that the draw period will not be extended beyond the then-remaining term. The agreement with the Federal Agricultural Mortgage Corporation is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit, provided that the principal amount at any time outstanding under the note purchase agreement is not more than the total available under the agreement. In November 2012, we issued notes totaling $133 million under the agreement with the Federal Agricultural Mortgage Corporation. At February 28, 2013 and May 31, 2012, $586 million and $325 million, respectively, in debt outstanding to the Federal Agricultural Mortgage Corporation had a remaining maturity of less than one year and was classified as short-term debt.

In October 2012, CFC completed the exchange of $340 million of its outstanding 8 percent medium-term notes, Series C, due 2032 for $379 million of 4.023 percent collateral trust bonds due 2032 and $134 million of cash.

(7) Subordinated Deferrable Debt

The following table is a summary of subordinated deferrable debt outstanding:

(dollar amounts in thousands)	February 28, 2013	May 31, 2012
NRC 6.10% due 2044	$ 88,201	$ 88,201
NRU 5.95% due 2045	98,239	98,239
Total	$ 186,440	$ 186,440

All subordinated deferrable debt currently outstanding is callable at par at any time.

(8) Derivative Financial Instruments

We are an end-user of financial derivative instruments. We utilize derivatives such as interest rate swaps and treasury rate locks for forecasted transactions to mitigate interest rate risk. The following table shows the notional amounts outstanding and the weighted average interest rate paid and received for our interest rate swaps by type:

	February 28, 2013			May 31, 2012		
(dollar amounts in thousands)	Notional amount	Weighted-average rate paid	Weighted-average rate received	Notional amount	Weighted-average rate paid	Weighted-average rate received
Pay fixed-receive variable	$ 5,257,875	3.51%	0.28%	$ 5,275,553	3.78%	0.45%

Pay variable-receive fixed	3,500,440	1.13	4.62	3,720,440	1.29	4.68
Total interest rate swaps	$ 8,758,315	2.56	2.02	$ 8,995,993	2.75	2.20

The derivative gains (losses) line item of the condensed consolidated statement of operations includes cash settlements and derivative forward value for derivative instruments that do not meet hedge accounting criteria. Cash settlements includes periodic amounts paid and received related to our interest rate swaps, as well as amounts accrued from the prior settlement date. Derivative forward value includes changes in the fair value of derivative instruments unless specific hedge accounting criteria are met. If applicable hedge accounting criteria are satisfied, the change to the fair value is recorded to other comprehensive income (loss) and net cash settlements are recorded in interest expense. Gains and losses recorded on the condensed consolidated statements of operations for our interest rate swaps are summarized below:

	For the three months ended		For the nine months ended	
(dollar amounts in thousands)	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Derivative cash settlements	$ (14,607)	$ 531	$ (43,926)	$ (283)
Derivative forward value	61,233	(26,094)	62,194	(184,604)
Derivative gains (losses)	$ 46,626	$ (25,563)	$ 18,268	$ (184,887)

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Rating Triggers

Some of our interest rate swaps have credit risk-related contingent features referred to as rating triggers. Rating triggers are not separate financial instruments and are not required to be accounted for separately as derivatives. At February 28, 2013, the following notional amounts of derivative instruments had rating triggers based on our senior unsecured credit ratings from Moody's Investors Service or Standard & Poor's Corporation falling to a level specified in the applicable agreements and are grouped into the categories below. In calculating the payments and collections required upon termination, we netted the agreements for each counterparty, as allowed by the underlying master agreements. At February 28, 2013, our senior unsecured credit ratings from Moody's Investors Service and Standard & Poor's Corporation were A2 and A, respectively. At February 28, 2013, both Moody's Investors Service and Standard & Poor's Corporation had our ratings on stable outlook.

(dollar amounts in thousands)	Notional amount	Our required payment	Amount we would collect	Net total
Mutual rating trigger if ratings:				
fall to Baa1/BBB+ (1)	$ 1,500	$ (79)	$ -	$ (79)
fall below Baa1/BBB+ (1)	6,751,822	(259,221)	48,837	(210,384)
Total	$ 6,753,322	$ (259,300)	$ 48,837	$ (210,463)

(1) Stated senior unsecured credit ratings are for Moody's Investors Service and Standard & Poor's Corporation, respectively. Under these rating triggers, if the credit rating for either counterparty falls to the level specified in the agreement, the other counterparty may, but is not obligated to, terminate the agreement. If either counterparty terminates the agreement, a net payment may be due from one counterparty to the other based on the fair value, excluding credit risk, of the underlying derivative instrument.

In addition to the rating triggers listed above, at February 28, 2013 we had a total notional amount of $450 million of derivative instruments with one counterparty that would require the pledging of collateral totaling $14 million (the fair value of such derivative instruments excluding credit risk) if our senior unsecured ratings from Moody's Investors Service were to fall below Baa2 or if the ratings from Standard & Poor's Corporation were to fall below BBB. The aggregate fair value of all interest rate swaps with rating triggers that were in a net liability position at February 28, 2013 was $268 million.

(9) Equity

In July 2012, the CFC Board of Directors authorized the allocation of the fiscal year 2012 net earnings as follows: $1 million to the cooperative educational fund and $71 million to members in the form of patronage. In July 2012, the CFC Board of Directors authorized the retirement of allocated net earnings totaling $35 million, representing 50 percent of the fiscal year 2012 allocation. This amount was returned to members in cash in September 2012. Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors with due regard for its financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulations.

(10) Guarantees

The following table summarizes total guarantees by type of guarantee and member class:

(dollar amounts in thousands) May 31,

	February 28, 2013	2012
Total by type:		
Long-term tax-exempt bonds	$ 548,760	$ 573,110
Indemnifications of tax benefit transfers	917	49,771
Letters of credit	456,803	504,920
Other guarantees	116,311	121,529
Total	$ 1,122,791	$ 1,249,330
Total by member class:		
CFC:		
Distribution	$ 265,421	$ 340,385
Power supply	812,385	854,444
Statewide and associate	6,903	7,202
CFC total	1,084,709	1,202,031
RTFC	3,712	1,026
NCSC	34,370	46,273
Total	$ 1,122,791	$ 1,249,330

The maturities for the long-term tax-exempt bonds and the related guarantees run through calendar year 2042. Amounts in the table represent the outstanding principal amount of the guaranteed bonds. At February 28, 2013, our maximum potential exposure for the $74 million of fixed-rate tax-exempt bonds is $124 million, representing principal and interest. Of the amounts shown in the table above for long-term tax-exempt bonds, $474 million and $498 million as of February 28, 2013 and May 31, 2012, respectively, are adjustable or floating-rate bonds that may be converted to a fixed rate as specified in the applicable indenture for each bond offering. We are unable to determine the maximum amount of interest that we could be required to pay related to the remaining adjustable and floating-rate bonds. Many of these bonds have a call provision that in the event of a default allow us to trigger the call provision. This would limit our exposure to future interest payments on these bonds. Our maximum potential exposure is secured by a mortgage lien on all of the system's assets and future revenue. If the debt is accelerated because of a determination that the interest thereon is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan.

The maturities for the indemnifications of tax benefit transfers run through calendar year 2015. The amounts shown represent our maximum potential exposure for guaranteed indemnity payments. A member's obligation to reimburse CFC for any guarantee payments would be treated as a long-term loan to the extent of any cash received by the member at the outset of the transaction. This amount is secured by a mortgage lien on substantially all of the system's assets and future revenue. The remainder would be treated as a line of credit loan secured by a subordinated mortgage on substantially all of the member's property. Due to changes in federal tax law, no further guarantees of this nature are anticipated.

The maturities for letters of credit run through calendar year 2024. The amounts shown in the table above represent our maximum potential exposure, of which $170 million is secured at February 28, 2013. At February 28, 2013, and May 31, 2012, the letters of credit include $125 million to provide the standby liquidity for adjustable and floating-rate tax-exempt bonds issued for the benefit of our members. Security provisions include a mortgage lien on substantially all of the system's assets, future revenue and the system's investment in our commercial paper.

In addition to the letters of credit listed in the table, under master letter of credit facilities in place at February 28, 2013, we may be required to issue up to an additional $876 million in letters of credit to third parties for the benefit of our members. Of this amount, $697 million represents commitments that may be used for the issuance of letters of credit or line of credit loan advances, at the option of the borrower, and are included in unadvanced loan commitments for line of credit loans reported in Note 3, Loans and Commitments. Master letter of credit facilities subject to material adverse change clauses at the time of issuance totaled $388 million at February 28, 2013. Prior to issuing a letter of credit, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions. The remaining commitment under master letter of credit facilities of $488 million may be used for the issuance of letters of credit as long as the borrower is in compliance with the terms and conditions of the facility.

The maturities for other guarantees run through calendar year 2025. The maximum potential exposure for these guarantees is $117 million, all of which is unsecured.

At February 28, 2013 and May 31, 2012, we had $403 million and $385 million of guarantees, respectively, representing 36 percent and 31 percent, respectively, of total guarantees, under which our right of recovery from our members was not secured.

In addition to the guarantees described above, at February 28, 2013, we are the liquidity provider for a total of $599 million of variable-rate tax-exempt bonds issued for our member cooperatives. While the bonds are in variable-rate mode, in return for a fee, we have unconditionally agreed to purchase bonds tendered or put for redemption if the remarketing agents are unable to sell such bonds to other investors. During the nine months ended February 28, 2013, we were not required to perform as liquidity provider pursuant to these obligations.

Guarantee Liability

At February 28, 2013 and May 31, 2012, we recorded a guarantee liability of $26 million and $29 million, respectively, which represents the contingent and non-contingent exposures related to guarantees and liquidity obligations associated with our members' debt. The contingent guarantee liability at February 28, 2013 and May 31, 2012 was $6 million for both periods, based on management's estimate of exposure to losses within the guarantee portfolio. The remaining balance of the total guarantee liability of $20 million and $23 million at February 28, 2013 and May 31, 2012, respectively, relates to our non-contingent obligation to stand ready to perform over the term of our guarantees and liquidity obligations that we have entered into or modified since January 1, 2003.

Activity in the guarantee liability account is summarized below:

(dollar amounts in thousands)	As of and for the nine months ended February 28, 2013
Beginning balance as of May 31, 2012	$ 28,663
Net change in non-contingent liability	(2,325)
Recovery of contingent guarantee liability	(147)
Ending balance as of February 28, 2013	$ 26,191
Liability as a percentage of total guarantees	2.33%

(11) Fair Value Measurement

Assets and liabilities measured at fair value on either a recurring or non-recurring basis on the consolidated balance sheets at February 28, 2013 and May 31, 2012 consisted of investments in common stock and preferred stock, derivative instruments, and collateral-dependent non-performing loans.

Assets and Liabilities Measured at Fair Value on a Recurring Basis
We account for derivative instruments (including certain derivative instruments embedded in other contracts) in the consolidated balance sheets as either an asset or liability measured at fair value. Since there is not an active secondary market for the types of interest rate swaps we use, we obtain indicative quotes from the interest rate swap counterparties to estimate fair value on a quarterly basis. The indicative quotes are based on the expected future cash flow and the estimated yield curve.

We perform analysis to validate the indicative quotes obtained from our swap counterparties. We adjust the market values received from the counterparties using credit default swap levels for us and the counterparties. The credit default swap levels represent the credit risk premium required by a market participant based on the available information related to us and the counterparty. We only enter into exchange agreements with counterparties that are participating in our revolving lines of credit at the time the exchange agreements are executed. All of our exchange agreements are subject to master netting agreements.

Our valuation techniques for interest rate swaps are based on observable inputs, which reflect market data. Fair values for our interest rate swaps are classified as a Level 2 valuation. We record the change in the fair value of our derivatives for each reporting period in the derivative gains (losses) line, included in non-interest income in the consolidated statements of operations, as currently none of our derivatives qualify for hedge accounting.

At February 28, 2013, our investments in equity securities included investments in the Federal Agricultural Mortgage Corporation Series A common stock and Series A preferred stock that are recorded in the consolidated balance sheets at fair value. At May 31, 2012, our investments in equity securities included investments in the Federal Agricultural Mortgage Corporation Series A common stock that is recorded in the consolidated balance sheets at fair value. We calculate fair value based on the quoted price on the stock exchange where the stock is traded. That stock exchange is an active market based on the volume of shares transacted. Fair values for these securities are classified as a Level 1 valuation.

The following table presents our assets and liabilities that are measured at fair value on a recurring basis:

	February 28, 2013		May 31, 2012	
(dollar amounts in thousands)	Level 1	Level 2	Level 1	Level 2
Derivative assets	$ -	$ 251,534	$ -	$ 296,036
Derivative liabilities	-	547,894	-	654,125
Investments in common and preferred stock	31,875	-	1,467	-

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. Any adjustments to fair value usually result from application of lower-of-cost or fair value accounting or write-downs of individual assets. At February 28, 2013 and May 31, 2012, we measured certain collateral-dependent non-performing loans at fair value. In certain instances when a loan is non-performing, we utilize the collateral fair value underlying the loan in estimating the specific loan loss allowance. To estimate the fair value of the collateral, we may use third party valuation specialists, internal estimates or a combination of both. The approaches used by both our internal staff and third party specialists include the discounted cash flow, market multiple and replacement cost methods. The material inputs used in estimating the fair value of such collateral, by both internal staff and third party specialists, are Level 3 within the fair value hierarchy. In these instances, the valuation is considered to be a non-recurring item. The significant unobservable inputs for Level 3 assets that are valued using fair values obtained from third party specialists are reviewed by our Credit Risk Management group to assess the reasonableness of the assumptions used and the accuracy of the work performed. In cases where we rely on third party inputs, we use the final unadjusted third party valuation analysis as support for any financial statement adjustments and disclosures to the financial statements. The valuation techniques and significant unobservable inputs for assets classified as Level 3 in the fair value hierarchy, which are measured using an internal model, are independently reviewed by other internal staff.

For assets measured at fair value on a non-recurring basis at February 28, 2013 and May 31, 2012 that are classified as Level 3 within the fair value hierarchy, any increase or decrease to significant unobservable inputs used in the determination of fair value, will not have a material impact on the fair value measurement of those assets or to the results of operations of the Company.

Assets measured at fair value on a non-recurring basis at February 28, 2013 and May 31, 2012 were classified as Level 3 within the fair value hierarchy. The following table provides the carrying/fair value of the related individual assets at February 28, 2013 and May 31, 2012 and the total losses for the three and nine months ended February 28, 2013 and February 29, 2012:

	Level 3 Fair Value		Total losses for the three months ended		Total losses for the nine months ended	
(dollar amounts in thousands)	February 28, 2013	May 31, 2012	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Non-performing loans, net of specific reserves	$ 9,496	$ 16,517	$ (99)	$ -	$ -	$ (1,863)

(12) Fair Value of Financial Instruments

Carrying and fair values for our financial instruments are presented as follows:

	February 28, 2013		May 31, 2012	
(dollar amounts in thousands)	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents	$ 789,227	$ 789,227	$ 191,167	$ 191,167
Restricted cash	7,219	7,219	7,694	7,694
Investments	481,875	481,875	59,045	59,045
Loans to members, net	19,337,737	20,727,936	18,776,286	20,405,353
Debt service reserve funds	39,803	39,803	39,803	39,803
Derivative instruments	251,534	251,534	296,036	296,036
Liabilities:				
Short-term debt	6,951,311	6,979,696	4,493,434	4,498,565
Long-term debt	11,125,319	12,814,414	12,151,967	13,936,540
Guarantee liability	26,191	29,023	28,663	31,518
Derivative instruments	547,894	547,894	654,125	654,125

Subordinated deferrable debt	186,440	190,141	186,440	187,335
Members' subordinated certificates	1,750,663	1,902,637	1,722,744	1,880,558
Off-balance sheet instruments:				
Commitments	-	-	-	-

See Note 11, Fair Value Measurement, for more details on assets and liabilities measured at fair value on a recurring or non-recurring basis on our consolidated balance sheets. We consider observable prices in the principal market in our valuations where possible. Fair value estimates were developed at the reporting date and may not necessarily be indicative of amounts that could ultimately be realized in a market transaction at a future date.

With the exception of redeeming debt under early redemption provisions, terminating derivative instruments under early termination provisions and allowing borrowers to prepay their loans, we held and intend to hold all financial instruments to maturity excluding common stock and preferred stock investments that have no stated maturity. Below is a summary of significant methodologies used in estimating fair value amounts at February 28, 2013 and May 31, 2012.

Cash and Cash Equivalents
Cash and cash equivalents includes cash and certificates of deposit with original maturities of less than 90 days. Cash and cash equivalents are valued at the carrying value, which approximates fair value. Cash and cash equivalents are classified within Level 1 of the fair value hierarchy.

Restricted Cash
Restricted cash consists of cash and cash equivalents for which use is contractually restricted. Restricted cash is valued at the carrying value, which approximates fair value. Restricted cash is classified within Level 1 of the fair value hierarchy.

Investments
Our investments include investments in the Federal Agricultural Mortgage Corporation Series A common stock and Series A preferred stock. The Series A common stock and Series A preferred stock are classified as available-for-sale securities and recorded in the consolidated balance sheets at fair value. We calculate fair value based on the quoted price on the stock exchange where the stock is traded. That stock exchange is an active market based on the volume of shares transacted. The common stock and preferred stock are classified within Level 1 of the fair value hierarchy.

At May 31, 2012, our investments also include investments in Federal Agricultural Mortgage Corporation Series C non-voting, cumulative preferred stock purchased based on a percentage of debt issued under note purchase agreements. The fair value for the Series C preferred stock is estimated at cost, which approximates fair value as the preferred stock securities do not meet the definition of marketable securities and the stock is callable at par. These securities carry with it a netting provision against our debt held by Federal Agricultural Mortgage Corporation in case of non-payment, therefore transferability of these securities is unlikely. The preferred stock is classified within Level 3 of the fair value hierarchy.

At February 28, 2013, our investments also include deposits that we made with financial institutions in interest bearing accounts with maturities of less than one year as of the reporting date. These deposits are valued at the carrying value, which approximates fair value and are classified within Level 2 of the fair value hierarchy.

Loans to Members, Net
As part of receiving a loan from us, our members have additional requirements and rights that are not typical of other financial institutions, such as the ability to receive a patronage capital allocation, the general requirement to purchase subordinated certificates or member capital securities to meet their capital contribution requirements as a condition of obtaining additional credit from us, the option to select fixed rates from one year to maturity with the fixed rate resetting or repricing at the end of each selected rate term, the ability to convert from a fixed rate to another fixed rate or the variable rate at any time, and certain interest rate discounts that are specific to the borrower’s activity with us. These features make it difficult to obtain market data for similar loans. Therefore, we must use other methods to estimate the fair value.

Fair values for fixed-rate loans are estimated by discounting the future cash flows using the current rates at which we would make similar loans to new borrowers for the same remaining maturities. The maturity date used in the fair value calculation of loans with a fixed rate for a selected rate term is the next repricing date since these borrowers must reprice their loans at various times throughout the life of the loan at the then-current market rate.

Loans with different risk characteristics, specifically non-performing and restructured loans, are valued by using collateral valuations or by adjusting cash flows for credit risk and discounting those cash flows using the current rates at which similar loans would be made by us to borrowers for the same remaining maturities. See Note 11, Fair Value

Measurement, for more details about how we calculate the fair value of certain non-performing loans.

Variable-rate loans are valued at cost, which approximates fair value since we can reset rates every 15 days.

Credit risk for the loan portfolio is estimated based on the associated reserve in our allowance for loan losses.

Loans to members, net are classified within Level 3 of the fair value hierarchy.

Debt Service Reserve Funds

Debt service reserve funds represent cash and/or investments on deposit with the bond trustee for tax-exempt bonds that we guarantee. Carrying value is considered to be equal to fair value. Debt service reserve funds are classified within Level 1 of the fair value hierarchy.

Short-Term Debt
Short-term debt consists of commercial paper, bank bid notes and other debt due within one year. The fair value of short-term debt with maturities greater than 90 days is estimated based on quoted market rates for debt with similar maturities. The fair value of short-term debt with maturities less than or equal to 90 days is carrying value, which is a reasonable estimate of fair value. Short-term debt is classified within Level 2 and Level 3 of the fair value hierarchy.

Long-Term Debt
Long-term debt consists of collateral trust bonds, medium-term notes and long-term notes payable. We issue all collateral trust bonds and some medium-term notes in underwritten public transactions. There is not active secondary trading for all underwritten collateral trust bonds and medium-term notes; therefore, dealer quotes and recent market prices are both used in estimating fair value. There is essentially no secondary market for the medium-term notes issued to our members or in transactions that are not underwritten; therefore, fair value is estimated based on observable benchmark yields and spreads for similar instruments supplied by banks that underwrite our other debt transactions. Collateral trust bonds and medium-term notes are classified within Level 2 of the fair value hierarchy. The long-term notes payable are issued in private placement transactions and there is no secondary trading of such debt. Therefore, the fair value is estimated based on underwriter quotes for similar instruments, if available, or based on cash flows discounted at current rates for similar instruments supplied by underwriters or by the original issuer. Secondary trading quotes for our debt instruments used in the determination of fair value incorporate our credit risk. Long-term notes payable are classified within Level 3 of the fair value hierarchy.

Guarantees
The fair value of our guarantee liability is based on the fair value of our contingent and non-contingent exposure related to our guarantees. The fair value of our contingent exposure for guarantees is based on management’s estimate of our exposure to losses within the guarantee portfolio. The fair value of our non-contingent exposure for guarantees issued is estimated based on the total unamortized balance of guarantee fees paid and guarantee fees to be paid discounted at our current short-term funding rate, which represents management’s estimate of the fair value of our obligation to stand ready to perform. Guarantees are classified within Level 3 of the fair value hierarchy.

Subordinated Deferrable Debt
Our subordinated deferrable debt is traded on the New York Stock Exchange; therefore, daily market quotes are available. The fair value for subordinated deferrable debt is based on the closing market quotes from the last day of the reporting period. Subordinated deferrable debt is classified within Level 1 of the fair value hierarchy.

Members’ Subordinated Certificates
Members’ subordinated certificates include (i) membership subordinated certificates issued to our members as a condition of membership, (ii) loan and guarantee subordinated certificates as a condition of obtaining loan funds or guarantees and (iii) member capital securities issued as voluntary investments by our members. All members’ subordinated certificates are non-transferable other than among members with CFC’s consent. As there is no ready market from which to obtain fair value quotes for membership, loan and guarantee subordinated certificates, it is impracticable to estimate fair value, and such certificates are, therefore, valued at par. There also is no ready market from which to obtain fair value quotes for member capital securities. Fair value for member capital securities is based on the discounted cash flows using the coupon interest rate on the last business day of the reporting period. Members’ subordinated certificates are classified within Level 3 of the fair value hierarchy.

Derivative Instruments
We record derivative instruments in the consolidated balance sheets as either an asset or liability measured at fair value. Because there is not an active secondary market for the types of interest rate swaps we use, we obtain indicative quotes from the interest rate swap counterparties to estimate fair value on a quarterly basis. The indicative quotes are

based on the expected future cash flow and estimated yield curves. We adjust the market values received from the counterparties using credit default swap levels for us and the counterparties. The credit default swap levels represent the credit risk premium required by a market participant based on the available information related to us and the counterparty. Derivative instruments are classified within Level 2 of the fair value hierarchy.

Commitments

The fair value of our commitments is estimated as the carrying value, or zero. Extensions of credit under these commitments, if exercised, would result in loans priced at market rates. Commitments are classified within Level 3 of the fair value hierarchy.

(13) Segment Information

The following tables contain the segment presentation for the condensed consolidated statements of operations for the nine months ended February 28, 2013 and February 29, 2012 and condensed consolidated balance sheets at February 28, 2013 and February 29, 2012.

	For the nine months ended February 28, 2013			
(dollar amounts in thousands)	CFC	Other	Elimination	Consolidated
Statement of operations:				
Interest income	$ 703,721	$ 42,304	$ (30,289)	$ 715,736
Interest expense	(521,525)	(31,558)	30,287	(522,796)
Net interest income	182,196	10,746	(2)	192,940
Provision for loan losses	(4,927)	-	-	(4,927)
Net interest income after provision for loan losses	177,269	10,746	(2)	188,013
Non-interest income:				
Fee and other income	28,762	1,021	(681)	29,102
Derivative (gains) losses	18,518	(232)	(18)	18,268
Results of operations from foreclosed assets	804	-	-	804
Total non-interest income	48,084	789	(699)	48,174
Non-interest expense:				