

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

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2010

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)

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 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 “
reporting company “

Accelerated filer “

Non-accelerated filer x

Smaller

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

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

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)

A S S E T S

	August 31, 2010	May 31, 2010
Cash and cash equivalents	\$ 450,665 }	\$ 513,906 }
Restricted cash	13,266 }	15,709 }
Investments in equity securities	58,236 }	58,607 }
Loans to members	19,295,792 }	19,342,704 }
Less: Allowance for loan losses	(580,539)	(592,764)
Loans to members, net	18,715,253 }	18,749,940 }
Accrued interest and other receivables	216,195 }	216,650 }
Fixed assets, net	58,003 }	55,682 }
Debt service reserve funds	45,662 }	45,662 }
Debt issuance costs, net	44,511 }	46,562 }
Foreclosed assets, net	38,121 }	42,252 }
Derivative assets	484,528 }	373,203 }
Other assets	27,835 }	25,042 }
	\$ 20,152,275 }	\$ 20,143,215 }

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)

LIABILITIES AND EQUITY

	August 31, 2010	May 31, 2010
Short-term debt	\$ 4,584,346}	\$ 4,606,361}
Accrued interest payable	311,951}	214,072}
Long-term debt	11,996,097}	12,054,497}
Patronage capital retirement payable	50,843}	-}
Deferred income	16,157}	17,001}
Guarantee liability	22,102}	22,984}
Other liabilities	47,017}	36,553}
Derivative liabilities	668,108}	482,825}
Subordinated deferrable debt	186,440}	311,440}
Members' subordinated certificates:		
Membership subordinated certificates	643,252}	643,211}
Loan and guarantee subordinated certificates	735,344}	769,654}
Member capital securities	397,850}	397,850}
Total members' subordinated certificates	1,776,446}	1,810,715}
Commitments and contingencies		
CFC equity:		
Retained equity	480,274}	568,577}
Accumulated other comprehensive income	7,479}	8,004}
Total CFC equity	487,753}	576,581}
Noncontrolling interest	5,015}	10,186}
Total equity	492,768}	586,767}
	\$ 20,152,275}	\$ 20,143,215}

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

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

	Three months ended August 31,	
	2010	2009
Interest income	\$ 251,053}	\$ 269,457
Interest expense	(219,512)	(242,629)
Net interest income	31,541}	26,828
Recovery of loan losses	12,288}	16,171
Net interest income after recovery of loan losses	43,829}	42,999
Non-interest income:		
Fee and other income	10,292}	3,734
Derivative losses	(78,254)	(14,328)
Results of operations of foreclosed assets	184}	587
Total non-interest income	(67,778)	(10,007)
Non-interest expense:		
Salaries and employee benefits	(13,026)	(9,918)
Other general and administrative expenses	(8,287)	(7,108)
Recovery of guarantee liability	548}	2,395
Market adjustment on foreclosed assets	(315)	(1,750)
Other	(96)	(146)
Total non-interest expense	(21,176)	(16,527)
(Loss) income prior to income taxes	(45,125)	16,465
Income tax benefit (expense)	2,780}	(32)
Net (loss) income	(42,345)	16,433
Less: Net loss (income) attributable to the noncontrolling interest	5,149}	(191)
Net (loss) income attributable to CFC	\$ (37,196)	\$ 16,242

See accompanying notes.

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

(in thousands)

	Total	Noncontrolling Interest	Total CFC Equity	Accumulated Other Comprehensive Income	CFC Retained Equity	Unallocated Net Loss	Members' Capital Reserve	Patronage Capital Allocated	Member Fees Educa Fur
Balance as of May 31, 2010	\$ 586,767}	\$ 10,186}	\$ 576,581}	\$ 8,004}	\$ 568,577}	\$ (106,984)	191,993}	\$ 481,120}	\$ 2
Patronage capital retirement	(50,843)	-}	(50,843)	-}	(50,843)	-}	-}	(50,843)	
Net loss	(42,345)	(5,149)	(37,196)	-}	(37,196)	(37,196)	-}	-}	
Other comprehensive loss	(532)	(7)	(525)	(525)	-}	-}	-}	-}	
Total comprehensive loss	(42,877)	(5,156)	(37,721)						
Other	(279)	(15)	(264)	-}	(264)	-}	-}	-}	
Balance as of August 31, 2010	\$ 492,768}	\$ 5,015}	\$ 487,753}	\$ 7,479}	\$ 480,274}	\$ (144,180)	191,993}	\$ 430,277}	\$ 2

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

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

	Three months ended August 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (42,345)	\$ 16,433
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Amortization of deferred income	(1,914)	(1,463)
Amortization of debt issuance costs and deferred charges	3,154	5,419
Depreciation	488	596
Recovery of loan losses	(12,288)	(16,171)
Recovery of guarantee liability	(548)	(2,395)
Results of operations of foreclosed assets	(184)	(587)
Market adjustment on foreclosed assets	315	1,750
Derivative forward value	73,792	10,834
Changes in operating assets and liabilities:		
Accrued interest and other receivables	(4,558)	20,380
Accrued interest payable	97,879	63,486
Other	10,170	14,065
Net cash provided by operating activities	123,961	112,347
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances made on loans	(2,336,684)	(1,666,956)
Principal collected on loans	2,338,873	1,699,490
Net investment in fixed assets	(2,809)	(2,252)
Net cash provided by foreclosed assets	4,000	-
Net proceeds from sale of loans	44,665	28,626
Investments in equity securities	-}	(25,000)
Change in restricted cash	2,443	4,935
Net cash provided by investing activities	50,488	38,843
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuances of short-term debt, net	423,793	687,624

Proceeds from issuance of long-term debt, net	61,082}	789,482
Payments for retirement of long-term debt	(708,045)	(1,669,172)
Proceeds from issuance of members' subordinated certificates	4,517}	72,795
Payments for retirement of members' subordinated certificates	(19,037)	(10,392)
Net cash used in financing activities	(237,690)	(129,663)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(63,241)	21,527
BEGINNING CASH AND CASH EQUIVALENTS	513,906}	504,999
ENDING CASH AND CASH EQUIVALENTS	\$ 450,665}	\$ 526,526

See accompanying notes.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

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

	Three months ended	
	August 31,	
	2010	2009
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 118,479	\$ 173,725
Cash paid for income taxes (1)	104	-
Non-cash financing and investing activities:		
Increase to patronage capital retirement payable	50,843	\$ 41,400
	\$	
Net decrease in debt service reserve funds/debt service reserve certificates	-	(1,113)

(1) Relates to income taxes paid for National Cooperative Services Corporation.

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”) and 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 to accommodate loan securitization transactions.

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 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 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, 2010.

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

(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 lending activities of RTFC and NCSC. Under separate guarantee agreements, RTFC and NCSC pay CFC a fee to indemnify loan losses, excluding losses in NCSC’s consumer loan program. CFC manages the lending 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 either through loans from CFC or commercial paper and long-term notes issued by NCSC and 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 August 31, 2010, CFC had guaranteed \$365 million of NCSC debt, derivative instruments and guarantees with third parties, and CFC’s maximum potential exposure for these instruments totaled \$379 million. The maturities for NCSC obligations guaranteed by CFC run through 2031. Guarantees of NCSC debt and derivative instruments are not included in Note 9, Guarantees, as the debt and derivatives are reported on the consolidated balance sheet. At August

31, 2010, CFC guaranteed \$0.6 million of RTFC guarantees with third parties. The maturities for RTFC obligations guaranteed by CFC run through 2011. All CFC loans to RTFC and NCSC are secured by all assets and revenue of RTFC and NCSC. At August 31, 2010, RTFC had total assets of \$1,608 million including loans outstanding to members of \$1,434 million, and NCSC had total assets of \$461 million including loans outstanding of \$413 million. At August 31, 2010, CFC had committed to lend RTFC up to \$4,000 million, of which \$1,426 million was outstanding. Effective June 1, 2010, CFC's commitment to NCSC increased from \$1,500 million at May 31, 2010 to \$2,000 million. At August 31, 2010, CFC had committed to provide up to \$2,000 million of credit to NCSC, of which \$503 million was outstanding, representing \$138 million of outstanding loans and \$365 million of credit enhancements.

(c) Reclassifications

Reclassifications of prior period amounts have been made to conform to the current reporting format and the presentation in our Form 10-K for the year ended May 31, 2010. Derivative forward value loss totaling \$11 million and derivative cash settlements loss totaling \$3 million for the three months ended August 31, 2009 have been reclassified to derivative losses in

non-interest income on the consolidated statements of operations. The derivative forward value was classified in non-interest expense and the derivative cash settlements were classified in non-interest income in the August 31, 2009 10-Q. These reclassifications were made to present the unrealized and realized gains and losses on our derivatives in the same line on the statement of operations.

(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 August 31,	
	2010	2009
Interest on long-term fixed-rate loans (1)	\$ 222,969}	\$ 223,526
Interest on long-term variable-rate loans (1)	12,656}	26,565
Interest on short-term loans (1)	11,977}	16,035
Interest on investments (2)	1,030}	1,657
Fee income	2,421}	1,674
Total interest income	\$ 251,053}	\$ 269,457

(1) Represents interest income on loans to members.

(2) Represents interest income on the investment of cash, debt securities and equity securities.

Deferred income on the consolidated balance sheets primarily includes deferred conversion fees totaling \$11 million and \$12 million at August 31, 2010 and May 31, 2010, respectively.

(e) Interest Expense

The following table presents the components of interest expense:

(dollar amounts in thousands)	For the three months ended August 31,	
	2010	2009
Interest expense on debt (1):		
Commercial paper and bank bid notes	\$ 1,723}	\$ 3,222
Medium-term notes	63,104}	84,595
Collateral trust bonds	78,549}	78,593
Subordinated deferrable debt	4,916}	4,916
Subordinated certificates	20,306}	19,020
Long-term private debt	45,992}	45,986
Debt issuance costs (2)	2,577}	2,980
Fee expense (3)	2,345}	3,317
Total interest expense	\$ 219,512}	\$ 242,629

(1) Represents interest expense and the amortization of discounts on debt.

(2) Includes amortization of all deferred charges related to the issuance of debt, principally underwriter's fees, legal fees, printing costs and comfort letter fees. Amortization is calculated using 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) Loan Sales

During the three months ended August 31, 2010, we sold distribution loans with outstanding principal balances totaling \$45 million at par to the Federal Agricultural Mortgage Corporation for cash. We recorded a loss on sale of loans totaling \$0.01 million, representing the unamortized deferred loan origination costs and transaction costs for the loans sold in the first quarter of fiscal year 2011. We do not hold any continuing interest in the loans sold and have no obligation to repurchase loans from the purchaser; however, we retain the servicing rights on these loans in return for a market-based fee. As a result, we did not record a servicing asset or liability.

(g) New Accounting Pronouncements

During the three months ended August 31, 2010, we did not change or adopt any new accounting policies that had a material effect on our consolidated financial condition or results of operations.

(2) Loans and Commitments

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

(dollar amounts in thousands)	August 31, 2010		May 31, 2010	
	Loans Outstanding	Unadvanced Commitments	Loans Outstanding	Unadvanced Commitments
Total by loan type (1) (2):				
Long-term fixed-rate loans (3)	\$ 15,559,047}	\$ -}	\$ 15,412,987}	\$ -}
Long-term variable-rate loans (3)	1,894,966}	5,276,930}	2,088,829}	5,154,990}
Loans guaranteed by RUS (4)	236,274}	-}	237,356}	-}
Short-term loans	1,600,476}	8,792,791}	1,599,233}	9,039,448}
Total loans outstanding	19,290,763}	14,069,721}	19,338,405}	14,194,438}
Deferred origination costs	5,029}	-}	4,299}	-}
Less: Allowance for loan losses	(580,539)	-}	(592,764)	-}
Net loans outstanding	\$ 18,715,253}	\$ 14,069,721}	\$ 18,749,940}	\$ 14,194,438}
Total by segment (1):				
CFC:				
Distribution	\$ 13,694,652}	\$ 9,527,888}	\$ 13,459,053}	\$ 9,536,360}
Power supply	3,657,507}	3,481,966}	3,769,794}	3,599,560}
Statewide and associate	91,312}	100,170}	86,182}	112,812}
CFC total	17,443,471}	13,110,024}	17,315,029}	13,248,732}
RTFC	1,433,788}	426,486}	1,671,893}	441,719}
NCSC	413,504}	533,211}	351,483}	503,987}
Total loans outstanding	\$ 19,290,763}	\$ 14,069,721}	\$ 19,338,405}	\$ 14,194,438}

(1) Includes non-performing and restructured loans.

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

(3) Because the interest rate on unadvanced commitments is not set until drawn, long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

(4) "RUS" is the Rural Utilities Service.

Non-Performing and Restructured Loans

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

(dollar amounts in thousands)	August 31, 2010		May 31, 2010	
	Loans Outstanding	Unadvanced Commitments (1)	Loans Outstanding	Unadvanced Commitments (1)

Non-performing and restructured loans:

Non-performing loans (2):

CFC:

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Long-term variable-rate loans	\$ 8,280}	\$ -}	\$ 8,500}	\$ -
Short-term loans	18,413}	-}	16,000}	-
RTFC:				
Long-term fixed-rate loans (3)	8,960}	-}	8,960}	-
Long-term variable-rate loans (3)	471,293}	3,182}	469,596}	677
Short-term loans	57,471}	-}	57,471}	-
Total non-performing loans	\$ 564,417}	\$ 3,182}	\$ 560,527}	\$ 677
Restructured loans (2):				
CFC:				
Long-term fixed-rate loans (3)	\$ 40,708}	\$ -}	\$ 41,538}	\$ -}
Long-term variable-rate loans (3)	455,290}	140,755}	462,397}	140,755}
Short-term loans	-}	12,500}	-}	12,500}
RTFC:				
Long-term fixed-rate loans	-}	-}	3,293}	-}
Long-term variable-rate loans	-}	-}	816}	-}
Total restructured loans	\$ 495,998}	\$ 153,255}	\$ 508,044}	\$ 153,255}

(1) Before advancing funds, additional information may be required to assure that all conditions for the advance of funds have been fully met and there has been no material change in the member's condition as represented in the supporting documents. Collateral and security requirements for advances on commitments are identical to those required at the time of the initial loan approval.

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

(3) Because the interest rate on unadvanced commitments is not set until drawn, long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

Loan Loss Allowance

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

Activity in the loan loss allowance account is summarized below:

(dollar amounts in thousands)	As of and for the three months ended August 31,	
	2010	2009
Balance at beginning of period	\$ 592,764}	\$ 622,960}
Recovery of loan losses	(12,288)	(16,171)
Charge-offs	(9)	(23)
Recoveries	72}	73}
Balance at end of period	\$ 580,539}	\$ 606,839}
As a percentage of total loans outstanding	3.01}%	3.02}%

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 revenue of the borrower with exceptions typical in utility mortgages. Short-term loans are generally unsecured lines of credit. In addition to the collateral received, our member borrowers are also required to set rates charged to their customers to achieve certain financial ratios as required by loan covenants.

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

(dollar amounts in thousands)	August 31, 2010				May 31, 2010			
	Secured	%	Unsecured	%	Secured	%	Unsecured	%
Total by loan type:								
Long-term fixed-rate loans	14,846,187}	95%	712,860}	%		96%	\$ 613,128}	%
Long-term variable-rate loans	1,802,675}	95	92,291}	5	\$ 14,799,859	95	94,165}	4
Loans guaranteed by RUS	236,274}	100	-}	-	1,994,664	100	-}	5
Short-term loans	191,916}	12	1,408,560}	88	237,356	17	1,333,806}	-
Total loans	\$ 17,077,052}	89	\$ 2,213,711}	11	\$ 17,297,306	89	\$ 2,041,099}	83
Total by segment:								
CFC	\$ 15,566,281}	89%	\$ 1,877,190}	11%	\$ 15,585,788	90%	\$ 1,729,241}	10%
RTFC	1,203,487}	84	230,301}	16	1,429,982	86	241,911}	14
NCSC	307,284}	74	106,220}	26	281,536	80	69,947}	20
Total loans	\$ 17,077,052}	89	\$ 2,213,711}	11	\$ 17,297,306	89	\$ 2,041,099}	11

Pledging of Loans and Loans on Deposit

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

(dollar amounts in thousands)	August 31, 2010	May 31, 2010
Collateral trust bonds:		
2007 indenture		
Distribution system mortgage notes	\$ 3,907,711 }	\$ 3,951,445
Collateral trust bonds outstanding	3,100,000 }	3,500,000
1994 indenture		
Distribution system mortgage notes	\$ 2,041,095 }	\$ 2,081,716
RUS guaranteed loans qualifying as permitted investments	206,054 }	207,136
Total pledged collateral	\$ 2,247,149 }	\$ 2,288,852
Collateral trust bonds outstanding	1,980,000 }	1,980,000
1972 indenture		
Cash	\$ 2,032 }	\$ 2,032
Collateral trust bonds outstanding	1,731 }	1,736
Federal Agricultural Mortgage Corporation:		
Distribution and power supply system mortgage notes	\$ 1,939,865 }	\$ 2,094,604
Notes payable outstanding	1,487,200 }	1,587,200
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes	\$ 36,281 }	\$ 33,895
Cash	10,487 }	12,913
Total pledged collateral	\$ 46,768 }	\$ 46,808
Notes payable outstanding	27,101 }	27,101

The following table shows the collateral on deposit and the amount of the corresponding debt outstanding for the notes payable to the Federal Financing Bank of the United States Treasury issued under the Guaranteed Underwriter program of the U.S. Department of Agriculture, which supports the Rural Economic Development Loan and Grant program (see Note 5, Long-Term Debt):

(dollar amounts in thousands)	August 31, 2010	May 31, 2010
Distribution and power supply system mortgage notes on deposit	\$ 3,545,525 }	\$ 3,559,863
Notes payable	3,000,000 }	3,000,000

(3) 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. These assets do not meet the criteria to be classified as held for sale at August 31, 2010 and May 31, 2010.

The activity for foreclosed assets is summarized below:

(dollar amounts in thousands)	As of and for the three months ended August 31,	
	2010	2009
Beginning balance	\$ 42,252}	\$ 48,721}
Results of operations	184}	587}
Net cash provided by foreclosed assets	(4,000)	-}
Market adjustment	(315)	(1,750)
Ending balance	\$ 38,121}	\$ 47,558}

Foreclosed assets at August 31, 2010 included one land development loan, limited partnership interests in certain real estate developments and developed lots and land, raw land and underground mineral rights. During the three months ended August 31, 2010, we foreclosed on one of the land development loans included in foreclosed assets at May 31, 2010 and took ownership of the underlying assets. Additionally, we sold collateral for the remaining land development loan for \$4 million,

net of estimated closing costs. This land development loan was classified as impaired and on non-accrual status with regard to the recognition of interest income at August 31, 2010 and May 31, 2010.

(4) Short-Term Debt and Credit Arrangements

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

(dollar amounts in thousands)	August 31, 2010	May 31, 2010
Short-term debt:		
Commercial paper sold through dealers, net of discounts	\$ 1,174,380}	\$ 840,082}
Commercial paper sold directly to members, at par	1,119,327}	999,449}
Commercial paper sold directly to non-members, at par	54,414}	52,989}
Total commercial paper	2,348,121}	1,892,520}
Daily liquidity fund sold directly to members	339,903}	371,710}
Bank bid notes	30,000}	30,000}
Subtotal short-term debt	2,718,024}	2,294,230}
Long-term debt maturing within one year:		
Medium-term notes sold through dealers	639,951}	693,522}
Medium-term notes sold to members	494,827}	529,215}
Secured collateral trust bonds	506,681}	906,537}
Subordinated deferrable debt (1)	125,000}	-}
Members' subordinated certificates	17,002}	-}
Secured notes payable	78,207}	178,207}
Unsecured notes payable	4,654}	4,650}
Total long-term debt maturing within one year	1,866,322}	2,312,131}
Total short-term debt	\$ 4,584,346}	\$ 4,606,361}

(1) Amount was redeemed in September 2010.

Revolving Credit Agreements

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

(dollar amounts in thousands)	August 31, 2010	May 31, 2010	Termination Date	Facility fee per year (1)
Five-year agreement (2)	\$ 1,049,000	\$ 1,049,000	March 16, 2012	6 basis points
Five-year agreement (2)	967,313	967,313	March 22, 2011	6 basis points 25 basis points
Three-year agreement (3)	1,332,425	1,334,309	March 8, 2013	
Total	\$ 3,348,738	\$ 3,350,622		

(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.

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

(3) The available amount presented at August 31, 2010 and May 31, 2010 is reduced by total letters of credit outstanding of \$2.6 million and \$0.7 million, respectively.

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

	Requirement	Actual August 31, 2010	Actual May 31, 2010
Minimum average adjusted TIER over the six most recent fiscal quarters (1)	1.025	1.12	1.25
Minimum adjusted TIER for the most recent fiscal year (1) (2)	1.05	1.12	1.12
Maximum ratio of senior debt to total equity	10.00	6.21	6.15

(1) "TIER" represents the times interest earned ratio.

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

At August 31, 2010 and May 31, 2010, we were in compliance with all covenants and conditions under our revolving credit agreements and there were no borrowings outstanding under these agreements.

(5) Long-Term Debt

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

(dollar amounts in thousands)	August 31, 2010	May 31, 2010
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