

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

- 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

- 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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer “
company “

Accelerated filer “

Non-accelerated filer x

Smaller reporting

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)

LIABILITIES AND EQUITY

	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	February	February	February
	28,	29,	28,	29,
	2013	2012	2013	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)
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See accompanying notes.

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	February	February	February
	28, 2013	29, 2012	28, 2013	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 e
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.

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:

	For the three months ended		For the nine months ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
(dollar amounts in thousands)				
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		For the nine months ended	
	February 28, 2013	February 29, 2012	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:

(dollar amounts in thousands)	For the nine months ended February 29, 2012		
	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:

(dollar amounts in thousands)	February 28, 2013		May 31, 2012	
	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.

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		May 31, 2012	
	Loans outstanding	Unadvanced commitments (1)	Loans outstanding	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					Thereafter
		2013	2014	2015	2016	2017	
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:

(dollar amounts in thousands)	February 28, 2013			May 31, 2012		
	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			
	Secured	%	Unsecured	%	Secured	%	Unsecured	%
Total by loan type:								
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	-	-