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**Announcement: Moody's affirms National Cooperative Services Corporation's Prime-1 short term rating**

**Global Credit Research - 28 Dec 2010**

**Approximately $1 Billion of Debt Securities Affected.**

New York, December 28, 2010 -- Moody's has affirmed National Cooperative Services Corporation's (NCSC) Prime-1 short-term rating for commercial paper. The rating outlook for NCSC is stable. NCSC's rating and stable rating outlook are based upon the guaranty provided by National Rural Utilities Cooperative Finance Corporation (NRUC: A2 senior unsecured; stable outlook) whose short-term rating for commercial paper is Prime-1.

The rating affirmation of NCSC's Prime-1 commercial paper program considers plans to increase the size of NCSC's commercial paper program to $1.0 billion from $500 million in order to provide the entity with greater borrowing capacity. Current commercial paper outstandings under the NCSC program has increased in the last few months to finance new loan growth coming from electric cooperative borrowers electing to refinance certain 5.0% loans previously originated with Rural Utilities Service (RUS). We understand that NCSC's loan portfolio has increased by about $60 million to approximately $414 million at August 31, 2010 as a result of this new loan demand.

NCSC provides specialized lending for its member cooperatives, for entities owned by its member cooperatives or to fund opportunities which indirectly supports the cooperative sector. Of the existing NCSC loan portfolio, the vast majority of loans represent amortizing loans to member electric distribution cooperatives and their affiliates. While this incremental loan growth opportunity at NCSC is a function of today's very low interest rate environment, Moody's continues to incorporate a view that year-over-year consolidated loan growth at NRUC is expected to be remain relatively flat.

NRUC guarantees NCSC's commercial paper program and provides liquidity support for the program through internal and external sources. Internal sources of liquidity include principal loan repayments which average at least $1 billion annually ($1.3 billion during the next 12 months) as well as external sources, including access to NRUC's committed bank facilities that currently aggregate $3.349 billion. All three existing credit facilities have a multi-year maturity. Approximately $967 million of the facilities expire on March 22, 2011, $1.049 billion on March 16, 2012, and the remaining $1.335 billion on March 8, 2013. These credit facilities do not contain a MAC clause but have financial covenants which are set at levels that provide substantial cushion. The agreements require an adjusted times interest earned ratio (adjusted TIER) average of 1.025 for the last six quarters (excluding any non-cash adjustments for derivatives and foreign currency adjustments) and a maximum senior debt to equity ratio, as defined in the bank agreements, to not be more than 10x (excluding any non-cash adjustments for derivatives and foreign currency adjustments). NRUC was comfortably in compliance with these covenants at August 31, 2010 with an adjusted TIER of 1.12x and a senior debt to equity ratio of 6.21x.

In addition to the three credit facilities described above, NRUC has access to two additional sources of funding, including $513 million of availability under note purchase agreements with Federal Agricultural Mortgage Corporation or "Farmer Mac" and a $500 million commitment from Federal Financing Bank to provide twenty-year funding under the Rural Economic Development Loan and Grant (REDLG) program.

Moody's also observes that member cooperatives continue to provide a stable source of funding for NRUC. At August 31, 2010, NRUC member cooperatives provided about $4.49 billion which represented about 22.8% of total assets (less derivatives). Of the $4.49 billion, $1.459 billion represented short-term debt funding through $1.119 billion in members' commercial paper and $340 million in members' contributions to the daily liquidity fund. NRUC's uses the dealer commercial paper market to supplement any short-term funding requirements not satisfied by the members.

NRUC has established a goal of maintaining its dealer commercial paper and bank bid notes at no more than 15% of total debt. At August 31, 2010, dealer commercial paper and bank bid notes totaled approximately 6.5% of total debt outstanding.

NRUC's A2 senior unsecured rating and Prime-1 short term rating are based on its high quality asset portfolio; its unique market position as the dominant lender to electric distribution cooperatives; an excellent competitive position that includes an ability to raise margins on member loans; a good track record in managing credit restructurings; an improved risk management program and a declining exposure to the more volatile telecommunications sector. To that end, the rating acknowledges the continued progress made by NRUC in working to resolve a large nonperforming loan to a bankrupt Virgin Islands telecommunications company as the US Virgin Islands operating companies were transferred to a NRUC wholly-owned subsidiary earlier in October 2010. The rating also takes into account NRUC management's efforts to reduce the degree of single obligor exposure within the loan portfolio; the company's continued but reducing reliance on capital markets to fund its lending business, and its continuing high leverage.

For more information on NRUC, please refer to the Credit Opinion and the Analysis, which can be found under moodys.com under National Rural Utilities Cooperative Finance Corporation.

The stable rating outlook incorporates our view that modest loan growth among rural electric cooperatives will help maintain strong asset quality within the loan portfolio. To that end, the stable outlook factors in our belief that the telecom portfolio, a source of loan portfolio weakness, will continue to represent less than 10% of the total loan portfolio. The stable outlook also considers NRUC's plans to gradually lower leverage, and an expectation that NRUC will maintain sufficient liquidity as well as access to private sources of funding to mitigate the firm's reliance on wholesale funding.

In light of the relatively high leverage and the firm's exposure to potential impairments from certain foreclosed assets, the prospect of a higher rating is limited within the next twelve months.

The rating could be downgraded if a new meaningful problem loan surfaced within NRUC's portfolio, if recently implemented capital raising and capital retention efforts do not reduce NRUC's leverage over the next twelve to eighteen months, if NRUC fails to maintain an adequate liquidity profile including ample access to multi-year bank credit facilities, or if the lending strategy begins to deemphasize the core electric cooperative market.

The last rating action on NCSC and NRUC occurred on October 20, 2010 when the ratings were affirmed.

The principal methodologies used in rating NRUC and NCSC are Analyzing the Credit Risks of Finance Companies published in October 2000, and U.S. Electric Generation & Transmission Cooperatives, published in December 2009. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

Based in Herndon, Virginia, NRUC is a private, tax-exempt cooperative association exclusively serving rural electric, service, and telecommunication utilities. The principal purpose of NRUC is to provide its members with a source of financing to supplement the loan programs of the Rural Utilities Service of the US Department of Agriculture. At August 31, 2010, NRUC had total assets of approximately $20.15 billion, of which loans to members represented about $19.29 billion. NCSC is a private cooperative association, which provides specialized financing and services to entities owned by rural electric cooperatives.

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