



NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
Powerful Financial Solutions

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CFC's Ratings Outlook Improved to Stable By Fitch

Herndon, VA - National Rural Utilities Cooperative Finance Corporation ("CFC") announced today that Fitch Ratings had affirmed CFC's senior secured rating of "A+", senior unsecured rating of "A", quarterly income capital securities rating of "A-", and commercial paper rating of "F1". Fitch has revised the rating outlook from negative to stable.

According to Fitch, "the ratings affirmation and stable outlook reflects the progress CFC has made in resolving its \$1 billion exposure to Denton County Electric Cooperative ("CoServ") through the recent confirmation of the bankruptcy reorganization plan jointly submitted in June 2002 by CoServ and CFC." In addition, Fitch notes "the progress CFC has made in improving the duration matching of its assets and liabilities, its realizable plan to further lengthen the average tenor of its liabilities, and the commitment to ensuring the capital structure does not become overly reliant on short term borrowings in the future."

Fitch also cites CFC's "solid portfolio performance", "favorable loss experience", and "an appropriately strong" loan loss reserve, in addition to the "contribution of more stable electric distribution loans" to the portfolio, CFC's pricing flexibility, and "seasoned management with sound industry experience and sector specific knowledge" as the rationale behind the positive movement to a stable outlook.

CFC recently reported first quarter financial results for the fiscal year 2003, earning a 1.12 times interest earned ratio exceeding its primary financial objective of a 1.10 times interest earned ratio. Both ratios exclude adjustments for Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). CFC's overall loan portfolio credit quality remained strong resulting in no write-offs during the first three months of fiscal year 2003.

Net margins for the three months ended August 31, 2002, were \$261 million (including \$237 million for the SFAS 133 forward value of interest rate exchange agreements and cross currency interest rate exchange agreements) compared with net margins of \$70 million (including \$13 million for the SFAS 133 forward value of interest rate exchange agreements and cross currency interest rate exchange agreements and \$28 million for the cumulative effect of change in an accounting principle) for the three months ended August 31, 2001. CFC uses derivatives as part of its risk management strategy and intends to hold all derivatives through maturity. The adjustments made to record the fair value of derivatives do not represent a cash transaction and will reverse over the life of a derivative held to maturity. Net margins excluding the SFAS 133 forward value of interest rate exchange agreements and cross currency interest rate exchange agreements and the cumulative effect of change in an accounting principle were \$24 million as compared to \$29 million for the first quarter of fiscal years 2003 and 2002, respectively. CFC added \$36 million to the loan loss reserve bringing the total loss allowance to \$543 million at August 31, 2002, representing 2.71% of gross loans, and 2.46% of gross loans and guarantees. CFC's goal, as a member owned cooperative, is not to maximize its earnings, but rather to set rates for its member borrowers at the lowest reasonable level, consistent with market trends and sound financial practice.

Gross loans outstanding increased by \$21 million during the three-month period ended August 31, 2002. Loans outstanding to electric cooperative borrowers increased \$66 million, offset by a decrease in loans outstanding to rural telecommunications borrowers of \$45 million. Secured loans, typically with a first priority lien on all utility assets and revenues of a borrower, represented 92% of gross loans outstanding. Management anticipates modest net loan growth for the remainder of fiscal 2003.

At August 31, 2002 CFC had non-performing loans in the amount of \$1,008 million. All loans classified as non-performing were on a non-accrual status with respect to the recognition of interest income. Loans categorized as non-performing included \$1,003 million of loans to CoServ. Following the end of the first quarter, entities controlled by CFC took possession of approximately \$307 million of notes receivable, partnership interests and real estate property and CFC took possession of \$27 million in cash, all from CoServ Realty Holdings. CFC reduced the outstanding loan balance to CoServ by the cash received and the fair value of the notes receivable, the partnership interests, and the real estate properties, less associated expenses. CFC anticipates that CoServ's electric entities will emerge from bankruptcy in November 2002. All calculated impairments related to CoServ are fully reserved for on a dollar for dollar basis.

CFC continued to pursue a strategy of replacing dealer commercial paper with medium-term note funding. In August CFC issued \$1.25 billion of global unsecured notes to replace maturing floating rate medium term notes as well as some short-dated commercial paper used to fund variable rate loans. During the three-month period CFC also renewed its 364-day revolving credit agreements, which along with an existing \$1.0 billion multi-year revolving credit agreement provide \$3.7 billion in back-up liquidity for CFC's securities.

CFC is a not-for-profit finance cooperative that serves the nation's more than 1,000 electric cooperatives and their subsidiaries. With more than \$20 billion in assets, CFC provides its member-owners with an assured source of low-cost capital and state-of-the-art financial products and services. Further information regarding CFC may be obtained at nruccf.org.

This announcement may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on management's then current views and assumptions regarding future events and operating performance. CFC undertakes no obligation to publicly update or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward looking statements are made. This announcement does not constitute an offer of any security.

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