

Fitch Affirms National Rural Utilities Cooperative Finance Corp's IDR at 'A'; Outlook to Positive

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Fitch Ratings-Chicago-23 February 2007: Fitch Ratings has revised National Rural Utilities Cooperative Finance Corp's (NRUCFC's) Rating Outlook to Positive and affirmed the Long-Term Issuer Default Rating (IDR) at 'A' and short-term rating of 'F1'. A complete list of ratings is provided at the end of this release. Approximately \$14 billion of debt is affected by this action.

The Rating Outlook revision is driven by NRUCFC's improvements in risk management and syndication capabilities, reduced reliance on commercial paper and secured funding, and the expectation that financial impact from large non-accruals will be minimal. Fitch recognizes the strides NRUCFC has made in implementing stronger risk management policies which include credit risk grading, exposure limits and syndication capabilities. These improvements should reduce credit risk, which has affected performance in the past. Moreover, NRUCFC has become more adept at syndicating its loans, which should reduce its exposure to any one borrower, while still maintaining its customer relationship. An upgrade of the company's IDR will be predicated on improved and stable adjusted operating margins, continued reduction in non-accrual loans, and continued development of the company's loan syndication capabilities.

The ratings of NRUCFC continue to reflect the company's modest credit losses, operating record reflective of the company's position in the cooperative lending sector, and ability to effectively resolve credit issues with borrowers. These credit strengths are offset by the company's specific industry and individual borrower concentrations and declining operating margins.

As a cooperative, NRUCFC's profitability objectives differ from other financial institutions in that its primary goal is to provide competitive funding for its members. As such profitability metrics will not compare favorably to banks and finance companies. Nonetheless, Fitch believes it is important that NRUCFC improve and stabilize its adjusted operating margins. The company's operating margins have been negatively impacted by provisions for non-accrual loans. We expect improvement and stability in this measure, over the near term, as non-accruals loans are resolved. Fitch believes the company is adequately reserved at this time for its non-accrual loans, however, NRUCFC continues to work through a few sizable problem credits.

Rating affirmed with a Positive Outlook:

National Rural Utilities Finance Corp.

--Long-term IDR at 'A';

--Short term at 'F1';

--Commercial Paper at 'F1';

--Senior Secured at 'A+';

--Senior Debt at 'A';

--Preferred Stock at 'A-'.

Contact: Peter Shimkus +1-312-368-2063, Chicago; or Vincent Arscott, CFA + 1-212-908-0872, New York

Media Relations: Kenneth Reed, New York, Tel: +1 212-908-0540.

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