

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 424B5

October 25, 2018

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CALCULATION OF REGISTRATION FEE

Class of securities offered	Aggregate offering price	Amount of Registration Fee
Collateral Trust Bonds	\$ 625,000,000	\$ 75,750(1)

(1)

The filing fee of \$75,750 is calculated in accordance with Rule 457(r) of the Securities Act of 1933. No additional registration fee has been paid with respect to this offering.

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Filed pursuant to Rule 424(b)(5)

Registration No. 333-213558

Prospectus Supplement

(To prospectus dated September 9, 2016)

National Rural Utilities

Cooperative Finance Corporation

\$325,000,000 3.90% Collateral Trust Bonds due 2028

\$300,000,000 4.40% Collateral Trust Bonds due 2048

This is an offering by National Rural Utilities Cooperative Finance Corporation of \$325,000,000 of its 3.90% collateral trust bonds due 2028 (the “2028 bonds”) and \$300,000,000 of its 4.40% collateral trust bonds due 2048 (the “2048 bonds” and together with the 2028 bonds, the “bonds”).

Interest on the bonds will accrue from the date of original issuance and is payable on May 1 and November 1 of each year commencing on May 1, 2019.

We may redeem the bonds in whole or in part at any time at the redemption prices described under the caption “Description of the Bonds — Redemption of the Bonds” in this prospectus supplement.

The bonds are being offered in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Investing in the bonds involves certain risks. See “Risk Factors” on page S-1 of this prospectus supplement.

None of the United States Securities and Exchange Commission, any state securities commission or any foreign governmental agency has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	2028 Bonds		2048 Bonds	
	Per Bond	Total	Per Bond	Total
Public offering price	99.934%	\$ 324,785,500	99.505%	\$ 298,515,000
Underwriting discount	0.650%	\$ 2,112,500	0.875%	\$ 2,625,000
Proceeds, before expenses, to us	99.284%	\$ 322,673,000	98.630%	\$ 295,890,000

The underwriters expect to deliver the bonds in book-entry form only through the facilities of The Depository Trust Company and its participants, including Clearstream Banking, société anonyme, and Euroclear Bank, S.A./N.V. on or about October 31, 2018.

Joint Book-Running Managers

MUFG RBC Capital Markets

Scotiabank US Bancorp

Co-Managers

J.P. Morgan

Mizuho Securities

PNC
Capital
Markets
LLC

KeyBanc Capital Markets

SunTrust Robinson Humphrey

Regions
Securities
LLC

October 24, 2018

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any written communication from us or the underwriters specifying the final terms of the offering. We have not, and the underwriters have not, authorized anyone to provide you with different information. You should not assume that the information incorporated by reference or contained in this prospectus supplement, the accompanying prospectus and any written communication from us or the underwriters specifying final terms of the offering is accurate as of any date other than its respective date. We are not, and the underwriters are not, making an offer of these bonds in any state or other jurisdiction where such an offer is not permitted.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the bonds in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

In addition to using our full name, we also refer to our company as “CFC,” “we,” “us,” and “our”. References in this prospectus supplement to “\$” and “dollars” are to the currency of the United States.

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RISK FACTORS

Investing in the bonds involves significant risks. Before you invest in the bonds, in addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks and uncertainties discussed in the accompanying prospectus under “Risk Factors” and under Item 1A, “Risk Factors,” or otherwise discussed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2018 and in other filings we have made with the Securities and Exchange Commission (the “SEC”) after the date of the registration statement of which this prospectus supplement and the accompanying prospectus is a part. Additional risks and uncertainties not presently known to us may also impair our business operations, financial results and the value of the bonds.

WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE

The SEC allows us to “incorporate by reference” into this prospectus supplement information we have filed with the SEC. This permits us to disclose important information to you by referring to these filed documents. The information incorporated by reference is an important part of this prospectus supplement, and the information we file subsequently with the SEC will automatically update and supersede the information in this prospectus supplement. Absent unusual circumstances, we will have no obligation to amend this prospectus supplement, other than filing subsequent information with the SEC. The historical and future information that is incorporated by reference in this prospectus supplement is considered to be part of this prospectus supplement. The information included elsewhere in the prospectus and this prospectus supplement, and the following information incorporated by reference is considered to be part of the prospectus and this prospectus supplement:

- Annual Report on Form 10-K for the year ended May 31, 2018 (filed July 31, 2018);
- Quarterly Report on Form 10-Q for the quarter ended August 31, 2018 (filed October 10, 2018); and
- Current Report on Form 8-K, dated June 12, 2018 (filed June 12, 2018).

CFC also incorporates by reference all additional documents that it may file with the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), between the date of this prospectus supplement and the termination of the offering of the bonds. However, CFC is not incorporating any document or information that is deemed to be furnished and not filed in accordance with SEC rules.

You may obtain a copy of these filings from the SEC’s website at www.sec.gov or request a copy of these filings from CFC by writing or telephoning us at the following address:

National Rural Utilities Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166-6691
(703) 467-1800

Attn: J. Andrew Don, Senior Vice President and Chief Financial Officer

See also “Where You Can Find More Information” on page 1 of the accompanying prospectus.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges for the five years ended May 31, 2018 are included in Exhibit 12 to our Annual Report on Form 10-K for the fiscal year ended May 31, 2018, and are incorporated by reference into this prospectus. Our ratio of earnings to fixed charges for the three months ended August 31, 2018 is included in Exhibit 12 to our Quarterly Report on Form 10-Q for the quarter ended August 31, 2018, and is incorporated by reference into this prospectus.

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USE OF PROCEEDS

The net proceeds from the sale of the bonds offered hereby are estimated to be \$618,363,000. The net proceeds, together with cash on hand and other funding sources, will be used to fund the repayment of \$700 million in outstanding principal amount of CFC's 10.375% collateral trust bonds and \$175 million in outstanding principal amount of CFC's 6.55% collateral trust bonds, each maturing November 1, 2018.

DESCRIPTION OF THE BONDS

General

The bonds will be issued under an indenture dated as of October 25, 2007 (the "indenture") between CFC and U.S. Bank National Association, as trustee (the "trustee"). The bonds will be direct obligations of CFC secured by the pledge of eligible mortgage notes of distribution system members, cash and certain permitted investments. See "— Security" on page S-3 of this prospectus supplement as well as "Description of the Collateral Trust Bonds — Security" beginning on page 6 of the accompanying prospectus for more information on the mortgage notes.

Interest on the Bonds

The 2028 bonds and the 2048 bonds will mature on November 1, 2028 and November 1, 2048, respectively, and will bear interest from the date of original issuance at a rate per annum of 3.90% and 4.40%, respectively. Interest on the bonds will be payable on May 1 and November 1 of each year commencing May 1, 2019 to the persons in whose names such bonds are registered at the close of business on the fifteenth calendar day preceding the payment date, or if not a business day, the next succeeding business day. Interest on the bonds will accrue from, and including, the date of issue or from, and including, the last date in respect of which interest has been paid, as the case may be, to, but excluding, the relevant interest payment date, date of redemption or the date of maturity, as the case may be. Interest on the bonds will be computed on the basis of a 360-day year of twelve 30-day months.

If any of the interest payment dates, the redemption dates or the maturity dates fall on a day that is not a business day, CFC will postpone the payment of interest or principal to the next succeeding business day, but the payment made on such dates will be treated as being made on the date payment was first due and the holders of the bonds will not be entitled to any further interest or other payments with respect to such postponements. The term "business day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the Borough of Manhattan, City and State of New York are authorized by law to close.

Redemption of the Bonds

CFC may redeem the 2028 bonds at any time, prior to August 1, 2028, in whole or in part, at a "make-whole" redemption price equal to the greater of (1) 100% of the principal amount being redeemed or (2) the sum of the present values of the remaining scheduled payments of the principal and interest (other than accrued interest) on the 2028 bonds being redeemed that would be due if such 2028 bonds matured on August 1, 2028, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points for the 2028 bonds plus in each of (1) and (2) above, accrued interest to, but excluding, the redemption date.

At any time on or after August 1, 2028, we may redeem the 2028 bonds, at our option, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2028 bonds then outstanding to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption.

CFC may redeem the 2048 bonds at any time, prior to May 1, 2048, in whole or in part, at a "make-whole" redemption price equal to the greater of (1) 100% of the principal amount being redeemed or (2) the sum of the present values of the remaining scheduled payments of the principal and interest (other than accrued interest) on the 2048 bonds being redeemed that would be due if such 2048 bonds matured on May 1, 2048, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points for the 2048 bonds plus in each of (1) and (2) above, accrued interest to, but excluding, the redemption date.

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At any time on or after May 1, 2048, we may redeem the 2048 bonds, at our option, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2048 bonds then outstanding to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption.

“Treasury Rate” means, for any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the bonds being redeemed (assuming, for this purpose, that the 2028 bonds matured on August 1, 2028 and the 2048 bonds matured on May 1, 2048) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such bonds.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the trustee after consultation with CFC.

“Comparable Treasury Price” means with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations for that redemption date, or (B) if we obtain fewer than four Reference Treasury Dealer Quotations, the average of all the Reference Treasury Dealer Quotations obtained.

“Reference Treasury Dealer Quotations” means, for each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by the Reference Treasury Dealer at 5:00 p.m. New York City time on the third business day preceding the redemption date for the bonds being redeemed.

“Reference Treasury Dealer” means (1) each of RBC Capital Markets, LLC and Scotia Capital (USA) Inc., or their respective affiliates or successors; provided, however, that if any of them ceases to be a primary U.S. Government securities dealer in the United States, CFC will appoint another primary U.S. Government securities dealer as a substitute, (2) one primary U.S. Government securities dealer selected by each of MUFG Securities Americas Inc. and U.S. Bancorp Investments, Inc. and (3) any other U.S. Government securities dealers selected by CFC.

If CFC elects to redeem less than all of the bonds, and such bonds are at the time represented by a global security, then the depositary will select by lot the particular interest to be redeemed. If CFC elects to redeem less than all of the bonds, and such bonds are not represented by a global security, then the trustee will select the particular bonds to be redeemed in a manner it deems appropriate and fair.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the date of redemption to each holder of the bonds to be redeemed. Unless CFC defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on such bonds or the portions called for redemption.

Ranking

Except as to security, the bonds will rank on a parity with all other senior obligations of CFC, other than debt with statutory priority.

Security

The bonds will be secured under the indenture, equally with all existing collateral trust bonds and collateral trust bonds which may be subsequently issued under the indenture, by the pledge with the trustee of eligible collateral having an “allowable amount” (as defined in the indenture) at least equal to the aggregate principal amount of bonds outstanding. The indenture provides that collateral will consist of mortgage notes of distribution system members, cash and permitted investments. A distribution system

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member is a member of CFC that derives at least 50% of gross operating revenues from sales of electricity to consumers. The principal amount of collateral on deposit with the trustee must be at least equal to the aggregate principal amount of collateral trust bonds outstanding. On August 31, 2018, there was a total of \$8,394 million of eligible mortgage notes and \$139 million of permitted investments pledged under the indenture with the trustee, against which \$7,398 million of collateral trust bonds (not including the bonds offered hereby) had been issued. Under the mortgages held as collateral, CFC generally has a lien on all assets and future revenues of the subject distribution system. To be eligible for pledging, a distribution system member must maintain an equity ratio of at least 20% and an average coverage ratio of at least 1.35. The principal amount of mortgage notes pledged for any one borrower may not exceed 10% of the total principal amount of mortgage notes pledged. CFC discloses the principal amount of collateral on deposit and aggregate principal amount of bonds outstanding in each of its Form 10-Q and Form 10-K filings with the SEC. Any cash held by the trustee as collateral shall upon CFC's request be invested until required to be paid out under the provisions of the indenture.

CFC also has existing collateral trust bonds outstanding under an indenture dated as of February 15, 1994 between CFC and U.S. Bank National Association, as successor trustee (the "1994 Indenture"). The collateral under the 1994 Indenture secures only those bonds issued under the 1994 Indenture, and will not secure the bonds issued in this offering.

The following are permitted investments under the indenture:

- certain obligations of or guaranteed by the United States and of agencies of the United States for which the full faith and credit of the obligor shall be pledged and which mature (except in the case of obligations guaranteed by the Rural Utilities Service) not more than two years after purchase,
- certificates of deposit or time deposits of any bank or trust company organized under the laws of the United States having at least \$500,000,000 of capital and surplus and maturing not more than two years after purchase,
- commercial paper of bank holding companies or other corporate issuers other than CFC generally rated in the highest category by at least two nationally recognized statistical rating agencies and maturing not more than one year after purchase, and
- obligations of any state or municipality, or subdivision or agency of either thereof, which shall mature not more than two years after the purchase thereof and are rated AA (or equivalent) or better by at least two nationally recognized statistical rating organizations or having a comparable rating in the event of any future change in the rating system of such agencies.

For additional information, please see "Description of Collateral Trust Bonds — Security" beginning on page 6 of the accompanying prospectus.

Further Issues

CFC may, without the consent of the then existing holders of the bonds, "re-open" the series and issue additional bonds, which additional bonds will have the same terms as the bonds issued hereby except for the issue price, issue date and under some circumstances, the first interest payment date. CFC will not issue any additional bonds of the series unless the additional bonds will be fungible with the bonds issued hereby for U.S. Federal income tax purposes.

Book-Entry, Delivery and Form

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the bonds. The bonds will be issued as fully-registered global securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered certificates will be issued for each issue of the bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing

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agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts, thereby eliminating the need for physical movement of certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Indirect access to the DTC system is also available to others such as banks, brokers and dealers, trust companies and clearing corporations that clear through or maintain a custodial relationship with a participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC participants are on file with the SEC. Purchases of bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the bonds on DTC’s records. The ownership interest of each actual purchaser of each bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the bonds, except in the event the book-entry system for the bonds is discontinued.

To facilitate subsequent transfers, all bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to CFC as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from CFC, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC or CFC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested

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by an authorized representative of DTC) is the responsibility of CFC, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the bonds at any time by giving reasonable notice to CFC. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

CFC may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC. Certificates may also be printed and delivered in the event of an event of default under the indenture and the subsequent surrender by DTC of the global bonds.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that CFC believes to be reliable, but neither CFC nor the underwriters take any responsibility for the accuracy thereof.

Payments on any definitive bonds would be made by the trustee directly to holders of the definitive bonds in accordance with the procedures set forth herein and in the indenture. Interest payments and any principal payments on the definitive bonds on each interest payment date would be made to holders in whose names the definitive bonds were registered at the close of business on the related record date as set forth under "— Interest on the Bonds" beginning on page S-2. Such payments would be made by check mailed to the address of such holders as they appear on the bond register and, in addition, under the circumstances provided by the indenture, by wire transfer to a bank or depository institution located in the United States and appropriate facilities thereof. The final payment of principal and interest on any definitive bonds, however, would be made only upon presentation and surrender of such definitive bonds at the office of the paying agent for such bonds.

A definitive bond may be transferred free of charge in whole or in part upon the surrender of the definitive bond to be transferred, together with the completed and executed assignment which appears on the reverse of the definitive bond, at the specified office of any transfer agent. In the case of a permitted transfer of any part of a definitive bond, a new definitive bond in respect of the balance not transferred will be issued to the transferor. Each new definitive bond to be issued upon the transfer of a definitive bond will, upon the effective receipt of such completed assignment by a transfer agent at its respective specified office, be available for delivery at such specified office, or at the request of the holder requesting such transfer, will be mailed at the risk of the transferee entitled to the new definitive bond to such address as may be specified in such completed assignment. Neither the registrar nor any transfer agent shall be required to register the transfer of or exchange of any definitive bonds within 15 days before the maturity date.

Global Clearance and Settlement Procedures

Initial settlement for the bonds will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system.

Because of time-zone differences, credits of bonds received in Clearstream Banking, société anonyme ("Clearstream") or Euroclear Bank, S.A./N.V. ("Euroclear"), as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such bonds settled during such processing will be reported to the relevant Clearstream or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of bonds by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the bonds among its participants, DTC, Clearstream and Euroclear are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

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Neither CFC, the trustee nor the underwriters will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, DTC's nominee or any DTC participant with respect to any ownership interest in the bonds, or payments to, or the providing of notice for, DTC participants or beneficial owners.

Notices

Except as otherwise provided in the indenture, notices to holders of the bonds will be sent by mail to the registered holders.

Replacement Securities

In case of mutilation, destruction, loss or theft of any definitive bond, application for replacement is to be made at the office of the trustee. Any such definitive bond will be replaced by the trustee in compliance with such procedures, and on such terms as to evidence and indemnity, as the issuer and the trustee may require. All costs incurred in connection with the replacement of any definitive bond will be borne by the holder of the bond. Mutilated or defaced definitive bonds must be surrendered before new ones will be issued.

Applicable Law

The bonds, the indenture and the underwriting agreement relating to the issuance of the bonds are governed by and will be construed in accordance with the laws of the State of New York. CFC has not submitted to the jurisdiction of any court other than the Federal and state courts of the Commonwealth of Virginia in any suit or proceeding arising out of or relating to the issuance of the bonds.

CERTAIN MATERIAL U.S. FEDERAL TAX CONSIDERATIONS

General

This section summarizes certain material U.S. federal tax consequences to holders of the bonds. The discussion, however, is limited in the following ways:

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The discussion only covers you if you buy your bonds in the initial offering of the bonds at the initial offering price.

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The discussion only covers you if you hold your bonds as a capital asset (generally, for investment purposes), your "functional currency" is the U.S. dollar (if you are a U.S. holder) and you do not have a special tax status.

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The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of the bonds, such as your holding the bonds in connection with a hedging, straddle or conversion transaction. We suggest that you consult your tax advisor about the consequences of holding the bonds in your particular situation.

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The discussion does not cover you if you are a partner in a partnership (or an entity treated as a partnership for U.S. federal tax purposes). If a partnership holds the bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding the bonds, we suggest that you consult your tax advisor.

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The discussion is based on current law. Changes in the law may change the tax treatment of the bonds.

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The discussion does not cover state, local or foreign law, and, except for the U.S. federal estate tax consequences discussed below with respect to Non-U.S. holders, does not cover any U.S. federal tax consequences other than income tax consequences.

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This discussion does not cover the Medicare tax that may be imposed on the “net investment income” of U.S. holders that are individuals, estates or trusts.

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We have not requested a ruling from the Internal Revenue Service (“IRS”) on the tax consequences of owning the bonds. As a result, the IRS could disagree with portions of this discussion.

If you are considering buying bonds, we suggest that you consult your tax advisors about the tax consequences of holding the bonds in your particular situation.

Tax Consequences to U.S. Holders

This section applies to you if you are a “U.S. holder.” A “U.S. holder” is a beneficial owner of the bonds that is, for U.S. federal income tax purposes:

•

an individual U.S. citizen or resident alien;

•

a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state);

•

an estate whose worldwide income is subject to U.S. federal income tax; or

•

a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and if one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has validly elected to be treated as a U.S. person.

Stated Interest

Assuming the bonds are not issued with more than a de minimis amount of original issue discount, stated interest on the bonds is treated as follows:

•

If you are a cash method taxpayer (as are most individual holders), you must report that interest in your income when you receive it.

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If you are an accrual method taxpayer, you must report that interest in your income as it accrues.

While you generally are not required to include de minimis original issue discount in income prior to sale or maturity of the bonds, under recently enacted legislation, if you maintain certain types of financial statements and are subject to the accrual method of tax accounting you may be required to include any de minimis original issue discount on the bonds in income no later than the time at which you include such amounts in income on your financial statements. If you maintain financial statements you should consult your tax advisors regarding the tax consequences to you of this legislation.

Sale or Retirement of the Bonds

On your sale or retirement of your bonds:

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You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the bonds. Your tax basis in the bonds generally is your cost.

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Your gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you held the bonds for more than one year. For non-corporate U.S. holders, net long-term capital gains are generally taxed at preferential rates. The deductibility of capital losses is subject to certain limitations.

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If you sell the bonds between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the bonds but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

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Information Reporting and Backup Withholding

Under the tax rules concerning information reporting to the IRS:

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Assuming you hold your bonds through a broker or other intermediary, the intermediary must provide information to the IRS concerning interest and retirement or sale proceeds on your bonds, unless an exemption applies.

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Similarly, unless an exemption applies, you must provide the intermediary with your taxpayer identification number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

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If you are subject to these requirements but do not comply, the intermediary must apply backup withholding on all amounts payable to you on the bonds (including principal payments). If the intermediary withholds, you may claim the withheld amount as a credit against your federal income tax liability if you provide the required information to the IRS.

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All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

Tax Consequences to Non-U.S. Holders

This section applies to you if you are a “Non-U.S. holder.” A “Non-U.S. holder” is a beneficial owner of the bonds, other than a partnership or other entity treated as a partnership for U.S. federal income tax purposes, that is not a U.S. holder.

Withholding Taxes

Generally, payments of principal and interest on the bonds will be exempt from U.S. withholding taxes. For the exemption from withholding taxes to apply to you, however, you must meet one of the following requirements:

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You provide a completed Form W-8BEN or W-8BEN-E, as applicable, (or substitute form) to the bank, broker or other intermediary through which you hold your bonds. The Form W-8BEN or W-8BEN-E, as applicable, contains your name, address and a statement that you are the beneficial owner of the bonds and that you are a Non-U.S. holder.

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You hold your bonds directly through a “qualified intermediary” and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. withholding tax rules under specified procedures.

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You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you must generally complete Form W-8BEN or W-8BEN-E, as applicable, and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary or a qualified intermediary may already have some or all of the necessary evidence in its files.

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The interest income on the bonds is effectively connected with the conduct of your trade or business in the U.S.. To claim this exemption, you must complete Form W-8ECI and be subject to U.S. federal income tax as described below

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Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

- The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.
- The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.
- An intermediary through which you hold the bonds fails to comply with the procedures necessary to avoid withholding taxes on the bonds. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN or W-8BEN-E, as applicable (or other documentary information concerning your status), to the withholding agent for the bonds. If you hold your bonds through a qualified intermediary (or if there is a qualified intermediary in the chain of title between you and the withholding agent for the bonds), however, the qualified intermediary may not forward this information to the withholding agent.
- You are a bank making a loan in the ordinary course of business. In this case, you will be exempt from withholding taxes only if you are eligible for a treaty exemption or if the interest income is effectively connected with your conduct of a trade or business in the U.S., as discussed above.

Interest payments made to you will generally be reported to the IRS and to you on Form 1042-S. This reporting does not apply to you if you, however, hold your bonds directly through a qualified intermediary and the applicable procedures described above are satisfied.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. In addition, special rules apply to certain types of Non-U.S. holders of the bonds, including partnerships, trusts and other entities treated as pass-through entities for U.S. federal income tax purposes. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

Sale or Retirement of Bonds

If you sell the bonds or the bonds are redeemed, you will not be subject to federal income tax on any gain unless one of the following applies:

- The gain is connected with a trade or business that you conduct in the U.S.
- You are an individual, you were present in the U.S. for at least 183 days during the year in which you disposed of the bonds and certain other conditions are satisfied.
- The gain represents accrued interest, in which case the rules for interest would apply.

U.S. Trade or Business

If you hold your bonds in connection with a trade or business that you are conducting in the U.S. and, if required by an applicable income tax treaty, you maintain a U.S. permanent establishment to which the holding of the bonds is attributable:

- Any interest on the bonds, and any gain from disposing of the bonds, generally will be subject to U.S. federal income tax as if you were a U.S. holder.

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If you are a foreign corporation, you may also be subject to the “branch profits tax” on your earnings that are connected with your U.S. trade or business (subject to certain adjustments), including earnings from the bonds. This tax generally is imposed at a rate of 30% but may be reduced or eliminated by an applicable income tax treaty.

Estate Taxes

If you are an individual, your bonds will not be subject to U.S. estate tax when you die. This rule, however, only applies, absent specific treaty relief, if, at your death, payments on the bonds were not connected to a trade or business that you were conducting in the U.S. and the interest on the bonds generally was not subject to U.S. withholding taxes.

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Information Reporting and Backup Withholding

U.S. rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. holders as follows:

- Principal and interest payments you receive will be automatically exempt from the usual rules if you are a Non-U.S. holder exempt from withholding tax on interest, as described above. The exemption does not apply if the withholding agent or an intermediary knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, as described above, interest payments made to you may be reported to the IRS on Form 1042-S.

- Sale proceeds you receive on a sale of your bonds through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup withholding may apply if you use the U.S. office of a broker and information reporting (but not backup withholding) may apply if you use the foreign office of a broker that has certain connections to the U.S. In general, you may provide one of the forms described under “Withholding Taxes” to claim an exemption from information reporting and backup withholding on a sale. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.

Withholdable Payments to Foreign Financial Entities