NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 10-Q
October 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2014
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	52-0891669
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
20701 Cooperative Way, Dulles, Virginia	20166
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (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 x 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 x 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.
(Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨
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.

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PART I—FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements defined by the Securities Act of 1933, as amended, and the Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potenti and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the adequacy of the loan loss allowance, operating income and expenses, leverage and debt-to-equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance could materially differ. Factors that could cause future results to vary from current expectations include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, nonperformance of counterparties to our derivative agreements and the costs and effects of legal or governmental proceedings involving National Rural Utilities Cooperative Finance Corporation ("CFC") or its members. Some of these and other factors are discussed in our annual and quarterly reports previously filed with the U.S. Securities and Exchange Commission ("SEC"). Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

INTRODUCTION

CFC is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC's principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service ("RUS") of the United States Department of Agriculture ("USDA"). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes. As a member-owned cooperative, CFC has no publicly held equity securities outstanding. CFC funds its activities primarily through a combination of publicly and privately held debt securities and member investments. As a member-owned cooperative, CFC's objective is not to maximize profit, but rather to offer its members cost-based financial products and services consistent with sound financial management. CFC annually allocates its net earnings, which consist of net income excluding the effect of certain non-cash accounting entries, to (i) a cooperative educational fund, (ii) a members' capital reserve, (iii) a general reserve, if necessary, and (iv) members based on each member's patronage of CFC's loan programs during the year.

For financial statement purposes, CFC's results of operations and financial condition are consolidated with and include Rural Telephone Finance Cooperative ("RTFC") and National Cooperative Services Corporation ("NCSC"). Unless stated otherwise, references to "we," "our" or "us" relate to the consolidation of CFC, RTFC, NCSC and certain entities created and controlled by CFC to hold foreclosed assets and to accommodate loan securitization transactions.
Management monitors a variety of key indicators to evaluate our business performance. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by

focusing on changes from period to period in certain key measures used by management to evaluate performance, such as leverage ratios, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related notes in this Report, the more detailed information contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2014 ("2014 Form 10-K"), including the risk factors discussed

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under "Part I—Item 1A. Risk Factors" in our 2014 Form 10-K, and the risk factors under "Part II—Item 1A. Risk Factors" in this Report.

SUMMARY OF SELECTED FINANCIAL DATA

Table 1 provides a summary of selected financial data for the three months ended August 31, 2014 and 2013, and as of August 31, 2014 and May 31, 2014. In addition to financial measures determined in accordance with generally accepted accounting principles in the United States (“GAAP”), management also evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Our key non-GAAP metrics consist of adjusted times interest earned ratio (“TIER”) and adjusted debt-to-equity ratio. The most comparable GAAP measures are TIER and debt-to-equity ratio, respectively. The primary adjustments we make to calculate these non-GAAP measures consist of (i) adjusting interest expense and net interest income to include the impact of net periodic derivative cash settlements; (ii) adjusting net income, senior debt and total equity to exclude the non-cash impact of the accounting for derivative financial instruments; (iii) adjusting senior debt to exclude the amount that funds CFC member loans guaranteed by the RUS, subordinated deferrable debt and members’ subordinated certificates; and (iv) adjusting total equity to include subordinated deferrable debt and members’ subordinated certificates. See "Non-GAAP Financial Measures" for a detailed reconciliation of these adjusted measures to the most comparable GAAP measures. We believe our adjusted non-GAAP metrics, which are not a substitute for GAAP and may not be consistent with similarly titled non-GAAP measures used by other companies, provide meaningful information and are useful to investors because the financial covenants in our revolving credit agreements and debt indentures are based on these adjusted metrics.

Table 1: Summary of Selected Financial Data

(Dollars in thousands)	Three Months Ended August 31, 2014	2013	Change
Statement of operations			
Interest income	$237,291	$241,071	(2) %
Interest expense	(156,552)	(167,585)	(7)
Net interest income	80,739	73,486	10
Provision for loan losses	6,771	(1,278)	(630)
Fee and other income	4,357	4,156	5
Derivative (losses) gains, net [1]	(49,878)	106,384	(147)
Results of operations of foreclosed assets	(2,699)	(4,049)	(33)
Operating expenses[2]	(18,543)	(18,615)	—
Other non-interest expense	61	(117)	(152)
Income before income taxes	20,808	159,967	(87)
Income tax expense	(196)	(1,701)	(88)
Net income	$20,612	$158,266	(87) %
Adjusted statement of operations			
Adjusted interest expense[3]	$(176,653)	$(184,270)	(4) %
Adjusted net interest income[3]	60,638	56,801	7
Adjusted net income[3]	50,389	35,197	43
Ratios			
Fixed-charge coverage ratio/TIER [4]	1.13	1.94	(81) bps
Adjusted TIER[3]	1.29	1.19	10

	As of August 31, 2014	May 31, 2014	Change
Balance sheet			
Cash, investments and time deposits	$974,472	$944,412	3%
Loans to members	20,484,578	20,476,642	—
Allowance for loan losses	(49,711)	(56,429)	(12)
Loans to members, net	20,434,867	20,420,213	—
Total assets	22,230,468	22,232,743	—
Short-term borrowings	4,173,390	4,099,331	2
Long-term debt	14,382,775	14,513,284	(1)
Subordinated deferrable debt	400,000	400,000	—
Members' subordinated certificates	1,583,334	1,612,227	(2)
Total liabilities	21,276,988	21,262,369	—
Total equity	953,480	970,374	(2)
Guarantees	981,540	1,064,822	(8)
Ratios			
Leverage ratio[5]	23.34	23.01	33 bps
Adjusted leverage ratio[3]	6.26	6.24	2
Debt-to-equity ratio[6]	22.32	21.91	41
Adjusted debt-to-equity ratio[3]	5.95	5.90	5

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— Change is less than one percent or not meaningful.
(1)Amount represents changes in the fair value of derivative instruments (forward value) along with realized gains and losses from cash settlements. Derivative cash settlements represent the net periodic settlements received/paid on interest rate and cross-currency exchange agreements that do not qualify for hedge accounting. The derivative forward value represents the change in fair value on exchange agreements that do not qualify for hedge accounting, as well as the amounts reclassified into income related to the derivative transition adjustment recorded in accumulated other comprehensive loss on June 1, 2001.
(2)Consists of salaries and employee benefits and other general and administrative expenses.
(3) See "Non-GAAP Financial Measures" for details on the calculation of these adjusted non-GAAP ratios and the reconciliation to the most comparable GAAP measures.
(4)Calculated based on net income plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same for the three months ended August 31, 2014 and 2013 because we did not have any capitalized interest during these periods.
(5)Calculated based on total liabilities and guarantees at period end divided by total equity at period end.
(6)Calculated based on total liabilities at period end divided by total equity at period end.

EXECUTIVE SUMMARY

Our primary objective as a member-owned cooperative lender is to provide cost-based financial products to our rural electric and telecommunications members while maintaining sound financial results required for investment-grade credit ratings on our debt instruments. Our objective is not to maximize net income; therefore, the rates we charge our member-borrowers reflect our adjusted interest expense plus a spread to cover our operating expenses, a provision for loan losses and earnings sufficient to achieve interest coverage to meet our financial objectives. Our goal is to earn an annual minimum adjusted TIER of 1.10 and to achieve and maintain an adjusted debt-to-equity ratio below 6.00-to-1.

Financial Performance

We generated net income of $21 million and $158 million for the three months ended August 31, 2014 and 2013, respectively, and TIER of 1.13 and 1.94, respectively. We expect volatility from period to period in our reported GAAP results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of our derivative instruments, which we mark to market through earnings. As previously noted, we therefore use adjusted non-GAAP measures to evaluate our performance and for compliance with our debt covenants. Our adjusted net income was $50 million and $35 million for the three months ended August 31, 2014 and 2013, respectively, and adjusted TIER was 1.29 and 1.19, respectively. Our debt-to-equity ratio increased to 22.32-to-1 as of August 31, 2014, from 21.91-to-1 as of May 31, 2014. Our adjusted debt-to-equity ratio increased to 5.95-to-1 as of August 31, 2014, from 5.90-to-1 as of May 31, 2014, attributable to an increase in adjusted liabilities and a decrease in adjusted equity.

The decrease of $137 million, or 87%, in our net income for the three months ended August 31, 2014, compared with the same prior-year period was driven primarily by a shift to derivative losses of $50 million for the three months ended August 31, 2014 from derivative gains of $106 million in the same prior-year period. The unfavorable impact of this shift was partially offset by a shift in the provision for loan losses to a negative provision of $7 million in the current year period from an expense of $1 million in the prior-year period and an increase of $7 million in net interest income. The increase of $15 million, or 43%, in adjusted net income for the three months ended August 31, 2014, compared with the same prior-year period was driven primarily by the shift in the provision for loan losses and a $4 million increase in adjusted net interest income.

Lending Activity

Total loans outstanding were $20,475 million as of August 31, 2014, a slight increase of $8 million, less than 1%, from May 31, 2014. The change reflected an increase of $164 million in CFC distribution loans and an increase of $48

million in CFC power supply loans, which was almost entirely offset by a decrease of $189 million in NCSC loans and a decrease of $13 million in RTFC loans.

During the three months ended August 31, 2014, $249 million of CFC long-term fixed-rate loans repriced. Of this total, $225 million repriced to a new long-term fixed rate; $10 million repriced to a long-term variable rate; and $14 million were repaid in full.

Funding Activity

Total debt outstanding was $20,539 million as of August 31, 2014, a decrease of $85 million, or less than 1%, from May 31, 2014. The decrease in debt outstanding was primarily due to the maturity of notes payable issued to the Federal Agricultural Mortgage Corporation ("Farmer Mac").

Outlook for the Next 12 Months

We expect the amount of new long-term loan advances to exceed scheduled loan repayments over the next 12 months. We anticipate an increase to earnings from core lending operations over the next 12 months due to the expected increase in long-term loans outstanding, the debt exchange completed in May 2014, and the decrease in our funding costs resulting from the call of our 7.5% member capital securities.

During fiscal year 2014, the CFC Board of Directors authorized management to execute the call of the outstanding $387 million of 7.5% member capital securities and offer members the option to invest in a new series of member capital securities that currently have a 5% interest rate. As of August 31, 2014, $326 million of the 7.5% member capital securities had been redeemed, and we had outstanding call notices, with call dates through November 2014, for an additional $23 million. Over the next 12 months, we expect to provide notice to members for the early call of the remaining $38 million of the 7.5% member capital securities, with call dates through January 2015. Members had invested $186 million in the new series of member capital securities as of August 31, 2014.

We have $1,020 million of long-term debt scheduled to mature over the next 12 months. We believe that we have sufficient liquidity from the combination of member loan repayments and our ability to issue debt in the capital markets, to our members and in private placements, to satisfy member loan advances and meet our need to fund long-term debt maturing over the next 12 months. As of August 31, 2014, we had $973 million in cash, investments, and time deposits, up to $624 million available under committed loan facilities from the Federal Financing Bank, $3,224 million available under committed revolving lines of credit with a syndicate of banks and, subject to market conditions, up to $2,445 million available under a revolving note purchase agreement with Farmer Mac. On September 22, 2014, we received a commitment from RUS to guarantee a loan from the Federal Financing Bank of the USDA (the "Guaranteed Underwriter Program") for additional funding of $250 million as part of the Guaranteed Underwriter Program. Upon closing of the commitment, we will have an additional $250 million available under Federal Financing Bank loan facilities with a 20-year maturity repayment period for advances made during the three-year period following the date of closing. We also have the ability to issue collateral trust bonds and medium-term notes in the capital markets and medium-term notes to members. We believe we can continue to roll over the $4,173 million of short-term debt outstanding as we expect to continue to maximize the utilization of these short-term funding options. We expect to be in compliance with the covenants under our revolving credit agreements; therefore, we could draw on these facilities to repay dealer or member commercial paper that cannot be rolled over in the event of market disruptions.

We expect to be able to maintain the adjusted debt-to-equity ratio below 6.00-to-1 over the next 12 months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a discussion of our significant accounting policies under “Note 1—General Information and Accounting Policies” in our 2014 Form 10-K.

We have identified the allowance for loan losses and the determination of fair value of certain items on our balance sheet as our most critical accounting policies because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions. We did not make any significant changes in the methodologies and assumptions used in estimating the allowance for loan losses or fair value during the first quarter of fiscal year 2015. Management has discussed our critical accounting policies and estimates with the Audit Committee of the Board of Directors. We provide additional information on the methodologies and key assumptions used in our critical accounting

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policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2014 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

See "Note 1—Summary of Significant Accounting Policies" for information on accounting standards adopted during the three months ended August 31, 2014, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our results of operations, financial condition or liquidity, we discuss the impacts in the applicable section(s) of MD&A.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our condensed consolidated results of operations for the three months ended August 31, 2014 and 2013. Following this section, we provide a comparative analysis of our condensed consolidated balance sheets as of August 31, 2014 and May 31, 2014. You should read these sections together with our “Executive Summary—Outlook for the Next 12 Months" where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities. We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. We do not fund each individual loan with specific debt. Rather, we attempt to minimize costs and maximize efficiency by funding large aggregated amounts of loans.

Table 2 presents our average balance sheets for the three months ended August 31, 2014 and 2013, and for each major category of our interest-earning assets and interest-bearing liabilities, the interest income earned or interest expense incurred, and the average yield or cost. Table 2 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net periodic derivative cash settlements in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under "Non-GAAP Financial Measures."

Table 2: Average Balances, Interest Income/Interest Expense and Average Yield/Cost

	Three Months Ended August 31,							
(Dollars in thousands)	2014				2013			
Assets:	Average Balance	Interest Income/Expense	Average Yield/Cost		Average Balance	Interest Income/Expense	Average Yield/Cost	
Long-term fixed-rate loans	$18,458,181	$ 219,416	4.72	%	$18,348,192	$ 224,583	4.86	%
Long-term variable-rate loans	754,707	5,360	2.82		698,437	4,828	2.74	
Line of credit loans	1,156,811	6,942	2.38		1,021,739	7,572	2.94	
Restructured loans	7,585	—	—		20,416	136	2.64	
Nonperforming loans	2,071	—	—		15,449	—	—	
Interest-based fee income(1)	—	3,001	—		—	2,016	—	
Total loans	20,379,355	234,719	4.57		20,104,233	239,135	4.72	
Cash, investments and time deposits	995,975	2,572	1.02		1,036,032	1,936	0.74	
Total interest-earning assets	$21,375,330	$ 237,291	4.40	%	$21,140,265	$ 241,071	4.52	%
Other assets, less allowance for loan losses	900,480				1,406,124			
Total assets	$22,275,810				$22,546,389			
Liabilities:								
Short-term debt	$3,799,388	$ 1,274	0.13	%	$3,979,760	$ 1,432	0.14	%
Medium-term notes	2,760,202	16,719	2.40		2,998,222	21,571	2.85	
Collateral trust bonds	6,017,423	74,767	4.93		5,954,399	76,798	5.12	
Subordinated deferrable debt	400,000	4,750	4.71		395,762	4,750	4.76	
Subordinated certificates	1,542,924	16,780	4.31		1,709,193	20,626	4.79	
Long-term notes payable	5,859,435	38,434	2.60		5,370,606	37,939	2.80	
Debt issuance costs(2)	—	1,793	—		—	1,865	—	
Interest-based fee expense(3)	—	2,035	—		—	2,604	—	
Total interest-bearing liabilities	$20,379,372	$ 156,552	3.05	%	$20,407,942	$ 167,585	3.26	%
Other liabilities	929,881				1,289,305			
Total liabilities	21,309,253				21,697,247			
Total equity	966,557				849,142			
Total liabilities and equity	$22,275,810				$22,546,389			
Net interest spread(4)			1.35	%			1.26	%
Impact of non-interest bearing funding			0.16				0.13	
Net interest income/net interest yield(5)		$ 80,739	1.51	%		$ 73,486	1.39	%
Adjusted net interest income/adjusted net interest yield:								
Interest income		$ 237,291	4.40	%		$ 241,071	4.52	%
Interest expense		156,552	3.05			167,585	3.26	
Add: Net derivative cash settlement cost(6)		20,101	0.94			16,685	0.78	
Adjusted interest expense/adjusted average cost(7)		$ 176,653	3.43	%		$ 184,270	3.58	%

Adjusted net interest spread[4]		0.97	%		0.94	%
Impact of non-interest bearing funding		0.16			0.13	
Adjusted net interest income/adjusted net interest yield[8]	$ 60,638	1.13	%	$ 56,801	1.07	%

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(1)Primarily related to conversion fees, which are deferred and recognized in interest income over the original loan interest rate pricing term using the effective interest method. Also includes a small portion of conversion fees that are intended to cover the administrative costs related to the conversion, which are recognized immediately.
(2)Primarily consists of underwriter’s fees, legal fees, printing costs and certain accounting fees, which are deferred and recognized in interest expense using the effective interest method. Also includes issuance costs related to dealer commercial paper, which are recognized immediately as incurred.
(3)Reflects various fees related to funding activities, including fees paid to banks participating in our revolving credit agreements. Amounts are recognized as incurred or amortized on a straight-line basis over the life of the agreement.
(4)Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing funding. Adjusted net interest spread represents the difference between the average yield on interest-earning assets and the adjusted average cost of interest-bearing funding.
(5)Net interest yield is calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
(6)Represents the impact of net periodic derivative cash settlements during the period, which is added to interest expense to derive non-GAAP adjusted interest expense. The average (benefit)/cost associated with derivatives is calculated based on the annualized net periodic cash settlements during the period divided by the average notional outstanding amount of derivatives during the period. The average notional outstanding amount of derivatives was $8,484 million and $8,486 million for the three months ended August 31, 2014 and 2013, respectively.
(7)Adjusted average cost is calculated based on annualized adjusted interest expense for the period divided by average interest-bearing funding during the period.
(8)Adjusted net interest yield is calculated based on annualized adjusted net interest income for the period divided by average interest-earning assets for the period.

Table 3 displays the change in our net interest income between periods and the extent to which the variance is attributable to:
(i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities. The table also presents the change in adjusted net interest income between periods.

Table 3: Rate/Volume Analysis of Changes in Interest Income/Interest Expense

	Three Months Ended August 31, 2014 versus 2013		
		Variance due to:[1]	
(Dollars in thousands)	Total Variance	Volume	Rate
Interest income:			
Long-term fixed-rate loans	$(5,167)	$1,346	$(6,513)
Long-term variable-rate loans	532	389	143
Line of credit loans	(630)	1,001	(1,631)
Restructured loans	(136)	(85)	(51)
Nonperforming loans	—	—	—
Fee income	985	—	985
Total loans	(4,416)	2,651	(7,067)
Cash, investments and time deposits	636	(75)	711
Interest income	(3,780)	2,576	(6,356)
Interest expense:			
Short-term debt	(158)	(65)	(93)
Medium-term notes	(4,852)	(1,712)	(3,140)
Collateral trust bonds	(2,031)	813	(2,844)
Subordinated deferrable debt	—	51	(51)
Subordinated certificates	(3,846)	(2,006)	(1,840)
Long-term notes payable	495	3,453	(2,958)
Debt issuance costs	(72)	—	(72)
Fee expense	(569)	—	(569)
Interest expense	(11,033)	534	(11,567)
Net interest income	$7,253	$2,042	$5,211
Adjusted net interest income:			
Interest income	$(3,780)	$2,576	$(6,356)
Interest expense	(11,033)	534	(11,567)
Derivative cash settlements[2]	3,416	(4)	3,420
Adjusted interest expense[3]	(7,617)	530	(8,147)
Adjusted net interest income	$3,837	$2,046	$1,791

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[1]The changes for each category of interest income and interest expense are divided between the portion of change attributable to the variance in volume and the portion of change attributable to the variance in rate for that category. The amount attributable to the combined impact of volume and rate has been allocated to each category based on the proportionate absolute dollar amount of change for that category.

[2]For derivative cash settlements, variance due to average volume represents the change in derivative cash settlements that resulted from the change in the average notional amount of derivative contracts outstanding. Variance due to average rate represents the change in derivative cash settlements that resulted from the net difference between the average rate paid and the average rate received for interest rate swaps during the period.

[3] See "Non-GAAP Financial Measures" for additional information on the our adjusted non-GAAP measures.

Net interest income of $81 million for the three months ended August 31, 2014 increased by $7 million, or 10%, from the same prior year period, driven by a 1% increase in average interest-earning assets and a 9% (12 basis points) increase in the net interest yield to 1.51%.

- Average Interest-Earning Assets: The modest increase of 1% in interest-earning assets reflected loan advances that were largely offset by loan payments. The increase in CFC distribution and power supply loans of $164 million and $48 million, respectively, was almost entirely offset by a decrease of $189 million in NCSC loans and a decrease of $13 million in RTFC loans.

- Net Interest Yield: The 9%, or 12 basis points, increase in the net interest yield was largely attributable to a reduction in our average cost of funds of 21 basis points to 3.05%, which more than offset a decrease in the average yield on interest-earning assets of 12 basis points to 4.40%. The reduction in our average cost of funds was primarily attributable to the call and redemption of $326 million of 7.5% member capital securities during the past 12 months, a portion of which we replaced with lower rate member capital securities. Our average cost of funds also reflected the benefit from the replacement of higher-cost debt that matured during 2014, primarily medium-term notes, collateral trust bonds, and long-term notes payable, with lower cost debt as a result of the continued low interest rate environment. The decrease in the average yield on interest-earning assets was largely attributable to reduced rates on fixed-rate loans, reflecting the repricing of higher rate loans to lower interest rates and lower interest rates on new loan originations as a result of the overall low interest rate environment. As a cost-based lender, our fixed interest rates for loans are intended to reflect our cost of borrowing plus a mark up to cover our cost of operations, a provision for loan losses and earnings sufficient to achieve interest coverage to meet financial objectives. As benchmark treasury rates and spreads tightened over the past few years, there was a continued reduction in the rates we had to pay to obtain funding in the capital markets. We therefore lowered the long-term fixed rates on our new loans.

Adjusted net interest income of $61 million for the three months ended August 31, 2014 increased by $4 million, or 7%, from the same prior year period, driven by the 1% increase in average interest-earning assets and a 6% (6 basis points) increase in the adjusted net interest yield to 1.13%. Our adjusted net interest income and adjusted net interest yield reflect the impact of net periodic derivative cash settlements during the period, which we include in interest expense to derive adjusted interest expense. We recorded net periodic derivative cash settlement expense of $20 million and $17 million for the three months ended August 31, 2014 and 2013, respectively. The increase in the adjusted net interest yield was attributable to a 15 basis point reduction in the adjusted average cost of funds to 3.43% for the three months ended August 31, 2014, from 3.58% for the same prior year period, which more than offset the decrease in the average yield on interest-earning assets of 12 basis points. Our adjusted average cost of funds also reflected the benefit from the call and redemption of the $326 million of 7.5% member capital securities and the replacement of higher-cost debt that matured in 2014 with lower-cost debt as a result of the overall low interest rate environment. See "Non-GAAP Financial Measures" for additional information on our adjusted measures.

Provision for Loan Losses

We build our allowance for loan losses through the provision for loan losses. Our provision for loan losses in each period is primarily driven by the level of allowance that we determine is necessary for probable incurred loan losses inherent in our loan portfolio as of each balance sheet date.

We recorded a negative provision for loan losses of $7 million for the three months ended August 31, 2014, compared with a provision of $1 million for the same prior year period. The negative provision for loan losses resulted from a decrease in the allowance for loan losses to $50 million as of August 31, 2014, from $56 million as of May 31, 2014, largely due to modest improvement in the credit quality and overall credit risk profile of our loan portfolio and relatively flat loan balances. Specifically, certain loans experienced favorable migration through our internal risk rating process. We provide additional information on our allowance for loan losses under "Credit Risk—Allowance for Loan Losses" and "Note 3—Loans and Commitments" of this Report. For information on our allowance methodology, see "Note 1—General Information and Accounting Policies" in our 2014 Form 10-K.

Non-Interest Income

Non-interest income consists of fee and other income, gains and losses on derivatives not accounted for in hedge accounting relationships and results of operations of foreclosed assets.

Non-interest income shifted to an expense of $48 million for the three months ended August 31, 2014, from income of $106 million for the same prior year period. The change of $154 million was attributable to derivative losses of $50 million

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recorded during the three months ended August 31, 2014, compared with derivative gains of $106 million recorded in the same prior year period.

Our derivative instruments are an integral part of our interest rate risk management strategy. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. The derivative instruments we use primarily include interest rate swaps and treasury locks, which we typically hold to maturity. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of our cost of funding. The primary factors affecting the fair value of our derivatives and derivative gains (losses), net recorded in our results of operations include changes in interest rates, implied interest rate volatility and the composition of our derivative portfolio. We generally do not designate interest rate swaps, which represent the substantial majority of our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses), net. We did not have any derivatives designated as accounting hedges as of August 31, 2014 or May 31, 2014.

Table 4 presents the components of derivative gains (losses) recorded in our condensed consolidated results of operations for the three months ended August 31, 2014 and 2013. Derivative cash settlements represent net contractual interest expense accruals on interest rate swaps during the period. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts.

Table 4: Derivative Gains (Losses)

	Three Months Ended August 31,	
(Dollars in thousands)	2014	2013
Derivative (losses) gains attributable to:		
Derivative cash settlements	$(20,101)	$(16,685)
Derivative forward value	(29,777)	123,069
Derivative (losses) gains, net	$(49,878)	$106,384

The derivative gains (losses) relate to interest rate swap agreements. We currently use two types of interest rate swap agreements: (i) we pay a fixed rate and receive a variable rate ("pay-fixed swaps") and (ii) we pay a variable rate and receive a fixed rate ("receive-fixed swaps"). Pay-fixed swaps generally decrease in value as interest rates decline and increase in value as interest rates rise. In contrast, receive-fixed swaps generally increase in value as interest rates decline and decrease in value as interest rates rise. The composition of our pay-fixed and receive-fixed swaps varies across the swap yield curve. As a result, the overall fair value gains and losses of our derivatives are also sensitive to flattening and steepening of the swap yield curve. See "Note 12—Fair Value of Financial Instruments" for information on how we estimate the fair value of our derivative instruments.

Table 5 displays the average notional amount outstanding, by swap agreement type, and the weighted-average interest rate paid and received for derivative cash settlements during the three months ended August 31, 2014 and 2013. As indicated in Table 5, our derivative portfolio is currently comprised of a higher proportion of pay-fixed swaps than receive-fixed swaps, which is subject to change based on changes in market conditions and actions taken to manage our interest rate risk.

Table 5: Derivative Average Notional Balances and Average Interest Rates

	Three Months Ended August 31,					
	2014			2013		
(Dollars in thousands)	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received

Pay-fixed swaps	$5,419,383	3.32	%	0.24	%	$5,373,342	3.38	%	0.26	%
Receive-fixed swaps	3,065,033	0.86		3.62		3,112,940	1.03		4.27	
Total	$8,484,416	2.42	%	1.48	%	$8,486,282	2.52	%	1.73	%

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Of the total net derivative losses of $50 million recorded for the three months ended August 31, 2014, $30 million related to derivative forward value losses and the remainder related to net periodic contractual interest settlements. The derivative forward value losses were primarily attributable to a flattening of the swap yield curve during the period, with rates on the shorter end of the yield curve increasing and rates on the longer end of the yield curve declining. Due to the composition of our derivative portfolio, we experienced an overall decline in the fair value of both our pay-fixed swaps and receive-fixed swaps during the quarter. Our pay-fixed swaps on the shorter end of the yield curve increased in value, but this increase was more than offset by a decrease in value of our pay-fixed swaps on the longer end of the yield curve, as our pay-fixed swap portfolio consists of more longer-dated transactions. In contrast, our receive-fixed swap portfolio is comprised of more shorter-dated transactions. Our receive-fixed swaps on the shorter end of the yield curve decreased in value, which more than offset the increase in value of our longer-dated receive-fixed swaps.

Of the total net derivative gains of $106 million for the three months ended August 31, 2013, $123 million related to derivative forward value gains and the remainder related to net periodic contractual interest settlements. The derivative forward value gains were primarily attributable to a significant steepening of the swap yield curve, which resulted in an overall increase in the fair value of our pay-fixed swaps that more than offset an overall decrease in the fair value of our receive-fixed swaps.

See "Note 8—Derivative Financial Instruments" for additional information on our derivative instruments.

Non-Interest Expense

Non-interest expense consists of salaries and employee benefit expense, general and administrative expenses, provision for guarantee liability, losses on early extinguishment of debt and other miscellaneous expenses.

Non-interest expense of $18 million for the three months ended August 31, 2014 decreased by $0.3 million, or 1%, from the same prior-year period. The decrease was attributable to a modest decline in other general and administrative expenses, which was partially offset by a slight increase in salaries and employee benefits.

Net Income (Loss) Attributable to the Noncontrolling Interests

The net income (loss) attributable to the noncontrolling interests represents 100% of the results of operations of RTFC and NCSC, as the members of RTFC and NCSC own or control 100% of the interest in their respective companies. The fluctuations in net income (loss) attributable to noncontrolling interests are primarily due to fluctuations in the fair value of NCSC’s derivative instruments.

We recorded net income attributable to noncontrolling interests of $0.2 million for the three months ended August 31, 2014, compared with $2.7 million for the same prior-year period. The decrease reflected a decline in the fair value of NCSC's derivatives during the three months ended August 31, 2014, largely attributable to the decline in interest rates during the period, compared with an increase in fair value during the same prior year period attributable to a rise in interest rates during the period.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $22,230 million as of August 31, 2014 remained relatively unchanged from May 31, 2014. Total liabilities of $21,277 million as of August 31, 2014 increased by $15 million, or less than 1%, from May 31, 2014. Total equity decreased by $17 million in the three months ended August 31, 2014, to $953 million as of August 31, 2014. The decrease in total equity was primarily attributable to CFC's Board of Directors July 2014 authorization of patronage capital retirement of $40 million, which was partially offset by our net income of $21 million for the three months ended August 31, 2014.

Following is a discussion of material changes in the major components of our assets and liabilities during the three months ended August 31, 2014. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to manage liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

Loan Portfolio

We are a cost-based lender that offers long-term fixed- and variable-rate loans and line of credit variable-rate loans. Borrowers choose between a variable interest rate or a fixed interest rate for periods of one to 35 years. When a selected fixed interest rate term expires, the borrower may select another fixed-rate term or the variable rate.

Table 6 summarizes loans outstanding by type and by member class as of August 31, 2014 and May 31, 2014.

Table 6: Loans Outstanding by Type and Member Class[(1)]

	August 31, 2014			May 31, 2014			Increase/	
(Dollars in thousands)	Amount	% of Total		Amount	% of Total		(Decrease)	
Loan type:								
Long-term loans:								
Long-term fixed-rate loans	$18,353,930	89	%	$18,175,656	88	%	$178,274	
Long-term variable-rate loans	684,141	4		753,918	4		(69,777	)
Loans guaranteed by RUS	200,535	1		201,863	1		(1,328	)
Total long-term loans	19,238,606	94		19,131,437	93		107,169	
Line of credit loans	1,236,265	6		1,335,488	7		(99,223	)
Total loans	$20,474,871	100	%	$20,466,925	100	%	$7,946	
Member class:								
CFC:								
Distribution	$15,198,932	75	%	$15,035,365	74	%	$163,567	
Power supply	4,133,998	20		4,086,163	20		47,835	
Statewide and associate	66,587	—		67,902	—		(1,315	)
CFC total	19,399,517	95		19,189,430	94		210,087	
RTFC	436,852	2		449,546	2		(12,694	)
NCSC	638,502	3		827,949	4		(189,447	)
Total	$20,474,871	100	%	$20,466,925	100	%	$7,946	

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[(1)]Includes loans classified as restructured and nonperforming. Excludes deferred loan origination costs of $10 million as of both August 31, 2014 and May 31, 2014.

The balance of loans outstanding of $20,475 million as of August 31, 2014 remained relatively unchanged from May 31, 2014. The slight increase of $8 million during the three months ended August 31, 2014 reflected loan advances that were largely offset by loan payments. The increase in CFC distribution and power supply loans of $164 million and $48 million, respectively, was almost entirely offset by a decrease of $189 million in NCSC loans and a decrease of $13 million in RTFC loans.

During the three months ended August 31, 2014, $249 million of CFC long-term fixed-rate loans repriced. Of this total, $225 million repriced to a new long-term fixed rate; $10 million repriced to a long-term variable rate; and $14 million were repaid in full.

We provide additional information on loans in "Note 3—Loans and Commitments."

Debt

Table 7 shows our debt outstanding and the weighted average interest rates by type of debt as of August 31, 2014 and May 31, 2014.

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Table 7: Total Debt Outstanding

(Dollars in thousands)	August 31, 2014	May 31, 2014	Increase/ (Decrease)
Commercial paper sold through dealers, net of discounts	$1,959,894	$1,973,557	$(13,663)
Commercial paper sold directly to members, at par	794,439	838,074	(43,635)
Commercial paper sold directly to non-members, at par	19,793	20,315	(522)
Select notes	608,046	548,610	59,436
Daily liquidity fund notes	582,373	486,501	95,872
Bank bid notes	—	20,000	(20,000)
Collateral trust bonds	5,982,122	5,980,214	1,908
Guaranteed Underwriter Program notes payable	4,295,250	4,299,000	(3,750)
Farmer Mac notes payable	1,455,313	1,667,505	(212,192)
Other notes payable	52,573	52,535	38
Medium-term notes	2,806,362	2,726,303	80,059
Subordinated deferrable debt	400,000	400,000	—
Membership certificates	644,881	644,944	(63)
Loan and guarantee certificates	690,883	699,724	(8,841)
Member capital securities	247,570	267,560	(19,990)
Total debt outstanding	$20,539,499	$20,624,842	$(85,343)
Debt composition percentages:			
Fixed-rate debt[1]	80%	79%	
Variable-rate debt[2]	20	21	
Total	100%	100%	
Long-term debt	80%	80%	
Short-term debt	20	20	
Total	100%	100%	

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[1] Includes variable-rate debt that has been swapped to a fixed rate net of any fixed-rate debt that has been swapped to a variable rate.
[2] The rate on commercial paper notes does not change once the note has been issued. However, the rates on new commercial paper notes change daily, and commercial paper notes generally have maturities of less than 90 days. Therefore, commercial paper notes are classified as variable-rate debt. Also includes fixed-rate debt that has been swapped to a variable rate net of any variable-rate debt that has been swapped to a fixed rate.

Total debt outstanding decreased by $85 million, or less than 1%, during the three months ended August 31, 2014, to $20,539 million as of August 31, 2014. The modest decrease in debt outstanding was primarily due to the maturity of notes payable issued to Farmer Mac. Total commercial paper, select notes, daily liquidity fund notes, bank bid notes and short-term medium-term notes outstanding represented 20% of total debt as of August 31, 2014 and May 31, 2014. To take advantage of the current low interest rates on short-term debt, we intend to continue to maximize the use of these short-term debt instruments in our funding portfolio mix.

During fiscal year 2014, the CFC Board of Directors authorized management to execute the call of the outstanding $387 million of 7.5% member capital securities and offer members the option to invest in a new series of member capital securities that currently have a 5% interest rate. As of August 31, 2014, $326 million of the 7.5% member capital securities had been redeemed, and we had outstanding call notices, with call dates through November 2014, for an additional $23 million. Members had invested $186 million in the new series of member capital securities as of August 31, 2014.

Equity

Total equity decreased by $17 million in the three months ended August 31, 2014, to $953 million as of August 31, 2014. The decrease in total equity was primarily attributable to the board authorized patronage capital retirement of $40 million during the three months ended August 31, 2014, which was partially offset by net income of $21 million.

In May 2014, the CFC Board of Directors authorized the allocation of $1 million of fiscal year 2014 net earnings to the Cooperative Educational Fund. In July 2014, the CFC Board of Directors authorized additional allocations of fiscal year 2014 net earnings that included $75 million to the members' capital reserve and $79 million to members in the form of patronage capital. In July 2014, the CFC Board of Directors also authorized the retirement of allocated net earnings totaling $40 million, which represented 50% of the fiscal year 2014 allocation. This amount was returned to members in cash in September 2014.

Future allocations and retirements of net earnings may be made annually as determined by CFC's Board of Directors taking into consideration CFC's financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable cooperative law.

Debt Ratio Analysis

Leverage Ratio

The leverage ratio is calculated by dividing the sum of total liabilities and guarantees outstanding by total equity. The leverage ratio was 23.34-to-1 as of August 31, 2014, an increase from 23.01-to-1 as of May 31, 2014. The increase in the leverage ratio was due to the decrease of $17 million in total equity, partly offset by the decrease of $83 million in total guarantees.

For covenant compliance on our revolving credit agreements and for internal management purposes, the leverage ratio calculation is adjusted to exclude derivative liabilities, debt used to fund loans guaranteed by RUS, subordinated deferrable debt and subordinated certificates from liabilities; uses members' equity rather than total equity; and adds subordinated deferrable debt and subordinated certificates to calculate adjusted equity.

The adjusted leverage ratio was 6.26-to-1 and 6.24-to-1 as of August 31, 2014 and May 31, 2014, respectively. The increase in the adjusted leverage ratio was due to the increase of $59 million in adjusted liabilities and the decrease of $16 million in adjusted equity, partially offset by the decrease of $83 million in guarantees as discussed under "Off-Balance Sheet Arrangements." See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments we make to our leverage ratio calculation to derive the adjusted leverage ratio.

Debt-to-Equity Ratio

The debt-to-equity ratio is calculated by dividing the sum of total liabilities outstanding by total equity. The debt-to-equity ratio was 22.32-to-1 as of August 31, 2014, an increase from 21.91-to-1 as of May 31, 2014. The increase in the debt-to-equity ratio is primarily due to the decrease of $17 million in total equity.

We adjust the components of the debt-to-equity ratio to calculate an adjusted debt-to-equity ratio that is used for internal management analysis purposes. The adjusted debt-to-equity ratio was 5.95-to-1 and 5.90-to-1 as of August 31, 2014 and May 31, 2014, respectively. The increase in the adjusted debt-to-equity ratio was due to the increase of $59 million in adjusted liabilities and the decrease of $16 million in adjusted equity. See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments made to the debt-to-equity ratio calculation to derive the adjusted debt-to-equity ratio.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in financial transactions that are not recorded on our condensed consolidated balance sheets, or may be recorded on our condensed consolidated balance sheets in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements primarily consist of guarantees and commitments. These transactions are designed to meet the financial needs of our members, manage our credit, market or liquidity risks, and/or diversify our funding sources.

Guarantees

Guarantees are contracts that contingently require us to make payments to a guaranteed party based on an event or a change in an underlying asset, liability, rate or index. Guarantees are generally in the form of letters of credit, recourse obligations and other types of financial guarantee arrangements.

Table 8 shows our guarantees outstanding, by guarantee type and by company, as of August 31, 2014 and May 31, 2014.

Table 8: Guarantees Outstanding

(Dollars in thousands)	August 31, 2014	May 31, 2014	Increase/ (Decrease)
Guarantee type:			
Long-term tax-exempt bonds	$516,745	$518,360	$(1,615)
Letters of credit	349,983	431,064	(81,081)
Other guarantees	114,812	115,398	(586)
Total	$981,540	$1,064,822	$(83,282)
Company:			
CFC	$925,922	$997,187	$(71,265)
RTFC	2,303	2,304	(1)
NCSC	53,315	65,331	(12,016)
Total	$981,540	$1,064,822	$(83,282)

In addition to the letters of credit displayed in the above table, we had master letter of credit facilities in place as of August 31, 2014, under which we may be required to issue up to an additional $93 million in letters of credit to third parties for the benefit of our members. All of our master letter of credit facilities as of August 31, 2014 were subject to material adverse change clauses at the time of issuance. Also, we had hybrid letter of credit facilities, which represent commitments that may be used, at a borrower's option, for the issuance of letters of credit or line of credit loan advances totaling $1,760 million as of August 31, 2014. This amount is included in the unadvanced loan commitments for line of credit loans total reported in "Note 3—Loans and Commitments." Hybrid letter of credit facilities subject to material adverse change clauses at the time of issuance totaled $468 million as of August 31, 2014. Prior to issuing a letter of credit under these facilities, we would 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 the letter of credit terms and conditions. The remaining commitment under hybrid letter of credit facilities of $1,292 million as of August 31, 2014 may be used for the issuance of letters of credit as long as the borrower is in compliance with the terms and conditions of the facility.

We were the liquidity provider for variable-rate, tax-exempt bonds, issued for our member cooperatives, totaling $520 million as of August 31, 2014. As liquidity provider on these tax-exempt bonds, we are required to purchase bonds that are tendered or put by investors. Investors provide notice to the remarketing agent that they will tender or put a certain amount of bonds at the next interest rate reset date. If the remarketing agent is unable to sell such bonds to

other investors by the next interest rate reset date, we have unconditionally agreed to purchase such bonds. Our obligation as liquidity provider is in the form of a letter of credit on $76 million of the tax-exempt bonds, which is included in the letters of credit amount in Table 8. We were not required to perform as liquidity provider pursuant to these obligations during the three months ended August 31, 2014.

In addition to being a liquidity provider, we also provided a guarantee for payment of all principal and interest amounts on

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$444 million of these bonds as of August 31, 2014, which is included in long-term tax-exempt bond guarantees in Table 8.

Of our total guarantee amounts, 60% and 61% as of August 31, 2014 and May 31, 2014, respectively, were secured by a mortgage lien on substantially all of the system's assets and future revenue of the borrowers.

The decrease in total guarantees during the three months ended August 31, 2014 was primarily due to a decrease in the total amount of letters of credit outstanding. We recorded a guarantee liability of $21 million and $22 million as of August 31, 2014 and May 31, 2014, respectively, related to the contingent and non-contingent exposures for guarantee and liquidity obligations associated with our members' debt.

Table 9 summarizes our off-balance sheet obligations as of August 31, 2014, and maturity of amounts during each of the next five fiscal years and thereafter.

Table 9: Maturities of Guarantee Obligations

	Outstanding	Maturities of Guaranteed Obligations					
(Dollars in thousands)	Balance	2015	2016	2017	2018	2019	Thereafter
Guarantees[1]	$981,540	$252,398	$61,836	$24,627	$139,334	$22,242	$481,103

[1] We were the guarantor and liquidity provider for $444 million of tax-exempt bonds, which were issued for our member cooperatives, as of August 31, 2014. In addition, we had issued letters of credit to provide standby liquidity for an additional $76 million of tax-exempt bonds as of August 31, 2014.

See "Note 10—Guarantees" for additional information.

Unadvanced Loan Commitments

Unadvanced commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. The table below displays the amount of unadvanced loan commitments, which consist of line of credit and long-term loan commitments, as of August 31, 2014 and May 31, 2014. Our line of credit commitments include both contracts that are not subject to material adverse change clauses and contracts that are subject to material adverse change clauses.

Table 10: Unadvanced Loan Commitments

(Dollars in thousands)	August 31, 2014	% of Total		May 31, 2014	% of Total	
Line of credit commitments:						
Not conditional[1]	$2,556,905	19	%	$2,274,388	16	%
Conditional[2]	6,605,513	48		6,927,417	50	
Total line of credit unadvanced commitments	9,162,418	67		9,201,805	66	
Total long-term loan unadvanced commitments	4,560,565	33		4,710,273	34	
Total	$13,722,983	100	%	$13,912,078	100	%