National Rural Utilities Cooperative Finance Corporation
FY20 Year-End Investor Call
August 07, 2020
10:00 AM EDT

Operator: Good day, and welcome to the Fiscal Year-End Investor Conference Call. Today's conference is being recorded. At this time, I'd like to turn our conference over to Ling Wang. Please go ahead.

Ling Wang: Good morning. This is Ling Wang, Vice President of Capital Markets at National Rural Utilities Cooperative Finance Corporation. Thank you for joining us today to review our fiscal year 2020 financial results.

Sheldon Petersen, our Chief Executive Officer, will discuss the impact of COVID to our business and the state of the electric cooperative industry. Andrew Don, our Chief Financial Officer, will focus the discussion on our business and financial results for the fiscal year 2020 ended May 31, 2020.

In today's call we will make forward-looking statements within the Securities Act of 1933 as amended, and the Exchange Act of 1934, as amended. The forward-looking statements are based on certain assumptions and describe our future plans, strategies, and expectations, and are generally identified by our use of words such as intend, plan, may, should, will, project, estimate, anticipate, believe, expect, continue, potential, opportunity, and similar expressions, whether in the negative or affirmative.

Those statements about future expectations or projections are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on our reasonable assumptions, actual results, and performance may differ materially from our forward-looking statements. Factors that could cause future results to vary from forward-looking statements about our current expectations are included in our annual and quarterly periodic report filed with the SEC.

Except as required by law, we undertake no obligations 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.

We will have a Q&A session at the end of this presentation. You can ask questions via phone or submit your questions online if you are participating in this event via webcast. We encourage you to take this opportunity to ask any questions you may have. In addition, all of the materials for this event, including the presentation slides and financial reports, are available on our website at NRUCFC.coop. A replay and a co-transcript will be made available on our website after the event.

With that, I will turn the call over to Sheldon.

Sheldon Petersen: Well, good morning, everyone. I hope everyone remains well and healthy. Welcome to our call, and thank you for dialing in.

I'd like to start with just a brief update on CFC's operations and then discuss the COVID impact on the electric cooperatives that are our membership.

In mid-March like most everyone else, we implemented our emergency business resumption plan and very quickly moved to having essentially 94%, 95% of our employees working remotely. We did have a few key individuals that remained in the office to support our operations.

This was a fairly easy transition for us. Normally this plan is utilized for a one-to-two-day weather disruption. This is the first time we've ever actually used it for a five-month period. But aside from some minor additional equipment purchases for some other capabilities, it's carried on very well. And I think to our membership it's been fairly transparent.

Our auditors were able to proceed on schedule, working remotely, and we've had no other service provider disruptions that's caused any difficulty for us.

On June 15, consistent with the guidelines of the Commonwealth of Virginia, we did begin a partial rotational return to the office. Since that time, we've had 25% of our employees come to the office for one week per month. It gives folks an opportunity to reconnect and take care of some things that they need the physical facilities for. Our building is built for 300 employees, so having roughly 60 to 65 people here throughout the month certainly feels very socially distanced.

We've had no difficulties that have arisen from that. Unlike many of the other employees in this, employers in this area, our building is not a high-rise building. So, things such as elevator use here is very, very minimal. We also are not located on the metro line, so we don't have employees using mass transit, and that's given us more flexibility to bring folks back into the office environment.

Obviously, we've taken all the appropriate protections, having roughly 25% of the employees here on a rotational basis.

Most of our individual member contact meetings are continuing virtually. We are certainly doing less training and our large conferences obviously are not occurring now, and we're doing the best we can with virtual connections to provide a bridge for that in the interim here.

We're likely to remain on this status of 25% of our employees in the office for one week out of the month for several more months, as it appears right now.

Now, I'd like to just shift gears and talk a little bit about what we're seeing in terms of the COVID impact on our electric utilities.

Obviously, our co-ops are an essential service. Obviously working in emergency conditions is something that's a normal course of regular business for utilities. We have operating utilities in 48 states. That does give us a significant amount of diversity.

Certainly, all of our co-ops are unique but generally the profile for sales of the typical electric co-op is going to be about two-thirds of a load is residential and a third of it falls into the commercial and industrial area. That's going to look different than typical investor-owned utility which is going to be more heavily dependent on commercial and industrial load.

The two primary areas that we needed to pay attention to was, number one, the potential loss of kilowatt-hour sales and the impact that would have on revenues; and then of course the potential for accounts receivable billed and ultimately write-offs because of the mandated moratoriums against non-payment shutoffs.

Generally, the message that we're getting from our member systems is that some have experienced a modest C&I load kilowatt-hour sales reduction, but that's basically coming back now. However, the residential load component has actually grown. And so, the overall revenue impact on our members has been pretty minimal.

Also being reported to us is that they're seeing some minor build of accounts receivable, but nothing that is of concern. And it's certainly manageable. I think it's a little early to get a determination on what ultimately we'll see in the bad-debt charge offs at the electric utility level, but it doesn't seem to be a problem at this stage of the game.

Of particular interest to us is the fact that COVID implications for three primary areas that co-ops in some cases are involved with, that would include the oil industry. We certainly do have co-ops that serve the regular oil industry as well as the fracking industry. We also have co-ops, particularly in the Midwest that serve ethanol production plants. Both of those areas obviously have been somewhat impacted by the movement we saw in oil prices.

But then the third area we were focusing on is the impact of closures of packing plants and the agricultural supply chain that involves many of the farmers in rural America in producing livestock. And each of these areas we did see some dip at the electric utility level in terms of sales. However, particularly as it relates to the oil and ethanol area, our co-ops report to us that they prepare for this kind of variation and it's really not created any significant credit concerns. Livestock production continues to respond favorably as well.

So overall, I guess my message to you is, the electric co-ops have done an excellent job of adjusting to operating in the new COVID operations environment. Obviously, there are conditions that are specific to individual cooperatives, but we're just not seeing credit stress there.

A good indication for us would be what we see happening in the line of credit liquidity usage area, and as we stand here today, our line of credit usage by electric cooperatives is actually lower than it was last year at this time. And on the other side of that, we've seen very good inflows of member investments in CFC temporary investment products.

We are seeing a fairly solid demand for new advances in the long-term secured loan area. Most of that's going out for CapEx projects. Some of it's being used to refinance debt from other lenders, but it's primarily CapEx. But when we talked to our members about their use of long-term programs at this stage of the game, generally all of them point to the fact that they're locking in the extremely low-interest rates that are available at this stage of the game.

So, line of credit levels are lower than they were last year, but fairly good demand in the long-term secured area.

As a side note, I would just mention that annually, CFC prepares a document for our members which compiles their financial statements for the previous calendar year. We call it the key ratio trend analysis. It's a time-series cross-sectional analysis tool that co-ops can use to gauge their financial operations. We have completed the 2019 analysis and one could ask, well, why does that really matter? Because things have changed a lot. But the practical reality is, the cooperatives finished 2019 with very good performance, good solid equity positions, and I think that's positioned them extremely well for dealing with the COVID world.

One other just minor point is that in dealing with weather interruptions, in particular, our co-op industry has what are called mutual aid agreements with other cooperatives, either in an individual state or from several states away. Basically, that involves crews that are available in a major weather emergency from one, two, three, four cooperatives, to assist the cooperative that has been impacted. There was concern going in to particularly hurricane season this year, that COVID protections that are required might actually have an impact on willingness of cooperatives to share crews in these kind of situations.

We had a modest test of that recently with the tropical storm. Electric co-ops did sustain some outages, but it was not significant. However, when the affected co-ops did call on other co-ops for help and restoration activity, the help was there. And I think really what that's saying more than anything, is people are learning how to adjust, live and work in the COVID world that we're in right now.

So essentially, that's really our recap of what we're seeing out there in the co-op world in terms of credit performance and just have not seen any concern.

Finally, I would just like to mention to you that two weeks ago I did announce to our board of directors that it is my intent to retire from CFC sometime after the first of the year. I don't have a specific date. I indicated to the board that that would be dependent on their work to identify my replacement. The board has a framework for doing this. This has been part of succession planning for several years. I expect it will take a few months. But I'm flexible and will adjust my departure date depending on when they find my replacement.

When I do leave, I will have spent 45 years of my career in the electric co-operative network, 38 years of that at CFC, and 26 years of that as the CEO. And I’m very pleased with how CFC is positioned now. We have a lot of strong talent on board and I'm confident about our future. But from my personal perspective, I just think that the time is right now, and I'd like to thank all of you, I'll be around for a while yet, but I'd like to thank all of you for your support in that role over the years.

And with that, I'm going to turn it over to Andrew Don. Andrew.

Andrew Don: Great. Thank you, Sheldon, and again, good morning. And likewise, I want to thank you for joining us today for National Rural Utilities Cooperative Finance Corporation's call to review our financial performance for our fiscal year ended May 31, 2020.

We report our results based on generally accepted accounting principles, or GAAP, in our fiscal year 2020 Form 10-K which we filed on August 5, 2020. In addition to our GAAP results, during parts of this discussion, I will refer to certain financial measures that are calculated based on amounts that include adjustments to amounts determined under GAAP and are therefore referred to as adjusted. The primary non-GAAP adjusted metrics include adjusted net income, adjusted net interest income, and adjusted net interest yields, adjusted times interest earned ratio or TIER, and adjusted debt-to-equity ratio.

We provide a reconciliation of our adjusted measures to the most comparable GAAP measures in our recently filed Form 10-K.

It is important to note that we use our adjusted measures to manage our business and evaluate our financial performance. Additionally, the financial covenants in our revolving credit agreements and debt indentures are based on our adjusted measures, rather than the comparable GAAP measures.

We, therefore, believe these adjusted measures are also useful to investors in evaluating our performance.

As Sheldon noted, we continued to see strong loan demand from our members during fiscal year 2020, which as a reminder, is the period of June 1, 2019, to May 31, 2020.

For the 12 months ended May 31, 2020, CFC's long-term loan advances totaled $2.4 billion. These advances consisted of $1.9 billion or 80% for capital expenditure purposes and $374 million or 15% to refinance other lenders' debt. In comparison, during fiscal year 2019, long-term loan advances totaled $1.8 billion with $1.6 billion or 87% for capital expenditure purposes and $182 million or 10% for refinancing of other lenders' debt.

Over the last five fiscal years, annual long-term loan advances to our members have averaged approximately $2.4 billion. Net of repayments, CFC's loans outstanding to distribution of power supply borrowers, which are 99% of our total loan portfolios, increased by $768 million during fiscal year 2020 compared with an increase of $785 million during fiscal year 2019.

CFC continued to add new 100% borrowers during fiscal year 2020. CFC had 245 100% borrowers at May 31, 2020, an increase of 7 from the prior fiscal year-end. CFC 100% borrowers represent those members who have 100% of their long-term funding needs sourced exclusively from CFC.

Since most of our electric borrowers are private companies, there is limited public information to determine precisely the actual size of the rural electric lending market. We, therefore, estimate the size of the overall rural electric lending market from the annual financial and statistical reports our borrowers provide to us on a calendar-year basis. Based on the most current available information, we estimated that our current market share in terms of long-term loans outstanding to electric cooperative borrowers was approximately 25% at December 31, 2019, an increase from 24% at December 31, 2018.

We continue to be the single largest private lender to the rural electric cooperative sector.

Turning to our financial results, total assets increased by over $1 billion or 4% during this fiscal year, primarily due to the growth in our loan portfolio of $785 million and an increase in our cash and cash equivalents of $493 million which was partially offset by a decrease in investments of $283 million. The $785 million increase in our loan portfolio in fiscal year 2020 was driven by an increase in long-term fixed-rate loans of $1.4 billion, offset by a decrease in long-term variable rate and line of credit loans of $593 million.

In fiscal year 2020, loans to CFC distribution borrowers increased by $614 million, loans to CFC power supply borrowers increased by $153 million, and loans to RTFC and CFC statewide associate borrowers increased by $62 million, while loans to NCSC borrowers decreased by $45 million. Our members' equity which excludes the non-cash impact of derivative forward-value gains and losses increased by $82 million. The increase was attributable to adjusted net income of $145 million which was partially offset by the patronage capital retirement of $63 million.

Our adjusted debt-to-equity ratio increased to 5.85-to-1 at May 31, 2020 from 5.73-to-1 at May 31, 2019, primarily due to an increase in debt outstanding to fund the loan growth.

Specifically, our total debt outstanding increased by $838 million to $26 billion, or 3% in fiscal year 2020. That said, our adjusted debt-to-equity ratio continued to be below our targeted threshold of 6-to-1.

In July 2020, subsequent to our May 31, 2020, fiscal year-end, our board of directors authorized the retirement of patronage capital totaling approximately $60 million. We expect to return this amount to our members in cash in September 2020. The patronage capital retirement results in a reduction in our members' equity and an increase in our adjusted debt-to-equity ratio during the first quarter of fiscal year 2021.

As a reminder, our current patronage capital policy which was adopted by our board of directors in 2009 is to allocate a portion of our annual adjusted net income to our members in the form of patronage capital each year. Of the allocated patronage capital amount, 50% is paid out to our members in the form of cash in the following fiscal year and the remaining 50% is retained by us for 25 years to fund operations.

For fiscal year 2020, CFC generated adjusted net income of $145 million and an adjusted TIER of 1.17, compared with adjusted net income of $169 million and an adjusted TIER of 1.19 for fiscal year 2019.

The $24 million decrease in adjusted net income for the current fiscal year from the prior fiscal year was primarily due to two one-time charges during the fourth quarter. First, we recorded a $34 million specific loan loss allowance related to a $168 million loan to a power supply borrower. Second, we recorded a $31 million noncash asset impairment charge related to a software project.

Operator: Excuse me, ladies and gentlemen. One moment while we reconnect your presenters.

Andrew Don: Back on, Operator.

Operator: Thank you. Our presenters have rejoined the conference.

Andrew Don: Okay. I was just saying, the impact of these charges were partially offset by an increase in adjusted net interest income of $18 million, realized and unrealized gains of $11 million from our investment portfolio, and increase in fee income and a gain from sale of land of $8 million each; and lastly, the absence of the $7 million loss on the early redemption of debt in the same prior-year period.

Our adjusted net interest income increased by $18 million, or 7% to $274 million from $256 million in fiscal year 2019. The increase in adjusted net interest income was driven by an increase in the adjusted net interest yield of 3 basis points to 100 basis points, coupled with an increase in average interest-earning assets of 4%. The increase in adjusted net interest yield was due to a 14-basis-point reduction in our adjusted average cost of funds, partially offset by an 11-basis-point decrease in the average yield on interest-earning assets.

The reduction in our overall funding cost was largely attributable to the interest savings from the repayment of the 10 and 3/8 percent $1 billion collateral trust bond in the first half of fiscal year 2019, and a decrease in the average cost of our short-term and variable-rate funding resulting from decreases in short-term interest rates during fiscal year 2020.

Our provision for loan losses was $36 million for the current fiscal year, compared with a $1 million benefit in the prior fiscal year. As mentioned earlier, the increase was due to the establishment of a $34 million asset-specific allowance related to a $168 million loan to a CFC power supply borrower.

Unlike our typical loan agreements which have a standard schedule of principal and interest payments, under the terms of this specific power supply loan the borrower is required to make payment amounts that are contingent on the operations and financial performance of the borrower. The borrower is not in default and has continued to make required payment amounts in accordance with the terms of the loan agreement. However, based on our review and assessment of the most recent forecast and underlying assumptions provided by the borrower in May 2020, we no longer believe that the total future expected cash payments from the borrower through the maturity of the loan in December 2026 will be sufficient to repay the outstanding loan balance of $168 million as of May 31, 2020.

As a result, we determined that it was appropriate to classify the loan as non-performing, place it on a non-accrual status, and designate it as impaired as of May 31, 2020. It is important to note that the estimated impairment amount is subject to change based on our assessment of the borrower's future financial forecast and the actual future financial performance of the borrower. We do not have any other loans in our portfolio that are similar in structure in terms of this loan. CFC has $29 million in other loans outstanding with this power supply borrower at May 31, 2020. These loans, which are not impaired and are classified as performing, have a payment priority over the $168 million loan.

As mentioned earlier, at May 31, 2020, we recorded realized and unrealized gains of $11 million in fiscal year 2020 related to securities in our investment portfolio. During the fourth quarter, to further enhance our liquidity position, we revised our objective for the use of our held-to-maturity investment portfolio from previously serving as a supplemental source of liquidity to serving as a readily-available source of liquidity. We, therefore, transferred the securities in this portfolio to trading and sold a portion of the debt securities.

As a result of the transfer to trading, our securities will be reported in our balance sheet at fair value with unrealized gains and losses recorded in earnings as well as realized gains and losses on securities sold.

The overall composition of our loan portfolio at fiscal year-end, May 31, 2020, remained largely unchanged from the composition of the prior fiscal year-end with $26 billion or 99% of our portfolio consisting of loans to rural electric systems and $385 million or 1% to the telecommunications sector. The percentage of CFC's long-term fixed-rate loans was at 92% as of May 31, 2020, compared with 89% at May 31, 2019. We typically lend to our members on a senior secured basis, with 94% of our loans being senior secured at May 31, 2020, compared with 92% at May 31, 2019.

This slide depicts CFC's consolidated loans outstanding by state, and the states with the largest overall loan outstanding increases during fiscal year 2020. As mentioned earlier, during fiscal year 2020, our total loans outstanding increased by $785 million consisting of an increase in long-term, fixed-rate loans outstanding of $1.4 billion, offset by a decrease in long-term variable rate and line-of-credit loans of $593 million.

During the prior fiscal year, the increase in our total loans outstanding of $738 million was at a similar level. However, during the prior fiscal year, 54% of the increase or $398 million resulted from long-term fixed-rate loans and 46% or $340 million resulted from long-term variable-rate and line-of-credit loans.

Approximately 80% of our new term loan advances during fiscal year 2020 were made for capital expenditure purposes compared with 87% during fiscal year 2019.

Texas continues to be our largest state in terms of loans outstanding and number of borrowers. At May 31, 2020, Texas accounted for approximately 16% of our total loans outstanding, followed by Colorado at around 6%. In terms of loan growth during fiscal year 2020, total loans outstanding in Texas increased by $256 million representing approximately one-third of our overall loans outstanding increase.

With respect to term loan advances, Texas accounted for 17% or $400 million of our overall $2.4 billion term loan advances during fiscal year 2020. All of the term loan advances in Texas were for capital expenditure purposes. Colorado and North Carolina were our second and third-highest growth states during fiscal year 2020 with an increase in total loans outstanding of $159 million and $95 million, respectively.

That said, 62% of our term loan advances in Colorado were made for CapEx and 38% for refinancing other lenders' debt, versus in North Carolina, 38% were for CapEx and 62% were for refinancing other lenders' debt.

As shown in the chart on this page, our five highest growth states were Texas, Colorado, North Carolina, Indiana, and Oklahoma, and these states represented 86% of our net loan growth during fiscal year 2020. In comparison during fiscal year 2019, our top five fastest-growing states were Florida, Texas, Iowa, Missouri, and Ohio, representing 77% of our net loan growth.

In terms of single-borrower concentration, our largest exposure to a single borrower represented approximately 2% of total loans outstanding as of May 31, 2020, while our net loan exposure to our top20 borrowers, which excludes loans guaranteed by the Federal Agricultural Mortgage Corporation or Farmer Mac, was 21% of total loans outstanding or $5.6 billion compared with the same 21% and $5.3 billion at fiscal year-end 2019.

Our top 20 borrowers consisted of 11 distribution systems and 9 power supply systems at May 31, 2020, compared with ten distribution systems, nine power supply systems, and one NCSC associate at May 31, 2019.

As mentioned earlier, we had one loan of $168 million to a CFC power supply borrower that we designated as non-performing during the fourth quarter of fiscal year 2020 as we no longer believe that the total future expected cash payments from the borrower through the maturity of the loan in December 2020 will be sufficient to repay in full the outstanding loan balance of $168 million as of May 31, 2020. That said, the borrower has met all the required payment obligations under the loan agreement and is not in default.

At May 31, 2020, our nonperforming loans to total loans outstanding was at 63 basis points. We did not have any loan delinquencies, loan defaults, or charge-offs during fiscal years 2020, 2019 and 2018. In addition, we have not had any loan defaults in our electric utility loan portfolio since fiscal year 2013.

At May 31, 2020, our allowance for loan losses was $53 million for a $27 billion loan portfolio which translates to a total allowance coverage ratio of 20 basis points. In comparison, our allowance for loan losses was $18 million and the total allowance coverage ratio was 7 basis points at the end of fiscal year 2019.

The increase in our allowance for loan losses was due to the establishment of an asset-specific allowance of $34 million related to the previously-mentioned CFC power supply loan of $168 million. Our collective allowance, which does not include the asset-specific allowance, totaled $18 million and $17 million as of May 31, 2020, and 2019 respectively, and the collective allowance ratio was 7 basis points and 6 basis points as of each respective date.

We currently have not seen any material adverse impact on the financial performance or key credit metrics of our members due to COVID-19. Therefore, we did not include a COVID-19-related adjustment in our allowance under the incurred loss model as of May 31, 2020.

We adopted the current expected credit loss model, or CECL, on June 1, 2020, which replaces the incurred loss model for determining our allowance for loan losses and requires that we instead determine our allowance based on an estimate of credit losses owed for the contractual life of our loans. We currently do not expect the adoption of CECL on June 1, 2020, to have a material impact on our consolidated financial statements.

The credit quality of our loan portfolio remains strong with our members continuing to demonstrate solid financial and operational performance. This is especially true for our electric utility portfolio, as we now have a sustained period of seven consecutive fiscal years for which we have had no credit losses in our electric utility portfolio. It is worth noting that for our electric portfolio, CFC has experienced only 16 defaults in its 51-year history. Of these defaults, 10 resulted in no loss and 6 resulted in cumulative net charge-offs of $86 million.

Our total debt outstanding increased by $838 million during fiscal year 2020 primarily to fund the loan growth during the year. CFC continues to maintain diverse funding sources to minimize the risk of being dependent on any single source or market. As of May 31, 2020, $5.4 billion or 21% of CFC's funding came up from our members in the form of short-term and long-term investments. In comparison, our member investments totaled $4.4 billion or 18% of our total debt outstanding at the prior fiscal year-end.

The increases in our member investments in the current fiscal year were largely attributable to the marketing effort we initiated during the first quarter of the current fiscal year to raise awareness of the investment options we offer to our members for their excess cash.

Over the last three fiscal years, our member investments have averaged approximately $4.7 billion at each reporting period.

At May 31, 2020, our total debt outstanding balance under the Guaranteed Underwriter Program increased by $850 million from the prior fiscal year-end. The increase was driven by a total of $950 million issuances under this program during fiscal year 2020, mainly during late February and early March when there was a lot of volatility in the financial markets, offset by approximately $100 million in regularly scheduled principal amortization.

Our capital markets related funding sources decreased by $1 billion at May 31, 2020 from the prior fiscal year-end, primarily due to reductions in dealer commercial paper outstanding. Specifically, as a result of several funding transactions that we completed in February and March, combined with strong member investment levels, we did not have any dealer commercial paper outstanding at May 31, 2020. As a result, our capital markets-related funding sources only accounted for 43% of our total funding at fiscal year-end 2020, compared with 49% at the prior fiscal year.

At May 31, 2020, 64% of our debt was secured and 36% was unsecured compared with 63% secured and 37% unsecured at May 31, 2019.

We completed several long-term funding transactions during the second half of fiscal year 2020 via the various funding programs we have established. We have already discussed all the transactions on this slide during our prior quarterly investor calls. From a liquidity perspective, during fiscal year 2020, we extended the maturity date for one of our bank revolving credit facilities by one year, expanded our borrowing capacity under the Guaranteed Underwriter Program by $500 million, and terminated a $300 million secured line of credit arrangement with Farmer Mac.

From a funding perspective, we issued a total of $2.2 billion in long-term debt, primarily consisting of $500 million each in collateral trust bonds and dealer medium-term notes, and $950 million under the Guaranteed Underwriter Program.

This slide presents CFC's long-term debt maturities' amortization over the next 12 months. Our total long-term debt maturities over this period are very manageable at $2.5 billion with collateral trust bonds and dealer medium-term notes accounting for approximately $1.1 billion or 43% of the scheduled debt maturities.

Our other significant debt maturities during this period include two $125-million notes with Farmer Mac maturing in September and December 2020, which were advanced in March 2020 as a six-month and nine-month note. We also have a $200 million Farmer

Mac note maturing in December 2020 which had initial term of six years.

With respect to the $469 million member medium-term notes due over this period, historically our members have chosen to roll over their investments at maturity. We believe we have ample sources of liquidity to meet each of these maturities as is highlighted on the next slide.

This slide depicts the various non-capital market sources of liquidity that CFC had in place at May 31, 2020, compared with the prior fiscal year-end. As indicated in the graph, we had an aggregate of approximately $6 billion of member and non-member debt maturities over the next 12 months as of May 31, 2020, compared with $5.3 billion as of May 31, 2019. The $748 million increase in our total debt maturities is driven by an increase in our short-term member investments of $1 billion offset by a decrease in our capital market debt maturities of $345 million.

As mentioned earlier, we did not have any dealer commercial paper outstanding at May 31, 2020.

At May 31, 2020, we had access to $8.7 billion of liquidity which is 1.4 times the combined member and non-member debt maturities, or $2.7 billion greater than the combined member and non-member debt maturities. Approximately two-thirds or $3.9 billion of the $6 billion in debt maturities over the next 12 months are short-term investments that our members have with CFC. We consider our member investments to be a very stable and reliable source of funding for CFC. If we exclude the $3.9 billion debt maturities related to our members' short-term investments, we would have total liquidity equal to 4.2 times or $6.6 billion of liquidity in excess of the current portion of non-member long-term debt maturities during the next 12 months subsequent to May 31, 2020.

This slide presents CFC's projected long-term debt issuance needs over the next 18 months subsequent to May 31, 2020. Our cash needs are derived from two primary areas: refinancing existing debt maturities and funding loan growth partially offset by the amortization and repayments of loans from our members.

We expect our long-term loan growth for the next 18 months to be manageable at $782 million. As indicated, our total projected long-term debt issuances over this 18-month period is very modest at $2.9 billion, primarily to refinance existing long-term debt maturities. In comparison, over the prior 18 month period, from November 1, 2018, to May 31, 2020, we issued nearly $5 billion in long-term debt.

Also note that the other sources and the use of cash column in the middle of this slide reflects net increases or decreases in our dealer commercial paper outstanding, short-term member investments, and investment portfolio. For future potential funding needs, we will continue to look to balance capital market and non-capital-market secured and unsecured financings while always looking to access the most attractive cost of funds for our member borrowers.

To conclude our call, I'd like to leave you with a few key takeaways when you consider CFC as an investment opportunity. These items are areas that CFC is consistently focused on and will represent key credit strengths when viewing CFC's investment.

As indicated, CFC's ratings remain strong and stable. CFC has a long-term incentive compensation plan which is tied to our credit ratings. Our goal is to maintain strong, long-term credit fundamentals. The overall quality of our loan portfolios continues to be strong with 99% of our loans to rural electric systems and 94% of our loans being on a senior secured basis. We have not had any loan defaults in our electric utility loan portfolio since fiscal year 2013. We have had no charge-offs during fiscal years 2020, 2019 and 2018.

At May 31, 2020, 2019 and 2018, the coverage ratio of our allowance for loan losses which is an estimate of probable losses inherent in our loan portfolio was 20, 7, and 7 basis points of our total loan portfolio, respectively.

In CFC's 51-year history throughout various economic cycles, we have experienced very limited charge-offs, loan defaults, loan delinquencies, and non-performing loans in our electric portfolio. Despite the economic disruption caused by COVID-19 through today's date, we have not experienced any delinquencies in scheduled loan repayments from our borrowers and we have not received any requests from our borrowers for payment deferrals or covenant relief. While we have not seen a material impact of our members' credit profile due to the pandemic, we will continue to closely monitor our members' financial performance.

CFC continues to receive strong support from our members both in terms of new lending business and as a valuable funding source. Over the last five fiscal years, our total loans outstanding to members increased by $3.5 billion or 3% per year on average, and our total member investments at the end of each quarterly reporting period has averaged around $5.1 billion during fiscal year 2020 compared with $4 billion during fiscal year 2015.

At May 31, 2020, our member investments stood at $5.4 billion, representing 21% of our total funding compared with $4 billion or 19% at May 31, 2015.

As a member-owned cooperative organization, CFC cannot issue common or preferred equity. However, we are committed to grow our equity through retained earnings. Our members' equity has grown by 46% to $1.7 billion from $1.2 billion since May 31, 2015. We continue to maintain diversified funding sources and demonstrate a strong liquidity profile. Our funding sources are very well established and have remained stable. We believe our diversified funding sources prove to be effective and valuable during the recent capital markets distress in March and April of this year.

From a liquidity perspective, between February and April, we took several actions to enhance our liquidity position. As a result, at May 31, 2020, we had no dealer commercial paper outstanding and had $671 million in cash and cash equivalents which was at a significantly higher level compared to the level we have historically maintained.

In addition, we have $309 million in short-to-intermediate-term debt investment securities, $2.7 billion committed in revolving credit facilities from our relationship banks, $900 million committed availability in a Guaranteed Underwriter Program, and $2.4 billion revolving credit capacity by a Farmer Mac secured note purchase agreement.

These sources, together with $1.7 billion scheduled loan amortization and other repayments from our members over the next 12 months resulted in CFC having $8.7 billion of liquidity available at May 31, 2020, to meet the $6 billion of debt maturities over the next 12 months, a 1.4 times liquidity coverage ratio. Excluding the $3.9 billion debt maturities related to our member investments, which historically have had a high reinvestment rate, our liquidity coverage ratio would be 4.2 times.

Thank you once again for joining us today to review our results for our fiscal year ended May 31, 2020. We appreciate your interest in CFC and look forward to discussing our financial performance and funding plans in the future. I'd like to ask the operator to open the lines for any questions and suggest that you submit other questions via the web service that we may respond to those as well. Thank you.

Operator: Thank you. If you'd like to ask an audio question, please signal by pressing star-one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, star-one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for audio questions.

We have no audio questions at this time.

Andrew Don: Okay. Thank you, operator. I think having said that, we will conclude the call at this time, and again, appreciate everyone's dialing in and your continued interest in CFC. And we look forward to talking to you in the future. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect.