FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms National Rural at 'A'/'F1'; Outlook Stable

Mon 25 Aug, 2025 - 4:51 PM ET

Fitch Ratings - New York - 25 Aug 2025: Fitch Ratings has affirmed National Rural Utilities Cooperative Finance Corporation's (CFC) Long-Term and Short-Term Issuer Default Ratings (IDRs) at 'A' and 'F1', respectively. The Rating Outlook is Stable.

Fitch has also affirmed the company's senior secured debt rating at 'A+', senior unsecured debt rating at 'A', subordinated debt rating at 'BBB+', and CP rating at 'F1'.

KEY RATING DRIVERS

U.S. Electric Cooperative Lender: CFC's ratings reflect its unique competitive position within U.S. electric cooperative lending, strong asset quality, sufficient liquidity, funding diversity, and adequate coverage of interest expenses. The ratings are constrained by CFC's higher leverage relative to similarly rated peers, its unique capital structure including an inability to access the public equity markets, and a business model that results in modest earnings performance relative to peers.

Strong Franchise: Since its formation in 1969, CFC has operated as a member-owned, cooperative lender providing financing to supplement the loan programs of the Rural Utilities Service (RUS) of the U.S. Department of Agriculture (USDA). Fitch believes that CFC has a relatively strong franchise due to its long operating track record, relatively stable member base, and growing loan portfolio.

As a result of the company's mission, profit generation is not considered a primary strategic goal. Rather, strategic initiatives are focused on maintaining adequate liquidity and capital, providing cost-effective financing to members, and generating sufficient earnings to cover operational and funding costs and loan losses.

Low Credit Losses Over Time: Over the company's 56-year operating history, CFC has experienced only 18 defaults in its electric utility loan portfolio, resulting in cumulative net charge-offs totaling $100 million since inception, which demonstrates prudent and stable underwriting and solid risk management.

Fitch expects management to maintain its strategic focus on core electric cooperative members. The company has kept telecommunication loan exposure, which was the cause of most of CFC's credit losses over its history, relatively modest.

Nonperforming loans were $26 million, or 0.07% of loans outstanding at fiscal YE 2025 (ended May 31), a decrease of $23 million (46.4%) from a year ago.

Not a Profit Maximizer: As a cooperative lender, CFC's mission is not to generate large profits, but to cover its cost of funding, cost of operations, and loan losses. Fitch places a greater emphasis on the company's adjusted net income and adjusted times interest earned ratio (TIER), which amounted to 1.18x at fiscal YE 2025, from 1.24x in the prior fiscal year, as a result of increased borrowing costs and operating and other expenses. Due to the company's strong asset quality and ability to adjust loan pricing, Fitch expects adjusted TIER to remain above CFC's target of 1.10x over time.

High Leverage Relative to Peers: Fitch calculated CFC's debt to tangible equity, including CFC's loan and member guarantee subordinated certificates (LGSCs), at 7.0x at fiscal YE 2025, up from 6.7x a year earlier, as debt issuances used to fund loan growth outpaced the increase in GAAP equity. Fitch expects leverage to rise over the Outlook horizon with loan growth but remain below 10.0x on a Fitch-calculated basis.

While Fitch views CFC's leverage as reasonable, because of the low portfolio credit risk and the company's ability and willingness to access the subordinated deferrable debt markets to support growth, its current leverage metrics are higher than those of similarly rated non-bank financial institutions, and remain a rating constraint.

Fitch adjusts its leverage calculation based on the agency's "Corporate Hybrids Treatment and Notching Criteria." Specifically, Fitch affords CFC's subordinated deferrable debt and member capital securities 50% equity credit due to the instruments' deep subordination and the cumulative nature of the coupon in the event of a deferral. Fitch views the membership subordinated certificates as similar to a non-cumulative perpetual preferred stock and assigns the instruments 100% equity credit. Fitch also affords CFC's LGSCs 100% equity credit given the instruments' deep subordination and the ability to absorb loan losses.

Diverse Funding Sources: Fitch believes CFC has demonstrated an ability to maintain appropriate funding sources through various cycles and has successfully diversified its funding base over time. Unsecured debt was 51% of total debt at fiscal YE 2025 which, while relatively stable, is below that of similarly rated peers.

Adequate Liquidity: Fitch's analysis of CFC is heavily influenced by the company's ability to maintain sufficient liquidity to meet short- and long-term funding needs. At fiscal YE 2025, CFC's liquidity resources included $249 million of unrestricted cash and investments and $7.4 billion of borrowing capacity on various committed, long-term credit facilities. Additionally, CFC has $1.7 billion of anticipated long-term loan repayments over the next 12 months.

Fitch believes liquidity is adequate to cover $8.8 billion of debt maturities over the next 12 months by 1.1x, although coverage decreased from prior years given the uptick in wholesale CP and the increase in long-term debt scheduled to mature under 12 months. In 2027, long-term debt maturities increase further, and Fitch expects CFC to maintain sufficient liquidity to address these maturities.

Stable Outlook: The Stable Outlook reflects Fitch's expectation for strong asset quality, sufficient liquidity, continued access to diversified funding sources, and the maintenance of appropriate leverage and coverage of interest expenses.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A perceived change in strategic focus, evidenced by an increased level of lending to sectors outside of its rural electric member base;

--A sustained increase in nonperforming loans due to an alteration in underwriting standards and/or financial stress within the sector indicating an inability to adapt to new legislation or changes to government programs or pass along cost increases to end-users;

--An increase in Fitch-calculated leverage sustained above 10.0x;

--A deterioration in the company's liquidity profile below 1.0x coverage of liquidity sources to uses.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Fitch believes the likelihood of a ratings upgrade over the medium term is limited given CFC's higher-than-peer leverage;

--Over time, positive rating momentum could be driven by a decline in leverage approaching 5.0x on a Fitch-calculated basis, which is more consistent with Fitch's investment-grade benchmark ratio for high-balance-sheet-usage finance and leasing companies, and an enhancement of funding flexibility as evidenced by the lengthening of CFC's debt maturity profile.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

According to Fitch's "Non-Bank Financial Institutions Rating Criteria," dated Jan. 31, 2025, a Long-Term Issuer Default Rating (IDR) of 'A' maps to a Short-Term IDR of 'F1' or 'F1+'. To qualify for the higher rating, CFC would need to have a minimum Funding, Liquidity and Coverage (FLC) score of 'aa-'. CFC's FLC score is currently 'bbb'. Fitch therefore has affirmed the Short-Term IDR at 'F1'.

The senior secured debt ratings benefit from a one-notch uplift from the Long-Term IDR given the strong collateral coverage backing such notes and the good recovery prospects for debtholders under a stress scenario.

The senior unsecured debt ratings are equalized with CFC's Long-Term IDR, reflecting their subordination to secured debt and average recovery prospect for debtholders in a stress scenario.

The subordinated deferrable debt ratings are two notches below the Long-Term IDR due to the poor recovery prospects for debtholders in a stress scenario given their deep subordination to senior secured and senior unsecured debt.

The CP rating of 'F1' is equalized with the Short-Term IDR of 'F1'.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

The Short-Term IDR is primarily sensitive to the Long-Term IDR and would be expected to move in tandem. However, a material improvement in CFC's FLC profile, resulting in an upgrade of the subfactor score to 'aa-', could result in the upgrade of the Short-Term IDR to 'F1+'.

CFC's senior secured and unsecured debt ratings are sensitive to changes in the company's Long-Term IDR, its funding mix, and availability of collateral for each class of debt.

CFC's hybrid debt ratings are sensitive to changes in CFC's Long-Term IDR and would be expected to move in tandem.

CFC's CP rating is sensitive to changes in the company's Short-Term IDR and would be expected to move in tandem.

ADJUSTMENTS

The Standalone Credit Profile has been assigned above the implied Standalone Credit Profile due to the following adjustment reason: Business Profile (positive).

The Sector Risk Operating Environment score has been assigned above the implied score due to the following adjustment reason: Business model (positive).

The Business Profile score has been assigned above the implied score due to the following adjustment reason: Market position (positive).

The Asset Quality score has been assigned above the implied score due to the following adjustment reason: Underwriting standards (positive).

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason: Portfolio risk (positive).

The Capitalization & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Risk profile and business model (positive), Capital flexibility and ordinary support (positive).

Criteria Variation

The treatment of LGSCs as 100% equity is considered a variation to the "Corporate Hybrids Treatment and Notching Criteria", dated April 8, 2025, because LGSCs have a contractual or implied maturity, more similar to a hybrid instrument, which would typically receive 50% equity credit.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
National Rural Utilities Cooperative Finance Corporation	LT IDR	A	Affirmed	A
	ST IDR	F1	Affirmed	F1
senior unsecured	LT	A	Affirmed	A
subordinated	LT	BBB+	Affirmed	BBB+
senior secured	LT	A+	Affirmed	A+
senior unsecured	ST	F1	Affirmed	F1

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2025) (including rating assumption sensitivity)

Corporate Hybrids Treatment and Notching Criteria (pub. 08 Apr 2025)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

National Rural Utilities Cooperative Finance Corporation	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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ENDORSEMENT POLICY

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