

National Rural Utilities Cooperative Finance Corp. Upgraded To 'A' On Strong Credit Performance; Outlook Stable

October 22, 2026

- National Rural Utilities Cooperative Finance Corp. (CFC) has reported strong credit performance, with loans on nonaccrual remaining well below 0.5% of the total portfolio and only \$14 million of net charge-offs over the past five years.
- The company's risk-adjusted capital (RAC) has also improved, to 9.7% as of Aug. 31, 2026, largely due to increased capital retention starting in fiscal year 2024.
- As a result, we raised our issuer and issue-level credit ratings on CFC to 'A' from 'A-'. We also raised the subordinated debt rating to 'BBB+' from 'BBB'.
- The stable outlook reflects our expectations that CFC will operate with minimal credit losses in its portfolio while maintaining a RAC ratio of 9%-10% with unfettered access to funding markets over the next 18-24 months.

NEW YORK (S&P Global Ratings) Oct. 22, 2026--S&P Global Ratings today raised its issuer credit rating on [National Rural Utilities Cooperative Finance Corp.](#) (CFC) to 'A' from 'A-'. The outlook is stable.

We also raised our senior secured and senior unsecured debt ratings on CFC to 'A' from 'A-' and our subordinated debt rating to 'BBB+' from 'BBB'.

We expect CFC to maintain a low-risk loan portfolio, strong asset quality, and prudent risk management policies. CFC's senior secured positions help mitigate any expected losses in the event of a borrower defaulting. Total net charge-offs of \$14 million over the past five years were almost entirely from two borrowers (Brazos Electric Power Cooperative and Brazos Sandy Creek), which were affected by the Texas polar vortex in February 2021. The company's total exposure to the two borrowers at the time of default was \$113 million, indicating an 88% recovery rate.

We believe that the company's loans to electric utilities have a low risk of default, illustrated by the modest charge-offs the company has historically reported on its mostly senior secured loans. During its 57-year history, CFC has only had cumulative net charge-offs of \$100 million and a total recovery rate of 95.6% in its electric utility loan portfolio.

As of Aug. 31, 2026, the company had one nonperforming loan of \$5 million, representing 0.01% of total loans outstanding. This is a slight decrease from 0.02% as of May 31, 2026, driven by

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payments received on this loan from the borrower. The company received another \$2 million payment on the loan in September, reducing its outstanding balance to \$3 million.

We anticipate the company's RAC ratio to be 9%-10% over the next 18-24 months. CFC's RAC ratio has improved, supported by increased capital retention starting in fiscal year 2024. As of Aug. 31, 2026, the company's RAC ratio was 9.7%, up from 9.4% a year ago and 9.3% two years ago. We adjust CFC's common equity to exclude prior-year cumulative derivative forward-value gains or losses and current year-to-date derivative forward-value gains or losses, which totaled gains of \$604 million as of Aug. 31, 2026. This is up from gains of \$450 million as of the same date last year.

We treat most of CFC's subordinated deferrable debt and member capital securities as hybrid capital with intermediate equity content (as long as the instrument's residual time until effective maturity exceeds 20 years), meaning we would include them at par in total adjusted capital at up to 33% of adjusted common equity. The portion of hybrid capital with intermediate equity content was \$1.2 billion as of Aug. 31, 2026. The company's adjusted common equity was about \$2.8 billion as of the same date, so we include \$917 million of hybrid securities in total adjusted capital.

We expect CFC to continue generating modest yet stable earnings. The company provides members with attractively priced loans, allowing them to benefit from CFC's low-cost funding. CFC's interest-earning assets had an average yield of 4.71%, and the adjusted net interest yield was 0.96% for the fiscal year ended May 31, 2026. For the quarter ended Aug. 31, 2026, the interest-earning assets average yield was 4.67% and adjusted net interest yield was 0.93%.

CFC expects interest rates to increase and the yield curve to flatten in 2027. The company projects reported net interest income and net interest yield to slightly decrease over the next 12 months compared with the 12 months ended Aug. 31, 2026. At the same time, the company expects its adjusted debt-to-equity ratio will increase above 7.4x (the ratio as of Aug. 31, 2026) due to increasing total debt outstanding to fund anticipated loan growth.

Based on current yield curve assumptions, we think the company's annual adjusted times interest earned ratio (TIER) could decline slightly over the next 12 months but will remain above 1.10x--the company's minimum target. Under a covenant on the company's revolving credit lines, the average ratio over six quarters cannot drop below 1.025x. The company's adjusted TIER was 1.17x for the fiscal year ended May 31, 2026 and 1.15x for the quarter ended Aug. 31, 2026.

We believe the supply-and-demand imbalance of energy will support CFC's portfolio growth over the next 18-24 months. We believe CFC's focus on and knowledge of the industry, as well as some of the ancillary services it provides to members, have engendered loyalty over many years. As of May 31, 2026, CFC had 1,182 members and 559 associates.

Demand for energy stemming from the electrification of energy and the fast-growing energy requirements of AI data centers will likely increase capital need for CFC's members, which could result in more loan growth in CFC's portfolio. As of Aug. 31, 2026, the company projected net loan growth of \$1.9 billion over the next 12 months.

As of Aug. 31, 2026, the company had a modest geographic concentration in Texas, which represented about 7.4% of borrowers. Net loan exposure to Texas-based borrowers (excluding

loans covered under its standby purchase commitment agreement with Farmer Mac) totaled \$6.3 billion and accounted for approximately 16% of total loans outstanding.

The stable outlook reflects our expectations that CFC will maintain a RAC ratio of 9%-10% over the next 18-24 months with minimal credit losses and adequate funding and liquidity. We also expect it to remain an important source of financing for the rural electric utility industry.

We could lower our ratings over the next 18-24 months if the company reports unexpectedly large credit losses such that its RAC ratio declines materially from existing levels. We could also lower the ratings if the company's unique business position erodes or its liquidity weakens.

An upgrade is unlikely over the next 18-24 months due to the company's relatively high non-risk-adjusted leverage (debt to equity), concentrated business model, and use of short-term debt. Over the longer term, we could raise our ratings if CFC's RAC ratio approaches 15% while the company maintains minimal credit losses and access to funding from the Federal Financing Bank, Farmer Mac, and members.

Related Criteria

- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), May 5, 2026
- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), Dec. 9, 2021
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), Dec. 9, 2021
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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