

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of National Rural Utilities Coop. Finance Corp.

10 Nov 2021

New York, November 10, 2021 -- Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of National Rural Utilities Coop. Finance Corp. and other ratings that are associated with the same analytical unit. The review was conducted through a portfolio review discussion held on 9 November 2021 in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key rating considerations are summarized below.

National Rural Utilities Cooperative Finance Corporation's (CFC) A2 senior unsecured rating reflects the strength of its unique franchise position as a dominant low-cost, tax-exempt lender, primarily to the financially stable rural electric cooperative sector. CFC continues to benefit from a high quality loan portfolio owing to the strength of the electric cooperative sector, the focus around distribution cooperatives, and the strong collateral position for the majority of the loan portfolio. While CFC recorded some additional provisions for loan losses relating to two of its Texas-based cooperative borrowers following the winter storm Uri in February 2021, these amounts are small relative to its substantial loan portfolio. Also, through passage of Senate Bill 1580, Texas-based electric cooperatives have the option to arrange financing to meet their obligations related to the storm costs, including, where applicable, repayment of money borrowed from CFC, thereby minimizing CFC's exposure to further loan loss provisions relating to the storm, should that option be pursued. CFC continues to benefit from loan pricing flexibility, which helps it meet and often exceed targets for coverage ratios and by maintaining good liquidity and diverse debt funding sources to supplement its well-established ability to access the wholesale short-term and long-term debt capital markets. CFC's credit positive characteristics balance its high leverage, which is a persisting credit challenge as loan growth continues and despite strategies to improve net margins to enhance its retained equity capital. Additional negative credit overhangs for CFC include its single industry concentration risk and the fact that even as some of the larger generation and transmission cooperatives in its loan portfolio are retiring some coal-fired plants, many in the sector still rely extensively on coal fired generation to meet members' energy demands, which poses elevated carbon transition risk for those entities.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Finance Companies Methodology published in November 2019. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non EU rated, non UK rated, non EU endorsed and non UK endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

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