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May 17, 2012

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RECEIVED

MAY 21 2012

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Re: Application of Farmers Rural Electric Cooperative Corporation for authorization to borrow up to \$2,671,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and to execute necessary note and to prepay Rural Utilities Service ("RUS") 5% notes of the same amount

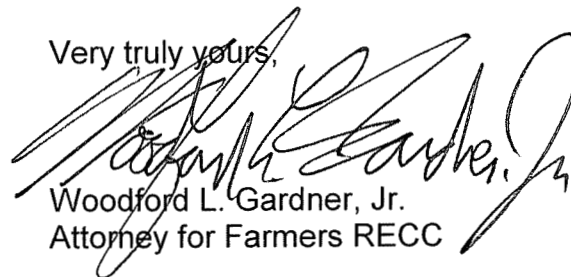
Dear Mr. Derouen:

We enclose for filing the original and 10 copies of application pertaining to the above. Please notify the undersigned of the case number when it has been assigned.

The offer from CFC to refinance the RUS notes expires July 5, 2012. Accordingly we request expedited handling of this application so that we may have Commission approval prior to that date.

Thank you for your assistance in this matter.

Very truly yours,



Woodford L. Gardner, Jr.
Attorney for Farmers RECC

Enclosures
cc: William T. Prather

RECEIVED

MAY 21 2012

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF FARMERS RURAL ELECTRIC COOPERATIVE)
CORPORATION FOR AUTHORIZATION TO BORROW UP TO)
\$2,671,000.00 FROM THE NATIONAL RURAL UTILITIES)
COOPERATIVE FINANCE CORPORATION AND EXECUTE)
NECESSARY NOTE AND TO PREPAY RURAL UTILITIES)
SERVICE 5% NOTES OF THE SAME AMOUNT)

APPLICATION

Farmers Rural Electric Cooperative Corporation ("Farmers") respectfully submits this application seeking expedited approval (in order to close by July 5, 2012) of long term financing, pursuant to KRS 278.300. The petition respectfully shows:

1. Farmers is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member customers in the Kentucky counties of Barren, Metcalfe, Hart, Green, Adair, Grayson, LaRue and Edmonson.
2. Farmers' post office address is P.O. Box 1298, Glasgow, Kentucky 42142-1298.
3. The Articles of Incorporation and all amendments thereto for Farmers are filed in Case No. 2008-00030.
4. As of April 30, 2012, Farmers served 24,670 active services for member-customers. It has 3,594.12 miles of distribution lines in its eight county service territory, and own additional facilities necessary to support this distribution system. The total original cost of these distribution lines and additional facilities as of April 30, 2012 is \$73,740,979.
5. The financial exhibit, as required by 807 KAR 5:001, section 11(2)(a) is attached as Exhibit 1 to this application.
6. Farmers is not seeking authorization to issue any kinds of stocks as part of this application.

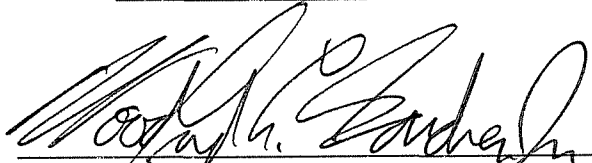
7. Farmers seeks to borrow from National Rural Electric Cooperative Finance Corporation ("CFC") up to \$2,671,000,00 and execute a note in conjunction with this borrowing from CFC. The CFC loan will be for 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 year periods and will be the same on the maturity of the Rural Utilities Service ("RUS") notes being refinanced. The CFC note will require a different fixed interest rate for each years 1 through 12. The rate will range from 1-year rate of 2.75% to a 12-year rate of 4.40%. The CFC effective interest rate for all 12 years will be 3.66%.
8. A copy of the potential refinance letter from CFC is attached as Exhibit 6 of this application.
9. The CFC loan will be secured under the provisions of the Restated Mortgage and Security agreement dated as of May 1, 2003, made by and among Farmers, the United States of America ("RUS") and CFC as it may have been supplemented, amended, consolidated, or restated from time to time ("Mortgage"). The Mortgage is filed in Case No. 2010-0029.
10. Farmers will use the proceeds from the CFC loan solely to prepay notes of the same amount outstanding to RUS. The CFC notes being prepaid are listed in Exhibit 7, Page 1 to this application.
11. RUS has given notice to cooperatives that this type of refinancing is allowed under the Mortgage.
12. Farmers expects the actual payoff to be very close to \$2,544,700. It is possible that the payoff will actually be lower depending on the time required to secure Commission approval and any payments made in the meantime.
13. Farmers will have the ability to convert the interest rate from fixed to variable during the term of the loan provided that Farmers promptly pays the invoiced amount for any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarity classified long-term loans.
14. Farmers will save approximately \$374,627 as a result of the proposed refinancing, consisting of \$318,657 in interest savings and \$55,971 in patronage capital savings. The CFC interest rates are fixed. There are no fees to prepay the RUS loans and no fees for the loan from CFC. The refinancing will not impact Farmers' ability to borrow from RUS in the future.
15. 807 KAR 5:001, Section 11(2)(c) is not applicable since no property is being acquired in conjunction with this financing.

16. Additional information in support of this Application is included in attached Exhibits 5, 7 (pages 2 through 7), 8 and 9.

WHEREFORE, Farmers Rural Electric Cooperative Corporation requests that the Commission issue an Order authorizing Farmers to borrow from CFC \$2,671,000.00, execute the secured promissory note and loan agreement, prepay the RUS loans, and for any other relief to which it may be entitled.

Dated at Glasgow, Kentucky this 17th day of May, 2012.

Woodford L. Gardner, Jr.
Richardson, Gardner & Alexander
Attorney for Applicant
117 East Washington Street
Glasgow, Kentucky 42141
Phone: (270) 651-8884
Fax: (270) 651-3662
E-Mail: wlg@rgba-law.com



Woodford L. Gardner, Jr., Attorney for
Farmers Rural Electric Cooperative Corporation

INDEX

Exhibit 1 Financial Exhibit – 807 KAR 5:001, Section 6

Exhibit 2 RUS, CFC & FFB Existing Notes

Exhibit 3 Statement of Operations

Exhibit 4 Financial & Statistical Report

Exhibit 5 Board Resolution

Exhibit 6 CFC Proposal Letter

Exhibit 7 CFC Proposal Additional Information

Exhibit 8 Promissory Note

Exhibit 9 Loan Agreement

APPLICATION OF FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION
EXHIBIT 1
FINANCIAL EXHIBIT – 807 KAR 5:001, SECTION 6

Unless otherwise noted, the financial information contained in this Exhibit is for the twelve months ending or as of April 30, 2012, which is within the 90 day requirement of 807 KAR 5:001, section 6.

- Section 6 (1) Farmers has no stock authorized.
- Section 6 (2) Farmers has no stock issued or outstanding.
- Section 6 (3) Farmers has no preferred stock issued.
- Section 6 (4) All of Farmers' loans with the RUS, Federal Financing Bank ("FFB"), and CFC are secured by the Mortgage which was executed on May 1, 2003. Farmers is the mortgagor, while the RUS, FFB and CFC are the mortgagees. The total debt limit is \$100,000,000.00. The current actual indebtedness is shown as Exhibit 2, pages 1-3. There are no sinking fund provision contained in the Restated Mortgage.
- Section 6 (5) Farmers has no bonds authorized or issued.
- Section 6 (6) Exhibit 2 contains the listing of Farmers total notes outstanding.
- Section 6 (7) Farmers has no other indebtedness.
- Section 6 (8) As Farmers has no stock authorized, issued, or outstanding, no dividends have been paid during the five previous fiscal years.
- Section 6 (9) Exhibits 3 and 4 contain Farmers' detailed income statement and balance sheet.

FARMERS RURAL ELECTRIC COOPERATIVE

EXHIBIT 2

RUS EXISTING NOTES

AS OF APRIL 30, 2012

Note Number	Interest Rate	Date	Maturity	Original Balance	Interest Paid In Past 12 Mos	Principal Payments	Balance
1B280	5.00%	2/20/1986	12/31/2020	385,000.00	8,740.46	218,412.11	166,587.89
1B282	5.00%	2/20/1986	12/31/2020	385,000.00	8,740.46	218,412.11	166,587.89
1B290	5.00%	12/21/1988	10/31/2023	682,500.00	19,089.13	314,187.37	368,312.63
1B292	5.00%	12/21/1988	10/31/2023	682,500.00	19,089.13	314,187.37	368,312.63
1B301	5.00%	1/9/1992	11/30/2026	1,122,000.00	37,862.63	384,550.31	737,449.69
1B306	5.00%	1/9/1992	11/30/2026	1,122,000.00	37,862.63	384,550.31	737,449.69
1B310	5.12%	8/31/1998	11/30/2032	2,277,000.00	94,740.66	458,496.10	1,818,503.90
1B315	4.50%	1/27/1999	11/30/2032	1,300,000.00	44,835.33	321,061.55	978,938.45
1B316	4.12%	8/14/1999	11/30/2032	977,000.00	30,460.37	251,964.44	725,035.56
						-	
TOTAL				8,933,000.00	301,420.80	2,865,821.67	6,067,178.33
LESS ADVANCE PAYMENTS UNAPPLIED							274,222.53
TOTAL RUS LOANS							5,792,955.80

FARMERS RURAL ELECTRIC COOPERATIVE
EXHIBIT 2
CFC EXISTING NOTES
AS OF APRIL 30, 2012

Note Number	Interest Rate	Date	Maturity	Original Balance	Interest Paid In Past 12 Mos	Principal Payments	Balance
9006-001	6.750%	11/11/1976	9/1/2011	240,000.00	234.06	240,000.00	-
9008-001	6.750%	4/13/1976	3/1/2013	612,000.00	4,836.63	566,067.83	45,932.17
9011-001	6.800%	2/25/1980	12/1/2014	685,000.00	10,621.99	552,580.38	132,419.62
9014-001	6.800%	4/8/1982	3/1/2017	691,000.00	16,613.12	465,253.71	225,746.29
9015-001	6.800%	2/20/1986	12/1/2020	330,000.00	11,507.47	165,987.01	164,012.99
9016-001	6.800%	12/21/1988	12/1/2023	585,000.00	24,409.70	231,339.09	353,660.91
9017-001	6.800%	1/9/1992	12/1/2026	961,000.00	47,065.20	272,512.55	688,487.45
9018-001	6.800%	4/22/1998	11/30/2032	900,000.00	51,201.68	143,126.17	756,873.83
9018-002	6.800%	9/15/1998	11/30/2032	400,000.00	22,756.31	63,611.66	336,388.34
9018-003	6.800%	11/15/1998	11/30/2032	652,000.00	36,370.60	114,362.29	537,637.71
9019-001	2.100%	9/3/2010	5/31/2011	140,567.20	369.96	140,567.20	-
9019-002	2.400%	9/3/2010	5/31/2012	260,977.40	5,110.11	195,146.47	65,830.93
9019-003	2.800%	9/3/2010	5/31/2013	243,281.94	6,830.56	-	243,281.94
9019-004	3.100%	9/3/2010	5/31/2014	165,916.48	5,157.50	-	165,916.48
9019-005	3.400%	9/3/2010	5/31/2015	149,307.96	5,090.38	-	149,307.96
9019-006	3.700%	9/3/2010	5/31/2016	83,150.81	3,085.02	-	83,150.81
9019-007	3.900%	9/3/2010	5/31/2017	87,416.81	3,418.60	-	87,416.81
9019-008	4.100%	9/3/2010	5/31/2018	42,960.24	1,766.20	-	42,960.24
TOTAL CFC LOANS				7,229,578.84	256,445.09	3,150,554.36	4,079,024.48

FARMERS RURAL ELECTRIC COOPERATIVE

EXHIBIT 2

FFB EXISTING NOTES

AS OF APRIL 30, 2012

Note Number	Interest Rate	Date	Maturity	Original Balance	Interest Paid In Past 12 Mos	Principal Payments	Balance
H0010	5.491%	1/12/2001	1/2/2035	4,602,000.00	225,387.84	671,070.60	3,930,929.40
H0015	5.617%	1/25/2001	1/2/2035	451,000.00	22,652.66	64,498.18	386,501.82
H0020	4.770%	8/12/2003	12/31/2037	5,000,000.00	223,252.58	526,732.79	4,473,267.21
H0025	4.770%	11/10/2003	12/31/2037	1,000,000.00	44,650.51	105,346.43	894,653.57
H0030	4.770%	2/17/2004	12/31/2037	1,000,000.00	44,650.51	105,346.43	894,653.57
H0035	4.770%	12/16/2004	12/31/2037	2,000,000.00	89,301.04	210,693.18	1,789,306.82
H0040	4.353%	8/25/2005	12/31/2037	3,000,000.00	122,460.74	319,991.87	2,680,008.13
H0045	4.671%	12/8/2005	12/31/2037	1,000,000.00	44,228.65	95,679.94	904,320.06
H0050	4.587%	2/27/2006	12/31/2037	1,000,000.00	43,427.08	96,388.98	903,611.02
H0055	4.898%	10/23/2006	12/31/2037	1,000,000.00	46,965.22	82,723.22	917,276.78
H0060	4.929%	2/5/2007	12/31/2037	1,000,000.00	47,445.50	78,972.46	921,027.54
H0065	4.915%	4/30/2007	12/31/2037	2,228,000.00	105,773.47	169,041.95	2,058,958.05
H0070	3.406%	1/27/2009	12/31/2040	7,000,000.00	243,714.18	234,122.42	6,765,877.58
H0075	3.630%	3/12/2009	12/31/2040	1,000,000.00	37,055.92	32,176.45	967,823.55
H0080	4.449%	2/19/2010	12/31/2040	1,000,000.00	45,266.71	27,836.15	972,163.85
H0085	3.491%	11/1/2010	12/31/2040	1,000,000.00	35,984.88	24,309.81	975,690.19
H0090	2.868%	8/23/2011	12/31/1940	750,000.00	13,670.22	8,125.55	741,874.45
F0095	4.700%	1/10/2012	7/2/2012	1,000,000.00	390.05	-	1,000,000.00
TOTAL FFB LOANS				35,031,000.00	1,436,277.76	2,853,056.41	32,177,943.59

FARMERS RURAL ELECTRIC COOPERATIVE
EXHIBIT 3
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDING APRIL 30, 2012

1. Operating Revenue and Patronage Capital	45,839,358
2. Power Production Expense (500 - 554)	-
3. Cost of Purchased Power (555 - 567)	32,935,691
4. Transmission Expense (560-573)	-
5. Regional Market Expense	-
6. Distribution Expense - Operation (580s)	1,413,703
7. Distribution Expense - Maintenance (590s)	2,590,626
8. Consumer Accounts Expense (901-905)	1,129,420
9. Customer Service and Informational Expense (907-910)	96,182
10. Sales Expense (911-916)	-
11. Administrative and General Expense (920-935)	2,141,918
12. Total Operation & Maintenance Expense (2 thru 11)	40,307,540
13. Depreciation & Amortization Expense	2,321,605
14. Tax Expense - Property	501,728
15. Tax Expense - Other	46,125
16. Interest on Long-Term Debt	1,992,027
17. Interest Charged to Construction (Credit)	-
18. Interest Expense - Other	62,931
19. Other Deductions	4,384
20. Total Cost of Electric Service (12 thru 19)	45,236,340
21. Patronage Capital & Operating Margins (1 minus 20)	603,018
22. Non Operating Margins - Interest	77,763
23. Allowance for Funds Used During Construction	-
24. Income (Loss) from Equity Investments	76,848
25. Non Operating Margins - Other	-
26. Generation & Transmission Capital Credits	2,480,041
27. Other Capital Credits & Patronage Dividends	81,759
28. Extraordinary Items	-
29. Patronage Capital or Margins (21 thru 28)	3,319,429

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 15 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

BORROWER DESIGNATION KY0034

**FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION**

PERIOD ENDED April, 2012

BORROWER NAME Farmers Rural Electric Cooperative Corporation

INSTRUCTIONS - See help in the online application.

This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552).

CERTIFICATION

We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII

(check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report.

William Prather

5/9/2012
DATE

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	17,895,359	15,333,867	17,115,348	3,189,353
Power Production Expense	0	0	0	0
3. Cost of Purchased Power	13,473,951	11,112,865	12,593,302	2,190,147
4. Transmission Expense	0	0	0	0
5. Regional Market Expense	0	0	0	0
6. Distribution Expense - Operation	437,884	442,567	445,397	102,620
7. Distribution Expense - Maintenance	920,252	855,781	728,405	226,291
8. Customer Accounts Expense	323,600	373,384	388,689	93,433
9. Customer Service and Informational Expense	58,573	30,674	31,433	9,687
10. Sales Expense	0	0	0	0
11. Administrative and General Expense	680,182	699,729	725,458	164,461
12. Total Operation & Maintenance Expense (2 thru 11)	15,894,442	13,515,000	14,912,684	2,786,639
13. Depreciation and Amortization Expense	757,803	780,599	767,246	194,622
14. Tax Expense - Property & Gross Receipts	154,600	168,000	166,000	42,000
15. Tax Expense - Other	13,895	15,670	15,672	3,917
16. Interest on Long-Term Debt	642,671	647,377	668,376	161,245
17. Interest Charged to Construction - Credit	0	0	0	0
18. Interest Expense - Other	20,195	22,142	20,118	5,079
19. Other Deductions	2,175	1,495	2,485	0
20. Total Cost of Electric Service (12 thru 19)	17,485,781	15,150,283	16,552,581	3,193,502
21. Patronage Capital & Operating Margins (1 minus 20)	409,578	183,584	562,767	(4,149)
22. Non Operating Margins - Interest	32,955	28,202	22,500	20,101
23. Allowance for Funds Used During Construction	0	0	0	0
24. Income (Loss) from Equity Investments	(437)	2,364	0	0
25. Non Operating Margins - Other	21,899	0	0	0
26. Generation and Transmission Capital Credits	0	0	0	0
27. Other Capital Credits and Patronage Dividends	34,896	45,479	40,000	0
Extraordinary Items	0	0	0	0
29. Patronage Capital or Margins (21 thru 28)	498,891	259,629	625,267	15,952

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE
FINANCIAL AND OPERATING REPORT
ELECTRIC DISTRIBUTION

BORROWER DESIGNATION

KY0034

PERIOD ENDED

April, 2012

INSTRUCTIONS - See help in the online application.

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	142	136	5. Miles Transmission	0.00	0.00
2. Services Retired	62	96	6. Miles Distribution – Overhead	3,325.65	3,333.02
3. Total Services in Place	27,110	27,439	7. Miles Distribution - Underground	255.07	261.10
4. Idle Services (Exclude Seasonals)	2,427	2,769	8. Total Miles Energized (5 + 6 + 7)	3,580.72	3,594.12

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	73,472,582	30. Memberships	532,310
2. Construction Work in Progress	268,397	31. Patronage Capital	25,254,696
3. Total Utility Plant (1 + 2)	73,740,979	32. Operating Margins - Prior Years	0
4. Accum. Provision for Depreciation and Amort.	21,520,359	33. Operating Margins - Current Year	183,584
5. Net Utility Plant (3 - 4)	52,220,620	34. Non-Operating Margins	439,425
6. Non-Utility Property (Net)	0	35. Other Margins and Equities	1,162,099
7. Investments in Subsidiary Companies	1,138,712	36. Total Margins & Equities (30 thru 35)	27,572,114
8. Invest. in Assoc. Org. - Patronage Capital	14,455,833	37. Long-Term Debt - RUS (Net)	5,828,178
9. Invest. in Assoc. Org. - Other - General Funds	0	38. Long-Term Debt - FFB - RUS Guaranteed	31,607,944
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	973,478	39. Long-Term Debt - Other - RUS Guaranteed	0
11. Investments in Economic Development Projects	0	40. Long-Term Debt Other (Net)	3,599,024
12. Other Investments	0	41. Long-Term Debt - RUS - Econ. Devel. (Net)	0
Special Funds	0	42. Payments – Unapplied	274,223
14. Total Other Property & Investments (6 thru 13)	16,568,023	43. Total Long-Term Debt (37 thru 41 - 42)	40,760,923
15. Cash - General Funds	912,198	44. Obligations Under Capital Leases - Noncurrent	0
16. Cash - Construction Funds - Trustee	0	45. Accumulated Operating Provisions and Asset Retirement Obligations	347,203
17. Special Deposits	0	46. Total Other Noncurrent Liabilities (44 + 45)	347,203
18. Temporary Investments	0	47. Notes Payable	0
19. Notes Receivable (Net)	0	48. Accounts Payable	1,758,649
20. Accounts Receivable - Sales of Energy (Net)	1,388,309	49. Consumers Deposits	945,871
21. Accounts Receivable - Other (Net)	2,086,235	50. Current Maturities Long-Term Debt	1,289,000
22. Renewable Energy Credits	0	51. Current Maturities Long-Term Debt - Economic Development	0
23. Materials and Supplies - Electric & Other	501,144	52. Current Maturities Capital Leases	0
24. Prepayments	332,427	53. Other Current and Accrued Liabilities	1,686,207
25. Other Current and Accrued Assets	0	54. Total Current & Accrued Liabilities (47 thru 53)	5,679,727
26. Total Current and Accrued Assets (15 thru 25)	5,220,313	55. Regulatory Liabilities	0
27. Regulatory Assets	0	56. Other Deferred Credits	311,905
28. Other Deferred Debits	662,916	57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	74,671,872
29. Total Assets and Other Debits (5+14+26 thru 28)	74,671,872		

CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, Neil Pendencygraft, do hereby certify that (i) I am the Secretary of FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION (hereinafter called the "Cooperative"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Cooperative at a meeting held on April 19, 2012; (iii) the meeting was duly and regularly called and held in accordance with the articles and bylaws of the Cooperative; (iv) the Cooperative is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Cooperative; (v) none of the following resolutions has been rescinded or modified as of this date; and (vi) the persons authorized below have been duly elected or appointed to their respective positions:

RESOLVED, that the Cooperative apply to borrow from National Rural Utilities Cooperative Finance Corporation ("CFC"), from time to time as determined by the persons designated by the board of directors of the Cooperative, an aggregate amount not to exceed \$2,671,000.00, as set forth in the loan agreement with CFC governing such loan, in such form as the officers authorized herein may negotiate with CFC (the "Loan Agreement");

RESOLVED, that the proceeds of this loan be used to refinance certain of the Cooperative's existing indebtedness with its other lenders;

RESOLVED, that the individuals listed below are hereby authorized to execute and deliver to CFC the following documents:

- (a) as many counterparts as shall be deemed advisable of the Loan Agreement;
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate shall not exceed the principal amount of \$2,671,000.00, in such form as the officers authorized herein may negotiate with CFC; and
- (c) if required by CFC, an amended, restated or supplemental mortgage, security agreement and financing statement with CFC and the United States of America as mortgagees for purposes of securing the loan provided for herein, in such form as the officers authorized herein may negotiate with CFC.



**National Rural Utilities
Cooperative Finance Corporation**

SERVICE | INTEGRITY | EXCELLENCE

20701 Cooperative Way
Dulles, Virginia 20166
703-467-1800 | www.nrucfc.coop

May 7, 2012

Mrs. Jennie Gibson Phelps
Vice President - Finance
Farmers Rural Electric Cooperative Corporation
P. O. Box 1298
Glasgow, KY 42142

RE: Farmers Rural Electric Cooperative Corporation ("Borrower") Forward Rate Lock Option

Dear Mrs. Phelps:

Pursuant to your request, National Rural Utilities Cooperative Finance Corporation ("CFC") is pleased to offer an option to lock the interest rate on certain future funding that is proposed under the terms of a loan agreement to be executed by and between Borrower and CFC ("Loan Agreement") with respect to a proposed loan in the amount of up to \$2,671,000 (the "Loan"). Implementation of this offer, however, is contingent upon the execution by Borrower and CFC of mutually agreed upon promissory notes, loan agreements and security documents (collectively, the "Loan Documents"), and Borrower meeting all conditions to funding to be set forth in the Loan Documents including, if required, receipt of all regulatory approvals from state and/or federal agencies that are required to enter into the Loan Documents. As of this date, the Loan Documents have not been executed, and regulatory approvals, if required, have not been obtained. However, at your request, CFC agrees that the Loan Documents will provide that if all preconditions to funding are met (each such funding is referred to herein as an "Advance"), then interest charged thereon will be a rate of interest per annum equal to the rate set forth on Schedule A (the "Forward Rate Lock Option").

This offer is made subject to the following additional terms and conditions:


(a) All available Loan funds shall be drawn down in the amount(s) and on the date(s) set forth on Schedule A. If Borrower fails to do so, then Borrower shall pay CFC for (i) all costs and expenses CFC incurs in connection with entering into certain financial commitments in order to offer the Forward Rate Lock Option ("Breakage Fees"), and (ii) an administrative fee in an amount determined in accordance with CFC's policies of general application ("Administrative Fee"). The Loan Documents will reflect the repayment schedule, amortization, and other terms reflected herein and on Schedule A.

- (b) Borrower shall use all Advances to refinance certain of Borrower's indebtedness to RUS.
- (c) Borrower shall pay Breakage Fees and the Administrative Fee if, as applicable, Borrower (i) cancels its request for the Forward Rate Lock Option, or (ii) requests any Advance after the Advance Date as detailed on Schedule A.
- (d) CFC's obligation to make any Advance is subject to Borrower fulfilling all the conditions thereto that will be set forth in the Loan Documents. If Borrower requests that an Advance be made in an amount or on a date other than as set forth on Schedule A, then CFC shall be under no obligation to make the Advance and shall have no liability to Borrower on account thereof. If CFC nevertheless makes such Advance, then Borrower shall pay to CFC the Administrative Fee and any applicable Breakage Fees.
- (e) This offer is limited solely to the Advances set forth on Schedule A. This is not an offer or agreement associated with any other funding that may be made available under the Loan Documents or under any commitment or credit agreement with CFC.
- (f) By signing below, the officer certifies on behalf of Borrower that no state or federal regulatory commission or other governmental approval is required to enter into this Forward Rate Lock Option as a binding obligation of Borrower (or, if such approval is required, then such approval has been obtained and is in full force and effect as of the date set forth below), but the officer is not certifying that Borrower has obtained all necessary approvals in order to execute the Loan Documents.

If the foregoing accurately describes our mutual understanding of our agreement regarding this Forward Rate Lock Option and the conditions under which it is offered, please return this letter by facsimile or by email via PDF, countersigned by an authorized officer of Borrower by May 7, 2012 by 6:00 P.M. eastern time via email to: bryan.russell@nrucfc or fax to 703.467.3928. Please mail a copy of the Agreement with an original signature to my attention.

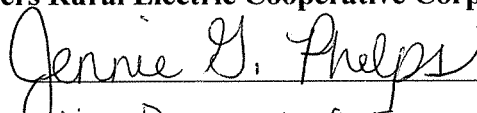
Sincerely,

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

By 
Assistant Secretary-Treasurer

ACCEPTED AND AGREED TO THIS 7th DAY OF May, 2012

Farmers Rural Electric Cooperative Corporation

By: 
Its: Vice President of Finance + Acctg.



Farmers Rural Electric Cooperative

RUS LOANS - in detail

Count	Loan Number	Payments Per Year	Interest Rate	Amort Type	Loan Balance	Payment	Maturity Date	Years to Maturity	Treasury Rate	Payoff Amount	Amount of Discount
1	1B280	12	5.00%	LD	\$ 166,587.89	\$ 1,990.45	12/31/2020	8.58	0.00%	\$ 166,587.89	\$ 0.00
2	1B282	12	5.00%	LD	\$ 166,587.89	\$ 1,990.45	12/31/2020	8.58	0.00%	\$ 166,587.89	\$ 0.00
3	1B290	12	5.00%	LD	\$ 368,312.63	\$ 3,528.53	10/31/2023	11.38	0.00%	\$ 368,312.63	\$ (0.00)
4	1B292	12	5.00%	LD	\$ 368,312.63	\$ 3,528.53	10/31/2023	11.38	0.00%	\$ 368,312.63	\$ (0.00)
5	1B301	12	5.00%	LD	\$ 737,449.69	\$ 5,946.60	11/30/2026	14.48	0.00%	\$ 737,449.69	\$ (0.00)
6	1B306	12	5.00%	LD	\$ 737,449.69	\$ 5,946.60	11/30/2026	14.48	0.00%	\$ 737,449.69	\$ (0.00)



**Powerful
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CFC's credit services provide its members with the financial tools they need to compete in an increasingly complex industry.

Prepared exclusively for: Farmers Rural Electric Cooperative

Scenario: Cash Flow Match for KY034 completed 05/07/12

Overall Summary

Effective Interest Rate (after discounts, patronage capital):	3.66%
Effective Interest Rate (before discounts, patronage capital):	3.91%
Value of savings from discounts, patronage capital:	(0.25%)

Debt Summary

Current total LT debt outstanding: \$	4,079,024
New proposed loan amount: \$	2,544,700
Potential total LT debt outstanding: \$	6,623,725

Equity Summary

Current total equity at CFC: \$	1,010,202
Potential CFC debt to equity ratio:	6.56
Additional equity required as LCTCs: \$	-
Portion of new loan used to purchase LCTCs: \$	-

This information is confidential and is not to be disclosed to third parties without prior CFC consent. This presentation reflects CFC's programs and policies in effect at the time this presentation was created and will remain valid through **9/7//2012** . The interest rates used in this presentation were CFC's interest rates in effect on **5/7/2012** and are effective for that date only. No future representation of interest rates is implied.



Farmers Rural Electric Cooperative

CFC Loan Scenario

Portfolio: Cash Flow Match for KY034 completed 05/07/12

Count	Variable or Fixed	Interest Rate	Amort. Type	Advance Date	Amortization Start Date	Interest Rate Term	Loan Term In Months	Months to defer	Balloon Date	Final Payment Date	Loan Amount	LCTC's required?
1	F	2.750%	LD	7/5/2012	9/1/2012	1	12	0		5/31/2013	\$256,346	No
2	F	2.800%	LD	7/5/2012	6/1/2013	2	24	9		5/31/2014	\$146,078	No
3	F	2.900%	LD	7/5/2012	6/1/2014	3	36	21		5/31/2015	\$218,444	No
4	F	3.050%	LD	7/5/2012	6/1/2015	4	48	33		5/31/2016	\$201,643	No
5	F	3.300%	LD	7/5/2012	6/1/2016	5	60	45		5/31/2017	\$215,713	No
6	F	3.500%	LD	7/5/2012	6/1/2017	6	72	57		5/31/2018	\$220,112	No
7	F	3.750%	LD	7/5/2012	6/1/2018	7	84	69		5/31/2019	\$228,652	No
8	F	3.900%	LD	7/5/2012	6/1/2019	8	96	81		5/31/2020	\$236,677	No
9	F	4.050%	LD	7/5/2012	6/1/2020	9	108	93		5/31/2021	\$230,578	No
10	F	4.200%	LD	7/5/2012	6/1/2021	10	120	105		5/31/2022	\$195,552	No
11	F	4.300%	LD	7/5/2012	6/1/2022	11	132	117		5/31/2023	\$218,285	No
12	F	4.400%	LD	7/5/2012	6/1/2023	12	144	129		5/31/2024	\$176,620	No

Co-op Name: Farmers Rural Electric Cooperative
 Co-op ID: KY034
 Date Prepared: 5/7/2012
 Interest Rates as of: 5/7/2012
 Financing Amount: \$2,544,700
 Scenario Name: Cash Flow Neutral for KY034 as of 5/7/2012

Effective Interest Rate: 3.66%
 Stated Interest Rate: 3.91%
 Pat. Capital and Discount Benefit: 0.25%
 Total Cash Flow Difference: 374,627
 Total Interest Difference: 318,657



ANNUAL CASH FLOW SUMMARY

29-Feb	CFC					RUS				Interest Expense Difference	Patronage Capital Retirement	Total Cash Flow Difference
	Ending Balance	Principal Payments	Interest Expense	Cash Patronage	Cash Flows	Ending Balance	Principal Payments	Interest Expense	Cash Flows			
	(2,544,700)	(596,041)	55,971	(3,084,771)		(2,544,700)	(914,698)	(3,459,398)		318,657	55,971	374,627
2012	2,544,700	0	0	0	0	2,544,700	0	0	0	0	0	0
2013	2,374,389	(170,311)	(59,006)	0	(229,317)	2,418,823	(125,878)	(103,434)	(229,312)	44,428	0	44,428
2014	2,179,179	(195,210)	(83,751)	3,800	(275,161)	2,261,046	(157,777)	(117,397)	(275,174)	33,646	3,800	37,446
2015	1,979,036	(200,143)	(78,915)	3,869	(275,189)	2,095,196	(165,849)	(109,325)	(275,174)	30,410	3,869	34,278
2016	1,773,176	(205,861)	(72,941)	3,638	(275,164)	1,921,083	(174,113)	(101,051)	(275,174)	28,120	3,638	31,758
2017	1,561,071	(212,105)	(66,418)	3,343	(275,179)	1,737,623	(183,461)	(91,713)	(275,174)	25,295	3,343	28,639
2018	1,342,113	(218,857)	(59,254)	3,038	(275,174)	1,544,994	(192,629)	(82,545)	(275,174)	23,291	3,038	26,329
2019	1,115,678	(226,436)	(51,429)	2,693	(275,172)	1,342,510	(202,484)	(72,690)	(275,174)	21,261	2,693	23,954
2020	881,068	(234,610)	(42,886)	2,316	(275,179)	1,129,798	(212,712)	(62,462)	(275,174)	19,576	2,316	21,892
2021	648,975	(232,093)	(33,593)	1,902	(263,774)	917,389	(212,409)	(51,368)	(263,777)	17,784	1,902	19,687
2022	444,561	(204,414)	(24,459)	1,467	(227,406)	731,670	(185,719)	(41,684)	(227,403)	17,225	1,467	18,692
2023	232,069	(212,492)	(15,960)	1,048	(227,404)	536,449	(195,221)	(32,182)	(227,403)	16,222	1,048	17,270
2024	44,882	(187,187)	(6,945)	642	(193,490)	364,827	(171,622)	(22,492)	(194,114)	15,548	642	16,190
2025	0	(44,882)	(494)	229	(45,147)	237,440	(127,386)	(15,332)	(142,718)	14,838	229	15,068
2026	0	0	0	0	0	103,574	(133,866)	(8,852)	(142,718)	8,852	0	8,852
2027	0	0	0	0	0	0	(103,574)	(2,161)	(105,735)	2,161	0	2,161
2028	0	0	0	0	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0	0	0	0	0
2031	0	0	0	0	0	0	0	0	0	0	0	0
2032	0	0	0	0	0	0	0	0	0	0	0	0
2033	0	0	0	0	0	0	0	0	0	0	0	0
2034	0	0	0	0	0	0	0	0	0	0	0	0
2035	0	0	0	0	0	0	0	0	0	0	0	0
2036	0	0	0	0	0	0	0	0	0	0	0	0
2037	0	0	0	0	0	0	0	0	0	0	0	0
2038	0	0	0	0	0	0	0	0	0	0	0	0
2039	0	0	0	3,800	3,800	0	0	0	0	0	3,800	3,800
2040	0	0	0	3,869	3,869	0	0	0	0	0	3,869	3,869
2041	0	0	0	3,638	3,638	0	0	0	0	0	3,638	3,638
2042	0	0	0	3,343	3,343	0	0	0	0	0	3,343	3,343
2043	0	0	0	3,038	3,038	0	0	0	0	0	3,038	3,038
2044	0	0	0	2,693	2,693	0	0	0	0	0	2,693	2,693
2045	0	0	0	2,316	2,316	0	0	0	0	0	2,316	2,316
2046	0	0	0	1,902	1,902	0	0	0	0	0	1,902	1,902
2047	0	0	0	1,467	1,467	0	0	0	0	0	1,467	1,467
2048	0	0	0	1,048	1,048	0	0	0	0	0	1,048	1,048
2049	0	0	0	642	642	0	0	0	0	0	642	642
2050	0	0	0	229	229	0	0	0	0	0	229	229
2051	0	0	0	0	0	0	0	0	0	0	0	0
2052	0	0	0	0	0	0	0	0	0	0	0	0
2053	0	0	0	0	0	0	0	0	0	0	0	0
2054	0	0	0	0	0	0	0	0	0	0	0	0
2055	0	0	0	0	0	0	0	0	0	0	0	0
2056	0	0	0	0	0	0	0	0	0	0	0	0
2057	0	0	0	0	0	0	0	0	0	0	0	0
2058	0	0	0	0	0	0	0	0	0	0	0	0
2059	0	0	0	0	0	0	0	0	0	0	0	0
2060	0	0	0	0	0	0	0	0	0	0	0	0
2061	0	0	0	0	0	0	0	0	0	0	0	0
2062	0	0	0	0	0	0	0	0	0	0	0	0
2063	0	0	0	0	0	0	0	0	0	0	0	0
2064	0	0	0	0	0	0	0	0	0	0	0	0
2065	0	0	0	0	0	0	0	0	0	0	0	0
2066	0	0	0	0	0	0	0	0	0	0	0	0
2067	0	0	0	0	0	0	0	0	0	0	0	0
2068	0	0	0	0	0	0	0	0	0	0	0	0

* The estimated impact of patronage capital is based on CFC's historical patronage allocation level and CFC's current patronage capital retirement policy. CFC's annual patronage allocation and retirement are subject to approval by CFC's Board of Directors



Farmers Rural Electric Cooperative

Detailed Comparison of Cash Flows

Portfolio: Cash Flow Match for KY034 completed 05/07/12

Year	RUS events	CFC events				CFC Net Cash Flows	Comparison
	RUS Payments	CFC Payments	CFC Patronage	LCTC's Payments	LCTC's Return		RUS - CFC Net Cash Flows
3/1/2013	(\$229,312)	(\$229,317)	-	-	-	(\$229,317)	\$6
3/1/2014	(\$275,174)	(\$278,961)	\$3,800	-	-	(\$275,161)	(\$13)
3/1/2015	(\$275,174)	(\$279,058)	\$3,869	-	-	(\$275,189)	\$15
3/1/2016	(\$275,174)	(\$278,802)	\$3,638	-	-	(\$275,164)	(\$10)
3/1/2017	(\$275,174)	(\$278,523)	\$3,343	-	-	(\$275,179)	\$5
3/1/2018	(\$275,174)	(\$278,212)	\$3,038	-	-	(\$275,174)	\$0
3/1/2019	(\$275,174)	(\$277,865)	\$2,693	-	-	(\$275,172)	(\$2)
3/1/2020	(\$275,174)	(\$277,496)	\$2,316	-	-	(\$275,179)	\$5
3/1/2021	(\$263,777)	(\$263,676)	\$1,902	-	-	(\$263,774)	(\$3)
3/1/2022	(\$227,403)	(\$228,873)	\$1,467	-	-	(\$227,406)	\$3
3/1/2023	(\$227,403)	(\$228,452)	\$1,048	-	-	(\$227,404)	\$1
3/1/2024	(\$194,114)	(\$194,132)	\$642	-	-	(\$193,490)	(\$624)
3/1/2025	(\$142,718)	(\$45,376)	\$229	-	-	(\$45,147)	(\$97,572)
3/1/2026	(\$142,718)	-	-	-	-	-	(\$142,718)
3/1/2027	(\$105,735)	-	-	-	-	-	(\$105,735)
3/1/2028	-	-	-	-	-	-	-
3/1/2029	-	-	-	-	-	-	-
3/1/2030	-	-	-	-	-	-	-
3/1/2031	-	-	-	-	-	-	-
3/1/2032	-	-	-	-	-	-	-
3/1/2033	-	-	-	-	-	-	-
3/1/2034	-	-	-	-	-	-	-
3/1/2035	-	-	-	-	-	-	-
3/1/2036	-	-	-	-	-	-	-
3/1/2037	-	-	-	-	-	-	-
3/1/2038	-	-	-	-	-	-	-
3/1/2039	-	-	\$3,800	-	-	\$3,800	(\$3,800)
3/1/2040	-	-	\$3,869	-	-	\$3,869	(\$3,869)
3/1/2041	-	-	\$3,638	-	-	\$3,638	(\$3,638)
3/1/2042	-	-	\$3,343	-	-	\$3,343	(\$3,343)
3/1/2043	-	-	\$3,038	-	-	\$3,038	(\$3,038)
3/1/2044	-	-	\$2,693	-	-	\$2,693	(\$2,693)
3/1/2045	-	-	\$2,316	-	-	\$2,316	(\$2,316)
3/1/2046	-	-	\$1,902	-	-	\$1,902	(\$1,902)



Farmers Rural Electric Cooperative

Detailed Comparison of Cash Flows

Portfolio: Cash Flow Match for KY034 completed 05/07/12

Year	RUS events	CFC events				CFC Net Cash Flows	Comparison RUS - CFC Net Cash Flows
	RUS Payments	CFC Payments	CFC Patronage	LCTC's Payments	LCTC's Return		
3/1/2047	-	-	\$1,467	-	-	\$1,467	(\$1,467)
3/1/2048	-	-	\$1,048	-	-	\$1,048	(\$1,048)
3/1/2049	-	-	\$642	-	-	\$642	(\$642)
3/1/2050	-	-	\$229	-	-	\$229	(\$229)
3/1/2051	-	-	-	-	-	-	-
3/1/2052	-	-	-	-	-	-	-
3/1/2053	-	-	-	-	-	-	-
3/1/2054	-	-	-	-	-	-	-
3/1/2055	-	-	-	-	-	-	-
3/1/2056	-	-	-	-	-	-	-
3/1/2057	-	-	-	-	-	-	-
3/1/2058	-	-	-	-	-	-	-
3/1/2059	-	-	-	-	-	-	-
3/1/2060	-	-	-	-	-	-	-
3/1/2061	-	-	-	-	-	-	-
3/1/2062	-	-	-	-	-	-	-

Sum of Cash Flows

Year 5	(\$1,330,007)	(\$1,344,661)	\$14,650	\$0	\$0	(\$1,330,011)	\$3
Year 10	(\$2,646,709)	(\$2,672,782)	\$26,066	\$0	\$0	(\$2,646,716)	\$7
Year 15	(\$3,459,398)	(\$3,140,742)	\$27,985	\$0	\$0	(\$3,112,756)	(\$346,642)
Year 20	(\$3,459,398)	(\$3,140,742)	\$27,985	\$0	\$0	(\$3,112,756)	(\$346,642)
Year 30	(\$3,459,398)	(\$3,140,742)	\$42,635	\$0	\$0	(\$3,098,106)	(\$361,292)
All years	(\$3,459,398)	(\$3,140,742)	\$55,971	\$0	\$0	(\$3,084,771)	(\$374,627)

Schedule A

Loan Number	9020-001	9020-002	9020-003	9020-004	9020-005	9020-006
Date of Interest Rates (Set Date)	5/7/2012	5/7/2012	5/7/2012	5/7/2012	5/7/2012	5/7/2012
Advance Amount (Notional Amount)	256,345.75	146,078.37	218,444.19	201,643.17	215,712.63	220,112.09
Advance Date (Up to 60 days from Set Date)	7/5/2012	7/5/2012	7/5/2012	7/5/2012	7/5/2012	7/5/2012
Loan Term (years)	1	2	3	4	5	6
Amortization Type	LDS	LDS	LDS	LDS	LDS	LDS
Deferral Period (months)	0	9	21	33	45	57
Amortization Start Date	10/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017
Final Payment Date	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Interest Rate Term	1	2	3	4	5	6
New Reprice Date	FTM	FTM	FTM	FTM	FTM	FTM
Interest Rate on Set Date	2.70%	2.75%	2.85%	3.00%	3.25%	3.45%
Forward Interest Rate Adder	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
All-In Fixed Rate on Advance Date	2.75%	2.80%	2.90%	3.05%	3.30%	3.50%

Loan Number	9020-007	9020-008	9020-009	9020-010	9020-011	9020-012
Date of Interest Rates (Set Date)	5/7/2012	5/7/2012	5/7/2012	5/7/2012	5/7/2012	5/7/2012
Advance Amount (Notional Amount)	228,651.87	236,677.38	230,578.13	195,552.25	218,284.71	176,619.90
Advance Date (Up to 60 days from Set Date)	7/5/2012	7/5/2012	7/5/2012	7/5/2012	7/5/2012	7/5/2012
Loan Term (years)	7	8	9	10	11	12
Amortization Type	LDS	LDS	LDS	LDS	LDS	LDS
Deferral Period (months)	69	81	93	105	117	129
Amortization Start Date	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023
Final Payment Date	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024
Interest Rate Term	7	8	9	10	11	12
New Reprice Date	FTM	FTM	FTM	FTM	FTM	FTM
Interest Rate on Set Date	3.70%	3.85%	4.00%	4.15%	4.25%	4.35%
Forward Interest Rate Adder	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
All-In Fixed Rate on Advance Date	3.75%	3.90%	4.05%	4.20%	4.30%	4.40%

SECURED PROMISSORY NOTE

\$2,671,000.00

dated as of _____

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION, a Kentucky corporation (the "Borrower"), for value received, hereby promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (the "Payee"), at its office in Dulles, Virginia or such other location as the Payee may designate to the Borrower, in lawful money of the United States, the principal sum of TWO MILLION SIX HUNDRED SEVENTY-ONE THOUSAND AND 00/100 DOLLARS (\$2,671,000.00), or such lesser sum of the aggregate unpaid principal amount of all advances made by the Payee pursuant to that certain Loan Agreement dated as of even date herewith between the Borrower and the Payee, as it may be amended from time to time (herein called the "Loan Agreement"), and to pay interest on all amounts remaining unpaid hereunder from the date of each advance in like money, at said office, at the rate and in amounts and payable on the dates provided in the Loan Agreement together with any other amount payable under the Loan Agreement. If not sooner paid, any balance of the principal amount and interest accrued thereon shall be due and payable fifteen (15) years from the date of the Loan Agreement (such date herein called the "Maturity Date") *provided, however,* that if such date is not a Payment Date (as defined in the Loan Agreement), then the Maturity Date shall be the Payment Date immediately preceding such date.

This Note is secured under a Restated Mortgage and Security Agreement, dated as of May 1, 2003, among the Borrower, the Payee and the United States of America, as it may have been or shall be supplemented, amended, consolidated or restated from time to time ("Mortgage"). This Note is one of the Notes referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

The principal hereof and interest accrued thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Mortgage or the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment of this Note.

IN WITNESS WHEREOF the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and to be attested by its duly authorized officers, all as of the day and year first above written.

FARMERS RURAL ELECTRIC
COOPERATIVE CORPORATION

(SEAL)

By: _____

Title: _____

Attest: _____
Secretary

Loan No. KY034-A-9020

CFC NOTE
KY034-A-9020 (MILLERK)
169211-1

LOAN AGREEMENT

LOAN AGREEMENT (this "Agreement") dated as of _____, between FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the State of Kentucky and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association organized and existing under the laws of the District of Columbia.

RECITALS

WHEREAS, the Borrower has applied to CFC for a loan or a series of loans for the purpose of refinancing certain of its existing indebtedness, as more fully described on Schedule 1 hereto, and CFC is willing to make such a loan to the Borrower on the terms and conditions stated herein; and

WHEREAS, the Borrower has agreed to execute one or more secured promissory notes to evidence an indebtedness in the aggregate principal amount of the CFC Commitment (as hereinafter defined).

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Section 1.01 For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and the plural form thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage.

"Accounting Requirements" shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Borrower (including but not limited to that prescribed by the financial and statistical report required by RUS, commonly known as the "RUS Form 7"), or in the absence thereof, the requirements of GAAP applicable to businesses similar to that of the Borrower.

"Advance" shall mean each advance of funds by CFC to the Borrower pursuant to the terms and conditions of this Agreement.

"Amortization Basis Date" shall mean the first calendar day of the month following the end of the Billing Cycle in which the Advance occurs, provided, however, that if the Advance is made on the first day of a Billing Cycle, and such day is a Business Day, then the Amortization Basis Date shall be the date of the Advance.

"Average DSC Ratio" shall mean the average of the Borrower's two highest annual DSC Ratios during the most recent three calendar years.

"Billing Cycle" shall mean any 3-month period ending on, and including, a Payment Date.

“Business Day” shall mean any day that both CFC and the depository institution CFC utilizes for funds transfers hereunder are open for business.

“CFC Commitment” shall have the meaning as defined in Schedule 1.

“CFC Fixed Rate” shall mean (i) such fixed rate as is then available for loans similarly classified pursuant to CFC's policies and procedures then in effect, or (ii) such other fixed rate as may be agreed to by the parties and reflected on the written requisition for funds in the form attached as Exhibit A hereto.

“CFC Fixed Rate Term” shall mean the specific period of time that a CFC Fixed Rate is in effect for an Advance.

“CFC Variable Rate” shall mean (i) the rate established by CFC for variable interest rate long-term loans similarly classified pursuant to the long-term loan programs established by CFC from time to time, or (ii) such other variable rate as may be agreed to by the parties on the written requisition for funds in the form attached as Exhibit A hereto.

“Conversion Request” shall mean a written request to CFC from any duly authorized officer or other employee of the Borrower requesting an interest rate conversion available pursuant to the terms of this Agreement.

“Debt Service Coverage (“DSC”) Ratio” shall mean the ratio determined as follows: for any calendar year add (i) Operating Margins, (ii) Non-Operating Margins--Interest, (iii) Interest Expense, (iv) Depreciation and Amortization Expense, and (v) cash received in respect of generation and transmission and other capital credits, and divide the sum so obtained by the sum of all payments of Principal and Interest Expense required to be made during such calendar year; provided, however, that in the event that any amount of Long-Term Debt has been refinanced during such year, the payments of Principal and Interest Expense required to be made during such year on account of such refinanced amount of Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced amount of Long-Term Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payment of Principal and Interest Expense required to be made during the following year on account of such refinancing debt.

“Default Rate” shall mean a rate per annum equal to the interest rate in effect for an Advance plus two hundred basis points.

“Depreciation and Amortization Expense” shall mean an amount constituting the depreciation and amortization of the Borrower computed pursuant to Accounting Requirements.

“Distributions” shall mean, with respect to the Borrower, any dividend, patronage refund, patronage capital retirement or cash distribution to its members, or consumers (including but not limited to any general cancellation or abatement of charges for electric energy or services furnished by the Borrower). The term “Distribution” shall *not* include (a) a distribution by the Borrower to the estate of a deceased patron, (b) repayment by the Borrower of a membership fee upon termination of a membership, or (c) any rebate to a patron resulting from a cost abatement received by the Borrower, such as a reduction of wholesale power cost previously incurred.

“Draw Period” Draw Period shall mean the period of beginning on the date hereof and ending on the date that is one year thereafter.

“Environmental Laws” shall mean all laws, rules and regulations promulgated by any Governmental Authority, with which Borrower is required to comply, regarding the use, treatment, discharge, storage, management, handling, manufacture, generation, processing, recycling, distribution, transport, release of or exposure to any Hazardous Material.

“Equity” shall mean the aggregate of the Borrower's equities and margins computed pursuant to Accounting Requirements.

“Event of Default” shall have the meaning as described in Article VI hereof.

“GAAP” shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board.

“Governmental Authority” shall mean the government of the United States of America, any other nation or government, any state or other political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Hazardous Material” shall mean any (a) petroleum or petroleum products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls, lead and radon gas, and (b) any other substance designated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

“Interest Expense” shall mean an amount constituting the interest expense with respect to Long-Term Debt of the Borrower computed pursuant to Accounting Requirements. In computing Interest Expense, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Borrower over 2% of the Borrower's Equity.

“Interest Rate Reset Date” shall mean, with respect to any Advance, the first day following the expiration of the CFC Fixed Rate Term for such Advance.

“LCTC Purchase Provisions” shall mean the specific conditions and covenants in any Prior Loan Document requiring the Borrower to purchase subordinated debt instruments issued by CFC that may be referred to in Prior Loan Documents as “LCTCs”, “Loan Capital Term Certificates”, “Capital Certificates”, “Equity Certificates”, “Subordinated Term Certificates” or instruments with other like designations.

“Lien” shall mean any statutory or common law consensual or non-consensual mortgage, pledge, security interest, encumbrance, lien, right of set off, claim or charge of any kind, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature thereof and any secured transaction under the Uniform Commercial Code.

“Loan Documents” shall mean this Agreement, the Note, the Mortgage and all other documents or instruments executed, delivered or executed and delivered by the Borrower and evidencing, securing, governing or otherwise pertaining to the loan made by CFC to the Borrower pursuant to this Agreement.

“Long-Term Debt” shall mean an amount constituting the long-term debt of the Borrower computed pursuant to Accounting Requirements.

“Make-Whole Premium” shall mean, with respect to any principal sum of a CFC Fixed Rate Advance paid prior to the expiration of the CFC Fixed Rate Term applicable thereto (the “Prepaid Principal Amount”), an amount calculated as set forth below. The Make-Whole Premium represents CFC’s reinvestment loss resulting from making a fixed rate loan.

(1) Compute the amount of interest (“Loan Interest”) that would have been due on the Prepaid Principal Amount at the applicable CFC Fixed Rate for the period from the prepayment date through the end of the CFC Fixed Rate Term (such period is hereinafter referred to as the “Remaining Term”), calculated on the basis of a 30-day month/360-day year, adjusted to include any amortization of principal in accordance with the amortization schedule that would have been in effect for the Prepaid Principal Amount.

(2) Compute the amount of interest (“Investment Interest”) that would be earned on the Prepaid Principal Amount (adjusted to include any applicable amortization) if invested in a United States government security with a term equivalent to the Remaining Term, calculated on the basis of a 30-day month/360-day year. The yield used to determine the amount of Investment Interest shall be based upon United States government security yields dated no more than two Business Days prior to the prepayment date in Federal Reserve statistical release H.15 (519), under the caption “U.S. Government Securities/Treasury Constant Maturities”. If there is no such United States government security under said caption with a term equivalent to the Remaining Term, then the yield shall be determined by interpolating between the terms of whole years nearest to the Remaining Term.

(3) Subtract the amount of Investment Interest from the amount of Loan Interest. If the difference is zero or less, then the Make-Whole Premium is zero. If the difference is greater than zero, then the Make-Whole premium is a sum equal to the present value of the difference, applying as the present value discount a rate equal to the yield utilized to determine Investment Interest.

“Maturity Date” with respect to each Note shall have the meaning ascribed to it therein.

“Mortgage” shall have the meaning as described in Schedule 1 hereto.

“Mortgagee” shall mean each of CFC, RUS, and each other lender which shall hereafter become a mortgagee under the terms of the Mortgage.

“Mortgaged Property” shall have the meaning ascribed to it in the Mortgage.

“Non-Operating Margins--Interest” shall mean the amount representing the interest component of non-operating margins of the Borrower computed pursuant to Accounting Requirements.

“Note” or “Notes” shall mean each secured promissory note, payable to the order of CFC, executed by the Borrower, dated as of even date herewith, pursuant to this Agreement as identified on Schedule 1 hereto, and shall include all substitute, amended or replacement promissory notes.

“Obligations” shall mean any and all liabilities, obligations or indebtedness owing by the Borrower to CFC, of any kind or description, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

“Operating Margins” shall mean the amount of patronage capital and operating margins of the Borrower computed pursuant to Accounting Requirements.

“Payment Date” shall mean the last day of each of the months referred to in Schedule 1.

“Permitted Encumbrances” shall have the meaning ascribed to it in the Mortgage.

“Person” shall mean natural persons, cooperatives, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, associations, companies, trusts or other organizations, irrespective of whether they are legal entities, and Governmental Authorities.

“Prepayment Administrative Fee” shall mean an amount equal to thirty three one-hundredths of one percent (0.33%) of the amount being prepaid.

“Principal” shall mean the amount of principal billed on account of Long-Term Debt of the Borrower computed pursuant to Accounting Requirements.

“Prior Loan Documents” shall mean, collectively, all long term loan agreements entered into prior to the date hereof by and between CFC and the Borrower, and all promissory notes delivered pursuant thereto secured under the Mortgage, other than loan agreements and notes or bonds representing loans sold, transferred assigned or otherwise endorsed by CFC to a purchaser thereof.

“Restricted Rentals” shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term “finance lease” shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of three (3) years and covering property having an initial cost in excess of \$250,000 other than automobiles, trucks, trailers, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

“RUS” shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture, or if at any time after the execution of this Agreement RUS is not existing and performing the duties of administering a program of rural electrification as currently assigned to it, then the entity performing such duties at such time.

“Subsidiary” as to any Person, shall mean a corporation, partnership, limited partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests

having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Total Assets" shall mean an amount constituting the total assets of the Borrower computed pursuant to Accounting Requirements.

"Total Utility Plant" shall mean the amount constituting the total utility plant of the Borrower computed pursuant to Accounting Requirements.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.01 The Borrower represents and warrants to CFC that as of the date of this Agreement:

A. Good Standing. The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, is duly qualified to do business and is in good standing in those states in which it is required to be qualified to conduct its business. The Borrower is a member in good standing of CFC.

B. Subsidiaries and Ownership. Schedule 1 hereto sets forth a complete and accurate list of the Subsidiaries of the Borrower showing the percentage of the Borrower's ownership of the outstanding stock, membership interests or partnership interests, as applicable, of each Subsidiary.

C. Authority; Validity. The Borrower has the power and authority to enter into this Agreement, the Note and the Mortgage; to make the borrowing hereunder; to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, in the Note and in the Mortgage, all of which have been duly authorized by all necessary and proper action; and no consent or approval of any Person, including, as applicable and without limitation, members of the Borrower, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

Each of this Agreement, the Note and the Mortgage is, and when fully executed and delivered will be, legal, valid and binding upon the Borrower and enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity.

D. No Conflicting Agreements. The execution and delivery of the Loan Documents and performance by the Borrower of the obligations thereunder, and the transactions contemplated hereby or thereby, will not: (i) violate any provision of law, any order, rule or regulation of any court or other agency of government, any award of any arbitrator, the articles of incorporation or by-laws of the Borrower, or any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Borrower is a party or by which it or any of its property is bound; or (ii) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such award, indenture, contract, agreement,

mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien (other than contemplated hereby) upon any of the property or assets of the Borrower.

The Borrower is not in default of any of its obligations to RUS or, in any material respect, under any agreement or instrument to which it is a party or by which it is bound and no event or condition exists which constitutes a default, or with the giving of notice or lapse of time, or both, would constitute a default under any such agreement or instrument.

E. Taxes. The Borrower, and each of its Subsidiaries, has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all federal, state and local taxes, assessments, and governmental charges and levies thereon, including interest and penalties to the extent that such taxes, assessments, and governmental charges and levies have become due, except for such taxes, assessments, and governmental charges and levies which the Borrower or any Subsidiary is contesting in good faith by appropriate proceedings for which adequate reserves have been set aside.

F. Licenses and Permits. The Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like necessary to own and operate its property and business that are required by Governmental Authorities and each remains valid and in full force and effect.

G. Litigation. There are no outstanding judgments, suits, claims, actions or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower, its Subsidiaries or any of their respective properties which, if adversely determined, either individually or collectively, would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries. The Borrower and its Subsidiaries are not, to the Borrower's knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority which would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries.

H. Financial Statements. The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, the statement of operations of the Borrower for the period ending on said date, and the interim financial statements of the Borrower, all heretofore furnished to CFC, are complete and correct. Said balance sheet fairly presents the financial condition of the Borrower as at said date and said statement of operations fairly reflects its operations for the period ending on said date. The Borrower has no contingent obligations or extraordinary forward or long-term commitments except as specifically stated in said balance sheet or herein. There has been no material adverse change in the financial condition or operations of the Borrower from that set forth in said financial statements except changes disclosed in writing to CFC prior to the date hereof.

I. Borrower's Legal Status. Schedule 1 hereto accurately sets forth: (i) the Borrower's exact legal name, (ii) the Borrower's organizational type and jurisdiction of organization, (iii) the Borrower's organizational identification number or accurate statement that the Borrower has none, and (iv) the Borrower's place of business or, if more than one, its chief executive office as well as the Borrower's mailing address if different.

J. Required Approvals. No license, consent or approval of any Governmental Authority is required to enable the Borrower to enter into this Agreement, the Note and the Mortgage, or to perform any of its Obligations provided for in such documents, including without

limitation (and if applicable), that of any state public utilities commission and any state public service commission, except as disclosed in Schedule 1 hereto, all of which the Borrower has obtained prior to the date hereof.

K. Compliance With Laws. The Borrower and each Subsidiary is in compliance, in all material respects, with all applicable requirements of law and all applicable rules and regulations of each Governmental Authority.

L. Disclosure. To the Borrower's knowledge, information and belief, neither this Agreement nor any document, certificate or financial statement furnished to CFC by or on behalf of the Borrower in connection herewith (all such documents, certificates and financial statements, taken as a whole) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained herein and therein not misleading.

M. No Other Liens. As to property which is presently included in the description of Mortgaged Property, the Borrower has not, without the prior written approval of CFC, executed or authenticated any security agreement or mortgage, or filed or authorized any financing statement to be filed with respect to assets owned by it, other than security agreements, mortgages and financing statements in favor of any of the Mortgagees, except as disclosed in writing to CFC prior to the date hereof or relating to Permitted Encumbrances.

N. Environmental Matters. Except as to matters which individually or in the aggregate would not have a material adverse effect upon the business or financial condition of the Borrower or its Subsidiaries, (i) Borrower is in compliance with all Environmental Laws (including, but not limited to, having any required permits and licenses), (ii) there have been no releases (other than releases remediated in compliance with Environmental Laws) from any underground or aboveground storage tanks (or piping associated therewith) that are or were present at the Mortgaged Property, (iii) Borrower has not received written notice or claim of any violation of any Environmental Law, (iv) there is no pending investigation of Borrower in regard to any Environmental Law, and (v) to the best of Borrower's knowledge, there has not been any release or contamination (other than releases or contamination remediated in compliance with Environmental Laws) resulting from the presence of Hazardous Materials on property owned, leased or operated by the Borrower.

ARTICLE III

LOAN

Section 3.01 Advances. CFC agrees to make one or more Advances for the purpose of refinancing certain of Borrower's existing indebtedness to any Mortgagee, as more fully described on Schedule 1 hereto, in an aggregate principal amount not to exceed the CFC Commitment, *provided, however,* that Borrower shall not request, and CFC shall have no obligation to advance, an amount greater than 105% of the outstanding principal balance of the indebtedness that is being refinanced. The obligation of the Borrower to repay Advances shall be evidenced by the Note. The Borrower shall give CFC written notice of the date on which each Advance is to be made. Advances shall be remitted by CFC directly to the Mortgagee whose indebtedness the Borrower is refinancing. Borrower shall provide CFC with wiring instructions and/or such other information as is necessary to remit funds pursuant hereto.

At the end of the Draw Period, CFC shall have no further obligation to make Advances. The obligation of the Borrower to repay the Advances shall be evidenced by one or more Notes.

Section 3.02 Interest Rate and Payment. Notes shall be payable and bear interest as follows:

A. Payments; Maturity; Amortization.

(i) Each Note shall have a Maturity Date as set forth therein, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

(ii) The principal amount of each Advance shall amortize over a period not to exceed fifteen (15) years from the date of such Advance according to the amortization method set forth in Schedule 1 hereto, *provided, however*, that such period shall not extend beyond the Maturity Date.

For each Advance, the Borrower shall promptly pay interest in the amount invoiced on each Payment Date until the first Payment Date of the Billing Cycle in which the Amortization Basis Date occurs. On such Payment Date, and on each Payment Date thereafter, the Borrower shall promptly pay interest and principal in the amounts invoiced. If not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees, if any, shall be due and payable on the Maturity Date. The amortization method for each Advance shall be as stated on Schedule 1 or, if not so stated, then as stated on the written requisition for such Advance submitted by the Borrower to CFC pursuant to the terms hereof.

(iii) CFC will invoice the Borrower at least ten (10) days before each Payment Date, *provided, however*, that CFC's failure to send an invoice shall not constitute a waiver by CFC or be deemed to relieve the Borrower of its obligation to make payments as and when due as provided for herein.

(iv) No provision of this Agreement or of any Note shall require the payment, or permit the collection, of interest in excess of the highest rate permitted by applicable law.

(v) Notwithstanding anything to contrary contained herein, the weighted average life of a Note shall not be greater than the weighted average remaining life of the notes being refinanced with the proceeds of such Note.

B. Application of Payments. Each payment shall be applied to the Obligations, first to any fees, costs, expenses or charges other than interest or principal, second to interest accrued, and the balance to principal.

C. Selection of Interest Rate and Interest Rate Computation. Prior to each Advance on a Note, the Borrower must select in writing either a CFC Fixed Rate or the CFC Variable Rate, as follows:

(i) CFC Fixed Rate. If the Borrower selects a CFC Fixed Rate for an Advance, then such rate shall be in effect for the CFC Fixed Rate Term selected by the Borrower. CFC shall provide the Borrower with at least sixty (60) days prior written or electronic notice of the Interest Rate Reset Date for such Advance. The Borrower may then select any available interest rate option for such Advance pursuant to CFC's policies of general application. The Advance shall bear interest according to the interest rate option so selected beginning on the Interest Rate

Reset Date. If the Borrower does not select an interest rate in writing prior to the Interest Rate Reset Date, then beginning on the Interest Rate Reset Date the Advance shall bear interest at, the CFC Variable Rate. CFC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date. For any Advance, the Borrower may not select a CFC Fixed Rate with a CFC Fixed Rate Term that extends beyond the Maturity Date. Interest on Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the Billing Cycle in which the Amortization Basis Date occurs; interest shall then be computed on the basis of a 30-day month and 360-day year.

(ii) CFC Variable Rate. If the Borrower selects the CFC Variable Rate for an Advance, then such CFC Variable Rate shall apply until the Maturity Date, unless the Borrower elects to convert to a CFC Fixed Rate pursuant to the terms hereof. Interest on Advances bearing interest at the CFC Variable Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

Section 3.03 Conversion of Interest Rates. The Borrower may at any time exercise any or all of the following interest rate conversion options by submitting a Conversion Request. The effective date of the interest rate conversion shall be determined by CFC pursuant to its policies of general application.

A. CFC Variable Rate to a CFC Fixed Rate. The Borrower may convert the interest rate on an outstanding Advance from the CFC Variable Rate to a CFC Fixed Rate without a fee. Upon such conversion, the new interest rate shall be the CFC Fixed Rate in effect on the date of the Conversion Request for the CFC Fixed Rate Term selected by the Borrower.

B. CFC Fixed Rate to CFC Variable Rate. The Borrower may convert the interest rate on an outstanding Advance from a CFC Fixed Rate to the CFC Variable Rate, provided that the Borrower promptly pays the invoiced amount for any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. Upon such conversion, the new interest rate shall be the CFC Variable Rate in effect on the date of the Conversion Request.

C. A CFC Fixed Rate to Another CFC Fixed Rate. The Borrower may convert the interest rate on an outstanding Advance from a CFC Fixed Rate to a different CFC Fixed Rate by selecting a different CFC Fixed Rate Term, provided that the Borrower promptly pays the invoiced amount for any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. Upon such conversion, the new interest rate shall be the CFC Fixed Rate in effect on the date of the Conversion Request for the new CFC Fixed Rate Term selected by the Borrower.

Section 3.04 Optional Prepayment. The Borrower may at any time, on not less than thirty (30) days prior written notice to CFC, prepay any Advance, in whole or in part. In the event the Borrower prepays all or any part of an Advance (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrower shall pay any Prepayment Administrative Fee and/or Make-Whole Premium as CFC may prescribe pursuant to the terms of this Section 3.04. All prepayments shall be accompanied by payment of accrued and unpaid interest on the amount of and to the date of the repayment. All prepayments shall be applied first to fees, second to the payment of accrued and unpaid interest, and then to the unpaid balance of the principal amount of the applicable Advance.

If the Advance bears interest at the CFC Variable Rate, then the Borrower may on any Business Day prepay the Advance or any portion thereof, provided that the Borrower pays together therewith the Prepayment Administrative Fee. If the Advance bears interest at a CFC Fixed Rate, then the Borrower may prepay the Advance on (a) the Business Day before an Interest Rate Reset Date, provided that the Borrower pays together therewith the Prepayment Administrative Fee, or (b) any other Business Day, provided that the Borrower pays together therewith the Prepayment Administrative Fee and any applicable Make-Whole Premium.

Section 3.05 Mandatory Prepayment. If there is a change in the Borrower's corporate structure (including without limitation by merger, consolidation, conversion or acquisition), then upon the effective date of such change, (a) the Borrower shall no longer have the ability to request, and CFC shall have no obligation to make, Advances hereunder and (b) the Borrower shall prepay the outstanding principal balance of all Obligations, together with any accrued but unpaid interest thereon, any unpaid costs or expenses provided for herein, and a prepayment premium as set forth in any agreement between the Borrower and CFC with respect to any such Obligation or, if not specified therein, as prescribed by CFC pursuant to its policies of general application in effect from time to time.

Notwithstanding the foregoing, if after giving effect to such change in Borrower's corporate structure, Borrower, or its successor in interest, is engaged in the furnishing of electric utility services to its members and patrons for their use as ultimate consumers and is organized as a cooperative, nonprofit corporation, public utility district, municipality, or other public governmental body, Borrower shall retain the ability to request, and CFC shall retain the obligation to make, Advances hereunder and no prepayment shall be required under this Section 3.05.

Section 3.06 Default Rate. If Borrower defaults on its obligation to make a payment due hereunder by the applicable Payment Date, and such default continues for thirty days thereafter, then beginning on the thirty-first day after the Payment Date and for so long as such default continues, Advances shall bear interest at the Default Rate.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.01 Conditions Precedent to Closing. The obligation of CFC to make Advances hereunder shall not become effective until the date on which the following conditions precedent have been satisfied:

A. Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for CFC.

B. Representations and Warranties. The representations and warranties contained in Article II shall be true on the date hereof.

C. Closing Deliverables. CFC shall have been furnished with the following, in form and substance satisfactory to CFC:

(i) Documents. (a) the executed Loan Documents, (b) certified copies of all such organizational documents and proceedings of the Borrower authorizing the transactions hereby

contemplated as CFC shall require, (c) an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require, and (d) all other such documents as CFC may reasonably request.

(ii) Government Approvals. True and correct copies of all certificates, authorizations, consents, permits and licenses from Governmental Authorities (including RUS) necessary for the execution or delivery of the Loan Documents or performance by the Borrower of the obligations thereunder.

D. Mortgage Recordation. The Mortgage (and any amendments, supplements or restatements as CFC may require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a lien, subject to Permitted Encumbrances, on all of the Borrower's real property, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

E. UCC Filings. Uniform Commercial Code financing statements (and any continuation statements and other amendments thereto that CFC shall require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a perfected security interest, subject to Permitted Encumbrances, in the Mortgaged Property which may be perfected by the filing of a financing statement, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

F. Notification of Refinancing. On or before the first Advance, Borrower shall have notified each Mortgagee of the refunding or refinancing contemplated herein, as required by Section 2.02 of the Mortgage, with such notice to be in form and substance satisfactory to CFC.

G. Special Conditions of Closing. CFC shall be fully satisfied that the Borrower has complied with all special conditions of closing identified in Schedule 1 hereto.

Section 4.02 Conditions to Advances. The obligation of CFC to make each Advance hereunder is additionally subject to satisfaction of the following conditions:

A. Requisitions. The Borrower will requisition each Advance by submitting its written requisition to CFC, in form and substance satisfactory to CFC. Requisitions for Advances shall be made only for the purposes set forth in Schedule 1 hereto.

B. Representations and Warranties. The representations and warranties contained in Article II shall be true on the date of the making of each Advance hereunder with the same effect as though such representations and warranties had been made on such date; no Event of Default and no event which, with the lapse of time or the notice and lapse of time would become such an Event of Default, shall have occurred and be continuing or will have occurred after giving effect to each Advance on the books of the Borrower; there shall have occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower; and nothing shall have occurred which in the opinion of CFC materially and adversely affects the Borrower's ability to perform its obligations hereunder.

C. Other Information. The Borrower shall have furnished such other information as CFC may reasonably require, including but not limited to (i) information regarding the specific purpose for an Advance and the use thereof, (ii) feasibility studies, cash flow projections, financial analyses and pro forma financial statements sufficient to demonstrate to CFC's reasonable satisfaction that after giving effect to the Advance requested, the Borrower shall continue to achieve the DSC ratio set forth in Section 5.01.A. herein, to meet all of its debt service obligations, and otherwise to perform and to comply with all other covenants and conditions set forth in this Agreement, and (iii) any other information as CFC may reasonably request. CFC's obligation to make any Advance hereunder is conditioned upon prior receipt and approval of the Borrower's written requisition and other information and documentation, if any, as CFC may have requested pursuant to this paragraph.

D. Special Conditions of Advances. CFC shall be fully satisfied that the Borrower has complied with all special conditions to advance identified in Schedule 1 hereto.

ARTICLE V

COVENANTS

Section 5.01 Affirmative Covenants. The Borrower covenants and agrees with CFC that until payment in full of all Notes and performance of all obligations of the Borrower hereunder:

A. Financial Ratios; Design of Rates. The Borrower shall achieve an Average DSC Ratio of not less than 1.35. The Borrower shall not decrease its rates for electric service if it has failed to achieve a DSC Ratio of 1.35 for the calendar year prior to such reduction subject only to an order from a Governmental Authority properly exercising jurisdiction over the Borrower.

B. Loan Proceeds. The Borrower shall use the proceeds of this loan solely for the purposes identified on Schedule 1 hereto.

C. Notice. The Borrower shall promptly notify CFC in writing of:

- (i) any material adverse change in the business, operations, prospects, assets, liabilities or financial condition of the Borrower;
- (ii) the institution or threat of any litigation or administrative proceeding of any nature involving the Borrower which could materially affect the business, operations, prospects, assets, liabilities or financial condition of the Borrower; and
- (iii) the occurrence of an Event of Default hereunder, or any event that, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

D. Default Notices. Upon receipt of any notices with respect to a default by the Borrower under the terms of any evidence of any indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto, the Borrower shall deliver copies of such notice to CFC.

E. Annual Certificate. Within one hundred twenty (120) days after the close of each calendar year, commencing with the year in which the initial Advance hereunder shall have been made, the Borrower will deliver to CFC a written statement, in form and substance satisfactory to CFC, either (a) signed by the Borrower's General Manager or Chief Executive Officer, or (b) submitted electronically through means made available to the Borrower by CFC, stating that during such year, and that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement, the Note, and the Mortgage throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof. The Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

F. Financial Books; Financial Reports; Right of Inspection. The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with Accounting Requirements. When requested by CFC, the Borrower will prepare and furnish CFC from time to time, periodic financial and statistical reports on its condition and operations. All of such reports shall be in such form and include such information as may be specified by CFC. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, the Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such calendar year, in form and substance satisfactory to CFC. In addition, within one hundred twenty (120) days of the end of each the Borrower's fiscal years during the term hereof, the Borrower shall furnish to CFC a full and complete consolidated and consolidating report of its financial condition and statement of its operations as of the end of such fiscal year, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to CFC and accompanied by a report of such audit in form and substance satisfactory to CFC, including without limitation a consolidated and consolidating balance sheet and the related consolidated and consolidating statements of income and cash flow. CFC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business.

G. Notice of Additional Secured Debt. The Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC.

H. Funds Requisition. The Borrower agrees (i) that CFC may rely conclusively upon the interest rate option, interest rate term and other written instructions submitted to CFC in the Borrower's written request for an Advance hereunder, (ii) that such instructions shall constitute a covenant under this Agreement to repay the Advance in accordance with such instructions, the applicable Note, the Mortgage and this Agreement, and (iii) to request Advances only for the purposes set forth in Schedule 1 hereto.

I. Compliance With Laws. The Borrower and each Subsidiary shall remain in compliance, in all material respects, with all applicable requirements of law and applicable rules and regulations of each Governmental Authority.

J. Taxes. The Borrower shall pay, or cause to be paid all taxes, assessments or governmental charges lawfully levied or imposed on or against it and its properties prior to the time they become delinquent, except for any taxes, assessments or charges that are being

contested in good faith and with respect to which adequate reserves as determined in good faith by the Borrower have been established and are being maintained.

K. Further Assurances. The Borrower shall execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or which CFC may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created thereby. The Borrower also agrees to provide to CFC, from time to time upon request, evidence reasonably satisfactory to CFC as to the perfection and priority of the Liens created or intended to be created by the Loan Documents.

L. Environmental Covenants. Borrower shall:

- (i) at its own cost, comply in all material respects with all applicable Environmental Laws, including, but not limited to, any required remediation; and
- (ii) if it receives any written communication alleging Borrower's violation of any Environmental Law, provide CFC with a copy thereof within ten (10) Business Days after receipt, and promptly take appropriate action to remedy, cure, defend, or otherwise affirmatively respond to the matter.

M. Limitations on Loans, Investments and Other Obligations. The aggregate amount of all purchases, investments, loans, guarantees, commitments and other obligations described in Section 5.02.D(i) of this Agreement shall at all times be less than fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity, whichever is greater.

N. Special Covenants. The Borrower agrees that it will comply with any special covenants identified in Schedule 1 hereto.

Section 5.02 Negative Covenants. The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower will not, directly or indirectly, without CFC's prior written consent:

A. Limitations on Mergers. Consolidate with, merge, or sell all or substantially all of its business or assets, or enter into an agreement for such consolidation, merger or sale, to another entity or person unless such action is either approved, as is evidenced by the prior written consent of CFC, or the purchaser, successor or resulting corporation is or becomes a member in good standing of CFC and assumes the due and punctual payment of the Note and the due and punctual performance of the covenants contained in the Mortgage and this Agreement.

B. Limitations on Sale, Lease or Transfer of Capital Assets; Application of Proceeds. Sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset, except in accordance with this Section 5.02.B. If no Event of Default (and no event which with notice or lapse of time and notice would become an Event of Default) shall have occurred and be continuing, the Borrower may, without the prior written consent of CFC, sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset in exchange for fair market value consideration paid to the Borrower if the value of such capital asset is less than five percent (5%) of Total Utility Plant and the aggregate value of capital assets sold,

leased or transferred in any 12-month period is less than ten percent (10%) of Total Utility Plant. Subject to the terms of the Mortgage, if the Borrower does sell, lease or transfer any capital assets, then the proceeds thereof (less ordinary and reasonable expenses incident to such transaction) shall immediately (i) be applied as a prepayment of the Note, to such installments as may be designated by CFC at the time of any such prepayment; (ii) in the case of dispositions of equipment, material or scrap, applied to the purchase of other property useful in the Borrower's business, although not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the lien of the Mortgage; or (iii) applied to the acquisition or construction of other property or in reimbursement of the costs of such property.

C. Limitation on Dividends, Patronage Refunds and Other Distributions.

(i) Make any Distribution if an Event of Default under this Agreement has occurred and is continuing; or

(ii) Make a Distribution in any calendar year in an amount greater than thirty percent (30%) of the Borrower's total margins for the preceding calendar year, unless, after giving effect to the Distribution, the total Equity of the Borrower will be at least twenty percent (20%) of its Total Assets.

D. Limitations on Loans, Investments and Other Obligations.

(i) (a) Purchase, or make any commitment to purchase, any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interests in, (b) make, or enter into a commitment to make, any other investment, monetary or otherwise, in, (c) make, or enter into a commitment to make, any loan to, or (d) guarantee, assume, or otherwise become liable for, or enter into a commitment to guarantee, assume, or otherwise become liable for, any obligation of any Person if, after giving effect to such purchase, investment, loan, guarantee or commitment, the aggregate amount thereof would exceed the greater of fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity.

(ii) The following shall not be included in the limitation of purchases, investments, loans and guarantees in (i) above: (a) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States or any agency or instrumentality thereof; (b) bonds, notes, debentures, stock, commercial paper, subordinated capital certificates, or any other security or obligation issued by CFC or by institutions whose senior unsecured debt obligations are rated by at least two nationally recognized rating organizations in either of their two highest categories; (c) investments incidental to loans made by CFC; (d) any deposit that is fully insured by the United States; (e) loans and grants made by any Governmental Authority to the Borrower under any rural economic development program, but only to the extent that such loans and grants are non-recourse to the Borrower; and (f) unretired patronage capital allocated to the Borrower by CFC, a cooperative from which the Borrower purchases electric power, or a statewide cooperative association of which Borrower is a member.

(iii) In no event may the Borrower take any action pursuant to subsection (i) if an Event of Default under this Agreement has occurred and is continuing,

E. Organizational Change. Change its type of organization or other legal structure, except as permitted by Section 5.02.A. hereof, in which case the Borrower shall provide at least 30 days prior written notice to CFC together with all documentation reflecting such change as CFC may reasonably require.

F. Notice of Change in Borrower Information. Change its (i) state of incorporation, (ii) legal name, (iii) mailing address, or (iv) organizational identification number, if it has one, unless the Borrower provides written notice to CFC at least thirty (30) days prior to the effective date of any such change together with all documentation reflecting any such change as CFC may reasonably require.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01 The following shall be “Events of Default” under this Agreement:

A. Representations and Warranties. Any representation or warranty made by the Borrower herein, or in any of the other Loan Documents, or in any certificate or financial statement furnished to CFC hereunder or under any of the other Loan Documents shall prove to be false or misleading in any material respect.

B. Payment. The Borrower shall fail to pay (whether upon stated maturity, by acceleration, or otherwise) any principal, interest, premium (if any) or other amount payable under the Note and the Loan Documents within five (5) Business Days after the due date thereof.

C. Other Covenants.

(i) No Grace Period. Failure of the Borrower to observe or perform any covenant or agreement contained in Sections 5.01.A, 5.01.B, 5.01.D, 5.01.E, 5.01.F, 5.01.H, 5.01.M, 5.02 of this Agreement.

(ii) Thirty Day Grace Period. Failure of the Borrower to observe or perform any other covenant or agreement contained in this Agreement or any of the other Loan Documents, which shall remain unremedied for thirty (30) calendar days after written notice thereof shall have been given to the Borrower by CFC.

D. Legal Existence, Permits and Licenses. The Borrower shall forfeit or otherwise be deprived of (i) its authority to conduct business in the jurisdiction in which it is organized or in any other jurisdiction where such authority is required in order for the Borrower to conduct its business in such jurisdiction or (ii) permits, easements, consents or licenses required to carry on any material portion of its business.

E. Other CFC Obligations. The Borrower shall be in breach or default of any Obligation, which breach or default continues uncured beyond the expiration of any applicable grace period.

F. Other Obligations. The Borrower shall (i) fail to make any payment of any principal, premium or any other amount due or interest on any indebtedness with parties other than CFC which shall remain unpaid beyond the expiration of any applicable grace period, or (ii) be in breach or default with respect to any other term of any evidence of any other indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto which breach or default continues uncured beyond the expiration of any applicable

grace period, if the effect of such failure, default or breach is to cause the holder or holders of that indebtedness to cause that indebtedness to become or be declared due prior to its stated maturity (upon the giving or receiving of notice, lapse of time, both or otherwise).

G. Involuntary Bankruptcy. An involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such involuntary case or other proceeding shall continue without dismissal or stay for a period of sixty (60) consecutive days; or an order for relief shall be entered against the Borrower under the federal bankruptcy laws or applicable state law as now or hereafter in effect.

H. Insolvency. The Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to, or be generally unable to, pay its debts as they become due, or shall take any action to authorize any of the foregoing.

I. Dissolution or Liquidation. Other than as provided in subsection H. above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions set forth in Section 5.02.A.

J. Material Adverse Change. Any material adverse change in the business or condition, financial or otherwise, of the Borrower.

K. Monetary Judgment. The Borrower shall suffer any money judgment not covered by insurance, writ or warrant of attachment or similar process involving an amount in excess of \$100,000 and shall not discharge, vacate, bond or stay the same within a period of sixty (60) days.

L. Nonmonetary Judgment. One or more nonmonetary judgments or orders (including, without limitation, injunctions, writs or warrants of attachment, garnishment, execution, distraint, replevin or similar process) shall be rendered against the Borrower that, either individually or in the aggregate, could reasonably be expected to have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower.

ARTICLE VII

REMEDIES

Section 7.01 If any of the Events of Default listed in Section 6 hereof shall occur after the date of this Agreement and shall not have been remedied within the applicable grace periods specified therein, then CFC may:

- (i) Cease making Advances hereunder;
- (ii) Declare all unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived;
- (iii) Exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing hereunder or under the Note, including, but not limited to, patronage capital allocations and retirements, money due to Borrower from equity certificates purchased from CFC, and any membership or other fees that would otherwise be returned to Borrower. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. The Borrower waives all rights of setoff, deduction, recoupment or counterclaim;
- (iv) Pursue all rights and remedies available to CFC that are contemplated by the Mortgage and the other Loan Documents in the manner, upon the conditions, and with the effect provided in the Mortgage and the other Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief or damages;
- (v) Pursue any other rights and remedies available to CFC at law or in equity.

Nothing herein shall limit the right of CFC to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Notices. All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. All such communications shall be deemed to have been duly given (i) when personally delivered including, without limitation, by overnight mail or courier service, (ii) in the case of

notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (iii) in the case of notice by telecopy, upon transmission thereof, provided such transmission is promptly confirmed by either of the methods set forth in clauses (i) or (ii) above in each case given or addressed as provided for herein. The Address for Notices of each of the respective parties is as follows:

The Borrower:

The address set forth in
Schedule 1 hereto

National Rural Utilities Cooperative Finance Corporation:
20701 Cooperative Way
Dulles, Virginia 20166
Attention: General Counsel
Fax # 866-230-5635

Section 8.02 Expenses. Borrower shall reimburse CFC for any reasonable costs and out-of-pocket expenses paid or incurred by CFC (including, without limitation, reasonable fees and expenses of outside attorneys, paralegals and consultants) for all actions CFC takes, (a) to enforce the payment of any Obligation, to effect collection of any Mortgaged Property, or in preparation for such enforcement or collection, (b) to institute, maintain, preserve, enforce and foreclose on CFC's security interest in or Lien on any of the Mortgaged Property, whether through judicial proceedings or otherwise, (c) to restructure any of the Obligations, (d) to review, approve or grant any consents or waivers hereunder, (e) to prepare, negotiate, execute, deliver, review, amend or modify this Agreement, and (f) to prepare, negotiate, execute, deliver, review, amend or modify any other agreements, documents and instruments deemed necessary or appropriate by CFC in connection with any of the foregoing.

The amount of all such expenses identified in this Section 8.02 shall be secured by the Mortgage and shall be payable upon demand, and if not paid, shall accrue interest at the then prevailing CFC Variable Rate plus two hundred basis points.

Section 8.03 Late Payments. If payment of any amount due hereunder is not received at CFC's office in Dulles, Virginia or such other location as CFC may designate to the Borrower within five (5) Business Days after the due date thereof, the Borrower will pay to CFC, in addition to all other amounts due under the terms of the Loan Documents, any late-payment charge as may be fixed by CFC from time to time pursuant to its policies of general application as in effect from time to time.

Section 8.04. Non-Business Day Payments. If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 8.05 Filing Fees. To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the reasonable fees and expenses of its counsel) in connection with the filing, registration, recordation or perfection of the Mortgage and any other security instruments as may be required by CFC in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to execution, filing, registration or recordation of any document or instrument in

connection herewith. The Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due under the Loan Documents.

Section 8.06 Waiver; Modification. No failure on the part of CFC to exercise, and no delay in exercising, any right or power hereunder or under the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise by CFC of any right hereunder, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement, the Note or the other Loan Documents and no consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent, and then such modification, waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 8.07 GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

(A) THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

(B) THE BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(C) THE BORROWER AND CFC EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 8.08 INDEMNIFICATION. THE BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS, AND DEFEND CFC AND ITS MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS AND REPRESENTATIVES (EACH AN "INDEMNITEE") FOR, FROM, AND AGAINST ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COSTS AND EXPENSES OF LITIGATION AND REASONABLE ATTORNEYS' FEES) ARISING FROM ANY CLAIM OR DEMAND IN RESPECT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, THE MORTGAGED PROPERTY, OR THE TRANSACTIONS DESCRIBED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ARISING AT ANY TIME, WHETHER BEFORE OR AFTER PAYMENT AND PERFORMANCE OF ALL OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS IN FULL, EXCEPTING

ANY SUCH MATTERS ARISING SOLELY FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF CFC OR ANY INDEMNITEE. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN SECTION 8.10 HEREOF, THE OBLIGATIONS IMPOSED UPON THE BORROWER BY THIS SECTION SHALL SURVIVE THE REPAYMENT OF THE NOTE, THE TERMINATION OF THIS AGREEMENT AND THE TERMINATION OR RELEASE OF THE LIEN OF THE MORTGAGE.

Section 8.09 Complete Agreement. This Agreement, together with the schedules to this Agreement, the Note and the other Loan Documents, and the other agreements and matters referred to herein or by their terms referring hereto, is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement. In the event of any conflict in the terms and provisions of this Agreement and any other Loan Documents, the terms and provisions of this Agreement shall control.

Section 8.10 Survival; Successors and Assigns. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall survive the execution and delivery to CFC of the Loan Documents and the making of the Loan hereunder and shall continue in full force and effect until all of the obligations under the Loan Documents have been paid in full. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall inure to the benefit of the successors and assigns of CFC. The Borrower shall not have the right to assign its rights or obligations under this Agreement without the prior written consent of CFC, except as provided in Section 5.02.A hereof.

Section 8.11 Use of Terms. The use of the singular herein shall also refer to the plural, and vice versa.

Section 8.12 Headings. The headings and sub-headings contained in this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 8.13 Severability. If any term, provision or condition, or any part thereof, of this Agreement, the Note or the other Loan Documents shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note and the other Loan Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 8.14. Prior Loan Documents. It is understood and agreed that the covenants set forth in this Agreement under the Article entitled "COVENANTS" shall restate and supersede all of the covenants set forth in the corresponding Article or Articles of each Prior Loan Document dealing with covenants, regardless of the specific title or titles thereof, *except for* (a) the LCTC Purchase Provisions, and (b) any special covenant or other specific term set forth on Schedule 1 to any Prior Loan Document, unless otherwise explicitly agreed to in writing by CFC, or superseded by explicit reference thereto in this Agreement. For purposes of the foregoing, this Section 8.14 shall be deemed to amend all Prior Loan Documents, and notwithstanding termination of this Agreement for any reason, this Section 8.14 shall nevertheless survive and shall continue to amend each Prior Loan Document for as long as the respective Prior Loan Document is in effect, but only with respect to the matters set forth in this Section 8.14.

Section 8.15 Binding Effect. This Agreement shall become effective when it shall have been executed by both the Borrower and CFC and thereafter shall be binding upon and inure to the benefit of the Borrower and CFC and their respective successors and assigns.

Section 8.16 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to physically form one document.

Section 8.17 Rescission of Excess Commitment. Any amount of the CFC Commitment not required for the purpose set forth in Schedule 1 shall be rescinded by CFC and the CFC Commitment shall automatically be reduced by such amount without fee.

Section 8.18 Schedule 1. Schedule 1 attached hereto is an integral part of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

FARMERS RURAL ELECTRIC
COOPERATIVE CORPORATION

(SEAL)

By: _____

Title: _____

Attest: _____
Secretary

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: _____
Assistant Secretary-Treasurer

Attest: _____
Assistant Secretary-Treasurer

SCHEDULE 1

1. The purpose of this loan is to refinance up to 105% of the outstanding principal balance of certain indebtedness of the Borrower to RUS.
2. The aggregate CFC Commitment is \$2,671,000.00. Within this aggregate amount, the Borrower may, at its discretion, execute one or more Notes, each Note representing a separate loan with CFC and containing a face amount and Maturity Date in accordance with the terms, conditions and provisions of this Agreement.
3. The Mortgage shall mean the Restated Mortgage and Security Agreement, dated as of May 1, 2003 among the Borrower, CFC and RUS, as it may have been supplemented, amended, consolidated, or restated from time to time.
4. The Notes executed pursuant hereto and the amortization method for such Notes are as follows:

LOAN NUMBER	AMOUNT	AMORTIZATION METHOD
KY034-A-9020	\$2,671,000.00	Level Debt Service

5. The Payment Date months are February, May, August and November.
6. The Subsidiaries of the Borrower referred to in Section 2.01.B are: N/A.
7. The date of the Borrower's balance sheet referred to in Section 2.01.H is December 31, 2011.
8. The Borrower's exact legal name is: Farmers Rural Electric Cooperative Corporation.
9. The Borrower's organizational type is: Corporation.
10. The Borrower is organized under the laws of the state of: Kentucky.
11. The Borrower's organizational identification number is: 0016961.
12. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.01.I is 504 South Broadway, Glasgow, KY 42141-2504.
13. The Governmental Authority referred to in Section 2.01.J is: Kentucky Public Service Commission.
14. The special conditions of closing referred to in Section 4.01.G are as follows: None.
15. The special conditions of advance referred to in Section 4.02.D are as follows: None.
16. The special covenant(s) referred to in Section 5.01.O is (are) as follows: None.

17. The address for notices to the Borrower referred to in Section 8.01 is PO Box 1298, Glasgow, KY 42142-1298, Attention: General Manager, Fax: (270) 651-7332.

EXHIBIT A



**Loan Funds Requisition Statement
Refinance of RUS 5% Loans**

Borrower Name: _____
Date of Advance: _____

Co-op ID: _____

Amount requested to prepay the following RUS loans:

Loan Designation and Account No.	Principal to be Paid	Interest to be Paid	Total Payment
Total amount to be wired directly to RUS by CFC for Borrower			

Officer's Certification

I hereby certify that as of the date below: (1) I am duly authorized to make this certification and to request funds on behalf of the Borrower (each such request, an "Advance") in accordance with the loan agreement governing the Advance (the "Loan Agreement"); (2) no Event of Default (as defined in the Loan Agreement) has occurred and is continuing; (3) I know of no other event that has occurred which, with the lapse of time and/or notification to CFC of such event, or after giving effect to the Advance, would become such an Event of Default; (4) all of the representations and warranties made in the Loan Agreement are true; (5) the Borrower has satisfied each other condition to the Advance as set forth in the Loan Agreement; and (6) the proceeds of the Advance will be used only for the purposes permitted by the Loan Agreement. I hereby authorize CFC to make Advances on the following terms, and hereby agree that such terms shall be binding upon Borrower under the provisions of the Loan Agreement:

