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May 25, 2010

RECEIVED

JUN 01 2010

PUBLIC SERVICE
COMMISSION

2010 - 00219

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

Re: Application of Farmers Rural Electric Cooperative Corporation for authorization to borrow \$1,245,290 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

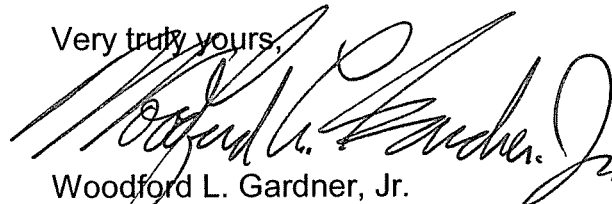
Dear Mr. Derouen:

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 August 22, 2010. 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.
Richardson, Gardner & Alexander
Attorney for Applicant
117 East Washington Street
Glasgow, Kentucky 42141
Phone: (270) 651-8884 Fax: (270) 651-3662
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RECEIVED

JUN 01 2010

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 \$1,245,290)
FROM THE NATIONAL RURAL UTILITIES)
COOPERATIVE FINANCE CORPORATION)
("CFC") AND EXECUTE NECESSARY NOTE)
AND TO PREPAY RURAL UTILITIES SERVICE)
("RUS") 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 August 22, 2010) of long-term refinancing, 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, KY 42141.
3. The Articles of Incorporation and all amendments thereto for Farmers are filed in Case No. 2008-00030.
4. As of April 30, 2010, Farmers served 24,525 active services for member-customers. It has 3,558 miles of distribution lines in its eight county service territory, and owns additional facilities necessary to support this distribution system. The total original cost of these distribution lines and additional facilities as of April 30, 2010 is \$68,460,648.
5. The financial exhibit, as required by 807 KAR 5:001, section 11(2)(a) is attached as Exhibit 1 of this application.

6. Farmers is not seeking authorization to issue any kinds of stock as part of this application.

7. Farmers seeks to borrow from CFC a total of \$1,245,290 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 year periods and will approximately equal the maturity of the debt being refinanced. The note will require a different fixed interest rate for each year for years one through eight. The rates will range from a 1-year rate of 2.25% to an 8-year rate of 4.7%. The CFC effective interest rate for the eight years will be 4.3%. CFC estimates the effective rate, after payment of patronage capital to Farmers, to be 3.71%. A copy of the potential refinance letter from CFC is attached in Exhibit 2 of this application. The CFC loan is secured under the provisions of the Restated Mortgage and Security Agreement, dated as of May 1, 2003, made by and among the Borrower, the United States of America and CFC as it may have been supplemented, amended, consolidated or restated from time to time ("Mortgage.")

8. Farmers expects the actual payoff to be very close to the \$1, 245,290. It's possible that the payoff will actually be lower depending on the time required to secure Commission approval and any payments made in the meantime.

9. Farmers will have the ability to convert the interest rate from fixed to variable or variable to fixed 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 similarly classified long-term loans.

10. Farmers will use the proceeds from the CFC loan to prepay notes of the same amount outstanding to RUS. The notes being prepaid are listed in the CFC proposal in Exhibit 2.

11. RUS has given notice to cooperatives that this type of refinancing is allowed under the Mortgage.

12. The mortgages of Farmers are listed in Exhibit 1, Attachment A, of this application.

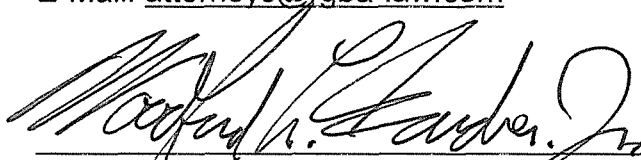
13. As no property is being acquired in conjunction with this financing, 807 KAR 5:001, Section 11(2)(c) is not applicable.

14. Additional information in support of this application is included in attached Exhibit 2.

WHEREFORE, Farmers asks that the Commission issue an Order authorizing Farmers to execute and issue evidences of indebtedness as security for the CFC loan described herein, and for any other relief to which it may be entitled.

DATED at Glasgow, Kentucky this 28 day of May, 2010.

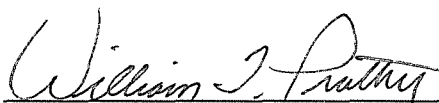
Woodford L. Gardner, Jr.
Richardson, Gardner, Barrickman & Alexander
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Woodford L. Gardner, Jr., Attorney for
Farmers Rural Electric Cooperative Corporation

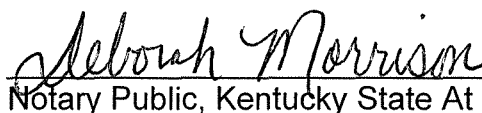
VERIFICATION

The undersigned, William T. Prather, being first duly sworn states that he is the President and CEO of Farmers Rural Electric Cooperative Corporation; and that he has personal knowledge of the matters set forth in the foregoing application; and that the statements contained therein are true and correct to the best of his knowledge, information, and belief.



William T. Prather, President & CEO
Farmers Rural Electric Cooperative Corporation

Subscribed and sworn to before me by William T. Prather as President and CEO of Farmers Rural Electric Cooperative Corporation this 28 day of May, 2010.

 I.D. # 409326
Notary Public, Kentucky State At Large

My Commission Expires: Nov. 30, 2013

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION
CASE NO. _____
INDEX OF EXHIBITS TO APPLICATION

FINANCIAL EXHIBIT – 807 KAR 5:001, SECTION 6

- Exhibit 1 – Attachment A.....Notes Executed
- Exhibit 1 – Attachment B.....Statement of Operations
- Exhibit 1 – Attachment C.....Financial & Statistical Report

SUPPLEMENTAL INFORMATION

- Exhibit 2 – Attachment A.....Board Resolution
- Exhibit 2 – Attachment B.....CFC Proposal

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, 2010, 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 Farmer's 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 Attachment A, pages 1 - 3 of Exhibit 1. There are no sinking fund provisions contained in the Restated Mortgage.
- Section 6(5) Farmers has no bonds authorized or issued.
- Section 6(6) Attachment A to this Exhibit 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) Attachments B and C to this Exhibit contains Farmer's detailed income statement and balance sheet.

**FINANCIAL EXHIBITS FOR FARMERS
RUS NOTES EXECUTED
AS OF APRIL 30, 2010**

Note Number	Interest Rate	Date	Original Balance	Interest Accrued	Principal Payments	Funds Unadvanced	Balance
1B230 / 232	5.000%	2/4/1975	612,000.00		611,854.94		145.06
1B240 / 242	5.000%	11/11/1976	960,000.00		873,336.54		86,663.46
1B250 / 252	5.000%	4/13/1978	1,427,000.00		1,177,485.10		249,514.90
1B260 / 262	5.000%	2/25/1980	1,519,000.00		1,117,624.22		401,375.78
1B270 / 273	5.000%	4/8/1982	1,531,000.00		955,374.27		575,625.73
1B280 / 282	5.000%	2/20/1986	770,000.00		375,468.62		394,531.38
1B290 / 292	5.000%	12/21/1988	1,365,000.00		534,042.62		830,957.38
1A301 / 306	5.000%	1/9/1992	2,244,000.00		633,207.26		1,610,792.74
1B310	5.120%	8/31/1998	2,277,000.00		360,295.48		1,916,704.52
1B315	4.500%	1/27/1999	1,300,000.00		263,475.88		1,036,524.12
1B316	4.120%	8/14/1999	977,000.00		207,292.69		769,707.31
Total RUS Loans			<u>14,982,000.00</u>		<u>7,109,457.62</u>		<u>7,872,542.38</u>

Exhibit 1
Attachment A
Page 1 of 3

**FINANCIAL EXHIBITS FOR FARMERS
CFC NOTES EXECUTED
AS OF APRIL 30, 2010**

Note Number	Interest Rate	Date	Original Balance	Interest Accrued	Principal Payments	Funds Unadvanced	Balance
9006-001	6.750%	11/11/1976	240,000		212,731		27,269
9008-001	6.750%	4/13/1976	612,000		482,932		129,068
9011-001	6.800%	2/25/1980	685,000		470,581		214,419
9014-001	6.800%	4/8/1982	691,000		394,220		296,780
9015-001	6.800%	2/20/1986	330,000		140,251		189,749
9016-001	6.800%	12/21/1988	585,000		194,417		390,583
9017-001	6.800%	1/9/1992	961,000		221,526		739,474
9018-001	6.800%	4/22/1998	900,000		111,837		788,163
9018-002	6.800%	9/15/1998	400,000		49,705		350,295
9018-003	6.800%	11/15/1998	652,000		92,136		559,864
Total CFC Loans			6,056,000		2,370,337		3,685,663

**FINANCIAL EXHIBITS FOR FARMERS
FFB NOTES EXECUTED
AS OF APRIL 30, 2010**

Note Number	Interest Rate	Date	Original Balance	Interest Accrued	Principal Payments	Funds Unadvanced	Balance
H0010	5.491%	1/12/2001	4,602,000.00		507,517.17		4,094,482.83
H0015	5.617%	1/25/2001	451,000.00		48,714.48		402,285.52
H0020	4.770%	8/12/2003	5,000,000.00		359,106.85		4,640,893.15
H0025	4.770%	11/10/2003	1,000,000.00		71,821.28		928,178.72
H0030	4.770%	2/17/2004	1,000,000.00		71,821.28		928,178.72
H0035	4.770%	12/16/2004	2,000,000.00		143,642.78		1,856,357.22
H0040	4.353%	8/31/2005	3,000,000.00		212,423.74		2,787,576.26
H0045	4.671%	12/28/2005	1,000,000.00		61,232.33		938,767.67
H0050	4.587%	2/28/2006	1,000,000.00		61,487.72		938,512.28
H0055	4.898%	10/26/2006	1,000,000.00		49,073.95		950,926.05
H0060	4.929%	2/20/2007	1,000,000.00		45,359.68		954,640.32
H0065	4.915%	4/30/2007	2,228,000.00		93,724.96		2,134,275.04
F0070	3.406%	1/27/2009	7,000,000.00		-		7,000,000.00
F0075	3.630%	3/12/2009	1,000,000.00		-		1,000,000.00
F0080	4.449%	2/19/2010	1,000,000.00		-		1,000,000.00
Total FFB Loans			32,281,000.00		1,725,926.22		30,555,073.78
Total RUS Loans			14,982,000.00		7,109,457.62		7,872,542.38
Total CFC Loans			6,056,000.00		2,370,337.38		3,685,662.62
Total FFB Loans			32,281,000.00		1,725,926.22		30,555,073.78
Total Loans			53,319,000.00		11,205,721.22		42,113,278.78

EXHIBIT 1

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENT OF OPERATIONS

ITEM (a)	TWELVE MONTHS ENDED APRIL 30, 2010 (b)
1. Operating Revenue and Patronage Capital	45,990,410
2. Power Production Expense	-
3. Cost of Purchased Power	32,239,730
4. Transmission Expense	-
5. Distribution Expense - Operation	1,223,396
6. Distribution Expense - Maintenance	1,364,888
7. Consumer Accounts Expense	877,698
8. Customer Service and Informational Expense	144,617
9. Sales Expense	-
10. Administrative and General Expense	1,975,698
11. Total Operation & Maintenance & Maintenance Expense (2 thru 10)	37,826,027
12. Depreciation and Amortization Expense	2,114,079
13. Tax Expense - Property & Gross Receipts	471,311
14. Tax Expense - Other	38,583
15. Interest on Long-Term Debt	2,030,514
16. Interest Charged to Construction - Credit	-
17. Interest Expense - Other	85,110
18. Other Deductions	11,385
19. Total Cost of Electric Service (11 thru 18)	42,577,009
20. Patronage Capital & Operating Margins (1 minus 19)	3,413,401
21. Non-Operating Margins - Interest	44,842
22. Allowance for Funds Used During Construction	-
23. Income (Loss) from Equity Investments	102,016
24. Non-Operating Margins - Other	28,154
25. Generation and Transmission Capital Credits	1,417,494
26. Other Capital Credits and Patronage Dividends	104,898
27. Extraordinary Items	-
28. Patronage Capital or Margins (20 thru 26)	5,110,805

USDA - RUS FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION KY0034
INSTRUCTIONS - See RUS Bulletin 1717B-2	PERIOD ENDED April, 2010

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	118	105	5. Miles Transmission	0.00	0.00
2. Services Retired	62	67	6. Miles Distribution - Overhead	3,303.28	3,310.73
3. Total Services in Place	26,627	26,854	7. Miles Distribution - Underground	241.03	248.86
4. Idle Services (Exclude Seasonals)	2,227	2,329	8. Total Miles Energized (5 + 6 + 7)	3,544.31	3,559.59

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	68,489,257	29. Memberships.....	534,415
2. Construction Work in Progress	268,870	30. Patronage Capital.....	19,724,288
3. Total Utility Plant (1 + 2)	68,758,127	31. Operating Margins - Prior Years.....	0
4. Accum. Provision for Depreciation and Amort	19,047,525	32. Operating Margins - Current Year.....	1,263,173
5. Net Utility Plant (3 - 4)	49,710,602	33. Non-Operating Margins.....	259,970
6. Non-Utility Property (Net)	0	34. Other Margins and Equities.....	1,036,595
7. Investments in Subsidiary Companies	973,648	35. Total Margins & Equities (29 thru 34).....	22,818,441
8. Invest. in Assoc. Org. - Patronage Capital	10,533,035	36. Long-Term Debt - RUS (Net).....	7,310,194
9. Invest. in Assoc. Org. - Other - General Funds	0	37. Long-Term Debt - FFB - RUS Guaranteed.....	30,199,074
10. Invest. in Assoc. Org. - Other - Nongeneral Funds..	941,301	38. Long-Term Debt - Other - RUS Guaranteed.....	0
11. Investments in Economic Development Projects	0	39. Long-Term Debt Other (Net).....	3,449,663
12. Other Investments	0	40. Long-Term Debt - RUS - Econ. Devel. (Net).....	0
13. Special Funds	0	41. Payments - Unapplied	0
4. Total Other Property & Investments (6 thru 13) ...	12,447,984	42. Total Long-Term Debt (36 thru 40 - 41).....	40,958,931
15. Cash - General Funds	1,099,257	43. Obligations Under Capital Leases - Noncurrent.....	0
16. Cash - Construction Funds - Trustee	0	44. Accumulated Operating Provisions and Asset Retirement Obligations..	210,970
17. Special Deposits	0	45. Total Other Noncurrent Liabilities (43 + 44).....	210,970
18. Temporary Investments	2,056,599	46. Notes Payable.....	0
19. Notes Receivable (Net)	31,140	47. Accounts Payable.....	449,621
20. Accounts Receivable - Sales of Energy (Net)	1,824,402	48. Consumers Deposits.....	1,104,264
21. Accounts Receivable - Other (Net)	218,207	49. Current Maturities Long-Term Debt.....	1,136,000
22. Materials and Supplies - Electric & Other	465,285	50. Current Maturities Long-Term Debt -Economic Development.....	0
23. Prepayments	229,001	51. Current Maturities Capital Leases.....	0
24. Other Current and Accrued Assets	0	52. Other Current and Accrued Liabilities.....	1,845,936
25. Total Current and Accrued Assets (15 thru 24)	5,923,891	53. Total Current & Accrued Liabilities (46 thru 52).....	4,535,821
26. Regulatory Assets	0	54. Regulatory Liabilities.....	0
27. Other Deferred Debits	751,973	55. Other Deferred Credits.....	310,287
28. Total Assets and Other Debits (5+14+25 thru 27)...	68,834,450	56. Total Liabilities and Other Credits (35+ 42 + 45 + 53 thru 55).....	68,834,450

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 16 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 STATISTICAL REPORT

PERIOD ENDED
April, 2010

INSTRUCTIONS - For detailed instructions, see RUS Bulletin 1717B-2.

BORROWER NAME

This data will be used by RUS to review your financial situation. Your response is required (7 U.S.C. 901 et. seq.) and may be confidential.

FARMERS RURAL ELECTRIC COOPERATIVE CORP

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

5/13/2010

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	15,203,338	18,338,119	17,549,015	3,547,099
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	12,549,833	13,460,781	12,016,312	2,657,583
4. Transmission Expense	0	0	0	0
5. Distribution Expense - Operation	317,101	427,945	408,219	101,351
6. Distribution Expense - Maintenance	1,133,451	587,711	855,798	155,159
7. Customer Accounts Expense	351,413	311,983	349,853	76,351
8. Customer Service and Informational Expense	52,809	52,970	50,594	15,427
9. Sales Expense	0	0	0	0
10. Administrative and General Expense	610,423	634,366	589,401	164,068
11. Total Operation & Maintenance Expense (2 thru 10)	15,015,030	15,475,756	14,270,177	3,169,939
12. Depreciation and Amortization Expense	687,864	722,564	750,458	181,264
13. Tax Expense - Property & Gross Receipts	144,000	154,000	160,000	38,500
14. Tax Expense - Other	13,240	12,785	13,000	3,196
15. Interest on Long-Term Debt	668,870	682,270	708,346	173,334
16. Interest Charged to Construction - Credit	0	0	0	0
17. Interest Expense - Other	45,396	22,289	19,718	5,307
18. Other Deductions	5,537	5,282	8,332	897
19. Total Cost of Electric Service (11 thru 18)	16,579,937	17,074,946	15,930,031	3,572,437
20. Patronage Capital & Operating Margins (1 minus 19)	(1,376,599)	1,263,173	1,618,984	(25,338)
21. Non Operating Margins - Interest	22,370	20,920	22,600	19,407
22. Allowance for Funds Used During Construction	0	0	0	0
23. Income (Loss) from Equity Investments	(2,545)	2,036	0	0
24. Non Operating Margins - Other	15,477	(1,889)	25,000	0
25. Generation and Transmission Capital Credits	0	(361)	0	0
26. Other Capital Credits and Patronage Dividends	35,072	41,025	15,240	0
27. Extraordinary Items	0	0	0	0
28. Patronage Capital or Margins (20 thru 27)	(1,306,225)	1,324,904	1,681,824	(5,931)

CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, C. F. Martin, Jr., 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 22, 2010; (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) forms of the loan documents were submitted to the meeting and were authorized by the board of directors to be executed; (vi) none of the following resolutions has been rescinded or modified as of this date; and (vii) the persons authorized below have been duly elected or appointed to their respective positions and occupied such positions on the date of actual execution of the loan documents:

RESOLVED, that the Cooperative 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 One Million Three Hundred Thirteen Thousand One Hundred Eight and No/100 Dollars (\$1,313,180.00), and purchase with general funds a Capital Certificate, if required, in an amount not to exceed the amount set forth in the loan agreement with CFC governing such loan, [substantially in the form of the loan agreement presented to this meeting (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; and
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate shall not exceed the principal amount of \$1,313,180.00, substantially in the form of the note presented to this meeting.

RESOLVED, that each of the following individuals is hereby authorized in the name and on behalf of the Cooperative to execute and to deliver all such other documents and instruments as may be necessary or appropriate, to make all payments, to execute any future amendments to said Loan Agreement as such individual may deem appropriate within the amount of the promissory notes so authorized herein and to do all such other acts as in the opinion of such authorized individual acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions:

<u>Title or Office</u>	<u>Name (typed or printed)</u>
<u>President</u>	<u>William T. Prather</u>
_____	<u><i>William T. Prather</i></u>

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Cooperative
this 22nd day of April, 2010.




Secretary

(SEAL)



**National Rural Utilities
Cooperative Finance Corporation**

2201 Cooperative Way
Herndon, Virginia 20171
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A Touchstone Energy Cooperative 

May 24, 2010

Mr. William T. Prather
General Manager
Farmers Rural Electric Cooperative Corporation
P.O. Box 1298
Glasgow, KY 42142-1298

Re: Potential Refinance of Farmers Rural Electric Cooperative Corporation's
("Farmers") RUS 5% Notes

Dear Mr. Prather:

As a follow up to the discussions I've had with Wayne Davis, I took a look at Farmers quarterly RUS debt service invoice (Form 613) to see which RUS long-term loans currently at a fixed interest rate of 5% could potentially be refinanced with CFC. This works best with RUS notes that have remaining terms of 10 years or less, as CFC has the ability to utilize a rate structure for the potential refinance that is lower than CFC's standard rate structure. Farmers' has nine RUS notes that fit the criteria: 1B240-1B273 in an aggregate amount of \$1,313,180.

After my review, I came up with the attached option for consideration:

- Refinance the nine notes at CFC with principal payments that pretty much match what Farmers' would pay to RUS over the next eight years. I used rate terms from 1-8 years (rates range from a 1-year rate of 2.55% to an 8-year rate of 4.70%), and all notes would be fixed to their respective maturities, so there is no interest rate risk.

Under this scenario, projected interest savings are \$31,260 and CFC patronage capital is projected to be \$13,854, for an all-in cash flow reduction (vs. RUS) of \$46,114. The effective rate on this option is 3.71% (after pat cap).

Please take a look at the scenario and let me know if you have any questions or need any additional detail.

Sincerely,

Elaine M. MacDonald

Elaine M. MacDonald
Associate Vice President

Attachment

cc: Wayne Davis, Farmers RECC

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CFC FACIL
KY034-A-9019 (MACDONE)
145453-1



**Powerful
Financial
Solutions**

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: Matched RUS Principal Payments - CFC Rates

Overall Summary

Effective Interest Rate (after discounts, patronage capital):	3.71%
Effective Interest Rate (before discounts, patronage capital):	3.96%
Value of savings from discounts, patronage capital:	(0.25%)

Debt Summary

Current total LT debt outstanding:	\$ 3,685,663
New proposed loan amount:	\$ 1,245,290
Potential total LT debt outstanding:	\$ 4,930,953

Equity Summary

Current total equity at CFC:	\$ 984,275
Potential CFC debt to equity ratio:	5.01
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 **8/22/2010**. The interest rates used in this presentation were CFC's interest rates in effect on **5/24/2010** and are effective for that date only. No future representation of interest rates is implied.



Farmers Rural Electric Cooperative

CFC Loan Scenario

Portfolio: Matched RUS Principal Payments - CFC Rates

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?	Loans w/ Volume	Loans w/ Performance	Loans w/ Collateral	Loans w/ Equity
1	F	2.550%	LD	7/1/2010	9/1/2010	1	12	0		5/31/2011	\$209,313	No	\$0	N	N	N
2	F	2.900%	LD	7/1/2010	6/1/2011	2	24	9		5/31/2012	\$260,977	No	\$0	N	N	N
3	F	3.350%	LD	7/1/2010	6/1/2012	3	36	21		5/31/2013	\$243,282	No	\$0	N	N	N
4	F	3.700%	LD	7/1/2010	6/1/2013	4	48	33		5/31/2014	\$165,916	No	\$0	N	N	N
5	F	4.050%	LD	7/1/2010	6/1/2014	5	60	45		5/31/2015	\$149,308	No	\$0	N	N	N
6	F	4.300%	LD	7/1/2010	6/1/2015	6	72	57		5/31/2016	\$83,151	No	\$0	N	N	N
7	F	4.550%	LD	7/1/2010	6/1/2016	7	84	69		5/31/2017	\$87,417	No	\$0	N	N	N
8	F	4.700%	LD	7/1/2010	6/1/2017	8	96	81		5/31/2018	\$45,926	No	\$0	N	N	N

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Farmers Rural Electric Cooperative
Summary Comparison of Cash Flows
Portfolio: Matched RUS Principal Payments - CFC Rates

	Principal Payments	Interest Payments	Total Discounts	Patronage Retirement	LCTC Payments	LCTC Return	SCTC Payments	SCTC Return	Total Cash Flow
RUS	(\$1,245,260)	(\$178,871)	\$0	\$0	\$0	\$0	\$0	\$0	(\$1,424,161)
CFC	(\$1,245,260)	(\$147,611)	\$0	\$13,854	\$0	\$0	\$0	\$0	(\$1,379,047)
RUS-CFC	\$0	(\$31,260)	\$0	(\$13,854)	\$0	\$0	\$0	\$0	(\$45,114)

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Farmers Rural Electric Cooperative
Detailed Comparison of Cash Flows
Portfolio: Matched RUS Principal Payments - CFC Rates

Year	RUS events		CFC events					Comparison	
	RUS Payments	CFC Payments	CFC Patronage	LCTC's Payments	LCTC's Return	SCTC Payments	SCTC Interest Earned	CFC Net Cash Flows	RUS - CFC Net Cash Flows
2/28/2011	(\$253,318)	(\$167,530)	-	-	-	-	-	(\$167,530)	(\$85,788)
2/28/2012	(\$307,691)	(\$301,895)	\$1,793	-	-	-	-	(\$300,102)	(\$7,589)
2/28/2013	(\$277,470)	(\$276,664)	\$1,634	-	-	-	-	(\$275,030)	(\$2,440)
2/28/2014	(\$189,417)	(\$206,721)	\$1,269	-	-	-	-	(\$205,452)	\$16,035
2/28/2015	(\$164,415)	(\$168,496)	\$921	-	-	-	-	(\$167,575)	\$3,160
2/28/2016	(\$92,461)	(\$109,355)	\$634	-	-	-	-	(\$108,720)	\$16,259
2/28/2017	(\$92,460)	(\$91,940)	\$394	-	-	-	-	(\$91,546)	(\$914)
2/28/2018	(\$46,929)	(\$58,481)	\$219	-	-	-	-	(\$58,262)	\$11,334
2/28/2019	-	(\$11,821)	\$64	-	-	-	-	(\$11,757)	\$11,757
2/28/2020	-	-	-	-	-	-	-	-	-
2/28/2021	-	-	-	-	-	-	-	-	-
2/28/2022	-	-	-	-	-	-	-	-	-
2/28/2023	-	-	-	-	-	-	-	-	-
2/28/2024	-	-	-	-	-	-	-	-	-
2/28/2025	-	-	-	-	-	-	-	-	-
2/28/2026	-	-	-	-	-	-	-	-	-
2/28/2027	-	-	-	-	-	-	-	-	-
2/28/2028	-	-	-	-	-	-	-	-	-
2/28/2029	-	-	-	-	-	-	-	-	-
2/28/2030	-	-	-	-	-	-	-	-	-
2/28/2031	-	-	-	-	-	-	-	-	-
2/28/2032	-	-	-	-	-	-	-	-	-
2/28/2033	-	-	-	-	-	-	-	-	-
2/28/2034	-	-	-	-	-	-	-	-	-
2/28/2035	-	-	-	-	-	-	-	-	-
2/28/2036	-	-	-	-	-	-	-	-	-
2/28/2037	-	-	\$1,793	-	-	-	-	\$1,793	(\$1,793)
2/28/2038	-	-	\$1,634	-	-	-	-	\$1,634	(\$1,634)
2/28/2039	-	-	\$1,269	-	-	-	-	\$1,269	(\$1,269)
2/28/2040	-	-	\$921	-	-	-	-	\$921	(\$921)
2/28/2041	-	-	\$634	-	-	-	-	\$634	(\$634)
2/28/2042	-	-	\$394	-	-	-	-	\$394	(\$394)
2/28/2043	-	-	\$219	-	-	-	-	\$219	(\$219)
2/28/2044	-	-	\$64	-	-	-	-	\$64	(\$64)

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Farmers Rural Electric Cooperative
Detailed Comparison of Cash Flows
Portfolio: Matched RUS Principal Payments - CFC Rates

Year	RUS events	CFC events							Comparison
	RUS Payments	CFC Payments	CFC Patronage	LCTC's Payments	LCTC's Return	SCTC Payments	SCTC Interest Earned	CFC Net Cash Flows	RUS - CFC Net Cash Flows
2/28/2045	-	-	-	-	-	-	-	-	-
2/28/2046	-	-	-	-	-	-	-	-	-
2/28/2047	-	-	-	-	-	-	-	-	-
2/28/2048	-	-	-	-	-	-	-	-	-
2/28/2049	-	-	-	-	-	-	-	-	-
2/28/2050	-	-	-	-	-	-	-	-	-
2/28/2051	-	-	-	-	-	-	-	-	-
2/28/2052	-	-	-	-	-	-	-	-	-
2/28/2053	-	-	-	-	-	-	-	-	-
2/28/2054	-	-	-	-	-	-	-	-	-
2/28/2055	-	-	-	-	-	-	-	-	-
2/28/2056	-	-	-	-	-	-	-	-	-
2/28/2057	-	-	-	-	-	-	-	-	-
2/28/2058	-	-	-	-	-	-	-	-	-
2/28/2059	-	-	-	-	-	-	-	-	-
2/28/2060	-	-	-	-	-	-	-	-	-

Sum of Cash Flows

Year 5	(\$1,192,311)	(\$1,121,305)	\$5,617	\$0	\$0	\$0	\$0	(\$1,115,689)	(\$76,622)
Year 10	(\$1,424,161)	(\$1,392,901)	\$6,927	\$0	\$0	\$0	\$0	(\$1,385,974)	(\$38,187)
Year 15	(\$1,424,161)	(\$1,392,901)	\$6,927	\$0	\$0	\$0	\$0	(\$1,385,974)	(\$38,187)
Year 20	(\$1,424,161)	(\$1,392,901)	\$6,927	\$0	\$0	\$0	\$0	(\$1,385,974)	(\$38,187)
Year 30	(\$1,424,161)	(\$1,392,901)	\$12,544	\$0	\$0	\$0	\$0	(\$1,380,358)	(\$43,803)
All years	(\$1,424,161)	(\$1,392,901)	\$13,854	\$0	\$0	\$0	\$0	(\$1,379,047)	(\$45,114)

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