

PART 2000 - GENERAL

Subpart KKK-Memorandum of Understanding Between the Department of Agriculture
Rural Development Mission Area and the National Rural Utilities
Cooperative Finance Corporation for Rural Business Economic
Development Financing

§ 2000.3101 General .

The National Rural Utilities Cooperative Finance Corporation (CFC) is an eligible lender under the Business and Industry (B&I) Guaranteed Loan Program Regulations. Individual members of CFC can be recognized as non-traditional lenders, provided they meet certain requirements outlined in the B&I regulations. The Department of Agriculture Rural Development Mission Area has entered into a Memorandum of Understanding (MOU) with CFC to provide financial assistance to the member along with loan origination, servicing, and loan liquidation services, if necessary, in consideration of the members being considered as eligible lenders without further individual member approval of the Agency as a non-traditional lender. This MOU provides additional financial assistance which will increase the number of business development opportunities to rural America and provide business development in some of the most needy rural communities.

§ 2000.3102 Responsibilities .

This MOU will automatically terminate at the end of the second fiscal year after execution unless extended by agreement of both parties for a full additional fiscal year. Either party may terminate its participation in this program upon 60 days written notice to the other party.

§ 2000.3103 Implementation .

The MOU is attached as Exhibit A.

§§ 2000.3104 - 2000.3105 [Reserved]

Attachment: Exhibit A.

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DISTRIBUTION: WSDC

Administration
General

MEMORANDUM OF UNDERSTANDING
for
RURAL BUSINESS ECONOMIC DEVELOPMENT FINANCING

between the

UNITED STATES DEPARTMENT OF AGRICULTURE
and the
NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

Introduction

The purpose of this Memorandum of Understanding ("MOU") is to memorialize an agreement in principle between the National Rural Utilities Cooperative Finance Corporation ("CFC") and the United States Department of Agriculture ("USDA") Rural Business-Cooperative Service ("RBS") for an initiative under which CFC and RBS would work together for purposes of providing business and industry rural economic development loans through CFC members (each, a "Member").

Pursuant to 7 CFR § 4279.29, CFC is an eligible lender under the USDA Business and Industry Guaranteed Loan Program ("B&I Program"). This MOU describes a means for CFC to exercise this authority in partnership with its Members in order to bring B&I financing to rural areas of the country which are generally served by those Members. Although this MOU does not represent a legally binding contract, it does represent a commitment by both RBS and CFC to use their best efforts to implement a program in general conformity with the terms described herein.

Capital Structure and Lending Experience

CFC is a cooperative association formed in 1969 by rural electric cooperatives in order to provide them with a source of funds to supplement financing by the Rural Utilities Service. Today, CFC has 1,052 Members and \$10.7 billion in total assets, 97 percent of which are net loans outstanding to Members. CFC raises capital in the market through issuance of AA-rated collateral trust bonds and other highly rated securities. In addition, CFC is party to three revolving credit agreements with various banks, both domestic and international, which provide CFC with \$5,217.5 million in liquidity to support its commercial paper and other standby obligations.

CFC has loans and guarantees outstanding to Members and their affiliates in 47 States, the District of Columbia, and 3 United States territories. Loans are originated, underwritten, and serviced by a staff of approximately 150 employees located in the Herndon, Virginia, headquarters, plus 13 Regional Vice Presidents located in various cities throughout the country. Most of these loans are made to electric distribution

systems, electric power supply systems, telecommunication systems, and related service organizations. Underwriting and servicing of the B&I loans will be incorporated into this existing infrastructure, with a specific loan analyst and Regional Vice President assigned to each particular B&I account. For over a decade, CFC has been making loans specifically for rural development purposes and has a knowledgeable, competent, and seasoned staff of loan analysts, managers, accountants, information systems professionals, and other staff required to administer the B&I Program.

CFC staff also has substantial experience in dealing with nonperforming and restructured loans, working aggressively to maximize recovery and limit losses. CFC's experience and success in this area is demonstrated by the fact that, since its inception in 1969, CFC has only charged off loan balances in the total amount of \$30.5 million, net of recoveries. By contrast, during Fiscal Year 1998, loan restructurings totaled \$330 million. Any such efforts required for the B&I Loans would be treated similarly, with a view toward obtaining the highest possible up-front recovery and quickest overall resolution.

Arrangement with Member Cooperatives

Under the arrangement, the Member will be the eligible lender of record for purposes of the B&I Program, under the auspices of CFC. Each participating Member will execute (a) the Lender's Agreement for the B&I Program, Form 4279-4 ("Lender's Agreement"), and (b) a contract with CFC providing for CFC to fulfill the Member's obligations under the Lender's Agreement ("Loan Underwriting, Servicing, and Loss Sharing Agreement"). In a simultaneous transaction, the Member will fund the B&I loans with financing provided by CFC to the Member, and the Member will assign the B&I Loan Note Guarantee (Form 4279-5) to CFC.

The Loan Underwriting, Servicing, and Loss Sharing Agreement will be in a standardized form, approved by RBS, and subject to amendment only with the prior approval of RBS. The major points of the Loan Underwriting, Servicing, and Loss Sharing Agreement will be as follows:

- Each loan will be originated and underwritten on behalf of the Member by CFC in conformity with RBS requirements, exercising that degree of care CFC utilizes in the underwriting, processing, servicing, and administration of its own loans.
- CFC will retain custody of the loan files and act as custodial agent on behalf of the Member.
- CFC will manage, service, administer, and make collections on the B&I loans on behalf of the Member.

- The Member will accept and maintain at least 5 percent of the loan loss risk associated with each B&I loan.
- The Member will provide such on-site assistance to CFC as may be reasonably requested by CFC in order to ensure that there is adequate supervision at the local level.
- Any liquidation or workout arrangements would be handled by CFC in consultation with the Member and RBS.
- Although the Member will remain the eligible lender of record, CFC will be responsible for the Member's compliance with all applicable regulations associated with loan origination, underwriting, funding, servicing, and administration under the B&I Program

The CFC-RBS Understanding

If the Member enters into the Loan Underwriting, Servicing, and Loss Sharing Agreement with CFC, then RBS will automatically recognize each such participating Member as an eligible non-bank lender under the B&I regulations, with no further documentation or qualification required from the Member.

In the event that a Member ceases to exist, then CFC shall nevertheless continue to fulfill its obligations under the Loan Underwriting, Servicing, and Loss Sharing Agreement and shall assume the responsibility for transferring the rights, responsibilities, and obligations of the Member thereunder to another Member or to another eligible lender acceptable to RBS.

Each loan accepted by RBS for a U.S. Government guarantee under the B&I Program will carry a guarantee percentage which would be provided to any other eligible lender for a similar loan under the B&I regulations.

CFC agrees to price the loans at market competitive interest rates, and that such financing will include long-term, fixed interest rate loans. Specific pricing will be dependent upon market conditions, risk levels, the Member's level of loss sharing, and other relevant factors. Within these parameters, however, CFC acknowledges and agrees that the objective of all parties involved in the B&I Program is economic development and that the overriding factor in pricing will *not* be profit or interest rate spread. In this regard, CFC represents to RBS that, historically, rates and fees charged by CFC on its loan portfolio to electric distribution system and rural telephone cooperative borrowers, and their affiliates, have been below those of other commercial lenders because of CFC's low operating costs and its not-for-profit orientation.

EXHIBIT

LOAN UNDERWRITING, SERVICING AND LOSS SHARING AGREEMENT

THIS LOAN UNDERWRITING, SERVICING AND LOSS SHARING AGREEMENT (the "agreement"), dated as _____, is made between NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a cooperative association incorporated under the laws of the District of Columbia ("CFC") and _____, a corporation organized and existing under the laws of the State of _____, (the "Cooperative").

RECITALS

A. CFC is an eligible non-bank lender under the United States Department of Agriculture (USDA) Business and Industry Guaranteed Loan Program (the "B&I Program").

B. Pursuant to a memorandum of understanding executed by and between CFC and the USDA, the Cooperative is recognized as an eligible lender under 7 C.F.R. § 4279.29(b) for purposes of the B&I Program, provided that the Cooperative enters into and performs this Agreement.

C. CFC has agreed to act as servicing agent for the Cooperative in the origination, processing, underwriting and servicing of the loans in accordance with the terms of this Agreement.

D. The Cooperative and CFC have also agreed to share in losses on Loans in the manner provided in this Agreement.

E. The parties to this Agreement recognize that, although the USDA is not a party to this Agreement, this Agreement is entered into in order to procure a B&I guarantee, and the USDA is a third-party beneficiary of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Definitions. Whenever used in this agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

"Amount financed" means, as to each loan, the amount advanced under such loan as set forth in the related loan agreement.

"Borrower" means the borrower under a loan agreement and any other person who owes payments under the related loan.

"Business day" means any day other than a Saturday, Sunday, or Federal holiday. 1

"Collection account" means an account with a national bank supervised by a Federal regulatory agency, which may be an omnibus deposit account.
Provided: That CFC shall keep accurate and detailed records identifying funds in the collection account belonging to the Cooperative and subject to this Agreement.

"Conforming characteristics" shall have the meaning assigned thereto in section 2.01.

"Default" means an event specified in section 8.01.

"Defaulted loan" means, as of the close of business on the last business day of any calendar month, any loan as to which a regularly scheduled payment has not been received as and when due (a "payment default"), and such payment default has remained uncured for a period of 90 days (or earlier if CFC, as servicing agent, has determined such loan to be uncollectible).

"CFC loss amount" means, with respect to any defaulted loan, ____ percent (____%) of the loan loss amount.

"Cooperative loss amount" means, with respect to any defaulted loan, **[a minimum of 5%]** ____ percent (____%) of the Loan Loss Amount.

"Governmental body" means, with respect to a party, any Federal, State, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, having jurisdiction over such party or any of its business activities.

"Insolvency event" means, with respect to a specified person:

(a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such person or any substantial part of its property in an involuntary proceeding under any applicable Federal or State bankruptcy, insolvency or other similar law now or hereafter in effect; or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such person or for any substantial part of its property, or ordering the winding-up or liquidation of such person's affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(b) the commencement by such person of a voluntary case under any applicable Federal or State bankruptcy, insolvency, or other similar law now or hereafter in effect, or the consent by such person to the entry of an order for relief in an involuntary case under any such law;

(c) the consent by such person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official for such person or for any substantial part of its property;

(d) the making by such person of any general assignment for the benefit of creditors; or

(e) the failure by such person generally to pay its debts as such debts become due, or the taking of action by such person in furtherance of any of the foregoing.

"Loan activity report" means a report of CFC, as servicing agent, delivered pursuant to Section 3.04.

"Loan agreement" means, as to each Loan, an agreement between the guaranteed loan borrower and a Cooperative which sets forth the terms and conditions upon which the cooperative agrees to lend to the Borrower.

"Loan collection record" means the record maintained by CFC, as servicing agent, pursuant to section 4.01.

"Loan files" means the documents specified in section 2.04.

"Loan loss amount" means, as to any defaulted loan, the total amount (including all costs, fees and expenses of collection) that is not covered or otherwise reimbursed pursuant to the guaranty of such defaulted loan by the United States Government under the terms of the B&I Program.

"Loan rate" means the per annum rate of interest borne by an loan as set forth in the related loan agreement.

"Loss report" shall have the meaning assigned thereto in section 7.01.

"Origination date" means, with respect to a particular loan, the day on which the Cooperative funds the loan.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

"Principal balance" of a loan means, as of any date of determination, the amount financed thereunder less the portion of all payments made by or on behalf of the related borrower on or prior to such date that is allocable to principal.

"Underwriting requirements" means the underwriting requirements established and in effect from time to time for loans originated under the B&I Program, plus any additional requirements as may be established from time to time by mutual agreement of the parties.

Section 1.02. Incorporation of Recitals and Exhibits. The foregoing recitals and all exhibits and schedules hereto are hereby incorporated by reference as if fully set forth herein.

ARTICLE II

The Loans; Custody of Loan Files

Section 2.01. Underwriting and Funding of Loans.

a.) The Cooperative shall be and shall remain the eligible lender of record for purposes of the B&I Program, and in connection therewith, shall execute the lender's agreement for the B&I Program ("Lender's Agreement"). CFC shall be the designated servicing agent for the Cooperative and assume the Cooperative's responsibilities and obligations under the lender's agreement pursuant to the terms of this agreement.

b.) Loan applications shall be made to the Cooperative and submitted to CFC for approval. If approved by CFC and accepted for a Government guaranty, the loan shall be funded by the Cooperative with funds loaned by CFC to the Cooperative on a non-recourse basis, except that nothing herein shall be construed as to relieve the Cooperative from responsibility for the Cooperative loss amount. CFC's loan to the Cooperative shall be secured, in part, by an assignment of the Government's B&I loan note guarantee to CFC pursuant to an assignment form approved by the Government. Collateral security for the B&I Loan shall be identified as pledged to the Cooperative.

c.) Each Loan:

1.) shall have been underwritten in conformity with the underwriting requirements;

2.) shall have a fixed or variable loan rate as agreed by CFC and the Cooperative and acceptable to qualify under the B&I Program;

3.) shall have an amount financed within the limits prescribed the B&I Program from time to time; and

4.) shall be evidenced by a fully executed loan agreement, promissory note, security agreement, and other documents as may be required by CFC, the Cooperative, and the regulations of the B&I Program.

The characteristics set forth in clauses 1.) through 4.) above are referred to herein as "conforming characteristics."

Section 2.02. Requirements of Eligible Loans. In order to be eligible for funding, each loan originated hereunder shall, as of the origination date:

- a.) Conforming loans . Be made in accordance with the conforming characteristics;
- b.) Compliance with law . Comply in all material respects with the requirements of law applicable to the origination and funding of such loan and not be subject to the laws of any jurisdiction under which the origination and funding of such loan is unlawful, void, or voidable;
- c.) Binding obligation . Represent the genuine, legal, valid, and binding payment obligation in writing of the borrower, enforceable by the lender thereof in accordance with its terms;
- d.) Loans in force . Not have been satisfied, subordinated, or rescinded;
- e.) No waiver or amendment . Not be subject to any waiver of any term thereof by either the Cooperative or CFC;
- f.) No defenses . Not be subject to the assertion or threatened assertion by the borrower of any right of rescission, set off, counterclaim, or defense with respect to such loan; and
- g.) No default . Not be in default nor shall there exist a continuing condition that with notice or the lapse of time or both would constitute a default, breach, violation, or event permitting acceleration under the terms of such loan.

Section 2.03. Custody of Loan Files. To assure uniform quality in servicing the loans and to reduce administrative costs, the Cooperative hereby appoints CFC as servicing agent of the loans, and the CFC hereby accepts such appointment, to act for the benefit of the Cooperative as custodian of the following documents or instruments (which are hereby constructively delivered to CFC) with respect to each loan:

- a.) the fully executed original of each loan agreement, promissory note, and security agreement;
- b.) the original credit application fully executed by the borrower; and
- c.) any and all other documents that CFC, as servicing agent, shall keep on file, in accordance with its customary procedures, relating to a Loan;

Provided, however: That upon appointment of a successor servicing agent, the CFC shall promptly deliver all such documents or instruments with respect to any loan in its possession to such successor servicing agent.

Section 2.04. Duties of CFC as Custodian.

a.) Safekeeping . CFC, as servicing agent, shall hold the loan files as custodian for, and bailee of, the Cooperative and maintain accurate and complete accounts and records pertaining to each loan file. In performing its duties as custodian, CFC shall act with reasonable care, using that degree of skill and attention that CFC exercises with respect to the files relating to all similar loans that CFC services for itself or others. CFC shall keep its records in such a manner as shall enable the Cooperative to verify the accuracy of CFC record-keeping.

b.) Access to records . CFC, as servicing agent, shall provide to the Cooperative or its designee access to the loan files during CFC's normal business hours and upon 72 hours notice. Access shall be afforded without charge. CFC shall deliver to the Cooperative or its designee photocopies of any loan files with respect to particular loans upon reasonable request. Nothing in this paragraph shall affect the obligation of CFC to observe any applicable law prohibiting disclosure of information regarding the Borrowers.

c.) Release of documents . Although it is the intention of the parties hereto that CFC, as servicing agent, shall continue to hold the loan files as custodian on behalf of the Cooperative, CFC acknowledges and agrees that the Cooperative, as owner of the loans, has the legal right to, at any time in its absolute discretion, direct CFC to release any loan file or all loan files to the Cooperative or the Cooperative's designee, as the case may be, at such place or places as the Cooperative may designate.

Section 2.05. Instructions; Authority to Act. CFC, as servicing agent, shall be deemed to have received proper instructions with respect to the loan files upon its receipt of written instructions signed by an authorized officer of the Cooperative or its designee.

Section 2.06. Hold Harmless. CFC, as servicing agent and as custodian, shall hold harmless the Cooperative and each of its respective officers, directors, employees and agents for any and all liabilities of any kind whatsoever that may be imposed on, incurred by or asserted against the Cooperative or any of its officers, directors, employees, and agents as the result of any negligent act or omission relating to the maintenance and custody by CFC as custodian of the Loan Files.

Section 2.07. Effective Period and Termination. CFC's appointment as custodian for the loan files in respect of any loans shall become effective as of the date of this Agreement and shall continue in full force and effect until a successor servicing agent is appointed as provided herein.

ARTICLE III

Administration and Servicing of Loans

Section 3.01. Duties of CFC as Servicing Agent. CFC, as servicing agent for the benefit of the Cooperative, in compliance with the requirements of the B&I Program, shall manage, service,

administer, and make collections on the loans with reasonable care using that degree of skill and care that CFC exercises with respect to all similar loans that it services for itself or others, CFC may declare any loan that is a defaulted loan to be in default and shall make reasonable efforts to collect all amounts due thereon. CFC duties shall include collection and posting of all payments, responding to inquiries of borrowers on the loans, investigating delinquencies, sending payment statements to borrowers as appropriate, reporting tax information to borrowers upon request, accounting for collections, and collateral liquidation or loan workout arrangements, and fulfilling all requirements of a guaranteed lender under the regulations and agreements of the B&I Guaranteed Loan Program. Without limiting the generality of the foregoing, CFC, as servicing agent, is authorized and empowered to execute and to deliver, on behalf of itself, the Cooperative or any of them, any and all instruments of satisfaction or cancellation, or partial or full release or discharge, and all other comparable instruments, with respect to the loans.

Section 3.02. Collection of Loan Payments. CFC, as servicing agent, shall make reasonable efforts to collect all payments called for under the terms and provisions of the loans as and when the same shall become due and shall follow such collection procedures as it follows with respect to all similar loans that it services for itself or others, and in compliance with the requirements of the B&I Program. CFC shall allocate collections between principal and interest in accordance with the terms of the related loan agreements.

Section 3.03. Servicing Expenses. CFC, as servicing agent, shall be required to pay all expenses incurred by it in connection with its activities hereunder, including taxes imposed on CFC, as servicing agent; *Provided, however:* That any and all costs, fees, and expenses incurred in connection with a defaulted loan, to the extent not otherwise recovered from the borrower or otherwise covered by the guaranty of the United States Government under the terms of the B&I Program, shall be included as part of the loan loss amount.

Section 3.04. Servicing Agent's Loan Activity Report. From time to time, CFC shall provide the Cooperative with a Loan Activity Report containing substantially the following information in respect of each Loan:

- a.) the aggregate of scheduled payments received;
- b.) the aggregate principal balance of the loan, after giving effect to payments allocated to principal;
- c.) the dollar amount (and number) of loans 30, 60, and 90 plus days delinquent, and the aggregate of loans (by dollar amount and by number of loans) determined to be uncollectible by CFC during the previous calendar month;
- d.) each loan that is a defaulted loan;
- e.) the principal balance for each defaulted loan;

f.) the loss amount; and

g.) any other information requested by USDA.

Section 3.05. Annual Report. CFC shall deliver to the Cooperative, on or before April 30 of each year, CFC's annual report, including audited financial statements, for the immediately preceding fiscal year.

Section 3.06. Servicing Agent Compensation. For its services hereunder, the Cooperative shall pay to CFC the following compensation:

[insert appropriate compensation formula]

ARTICLE IV

Collections and Distributions

Section 4.01. Loan Collection Record. CFC, as servicing agent, shall establish and maintain a loan collection record in which the following payments on each loan for each calendar month shall be recorded by CFC for the account of the Cooperative: (I) all payments on account of scheduled principal on each loan; (ii) all payments on account of scheduled interest at the applicable loan rate on each loan; and (iii) all other recoveries in respect of each loan.

Section 4.02. Collection Account.

a.) CFC, as servicing agent, shall establish for the benefit of the Cooperative, and maintain in the name of the cooperative, a collection account, and CFC, as servicing agent, shall remit to such collection account on each deposit date, scheduled monthly payments of principal and interest on the loans and all other recoveries received in respect of the loans including prepayment amounts.

b.) The Cooperative shall possess all right, title, and interest in all funds on deposit and credited to it from time to time in such collection account.

Section 4.03. Distribution of Collections. CFC shall transfer funds from the collection account as the Cooperative directs, but no more frequently than quarterly.

ARTICLE V
Cooperative Representations, Warranties, and Covenants

Section 5.01. Representations and Warranties. The Cooperative hereby makes the following representations to CFC, which shall survive termination of this Agreement:

a.) No consents . No consents or approvals of any person are required that have not been obtained (and no filing need be made with any governmental body) for the execution, delivery and performance of this agreement by the Cooperative.

b.) Organization and good standing . The Cooperative is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized, with the due power and authority to own its properties and to conduct its business as such properties are currently owned and such business is presently conducted, and has all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted, and has the power, authority and legal right to originate, underwrite, fund, own, sell and service the loans.

c.) Power and authority . The Cooperative has the power and authority to execute and deliver this Agreement and to carry out the terms of this agreement, including the loss sharing obligations provided herein.

d.) Binding obligation . This agreement constitutes a legal, valid, and binding obligation of the Cooperative enforceable in accordance with its terms.

e.) No violation . The consummation of the transactions contemplated by this agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the governing instruments of the Cooperative; or conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, agreement or other instrument to which the Cooperative is a party or by which it is bound, or result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument, to the extent that any such conflict, breach, default or lien could materially and adversely affect the ability of the Cooperative to perform its obligations under this agreement; or violate any law or any order, decree or other instrument binding on the Cooperative or any rule or regulation, judgment or injunction applicable to the Cooperative of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Cooperative or its properties.

f.) No proceedings . There are no proceedings or investigations pending or, to the best knowledge of the Cooperative, threatened, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Cooperative or its properties: (i) asserting the invalidity of this agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this agreement, or (iii) seeking any determination or ruling that might

materially and adversely affect its business or financial condition or the performance by the Cooperative of its obligations under, or the validity or enforceability of, this agreement.

g.) Compliance with laws . The Cooperative is not in violation of any statute, rule, or regulation of any governmental body or any order of any court or arbitrator, the violation of which, considered in the aggregate, could materially and adversely affect the business, operations, or properties of the Cooperative.

Section 5.02. Covenants. The Cooperative hereby makes the following covenants to CFC:

a.) Good standing . The Cooperative covenants to maintain its good standing under the laws and regulations of the jurisdiction of its organization, and to commit no act that would alter the status of the Cooperative as represented in Section 5.01 above. In the event the Cooperative has not maintained such status, it shall immediately notify CFC to such effect.

b.) Compliance with laws . The Cooperative will not violate any statute, rule, or regulation of any governmental body or any order of any court or arbitrator, the violation of which, considered in the aggregate, could materially and adversely affect the ability of the Cooperative to perform its obligations under this agreement. The Cooperative agrees to forward, immediately upon receipt, any notices it receives of any such violation or noncompliance.

c.) On-site assistance . CFC remains responsible, as servicing agent, for on-site visits of any projects funded through the B&I Program. From time to time as CFC may reasonably request, the Cooperative shall (i) conduct on-site visits of any project funded through the B&I Program under the terms of this agreement in order to ensure compliance with B&I regulations, and (ii) use its best efforts to provide such further information regarding borrowers and projects funded hereunder as may be required by the B&I Program in order to assist CFC in complying with the terms thereof.

ARTICLE VI

Servicing Agent Representations, Warranties, and Covenants; Resignation

Section 6.01. Representations and Warranties. CFC hereby makes the following representations to the Cooperative, which shall survive termination of this agreement:

a.) No consents . No consents or approvals of any person are required that have not been obtained (and no filing need be made with any governmental body) for the execution, delivery, and performance of this agreement by CFC.

b.) Organization and good standing . CFC is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized, with the due power and authority to own its properties and to conduct its business as such properties are currently owned and such

business is presently conducted, and has all material governmental licenses, authorizations, consents, and approvals required to carry on its business as now conducted, and has the power, authority and legal right to enter into and to perform this Agreement.

c.) Power and authority . CFC has the power and authority to execute and deliver this agreement and to carry out the terms of this agreement, including the loss sharing obligations provided herein.

d.) Binding obligation . This agreement constitutes a legal, valid, and binding obligation of CFC enforceable in accordance with its terms.

e.) No violation . The consummation of the transactions contemplated by this Agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the governing instruments of CFC; or conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, agreement or other instrument to which CFC is a party or by which it is bound, or result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument, to the extent that any such conflict, breach, default or lien could materially and adversely affect the ability of CFC to perform its obligations under this agreement; or violate any law or any order, decree or other instrument binding on CFC or any rule or regulation, judgment or injunction applicable to CFC of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over CFC or its properties.

f.) No proceedings . There are no proceedings or investigations pending or, to the best knowledge of CFC, threatened, before any court, regulatory body, administrative agency, or other governmental instrumentality having jurisdiction over CFC or its properties: (i) asserting the invalidity of this agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this agreement, or (iii) seeking any determination or ruling that might materially and adversely affect its business or financial condition or the performance by CFC of its obligations under, or the validity or enforceability of, this agreement.

g.) Compliance with laws . CFC is not in violation of any statute, rule, or regulation of any governmental body or any order of any court or arbitrator, the violation of which, considered in the aggregate, could materially and adversely affect the business, operations or properties of CFC.

h.) Lender qualification . CFC is an eligible lender under the B&I Guaranteed Loan Program.

Section 6.02. Covenants of CFC. CFC hereby makes the following covenants to the Cooperative:

a.) Good standing . CFC covenants to maintain its good standing under the laws and regulations of the jurisdiction of its organization, and to commit no act that would alter the status of CFC as represented in section 6.01 above. In the event CFC has not maintained such status, it shall immediately notify the Cooperative to such effect.

b.) Compliance with laws . CFC will not violate any statute, rule, or regulation of any governmental body or any order of any court or arbitrator, the violation of which, considered in the aggregate, could materially and adversely affect the ability of CFC to perform its obligations under this agreement. CFC agrees to forward, immediately upon receipt, any notices it receives of any such violation or non compliance.

c.) Lender's agreement . Subject to the terms of this agreement, CFC shall assume all of the Cooperatives' obligations and shall perform all of the Cooperative's responsibilities under the Lender's Agreement and all other agreements and regulations governing the B&I Guaranteed Loan Program.

Section 6.03. Resignation of CFC as Servicing Agent. CFC may resign from the obligations and duties imposed on it as servicing agent under this agreement upon 6 months prior notice to the Cooperative and the Government agency then responsible for administering the B&I Program, but only upon acceptance by another servicing agent approved by the Government Agency responsible for administering the B&I Program and satisfactory to the Cooperative, that is competent to perform the obligations and duties imposed on it as servicing agent under this agreement.

ARTICLE VII

Loss Sharing

Section 7.01. Calculation of Loss. On a periodic basis, but no less than quarterly, CFC shall prepare and furnish to the Cooperative a report (each, a "loss report") setting forth: (i) each loan that was a defaulted loan; (ii) the loan loss amount for each such defaulted loan; (iii) the Cooperative loss amount; and (iv) the CFC loss amount. It shall report such information to the USDA simultaneously with the report furnished to the Cooperative.

Section 7.02. Sharing of Loss.

a.) CFC hereby unconditionally and irrevocably agrees to assume all liability for the CFC loss amount, and further agrees that the Cooperative shall have no obligation or liability to CFC for the CFC loss amount specified in any loss report.

b.) The Cooperative hereby unconditionally and irrevocably agrees to assume all liability for the Cooperative loss amount, and further agrees that CFC shall have no obligation or liability to the Cooperative for the Cooperative loss amount specified in any loss report.

ARTICLE VIII

Default

Section 8.01. Events of Default. A party shall be in default hereunder (a "default") if such party:

- a.) makes any representation under this agreement that was incorrect in any material respect when made;
- b.) fails to observe or to perform any other covenants or agreements of such party set forth in this agreement, which failure shall continue un-remedied for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to such party;
- c.) is subject to an insolvency event; or
- d.) acts, or fails to act, in the performance of any of its obligations under this agreement, and such act or failure to act constitutes (i) fraud, or (ii) negligence that has a material, adverse effect on the rights or interests of the other party.

Section 8.02. Remedies. In each and every case, so long as the default shall not have been remedied, the non-defaulting party, by notice then given in writing to the defaulting party, may take any action at law or in equity that may appear necessary or desirable to enforce any obligation, covenant, or agreement under this agreement including, without limitation, termination of this agreement after consultation and approval of USDA. No delay or omission to exercise any right or remedy upon the occurrence of a default (except a delay or omission pursuant to a written waiver) shall impair any such right or remedy or constitute a waiver of any such default or acquiescence therein.

Section 8.03. Termination of Servicing. On or after the receipt by CFC of any written notice of termination of CFC's servicing rights and obligations as provided in section 8.02, all authority and power of CFC as servicing agent under this agreement, whether with respect to the loans or otherwise, shall, without further action, pass to and be vested in the Cooperative or a successor servicing agent as may be appointed hereunder with USDA concurrence and, without limitation, CFC is hereby authorized and empowered to execute and deliver, as attorney-in-fact or otherwise, any and all documents and other instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such notice of termination, whether to complete the transfer and endorsement of the loans and related documents, or otherwise. In connection with any such termination of servicing, CFC as the predecessor servicing agent shall cooperate with the successor servicing agent in effecting the termination of the responsibilities and rights of CFC as the predecessor servicing agent under this agreement, including the transfer to the successor servicing agent for administration by it of all cash amounts that shall at the time be held by CFC, as the predecessor servicing agent, for deposit, or shall thereafter be received by it with

respect to any loan. All reasonable costs and expenses (including attorneys' fees) incurred in connection with transferring the loan files to the successor servicing agent and amending this agreement to reflect such succession as servicing agent shall be paid by CFC, as predecessor servicing agent, upon presentation of reasonable documentation of such costs and expenses.

Section 8.04. Appointment of Successor Servicing Agent.

a.) Upon CFC's receipt of notice of termination of servicing hereunder pursuant to section 8.03 or CFC's resignation in accordance with section 6.03, then CFC, as predecessor servicing agent, shall continue to perform its functions as servicing agent under this agreement, in the case of termination, only until the date specified in such termination notice or, if no such date is specified in a notice of termination, until receipt of such notice and, in the case of resignation, until the later of (i) the date 6 months from the delivery to CFC of written notice of such resignation (or written confirmation of such notice) in accordance with the terms of this agreement and (ii) the date upon which CFC, as predecessor servicing agent, shall become unable to act as servicing agent, as specified in the notice of resignation and accompanying opinion of counsel. In the event of CFC's termination as servicing agent hereunder, CFC shall appoint a successor servicing agent, and the successor servicing agent shall accept its appointment by a written assumption in form acceptable to CFC.

b.) Upon appointment, the successor servicing agent shall be the successor in all respects to CFC, as predecessor servicing agent, and shall be subject to all the responsibilities, duties, and liabilities arising thereafter relating thereto placed on CFC, as predecessor servicing agent, and shall be entitled to all the rights granted to CFC, as predecessor servicing agent, by the terms and provisions of this agreement.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Notices. All notices, requests and other communications provided for herein shall be given or made in writing (including, without limitation, by telecopy) and delivered or telecopied 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. Except as otherwise provided in this agreement, all such communications shall be deemed to have been duly given when personally delivered or, in the case of a telecopied or mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are as follows:

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attention: Senior Vice President for Member Services
Fax: (703) 709-6776

The Cooperative:

Section 9.2. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

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

(b) COOPERATIVE HEREBY SUBMITS TO THE NONEXCLUSIVE 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. COOPERATIVE IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. D

(c) EACH OF THE COOPERATIVE AND CFC 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 9.3. Amendments. This agreement may be amended only by a writing signed by both parties.

Section 9.4. Severability. If any term, provision or condition, or any part thereof, of this agreement 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.

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

BORROWER(SEAL)

By: _____

Title: _____

Attest: _____

Secretary

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (SEAL)

By: _____

Assistant Secretary-Treasurer

Attest: _____

Assistant Secretary-Treasurer

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