KEITHLEY INSTRUMENTS INC
Form SC 13D/A
March 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 13D
Under the Securities Exchange Act of 1934
(Amendment No. 6)*
Keithley Instruments, Inc.

(Name of Issuer)
Common Shares, without par value

(Title of Class of Securities)
487584 10 4

(CUSIP Number)
Joseph P. Keithley
28775 Aurora Road
Solon, Ohio 44139-1891
(440) 248-0400

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)
March 12, 2009

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	NAMES OF REPORTING PERSONS: Joseph P. Keithley I.R.S. Identification Nos. of Above Persons (entities only):	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) o (b) o	
3	SEC USE ONLY:	
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): Not applicable	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e): o	
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Ohio	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH	7	SOLE VOTING POWER: 2,731,449
	8	SHARED VOTING POWER: 0
	9	SOLE DISPOSITIVE POWER:

REPORTING PERSON		2,731,449
WITH	**10**	SHARED DISPOSITIVE POWER: 0

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 2,731,449
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 16.9%
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): IN

1	NAMES OF REPORTING PERSONS: Keithley Investment Co. Limited Partnership I.R.S. Identification Nos. of Above Persons (entities only): 34-1581748	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS): (a) o (b) o	
3	SEC USE ONLY:	
4	SOURCE OF FUNDS (SEE INSTRUCTIONS): Not applicable	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e): o	
6	CITIZENSHIP OR PLACE OF ORGANIZATION: Ohio	

NUMBER OF SHARES BENEFICIALLY OWNED BY	7	SOLE VOTING POWER: 1,954,816
	8	SHARED VOTING POWER: 0

EACH REPORTING PERSON	9	SOLE DISPOSITIVE POWER: 1,954,816
WITH	10	SHARED DISPOSITIVE POWER: 0

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 1,954,816
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS): o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 12.5%
14	TYPE OF REPORTING PERSON (SEE INSTRUCTIONS): PN

This Amendment No. 6 to Schedule 13D (this Amendment No. 5) relates to the common shares, without par value (the Common Shares), of Keithley Instruments, Inc., an Ohio corporation (the Company), and is primarily filed to reflect changes to the initial Schedule 13D dated April 12, 1988 (the Original 13D), as amended by Amendment No. 1 to Schedule 13D dated February 5, 1990 (Amendment No. 1), Amendment No. 2 to Schedule 13D dated March 9, 1991 (Amendment No. 2), Amendment No. 3 to Schedule 13D dated November 15, 1997 (Amendment No. 3), Amendment No. 4 to Schedule 13D dated February 27, 2004 (Amendment No. 4) and Amendment No. 5 to Schedule 13D dated March 9, 2009 (Amendment No. 5 and, together with Amendment No. 1, Amendment No. 2, Amendment No. 3 and Amendment No. 4, the Prior Amendments), to attach as an exhibit the agreement providing for the purchase of Common Shares by one of the reporting persons listed therein that was reported in Amendment No. 5. Except as otherwise reflected in this Amendment No. 6, there have been no material changes to the information contained in the Original 13D, as amended by the Prior Amendments.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS

1. Agreement among the Investors to file a joint statement on Schedule 13D

2. 10b5-1 Purchase Plan, dated March 12, 2009, between Joseph P. Keithley and Thomas Weisel Partners

SIGNATURES

After reasonable inquiry and to the best of his or its knowledge and belief, each of the undersigned hereby certifies that the information set forth in this statement is true, complete and correct as of March 12, 2009.

KEITHLEY INVESTMENT CO. LIMITED PARTNERSHIP,
an Ohio limited partnership

By: /s/ Joseph P. Keithley
Joseph P. Keithley, its sole general partner

/s/ Joseph P. Keithley
Joseph P. Keithley

EXHIBIT 1

This Exhibit 1 to Amendment No. 6 to Schedule 13D is filed pursuant to the requirements of Rule 13d-1(k)(1)(iii). The undersigned hereby agree that Amendment No. 6 to Schedule 13D, to which this Exhibit 1 is attached, is filed on behalf of each of the undersigned.

KEITHLEY INVESTMENT CO. LIMITED PARTNERSHIP,
an Ohio limited partnership

By: /s/ Joseph P. Keithley
Joseph P. Keithley, its sole general partner

/s/ Joseph P. Keithley
Joseph P. Keithley

Statewide and associate

57,041

147,897

54,353

155,129

CFC total[(3)]

22,802,636

11,837,675

22,129,873

12,314,732

RTFC

371,866

252,336

341,842

246,657

NCSC

665,679

654,164

680,802

643,621

Total loans outstanding[4]

$
23,840,181

$
12,744,175

$
23,152,517

$
13,205,010

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[1] The interest rate on unadvanced loan commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced loan commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

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(2) Includes troubled debt restructured loans.
(3) Includes long-term loans guaranteed by RUS totaling $171 million and $174 million as of November 30, 2016 and May 31, 2016, respectively, and long-term loans covered under the Farmer Mac standby purchase commitment agreement totaling $861 million and $926 million as of November 30, 2016 and May 31, 2016, respectively.
(4) Represents the unpaid principal balance excluding deferred loan origination costs.

Unadvanced Loan Commitments

Unadvanced loan commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. The following table summarizes the available balance under unadvanced loan commitments as of November 30, 2016 and the related maturities by fiscal year and thereafter by loan type:

	Available	Notional Maturities of Unadvanced Loan Commitments					
(Dollars in thousands)	Balance	2017	2018	2019	2020	2021	Thereafter
Line of credit loans	$8,226,027	$189,664	$4,957,467	$934,415	$936,001	$663,497	$544,983
Long-term loans	4,518,148	610,595	638,950	960,761	743,070	813,318	751,454
Total	$12,744,175	$800,259	$5,596,417	$1,895,176	$1,679,071	$1,476,815	$1,296,437

Unadvanced loan commitments related to line of credit loans are typically for periods not to exceed five years and are generally revolving facilities used for working capital and backup liquidity purposes. Historically, we have experienced a very low utilization rate on line of credit loan facilities, whether or not there is a material adverse change clause. Since we generally do not charge a fee on the unadvanced portion of the majority of our loan facilities, our borrowers will typically request long-term facilities to fund construction work plans and other capital expenditures for periods of up to five years and draw down on the facility over that time. In addition, borrowers will typically request an amount in excess of their immediate estimated loan requirements to avoid the expense related to seeking additional loan funding for unexpected items. These factors contribute to our expectation that the majority of the unadvanced loan commitments will expire without being fully drawn upon and that the total unadvanced amount does not necessarily represent future cash funding requirements.

Unadvanced Loan Commitments—Conditional

The substantial majority of our line of credit commitments and all of our unadvanced long-term loan commitments include material adverse change clauses. Unadvanced loan commitments subject to material adverse change clauses totaled $10,129 million and $10,757 million as of November 30, 2016 and May 31, 2016, respectively. Prior to making an advance on these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by the designated purpose, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

Unadvanced Loan Commitments—Unconditional

Unadvanced loan commitments not subject to material adverse change clauses at the time of each advance consisted of unadvanced committed lines of credit totaling $2,615 million and $2,448 million as of November 30, 2016 and May 31, 2016, respectively. As such, we are required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the facility.

The following table summarizes the available balance under unconditional committed lines of credit, and the related maturities by fiscal year and thereafter, as of November 30, 2016.

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(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit					
		2017	2018	2019	2020	2021	Thereafter
Committed lines of credit	$2,615,081	$—	$448,508	$613,025	$688,067	$418,871	$446,610

Loan Sales

We transfer, from time to time, loans to third parties under our direct loan sale program. We sold CFC loans with outstanding balances totaling $31 million and $64 million, at par for cash, during the six months ended November 30, 2016 and 2015, respectively. Because the loans were sold at par, we recorded immaterial losses related to unamortized deferred loan origination costs on the sale of these loans.

Credit Quality

We closely monitor loan performance trends to manage and evaluate our credit risk exposure. We seek to provide a balance between meeting the credit needs of our members while also ensuring the sound credit quality of our loan portfolio. Payment status and internal risk rating trends are key indicators, among others, of the level of credit risk within our loan portfolio.

As part of our strategy in managing our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015, as amended on May 31, 2016. Under this agreement, we may designate certain loans to be covered under the commitment, subject to approval by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We designated, and Farmer Mac approved, loans that had an aggregate outstanding principal balance of $861 million as of November 30, 2016. Under the agreement, we are required to pay Farmer Mac a monthly fee based on the unpaid principal balance of loans covered under the purchase commitment. No loans had been put to Farmer Mac for purchase, pursuant to this agreement, as of November 30, 2016.

Payment Status of Loans

The tables below present the payment status of loans outstanding by member class as of November 30, 2016 and May 31, 2016.

	November 30, 2016					
(Dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due (1)	Total Past Due	Total Financing Receivables	Nonaccrual Loans
CFC:						
Distribution	$18,327,120	$ —	$ —	$ —	$18,327,120	$ —
Power supply	4,418,475	—	—	—	4,418,475	—
Statewide and associate	57,041	—	—	—	57,041	—

CFC total	22,802,636	—	—	—	22,802,636	—
RTFC	371,866	—	—	—	371,866	—
NCSC	665,679	—	—	—	665,679	—
Total loans outstanding	$23,840,181	$ —	$ —	$ —	$23,840,181	$ —
As a % of total loans	100.00 %	—%	—%	—%	100.00 %	— %

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	May 31, 2016					
(Dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due [1]	Total Past Due	Total Financing Receivables	Nonaccrual Loans
CFC:						
Distribution	$17,674,335	$ —	$—	$—	$17,674,335	$ —
Power supply	4,401,185	—	—	—	4,401,185	—
Statewide and associate	54,353	—	—	—	54,353	—
CFC total	22,129,873	—	—	—	22,129,873	—
RTFC	338,336	—	3,506	3,506	341,842	3,506
NCSC	680,802	—	—	—	680,802	—
Total loans outstanding	$23,149,011	$ —	$3,506	$3,506	$23,152,517	$ 3,506
As a % of total loans	99.98 %	—%	0.02 %	0.02 %	100.00 %	0.02 %

[1] All loans 90 days or more past due are on nonaccrual status.

Internal Risk Ratings of Loans

We evaluate the credit quality of our loans using an internal risk rating system that employs similar criteria for all member classes. Our internal risk rating system is based on a determination of a borrower's risk of default utilizing both quantitative and qualitative measurements. We have grouped our risk ratings into the categories of pass and criticized based on the criteria below.

(i) Pass: Borrowers that are not experiencing difficulty and/or not showing a potential or well-defined credit weakness.
(ii) Criticized: Includes borrowers categorized as special mention, substandard and doubtful as described below:

- Special mention: Borrowers that may be characterized by a potential credit weakness or deteriorating financial condition that is not sufficiently serious to warrant a classification of substandard or doubtful.
- Substandard: Borrowers that display a well-defined credit weakness that may jeopardize the full collection of principal and interest.
- Doubtful: Borrowers that have a well-defined weakness and the full collection of principal and interest is questionable or improbable.

Borrowers included in the pass, special mention, and substandard categories are generally reflected in the general portfolio of loans. Borrowers included in the doubtful category are reflected in the impaired portfolio of loans. Each risk rating is reassessed annually following the receipt of the borrower's audited financial statements; however, interim risk rating downgrades or upgrades may take place at any time as significant events or trends occur.

The following table presents our loan portfolio by risk rating category and member class based on available data as of November 30, 2016 and May 31, 2016.

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	November 30, 2016			May 31, 2016		
(Dollars in thousands)	Pass	Criticized	Total	Pass	Criticized	Total
CFC:						
Distribution	$18,303,394	$23,726	$18,327,120	$17,640,928	$33,407	$17,674,335
Power supply	4,418,475	—	4,418,475	4,401,185	—	4,401,185
Statewide and associate	55,669	1,372	57,041	54,100	253	54,353
CFC total	22,777,538	25,098	22,802,636	22,096,213	33,660	22,129,873
RTFC	364,043	7,823	371,866	330,167	11,675	341,842
NCSC	659,657	6,022	665,679	678,552	2,250	680,802
Total loans outstanding	$23,801,238	$38,943	$23,840,181	$23,104,932	$47,585	$23,152,517

Allowance for Loan Losses

We maintain an allowance for loan losses at a level estimated by management to provide for probable losses inherent in the loan portfolio as of each balance sheet date. The tables below summarize changes, by company, in the allowance for loan losses as of and for the three and six months ended November 30, 2016 and 2015.

	Three Months Ended November 30, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of August 31, 2016	$25,062	$4,777	$3,281	$33,120
Provision for loan losses	742	(387)	383	738
Recoveries	53	—	—	53
Balance as of November 30, 2016	$25,857	$4,390	$3,664	$33,911

	Three Months Ended November 30, 2015			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of August 31, 2015	$27,151	$5,552	$5,604	$38,307
Provision for loan losses	496	366	378	1,240
Recoveries	53	—	—	53
Balance as of November 30, 2015	$27,700	$5,918	$5,982	$39,600

	Six Months Ended November 30, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2016	$24,559	$5,565	$3,134	$33,258
Provision for loan losses	1,192	944	530	2,666
Charge-offs	—	(2,119)	—	(2,119)
Recoveries	106	—	—	106
Balance as of November 30, 2016	$25,857	$4,390	$3,664	$33,911

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	Six Months Ended November 30, 2015			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Balance as of May 31, 2015	$23,716	$4,533	$5,441	$33,690
Provision for loan losses	3,876	1,385	541	5,802
Recoveries	108	—	—	108
Balance as of November 30, 2015	$27,700	$5,918	$5,982	$39,600

Our allowance for loan losses consists of a specific allowance for loans individually evaluated for impairment and a collective allowance for loans collectively evaluated for impairment. The tables below present, by company, the components of our allowance for loan losses and the recorded investment of the related loans as of November 30, 2016 and May 31, 2016.

	November 30, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated loans	$25,857	$3,171	$3,664	$32,692
Individually evaluated loans	—	1,219	—	1,219
Total ending balance of the allowance	$25,857	$4,390	$3,664	$33,911
Recorded investment in loans:				
Collectively evaluated loans	$22,796,055	$365,024	$665,679	$23,826,758
Individually evaluated loans	6,581	6,842	—	13,423
Total recorded investment in loans	$22,802,636	$371,866	$665,679	$23,840,181
Loans to members, net [1]	$22,776,779	$367,476	$662,015	$23,806,270

	May 31, 2016			
(Dollars in thousands)	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated	$24,559	$2,465	$3,134	$30,158
Individually evaluated	—	3,100	—	3,100
Total ending balance of the allowance	$24,559	$5,565	$3,134	$33,258
Recorded investment in loans:				
Collectively evaluated	$22,123,157	$331,244	$680,802	$23,135,203
Individually evaluated	6,716	10,598	—	17,314
Total recorded investment in loans	$22,129,873	$341,842	$680,802	$23,152,517
Loans to members, net[1]	$22,105,314	$336,277	$677,668	$23,119,259

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[1] Excludes unamortized deferred loan origination costs of $11 million and $10 million as of November 30, 2016 and May 31, 2016, respectively.

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Impaired Loans

The following table provides information on loans classified as individually impaired loans as of November 30, 2016 and May 31, 2016 are summarized below.

(Dollars in thousands)	November 30, 2016		May 31, 2016	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
With no specific allowance recorded:				
CFC	$6,581	$ —	$6,716	$ —
With a specific allowance recorded:				
RTFC	6,842	1,219	10,598	3,100
Total impaired loans	$13,423	$ 1,219	$17,314	$ 3,100

The following table represents the average recorded investment in individually impaired loans and the interest income recognized, by company, for the three and six months ended November 30, 2016 and 2015.

	Three Months Ended November 30,			
	2016	2015	2016	2015
(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
CFC	$6,581	$6,716	$144	$130
RTFC	6,924	9,746	87	29
Total impaired loans	$13,505	$16,462	$231	$159
	Six Months Ended November 30,			
	2016	2015	2016	2015
(Dollars in thousands)	Average Recorded Investment		Interest Income Recognized	
CFC	$6,645	$6,969	$274	$130
RTFC	8,729	6,956	175	29
Total impaired loans	$15,374	$13,925	$449	$159

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Troubled Debt Restructured ("TDR") Loans

We did not have any loans modified as TDRs during the six months ended November 30, 2016. The following table provides a summary of loans modified as TDRs in prior periods, the performance status of these loans and the related unadvanced loan commitments, by member class, as of November 30, 2016 and May 31, 2016.

	November 30, 2016			May 31, 2016		
(Dollars in thousands)	Loans Outstanding	% of Total Loans	Unadvanced Commitments	Loans Outstanding	% of Total Loans	Unadvanced Commitments
TDR loans:						
Nonperforming TDR loans:						
RTFC	$—	— %	$ —	$3,506	0.01%	$ —
Performing TDR loans:						
CFC/Distribution	6,581		—	6,716		—
RTFC	6,842		—	7,092		—
Total performing TDR loans	13,423	0.06	—	13,808	0.06	—
Total TDR loans	$13,423	0.06%	$ —	$17,314	0.07%	$ —

As indicated in the table above, all of our TDR loans were classified as performing as of November 30, 2016. TDR loans classified as performing as of November 30, 2016 and May 31, 2016 were on accrual status as of that date.

Nonperforming Loans

We did not have any nonperforming loans, excluding TDR loans, as of November 30, 2016 and May 31, 2016. As displayed in the table above, we had nonperforming TDR loans totaling $4 million as of May 31, 2016.

The following table shows foregone interest income for loans on nonaccrual status for the three and six months ended November 30, 2016 and 2015.

	Three Months Ended November 30,		Six Months Ended November 30,	
(Dollars in thousands)	2016	2015	2016	2015
Nonperforming loans	$ —	$ 12	$—	$12
Performing TDR loans	—	—	—	166
Nonperforming TDR loans	—	33	31	46
Total	$ —	$ 45	$31	$224

Pledging of Loans

We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt.

The following table summarizes our loans outstanding as collateral pledged to secure our collateral trust bonds, Clean Renewable Energy Bonds, notes payable to Farmer Mac and notes payable under the Guaranteed Underwriter Program of the USDA and the amount of the corresponding debt outstanding as of November 30, 2016 and May 31, 2016. See “Note 6—Short-Term Borrowings” and “Note 7—Long-Term Debt” for information on our borrowings.

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(Dollars in thousands)	November 30, 2016	May 31, 2016
Collateral trust bonds:		
2007 indenture:		
Distribution system mortgage notes	$ 7,168,166	$ 7,246,973
RUS guaranteed loans qualifying as permitted investments	149,075	151,687
Total pledged collateral	$ 7,317,241	$ 7,398,660
Collateral trust bonds outstanding	6,747,711	6,747,711
1994 indenture:		
Distribution system mortgage notes	$ 939,559	$ 968,030
Collateral trust bonds outstanding	795,000	800,000
Farmer Mac:		
Distribution and power supply system mortgage notes	$ 2,627,133	$ 2,683,806
Notes payable outstanding	2,283,929	2,303,122
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes	$ 16,012	$ 17,081
Notes payable outstanding	14,871	14,871
FFB:		
Distribution and power supply system mortgage notes	$ 5,529,477	$ 5,248,935
Notes payable outstanding	4,858,050	4,777,404

NOTE 5—FORECLOSED ASSETS

Foreclosed assets consist of operating entities or other assets acquired through lending activities in satisfaction of indebtedness. On July 1, 2016, the sale of CAH to ATN VI Holdings, LLC (“Buyer”) was completed. As a result, we did not carry any foreclosed assets on our consolidated balance sheet as of November 30, 2016.

Our net proceeds at closing totaled $109 million, which represents the purchase price of $144 million less agreed-upon purchase price adjustments as of the closing date. Upon closing, $16 million of the sale proceeds was deposited into escrow to fund potential indemnification claims for a period of 15 months following the closing. In connection with the sale, RTFC provided a loan in the amount of $60 million to Buyer to finance a portion of the transaction. ATN International, Inc., the parent corporation of Buyer, has provided a guarantee on an unsecured basis of Buyer’s obligations to RTFC pursuant to the financing.

The net proceeds at closing were subject to post-closing adjustments. The Buyer provided a statement of post-closing adjustments and we agreed upon a net amount due to us for post-closing adjustments of approximately $1 million, which we received during the current quarter. CFC remains subject to potential indemnification claims, as specified in the Purchase Agreement. We recorded expense of less than $1 million for the current quarter and expense of $2 million for the six months ended November 30, 2016 related to CAH. These amounts include the combined impact of adjustments recorded at the closing date of the sale of CAH, post-closing purchase price adjustments and certain legal costs incurred pertaining to CAH.

Upon closing of the sale of CAH, we derecognized the loss of $10 million recorded in accumulated other comprehensive income attributable to actuarial-related changes in CAH's pension and other postretirement benefit obligations as an offset against the sale proceeds. This derecognition had no effect on our consolidated statement of operations during the three and

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six months ended November 30, 2016, as the amount was taken into consideration in the measurement of the CAH impairment loss recorded in fiscal year 2016.

NOTE
6—SHORT-TERM
BORROWINGS

Short-term borrowings consist of borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt, Our short-term borrowings totaled $3,664 million and accounted for 16% of total debt outstanding as of November 30, 2016, compared with $2,939 million, or 13%, of total debt outstanding as of May 31, 2016.

Committed Bank Revolving Line of Credit Agreements

We had $3,165 million and $3,420 million of commitments under committed bank revolving line of credit agreements as of November 30, 2016 and May 31, 2016, respectively. Under our current committed bank revolving line of credit agreements, we have the ability to request up to $300 million of letters of credit, which would result in a reduction in the remaining available amount under the facilities.

In September 2016, NCSC assigned a total of $50 million of its commitment to another financial institution under our committed bank revolving line of credit agreements, which consisted of $25 million under the three-year agreement and $25 million under the five-year agreement.

On November 18, 2016, we amended and restated the three-year and five-year committed bank revolving line of credit agreements to extend the maturity dates to November 19, 2019 and November 19, 2021, respectively, and to terminate certain third-party bank commitments totaling $165 million under the three-year agreement and $45 million under the five-year agreement. This reduction was partially offset by an increase in commitment amounts from certain existing banks of $8 million under each of the three-year and five-year agreements. We also terminated NCSC's remaining commitment of $60 million. As a result, the total commitment amount from third-parties under the three-year facility and the five-year facility is $1,533 million and $1,632 million, respectively, resulting in a combined total commitment amount under the two facilities of $3,165 million.

The following table presents the total commitment, the net amount available for use and the outstanding letters of credit under our committed bank revolving line of credit agreements as of November 30, 2016 and May 31, 2016.

	November 30, 2016			May 31, 2016				
(Dollars in millions)	Total Commitment	Letters of Credit Outstanding	Net Available for Use(1)	Total Commitment	Letters of Credit Outstanding	Net Available for Use(1)	Maturity	Annual Facility Fee (2)
3-year agreement	$—	$ —	$ —	$25	$ —	$ 25	October 28, 2017	7.5 bps
3-year agreement	—	—	—	1,640	—	1,640	November 19, 2018	7.5 bps
3-year agreement	1,533	—	1,533	—	—	—	November 19, 2019	7.5 bps
Total 3-year agreement	1,533	—	1,533	1,665	—	1,665		

5-year agreement	—	—	—	45	—	45	October 28, 2019	10 bps
5-year agreement	—	—	—	1,600	1	1,599	November 19, 2020	10 bps
5-year agreement	1,632	1	1,631	—	—	—	November 19, 2021	10 bps
Total 5-year agreement	1,632	1	1,631	1,645	1	1,644		
Total	$3,165	$ 1	$ 3,164	$3,310	$ 1	$ 3,309		

(1)Reflects amounts available from unaffiliated third parties that are not consolidated by CFC.
(2) Facility fee determined by CFC’s senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

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We were in compliance with all covenants and conditions under our committed bank revolving line of credit agreements and there were no borrowings outstanding under these agreements as of November 30, 2016 and May 31, 2016.

NOTE
7—LONG-TERM
DEBT

The following table displays long-term debt outstanding, by debt type, as of November 30, 2016 and May 31, 2016.

(Dollars in thousands)	November 30, 2016	May 31, 2016
Unsecured long-term debt:		
Medium-term notes sold through dealers	$2,788,546	$2,668,276
Medium-term notes sold to members	413,128	450,960
Subtotal medium-term notes	3,201,674	3,119,236
Unamortized discount	(452)	(537)
Debt issuance costs	(22,577)	(19,370)
Total unsecured medium-term notes	3,178,645	3,099,329
Unsecured notes payable	27,092	27,092
Unamortized discount	(434)	(496)
Debt issuance costs	(107)	(123)
Total unsecured notes payable	26,551	26,473
Total unsecured long-term debt	3,205,196	3,125,802
Secured long-term debt:		
Collateral trust bonds	7,542,711	7,547,711
Unamortized discount	(261,319)	(265,837)
Debt issuance costs	(25,577)	(28,778)
Total collateral trust bonds	7,255,815	7,253,096
Guaranteed Underwriter Program notes payable	4,858,050	4,777,404
Debt issuance costs	(278)	(293)
Total Guaranteed Underwriter Program notes payable	4,857,772	4,777,111
Farmer Mac notes payable	2,283,929	2,303,123
Other secured notes payable	14,871	14,871
Debt issuance costs	(356)	(400)
Total other secured notes payable	14,515	14,471
Total secured notes payable	7,156,216	7,094,705
Total secured long-term debt	14,412,031	14,347,801
Total long-term debt	$17,617,227	$17,473,603

Secured Notes Payable

As of November 30, 2016 and May 31, 2016, we had secured notes payable totaling $4,858 million and $4,777 million, respectively, outstanding under a bond purchase agreement with the Federal Financing Bank and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program, which provides guarantees to the Federal Financing Bank. We pay RUS a fee of 30 basis points per year on the total amount borrowed. We are required to pledge eligible distribution system or power supply system loans as collateral in an amount at least equal to the total principal amount of notes outstanding under the Guaranteed Underwriter Program. See “Note 4—Loans and Commitments” for additional information on the collateral pledged to secure notes payable under this program. During the six months ended November 30, 2016, we borrowed $100 million under our committed loan facilities with the Federal Financing Bank. As of November 30, 2016, we had up to $500 million available under committed loan facilities from the Federal Financing Bank

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as part of this program. On September 28, 2016, we received a commitment from RUS to guarantee a loan of $375 million from the Federal Financing Bank under the Guaranteed Underwriter Program of the USDA. On December 1, 2016, we closed on the $375 million committed loan facility ("Series L") from the FFB guaranteed by RUS pursuant to the Guaranteed Underwriter Program. Under the Series L facility, we are able to borrow an additional $375 million any time before October 15, 2019 with each advance amortizing quarterly and having a final maturity no longer than 20 years from the advance date. This new commitment increases total funding available to CFC under committed loan facilities from FFB to $875 million on a secured basis.

As of November 30, 2016 and May 31, 2016, secured notes payable also include $2,284 million and 2,303 million, respectively, in debt outstanding to Farmer Mac under a note purchase agreement totaling $4,500 million. Under the terms of the note purchase agreement, we can borrow up to $4,500 million at any time through January 11, 2020, and thereafter automatically extend the agreement on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides us with a notice that the draw period would not be extended beyond the remaining term. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

We also have an additional revolving note purchase agreement with Farmer Mac totaling $300 million. Under the terms of this agreement, we can borrow up to $300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time, provided that the principal amount at any time outstanding is not more than the total available under the agreement. As of November 30, 2016 and May 31, 2016, we had no notes payable outstanding under this revolving note purchase agreement with Farmer Mac.

We are required to pledge eligible distribution system or power supply system loans as collateral in an amount at least equal to the total principal amount of notes outstanding under the Farmer Mac agreements. See "Note 4—Loans and Commitments" for additional information on the collateral pledged to secure notes payable under these programs.

As of November 30, 2016 and May 31, 2016, we were in compliance with all covenants and conditions under our senior debt indentures.

NOTE 8—SUBORDINATED DEFERRABLE DEBT

The following table presents subordinated deferrable debt outstanding as of November 30, 2016 and May 31, 2016.

	November 30, 2016	May 31, 2016
(Dollars in thousands)	Amount	Amount
4.75% due 2043 with a call date of April 30, 2023	$ 400,000	$ 400,000
5.25% due 2046 with a call date of April 20, 2026	350,000	350,000
Debt issuance costs	(7,792)	(7,788)
Total subordinated deferrable debt	$ 742,208	$ 742,212

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NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Use of Derivatives

We are an end user of derivative financial instruments and do not engage in derivative trading. We use derivatives, primarily interest rate swaps and Treasury rate locks, to manage interest rate risk. Derivatives may be privately negotiated contracts, which are often referred to as over-the-counter ("OTC") derivatives, or they may be listed and traded on an exchange. We generally engage in OTC derivative transactions.

Accounting for Derivatives

In accordance with the accounting standards for derivatives and hedging activities, we record derivative instruments at fair value as either a derivative asset or derivative liability on our condensed consolidated balance sheets. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master netting agreements or collateral netting. Derivatives in a gain position are reported as derivative assets on our condensed consolidated balance sheets, while derivatives in a loss position are reported as derivative liabilities. Accrued interest related to derivatives is reported on our condensed consolidated balance sheets as a component of either accrued interest and other receivables or accrued interest payable.

If we do not elect hedge accounting treatment, changes in the fair value of derivative instruments, which consist of net accrued periodic derivative cash settlements and derivative forward value amounts, are recognized in our consolidated statements of operations under derivative gains (losses). If we elect hedge accounting treatment for derivatives, we formally document, designate and assess the effectiveness of the hedge relationship. Changes in the fair value of derivatives designated as qualifying fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any related ineffectiveness. Changes in the fair value of derivatives designated as qualifying cash flow hedges are recorded as a component of other comprehensive income ("OCI"), to the extent that the hedge relationships are effective, and reclassified accumulated other comprehensive income ("AOCI") to earnings using the effective interest method over the term of the forecasted transaction. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statement of operations.

We generally do not designate interest rate swaps, which currently represent all of our outstanding derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). Net periodic cash settlements related to interest rate swaps are classified as an operating activity in our consolidated statements of cash flows.

We typically designate treasury rate locks as cash flow hedges of forecasted debt issuances. Accordingly, changes in the fair value of the derivative instruments are recorded as a component of OCI and reclassified to interest expense when the forecasted transaction occurs using the effective interest method. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statements of operations. We did not have any derivatives designated as accounting hedges as of November 30, 2016 and May 31, 2016.

Outstanding Notional Amount of Derivatives

The notional amount provides an indication of the volume of our derivatives activity, but this amount is not recorded on our condensed consolidated balance sheets. The notional amount is used only as the basis on which interest payments are determined and is not the amount exchanged. The following table shows the outstanding notional amounts and the weighted-average rate paid and received for our interest rate swaps, by type, as of November 30, 2016 and May 31, 2016. The substantial majority of our interest rate swaps use an index based on the London Interbank Offered Rate ("LIBOR") for either the pay or receive leg of the swap agreement.

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	November 30, 2016			May 31, 2016		
(Dollars in thousands)	Notional Amount[(1)]	Weighted-Average Rate Paid	Weighted-Average Rate Received	Notional Amount[(2)]	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay fixed swaps	$6,821,181	2.91 %	0.86 %	$6,661,471	2.95 %	0.63 %
Receive fixed swaps	4,299,000	1.32	2.73	3,499,000	1.02	2.82
Total interest rate swaps	$11,120,181	2.30	1.58	$10,160,471	2.29	1.39

(1)Excludes $112 million notional amount of forward-starting swaps outstanding as of November 30, 2016. These swaps had an effective start date of July 31, 2018.
(2)Excludes $40 million notional amount of forward-starting swap outstanding as of May 31, 2016, These swaps had an effective start date of June 30, 2016.

Although the notional amount of swaps displayed in the above table excludes forward-starting swaps, we have recorded the fair value of these swaps as of November 30, 2016 and May 31, 2016 in our condensed consolidated financial statements.

Impact of Derivatives on Condensed Consolidated Balance Sheets

The following table displays the fair value of the derivative assets and derivative liabilities recorded on our condensed consolidated balance sheets and the related outstanding notional amount of our interest rate swaps as of November 30, 2016 and May 31, 2016.

	November 30, 2016		May 31, 2016	
(Dollars in thousands)	Fair Value	Notional Balance[(1)]	Fair Value	Notional Balance[(2)]
Derivative assets	$66,235	$3,652,992	$80,095	$2,879,567
Derivative liabilities	(383,876)	7,467,189	(594,820)	7,280,904
Total	$(317,641)	$11,120,181	$(514,725)	$10,160,471

(1)Excludes $112 million notional amount of forward-starting swaps outstanding as of November 30, 2016. These swaps had an effective start date of July 31, 2018. However, the fair value of these swaps as of November 30, 2016 is included in the above table and in our condensed consolidated financial statements.
(2) Excludes $40 million notional amount of forward-starting swap outstanding as of May 31, 2016, These swaps had an effective start date of June 30, 2016. However, the fair value of these swaps as of May 31, 2016 is included in the above table and in our condensed consolidated financial statements.

All of our master swap agreements include legally enforceable netting provisions that allow for offsetting of all contracts with a given counterparty in the event of default by one of the two parties. However, as indicated above, we report derivative asset and liability amounts on a gross basis by individual contracts. The following table presents the gross fair value of derivative assets and liabilities reported on our condensed consolidated balance sheets as of November 30, 2016 and May 31, 2016, and provides information on the impact of netting provisions and collateral pledged.

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	November 30, 2016					
				Gross Amount Not Offset in the Balance Sheet		
(Dollars in thousands)	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
Derivative assets:						
Interest rate swaps	$66,235	$ —	$ 66,235	$63,915	$ —	$ 2,320
Derivative liabilities:						
Interest rate swaps	383,876	—	383,876	63,915	—	319,961

	May 31, 2016					
				Gross Amount Not Offset in the Balance Sheet		
(Dollars in thousands)	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
Derivative assets:						
Interest rate swaps	$80,095	$ —	$ 80,095	$80,095	$ —	$ —
Derivative liabilities:						
Interest rate swaps	594,820	—	594,820	80,095	—	514,725

Impact of Derivatives on Condensed Consolidated Statements of Operations

Derivative gains (losses) reported in our condensed consolidated statements of operations consist of derivative cash settlements and derivative forward value. Derivative cash settlements represent net contractual interest expense accruals on interest rate swaps during the period. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in the estimate of future interest rates over the remaining life of our derivative contracts.

The following table presents the components of the derivative gains (losses) reported in our condensed consolidated statements of operations for our interest rate swaps for the three and six months ended November 30, 2016 and 2015.

	Three Months Ended November 30,		Six Months Ended November 30,	
(Dollars in thousands)	2016	2015	2016	2015
Derivative cash settlements	$(21,587)	$(22,573)	$(44,977)	$(42,729)
Derivative forward value gains (losses)	362,247	(78,611)	197,344	(70,472)
Derivative gains (losses)	$340,660	$(101,184)	$152,367	$(113,201)

Credit-Risk-Related Contingent Features

Our derivative contracts typically contain mutual early termination provisions, generally in the form of a credit rating trigger. Under the mutual credit rating trigger provisions, either counterparty may, but is not obligated to, terminate and settle the agreement if the credit rating of the other counterparty falls to a level specified in the agreement. If a derivative contract is terminated, the amount to be received or paid by us would be equal to the mark-to-market value, as defined in the agreement, as of termination date.

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Our senior unsecured credit ratings from Moody's and S&P were A2 and A, respectively, as of November 30, 2016. Both Moody's and S&P had our ratings on stable outlook as of November 30, 2016. The following table displays the notional amounts of our derivative contracts with rating triggers as of November 30, 2016 and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings below A3/A-, below Baa1/BBB+, to or below Baa2/BBB, below Baa3/BBB-, or to or below Ba2/BB+ by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements for each counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

(Dollars in thousands)	Notional Amount	Payable Due From CFC	Receivable Due to CFC	Net (Payable)/Receivable
Impact of rating downgrade trigger:				
Falls below A3/A-[1]	$61,260	$(15,113)	$ —	$ (15,113)
Falls below Baa1/BBB+[2]	7,258,627	(197,465)	1,817	(195,648)
Falls to or below Baa2/BBB [3][4]	232,998	—	2,071	2,071
Falls below Baa3/BBB-	376,226	(24,502)	—	(24,502)
Total	$7,929,111	$(237,080)	$ 3,888	$ (233,192)

———————————

[1] Rating trigger for CFC falls below A3/A-, while rating trigger for counterparty falls below Baa1/BBB+ by Moody's or S&P, respectively.
[2] Excludes $56 million notional amount of a forward-starting swap with an effective start date of July 31, 2018, which was outstanding as of November 30, 2016.
[3] Excludes $56 million notional amount of a forward-starting swap with an effective start date of July 31, 2018, which was outstanding as of November 30, 2016.
[4] Rating trigger for CFC falls to or below Baa2/BBB, while rating trigger for counterparty falls to or below Ba2/BB+ by Moody's or S&P, respectively.

The aggregate fair value amount, excluding and including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was $237 million and $236 million, respectively, as of November 30, 2016.

NOTE 10—EQUITY

Total equity increased by $229 million during the six months ended November 30, 2016 to $1,046 million as of November 30, 2016. The increase in total equity was primarily attributable to our net income of $263 million for the period, partially offset by the patronage capital retirement of $42 million. The following table presents the components of equity as of November 30, 2016 and May 31, 2016.

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(Dollars in thousands)	November 30, 2016	May 31, 2016
Membership fees	$972	$974
Educational fund	1,222	1,798
Total membership fees and educational fund	2,194	2,772
Patronage capital allocated	671,724	713,853
Members' capital reserve	587,219	587,219
Unallocated net loss:		
Current-year derivative forward value income (loss)	194,211	(220,827)
Prior-year cumulative derivative forward value losses	(507,904)	(287,077)
Current year cumulative derivative forward value losses	(313,693)	(507,904)
Other unallocated net income (loss)	61,241	(5,706)
Unallocated net loss	(252,452)	(513,610)
CFC retained equity	1,008,685	790,234
Accumulated other comprehensive income	8,801	1,058
Total CFC equity	1,017,486	791,292
Noncontrolling interests	28,591	26,086
Total equity	$1,046,077	$817,378

In July 2016, the CFC Board of Directors authorized the allocation of the fiscal year 2016 net earnings as follows: $1 million to the Cooperative Educational Fund, $86 million to the members' capital reserve and $84 million to members in the form of patronage capital.

In July 2016, the CFC Board of Directors authorized the retirement of allocated net earnings totaling $42 million, representing 50% of the fiscal year 2016 allocation. This amount was returned to members in cash in the second quarter of fiscal year 2017. Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors with due regard for its financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulations.

Accumulated Other Comprehensive Income

The following tables summarize, by component, the activity in the accumulated other comprehensive income as of and for the three and six months ended November 30, 2016 and 2015.

	Three Months Ended November 30, 2016				
(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	$7,391	$ 4,290	$ —	$ (964)	$10,717
Unrealized losses	(1,761)	—	—	—	(1,761)
Losses reclassified into earnings	—	—	—	44	44
Gains reclassified into earnings	—	(199)	—	—	(199)

Other comprehensive income (loss)	(1,761)	(199)	—	44	(1,916)
Ending balance	$5,630	$ 4,091	$ —	$ (920)	$8,801

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	Three Months Ended November 30, 2015				
(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	$3,270	$ 5,137	$ (4,248)	$ (933)	$3,226
Unrealized gains	3,550	—	—	—	3,550
Losses reclassified into earnings	—	—	—	44	44
Gains reclassified into earnings	—	(235)	—	—	(235)
Other comprehensive income	3,550	(235)	—	44	3,359
Ending balance	$6,820	$ 4,902	$ (4,248)	$ (889)	$6,585

	Six Months Ended November 30, 2016				
(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	$7,402	$ 4,487	$ (9,823)	$ (1,008)	$1,058
Unrealized gains	(1,772)	—	—	—	(1,772)
Losses reclassified into earnings	—	—	9,823	88	9,911
Gains reclassified into earnings	—	(396)	—	—	(396)
Other comprehensive income	(1,772)	(396)	9,823	88	7,743
Ending balance	$5,630	$ 4,091	$ —	$ (920)	$8,801

	Six Months Ended November 30, 2015				
(Dollars in thousands)	Unrealized Gains (Losses) AFS Securities	Unrealized Gains Derivatives	Unrealized Losses Foreclosed Assets	Unrealized Losses Defined Benefit Plan	Total
Beginning balance	$3,934	$ 5,371	$ (4,248)	$ (977)	$4,080
Unrealized gains	2,886	—	—	—	2,886
Losses reclassified into earnings	—	—	—	88	88
Gains reclassified into earnings	—	(469)	—	—	(469)
Other comprehensive income	2,886	(469)	—	88	2,505
Ending balance	$6,820	$ 4,902	$ (4,248)	$ (889)	$6,585

We expect to reclassify approximately $1 million of amounts in accumulated other comprehensive income related to unrealized derivative gains into earnings over the next 12 months.

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NOTE 11—GUARANTEES

The following table summarizes total guarantees by type of guarantee and member class as of November 30, 2016 and May 31, 2016.

(Dollars in thousands)	November 30, 2016	May 31, 2016
Total by type:		
Long-term tax-exempt bonds	$469,525	$475,965
Letters of credit	305,325	319,596
Other guarantees	113,487	113,647
Total	$888,337	$909,208
Total by member class:		
CFC:		
Distribution	$122,033	$127,890
Power supply	740,343	759,345
Statewide and associate	5,068	5,054
CFC total	867,444	892,289
RTFC	1,574	1,574
NCSC	19,319	15,345
Total	$888,337	$909,208

The maturities for the long-term tax-exempt bonds and the related guarantees run through calendar year 2042. Amounts in the table represent the outstanding principal amount of the guaranteed bonds. As of November 30, 2016, our maximum potential exposure for the $69 million of fixed-rate tax-exempt bonds is $96 million, representing principal and interest. Of the amounts shown in the table above for long-term tax-exempt bonds, $400 million and $406 million as of November 30, 2016 and May 31, 2016, respectively, are adjustable or floating-rate bonds that may be converted to a fixed rate as specified in the applicable indenture for each bond offering. We are unable to determine the maximum amount of interest that we could be required to pay related to the remaining adjustable and floating-rate bonds. Many of these bonds have a call provision that allows us to call the bond in the event of a default. This would limit our exposure to future interest payments on these bonds. Generally our maximum potential exposure is secured by mortgage liens on the systems' assets and future revenue. If a system's debt is accelerated because of a determination that the interest thereon is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan.

The maturities for letters of credit run through calendar year 2026. The amounts shown in the table above represent our maximum potential exposure, of which $129 million is secured as of November 30, 2016. As of November 30, 2016 and May 31, 2016, the letters of credit include $76 million to provide the standby liquidity for adjustable and floating-rate tax-exempt bonds issued for the benefit of our members, respectively. Security provisions include a mortgage lien on substantially all of the system's assets, future revenue and the system's investment in our commercial paper.

In addition to the letters of credit listed in the table above, under master letter of credit facilities in place as of November 30, 2016, we may be required to issue up to an additional $84 million in letters of credit to third parties for the benefit of our members. As of November 30, 2016, all of our master letter of credit facilities were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

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The maturities for other guarantees listed in the table run through calendar year 2025. The maximum potential exposure for these other guarantees is $114 million, all of which is unsecured.

As of November 30, 2016 and May 31, 2016, we had $290 million and $308 million of guarantees, respectively, representing 33% and 34%, respectively, of total guarantees, under which our right of recovery from our members was not secured.

In addition to the guarantees described above, as of November 30, 2016, we were the liquidity provider for a total of $476 million of variable-rate tax-exempt bonds issued for our member cooperatives. While the bonds are in variable-rate mode, in return for a fee, we have unconditionally agreed to purchase bonds tendered or put for redemption if the remarketing agents are unable to sell such bonds to other investors. During the six months ended November 30, 2016, we were not required to perform as liquidity provider pursuant to these obligations.

Guarantee Liability

As of November 30, 2016 and May 31, 2016, we recorded a guarantee liability of $16 million and $17 million respectively, which represents the contingent and noncontingent exposures related to guarantees and liquidity obligations. The contingent guarantee liability as of November 30, 2016 and May 31, 2016 was $1 million based on management’s estimate of exposure to losses within the guarantee portfolio. The remaining balance of the total guarantee liability of $15 million and $16 million as of November 30, 2016 and May 31, 2016, respectively, relates to our noncontingent obligation to stand ready to perform over the term of our guarantees and liquidity obligations that we have entered into or modified since January 1, 2003.

NOTE 12—FAIR VALUE MEASUREMENT

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis. The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The levels of the fair value hierarchy, in priority order, include Level 1, Level 2 and Level 3. For additional information regarding the fair value hierarchy and a description of the methodologies we use to measure fair value, see “Note 14—Fair Value Measurement” to the Consolidated Financial Statements in our 2016 Form 10-K. The following tables present the carrying value and fair value for all of our financial instruments, including those carried at amortized cost, as of November 30, 2016 and May 31, 2016. The table also displays the classification within the fair value hierarchy of the valuation technique used in estimating fair value.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	November 30, 2016		Fair Value Measurements Using		
(Dollars in thousands)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$190,096	$190,096	$190,096	$—	$ —
Restricted cash	22,272	22,272	22,272	—	—
Time deposits	640,000	640,000	—	640,000	—
Investment securities, available for sale	86,168	86,168	86,168	—	—
Deferred compensation investments	4,498	4,498	4,498	—	—
Loans to members, net	23,816,801	23,479,241	—	—	23,479,241
Accrued interest receivable	112,752	112,752	—	112,752	—
Debt service reserve funds	17,151	17,151	17,151	—	—
Derivative assets	66,235	66,235	—	66,235	—
Liabilities:					
Short-term borrowings	$3,663,960	$3,663,751	$1,670,192	$1,993,559	$ —
Long-term debt	17,617,227	18,295,297	—	11,145,168	7,150,129
Accrued interest payable	135,555	135,555	—	135,555	—
Guarantee liability	16,444	18,141	—	—	18,141
Derivative liabilities	383,876	383,876	—	383,876	—
Subordinated deferrable debt	742,208	772,460	—	772,460	—
Members' subordinated certificates	1,442,453	1,442,476	—	—	1,442,476

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
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	May 31, 2016		Fair Value Measurements Using		
(Dollars in thousands)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$204,540	$204,540	$204,540	$—	$ —
Restricted cash	4,628	4,628	4,628	—	—
Time deposits	340,000	340,000	—	340,000	—
Investment securities, available for sale	87,940	87,940	87,940	—	—
Deferred compensation investments	4,326	4,326	4,326	—	—
Loans to members, net	23,129,438	23,297,924	—	—	23,297,924
Accrued interest receivable	113,272	113,272	—	113,272	—
Debt service reserve funds	17,151	17,151	17,151	—	—
Derivative assets	80,095	80,095	—	80,095	—
Liabilities:					
Short-term borrowings	$2,938,848	$2,938,716	$1,185,959	$1,752,757	$ —
Long-term debt	17,473,603	18,577,261	—	11,327,004	7,250,257
Accrued interest payable	132,996	132,996	—	132,996	—
Guarantee liability	17,109	19,019	—	—	19,019
Derivative liabilities	594,820	594,820	—	594,820	—
Subordinated deferrable debt	742,212	751,395	—	751,395	—
Members’ subordinated certificates	1,443,810	1,443,834	—	—	1,443,834

Transfers Between Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changes in the valuation technique used, are generally the cause of transfers between levels. We did not have any transfers between levels for financial instruments measured at fair value on a recurring basis for the six months ended November 30, 2016 and 2015.

Recurring Fair Value Measurements

The following table presents the carrying value and fair value of financial instruments reported in our condensed consolidated financial statements at fair value on a recurring basis as of November 30, 2016 and May 31, 2016, and the classification of the valuation technique within the fair value hierarchy.

	November 30, 2016			May 31, 2016		
(Dollars in thousands)	Level 1	Level 2	Total	Level 1	Level 2	Total
Investment securities available for sale	$86,168	$ —	$86,168	$87,940	$ —	$87,940
Deferred compensation investments	4,498	—	4,498	4,326	—	4,326
Derivative assets	—	66,235	66,235	—	80,095	80,095
Derivative liabilities	—	383,876	383,876	—	594,820	594,820

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Nonrecurring Fair Value

The following table presents the carrying value and fair value of assets reported in our condensed consolidated financial statements at fair value on a nonrecurring basis as of November 30, 2016 and May 31, 2016, and unrealized losses for the three and six months ended November 30, 2016 and 2015.

	Level 3 Fair Value		Unrealized Losses Three Months Ended November 30,		Unrealized Losses Six Months Ended November 30,	
(Dollars in thousands)	November 30, 2016	May 31, 2016	2016	2015	2016	2015
Impaired loans, net of specific reserves	$ —	$ 7,498	$—	$(1,190)	$—	$(2,011)

Significant Unobservable Level 3 Inputs

Impaired Loans

We utilize the fair value of estimated cash flows or the collateral underlying the loan to determine the fair value and specific allowance for impaired loans. The valuation technique used to determine fair value of the impaired loans provided by both our internal staff and third-party specialists includes market multiples (i.e., comparable companies). The significant unobservable inputs used in the determination of fair value for individually impaired loans is a multiple of earnings before interest, taxes, depreciation and amortization based on various factors (i.e., financial condition of the borrower). In estimating the fair value of the collateral, we may use third-party valuation specialists, internal estimates or a combination of both. The significant unobservable inputs for estimating the fair value of impaired collateral-dependent loans are reviewed by our Credit Risk Management group to assess the reasonableness of the assumptions used and the accuracy of the work performed. In cases where we rely on third-party inputs, we use the final unadjusted third-party valuation analysis as support for any adjustments to our consolidated financial statements and disclosures.

Because of the limited amount of impaired loans as of November 30, 2016 and May 31, 2016, we do not believe that potential changes in the significant unobservable inputs used in the determination of the fair value for impaired loans will have a material impact on the fair value measurement of these assets or our results of operations.

NOTE 13—BUSINESS SEGMENTS

The following tables display segment results for the three and six months ended November 30, 2016 and 2015, and assets attributable to each segment as of November 30, 2016 and 2015.

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended November 30, 2016			
(Dollars in thousands)	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income	$254,689	$11,129	$ (8,662)	$ 257,156
Interest expense	(183,395)	(8,934)	8,675	(183,654)
Net interest income	71,294	2,195	13	73,502
Provision for loan losses	(738)	—	—	(738)
Net interest income after provision for loan losses	70,556	2,195	13	72,764
Non-interest income:				
Fee and other income	4,628	1,727	(1,258)	5,097
Derivative gains	337,602	3,058	—	340,660
Results of operations of foreclosed assets	(549)	—	—	(549)
Total non-interest income	341,681	4,785	(1,258)	345,208
Non-interest expense:				
General and administrative expenses	(18,991)	(1,641)	—	(20,632)
Other	(517)	(1,245)	1,245	(517)
Total non-interest expense	(19,508)	(2,886)	1,245	(21,149)
Income before income taxes	392,729	4,094	—	396,823
Income tax expense	—	(1,519)	—	(1,519)
Net income	$392,729	$2,575	$ —	$ 395,304

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended November 30, 2015			
(Dollars in thousands)	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income	$253,625	$11,476	$ (8,776)	$ 256,325
Interest expense	(166,807)	(9,093)	8,776	(167,124)
Net interest income	86,818	2,383	—	89,201
Provision for loan losses	(1,240)	—	—	(1,240)
Net interest income after provision for loan losses	85,578	2,383	—	87,961
Non-interest income:				
Fee and other income	6,080	2,096	(1,145)	7,031
Derivative losses	(99,963)	(1,221)	—	(101,184)
Results of operations from foreclosed assets	2,054	—	—	2,054
Total non-interest income	(91,829)	875	(1,145)	(92,099)
Non-interest expense:				
General and administrative expenses	(17,877)	(2,609)	255	(20,231)
Other	(9)	(890)	890	(9)
Total non-interest expense	(17,886)	(3,499)	1,145	(20,240)
Loss before income taxes	(24,137)	(241)	—	(24,378)
Income tax expense	—	(110)	—	(110)
Net loss	$(24,137)	$(351)	$ —	$ (24,488)

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Six Months Ended November 30, 2016			
(Dollars in thousands)	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income	$508,706	$22,351	$(17,066)	$513,991
Interest expense	(364,227)	(17,610)	17,103	(364,734)
Net interest income	144,479	4,741	37	149,257
Provision for loan losses	(2,666)	—	—	(2,666)
Net interest income after provision for loan losses	141,813	4,741	37	146,591
Non-interest income:				
Fee and other income	8,956	2,624	(1,953)	9,627
Derivative gains	150,780	1,587	—	152,367
Results of operations of foreclosed assets	(1,661)	—	—	(1,661)
Total non-interest income	158,075	4,211	(1,953)	160,333
Non-interest expense:				
General and administrative expenses	(37,770)	(3,721)	—	(41,491)
Other	(960)	(1,916)	1,916	(960)
Total non-interest expense	(38,730)	(5,637)	1,916	(42,451)
Income before income taxes	261,158	3,315	—	264,473
Income tax expense	—	(1,430)	—	(1,430)
Net income	$261,158	$1,885	$—	$263,043

	November 30, 2016			
	CFC	Other	Elimination	Consolidated Total
Assets:				
Total loans outstanding	$23,803,060	$1,037,545	$(1,000,424)	$23,840,181
Deferred origination costs	10,531	—	—	10,531
Less: Allowance for loan losses	(33,911)	—	—	(33,911)
Loans to members, net	23,779,680	1,037,545	(1,000,424)	23,816,801
Other assets	1,318,908	112,264	(100,252)	1,330,920
Total assets	$25,098,588	$1,149,809	$(1,100,676)	$25,147,721

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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Six Months Ended November 30, 2015			
(Dollars in thousands)	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income	$496,676	$23,326	$(17,561)	$502,441
Interest expense	(332,189)	(18,196)	17,561	(332,824)
Net interest income	164,487	5,130	—	169,617
Provision for loan losses	(5,802)	—	—	(5,802)
Net interest income after provision for loan losses	158,685	5,130	—	163,815
Non-interest income:				
Fee and other income	10,679	2,914	(1,861)	11,732
Derivative losses	(111,790)	(1,411)	—	(113,201)
Results of operations of foreclosed assets	133	—	—	133
Total non-interest income	(100,978)	1,503	(1,861)	(101,336)
Non-interest expense:				
General and administrative expenses	(38,153)	(5,421)	508	(43,066)
Other	(366)	(1,353)	1,353	(366)
Total non-interest expense	(38,519)	(6,774)	1,861	(43,432)
Income before income taxes	19,188	(141)	—	19,047
Income tax expense	—	(440)	—	(440)
Net income (loss)	$19,188	$(581)	$—	$18,607

	November 30, 2015			
	CFC	Other	Elimination	Consolidated Total
Assets:				
Total loans outstanding	$22,621,617	$1,069,542	$(1,027,511)	$22,663,648
Deferred origination costs	9,881	—	—	9,881
Less: Allowance for loan losses	(39,600)	—	—	(39,600)
Loans to members, net	22,591,898	1,069,542	(1,027,511)	22,633,929
Other assets	1,203,916	119,388	(106,251)	1,217,053
Total assets	$23,795,814	$1,188,930	$(1,133,762)	$23,850,982

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see “Part I—Item 2. MD&A—Market Risk” and “Note 9—Derivative Instruments and Hedging Activities.”

Item 4. Controls and Procedures

As of the end of the period covered by this report, senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting that occurred during the three months ended November 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, CFC is subject to certain legal proceedings and claims in the ordinary course of business, including litigation with borrowers related to enforcement or collection actions. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, liquidity, or results of operations. CFC establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Accordingly, no reserve has been recorded with respect to any legal proceedings at this time. In June 2015, RTFC received a notice of deficiency from the Virgin Islands Bureau of Internal Revenue (“BIR”) alleging that RTFC owed tax or other amounts, plus interest, in connection with tax years 1996 and 1997, and 1999 through 2005. On September 4, 2015, RTFC filed a petition with the District Court of the Virgin Islands in response to the notice of deficiency. In January 2017, RTFC and the BIR reached an agreement in this matter under which the notice of deficiency will be canceled and the action will be jointly dismissed with prejudice. No further proceedings are anticipated at this time.

Item 1A. Risk Factors

Refer to “Part I— Item 1A. Risk Factors” in our 2016 Form 10-K for information regarding factors that could affect our results of operations, financial condition and liquidity. We are not aware of any material changes in the risk factors set forth under “Part I— Item 1A. Risk Factors” in our 2016 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The following exhibits are incorporated by reference or filed as part of this Report.

EXHIBIT INDEX

Exhibit No.	Description
10.1*	— Amendment No.1 dated as of November 18, 2016 to the Amended and Restated Revolving Credit Agreement dated as of November 19, 2015 maturing on November 19, 2019
10.2*	— Amendment No.1 dated as of November 18, 2016 to the Amended and Restated Revolving Credit Agreement dated as of November 19, 2015 maturing on November 19, 2021
10.3*	— Series L Bond Purchase Agreement between the Registrant, Federal Financing Bank and Rural Utilities Service dated as of December 1, 2016 for up to $375,000,000
10.4*	— Series L Future Advance Bond from the Registrant to the Federal Financing Bank dated as of December 1, 2016 for up to $375,000,000 maturing on October 15, 2039
10.5*	— Third Amended, Restated and Consolidated Pledge Agreement dated as of December 1, 2016 between the Registrant, the Rural Utilities Service and U.S. Bank National Association
10.6*	— Third Amended, Restated and Consolidated Bond Guarantee Agreement dated as of December 1, 2016 between the Registrant and the Rural Utilities Service
10.7*	— Amended and Restated Master Sale and Servicing Agreement, dated as of August 12, 2011, by and between the Registrant and the Federal Agricultural Mortgage Corporation, as amended by Amendment No. 1 dated as of November 28, 2016
10.8	— Independent Contractor Services Agreement, dated September 1, 2016, between the Company and S L Lilly & Associates, LLC. Incorporated by reference to Exhibit 10.1 to our form 8-K filed on September 1, 2016.
12*	— Computation of Ratio of Earnings to Fixed Charges
31.1*	— Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	— Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	— Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	— Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Calculation Linkbase Document
101.LAB*	— XBRL Taxonomy Label Linkbase Document
101.PRE*	— XBRL Taxonomy Presentation Linkbase Document
101.DEF*	— XBRL Taxonomy Definition Linkbase Document

*Indicates a document being filed with this Report.
^ Identifies a management contract or compensatory plan or arrangement.
†Indicates a document that is furnished with this Report, which shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

Date: January 13, 2017
By: /s/ J. ANDREW DON
J. Andrew Don
Senior Vice President and Chief Financial Officer

By: /s/ ROBERT E. GEIER
Robert E. Geier
Controller (Principal Accounting Officer)

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