

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 424B5

November 03, 2017

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Registration Statement 333-221261

PROSPECTUS SUPPLEMENT

(To prospectus dated November 1, 2017)

National Rural Utilities

Cooperative Finance Corporation

Medium-Term Notes, Series D

National Rural Utilities Cooperative Finance Corporation may offer from time to time its Medium-Term Notes, Series D, which we refer to herein as the note or notes. Each note will mature on a date nine months or more from its date of original issuance. Unless specified otherwise in the applicable pricing supplement to this prospectus supplement, interest on fixed rate notes will be paid on January 15 and July 15 of each year and at maturity. Interest on floating rate notes will be paid on the dates specified in the applicable pricing supplement. Generally, there will not be a sinking fund. Notes may contain optional redemption provisions or may obligate us to repay the notes at the option of the holder. A separate pricing supplement will describe the specific terms of each note including the purchase price, interest rate and maturity date.

Investing in the notes involves certain risks. See “Risk Factors” beginning on page S-4 of this prospectus supplement, in the accompanying prospectus and in the documents incorporated by reference herein.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or determined if the prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The notes are being offered on a continuing basis through agents, which have agreed to use their reasonable best efforts to solicit offers to purchase the notes. The notes may be sold at or above par or at a discount to any agent, acting as principal, for a commission to be negotiated at the time of sale and specified in the applicable pricing supplement. CFC may also sell the notes directly to investors. No discount or commission will be paid to any agent for a direct sale of notes by CFC. CFC has not set a date for termination of this offering. The notes will not be listed on any securities exchange. You cannot be assured that the notes offered by this prospectus supplement will be sold or that there will be a secondary market for the notes.

RBC CAPITAL MARKETS

J.P. MORGAN

KEYBANC CAPITAL MARKETS

MIZUHO SECURITIES

MUFG

PNC CAPITAL MARKETS LLC

REGIONS SECURITIES LLC

SCOTIABANK

SUNTRUST ROBINSON HUMPRHEY

US BANCORP

Prospectus Supplement dated November 3, 2017

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any accompanying pricing supplement. We have not, and the agents have not, authorized anyone to provide you with different information. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front cover of this prospectus supplement. You should not assume that the information contained in any pricing supplement is accurate as of any date other than the date of the pricing supplement. We are not, and the agents are not, making an offer of these notes in any state or other jurisdiction where such an offer is not permitted.

The distribution of this prospectus supplement, the accompanying prospectus or any accompanying pricing supplement and the offering of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement, the accompanying prospectus or any accompanying pricing supplement come should inform themselves about and observe any such restrictions. This prospectus supplement, the accompanying prospectus or any accompanying pricing supplement do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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ABOUT THIS PROSPECTUS SUPPLEMENT, THE PROSPECTUS AND
THE PRICING SUPPLEMENTS

Except as the context otherwise requires or as otherwise specified in this prospectus supplement or the accompanying prospectus, as used herein, the terms the “Company,” “CFC,” “we,” “us,” and “our” refer to National Rural Utilities Cooperative Finance Corporation only. References in this prospectus supplement to “U.S. dollars” or “U.S. \$” or “\$” are to the currency of the United States of America.

CFC may use this prospectus supplement, together with the accompanying prospectus and an attached pricing supplement, to offer CFC’s Medium-Term Notes, Series D, from time to time.

This prospectus supplement sets forth certain terms of the notes that CFC may offer. It supplements the description of the notes contained in the accompanying prospectus. If information in this prospectus supplement is inconsistent with the accompanying prospectus, this prospectus supplement will apply and supersede that information in the accompanying prospectus.

Each time CFC issues notes, it will attach a pricing supplement to this prospectus supplement and the accompanying prospectus. The pricing supplement will contain the specific description of the notes being offered and the terms of the offering. The pricing supplement may also add, update or change information in this prospectus supplement or the accompanying prospectus. Any information in the pricing supplement, including any changes in the method of calculating interest on any note, that is inconsistent with this prospectus supplement or the accompanying prospectus will apply and supersede that information in this prospectus supplement or the accompanying prospectus.

When we refer to the prospectus, we mean the prospectus that accompanies this prospectus supplement. When we refer to a pricing supplement, we mean the pricing supplement we file with respect to a particular note.

It is important for you to read and consider all the information contained in this prospectus supplement, the prospectus and the applicable pricing supplement, together with the documents incorporated by reference and the additional information described in “Where You Can Find More Information” on page 2 of the prospectus, in making your investment decision.

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SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail under the captions “Description of the Medium-Term Notes” herein and “Description of Senior Debt Securities” in the accompanying prospectus. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement relating to those notes. The terms of the notes appearing in that pricing supplement may vary from, and if they do vary will supersede, the terms contained in this summary and in “Description of the Medium-Term Notes” herein and “Description of Senior Debt Securities” in the accompanying prospectus. In addition, in deciding whether to invest in any particular notes you should read the more detailed information appearing elsewhere in this prospectus supplement, the prospectus and in the applicable pricing supplement, together with the documents incorporated by reference and the additional information described in “Where You Can Find More Information” on page 2 of the prospectus.

Issuer

National Rural Utilities Cooperative Finance Corporation

Agents

RBC Capital Markets, LLC, J.P. Morgan Securities LLC, KeyBanc Capital Markets Inc., Mizuho Securities USA LLC, MUFG Securities Americas Inc., PNC Capital Markets LLC, Regions Securities LLC, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc., and U.S. Bancorp Investments, Inc. The agents have entered into a selling agent agreement with us dated November 3, 2017. The agents have agreed to market and sell the notes in accordance with the terms of those respective agreements and all applicable laws and regulations.

Title of Notes

CFC Medium-Term Notes, Series D

Amount

We may offer notes in connection with this program until the sum of all our indebtedness, including the notes and indebtedness guaranteed by CFC, but excluding capital term certificates and government secured obligations, equals 20 times the sum of members’ equity and the outstanding amount of capital term certificates.

Denominations

The notes will be issued and sold in minimum denominations of \$2,000 and multiples of \$1,000, unless otherwise stated in the applicable pricing supplement.

Ranking

The notes will be our direct, unsecured, senior obligations and will rank equally with all of our other unsecured, senior indebtedness from time to time outstanding.

No Listing

The notes will not be listed on any securities exchange, unless specified otherwise in the applicable pricing supplement.

Maturities

Each note will mature more than nine months from its date of original issuance, as specified in the applicable pricing supplement unless redeemed or repaid prior to such date in accordance with its terms.

Interest

Unless specified otherwise in the applicable pricing supplement to this prospectus supplement, interest on fixed rate notes will be paid on January 15 and July 15 of each year and at maturity. Interest on floating rate notes will be paid on the dates specified in the applicable pricing supplement.

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Principal

The principal amount of each note will be payable on its stated maturity date or upon earlier redemption or repayment at the corporate trust office of the paying agent or at any other place we may designate. We may also offer amortizing notes from time to time.

Redemption and Repayment

Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will generally not be subject to any sinking fund.

Sale and Clearance

Notes will be issued only in book-entry form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form except in the limited circumstances described in this prospectus supplement or the applicable pricing supplement.

Trustee

The trustee for the notes is U.S. Bank National Association under an indenture, dated as of December 15, 1987, as amended by a supplemental indenture to designate U.S. Bank National Association as trustee for the notes, dated as of October 1, 1990. The trustee also will act as paying agent, calculation agent and security registrar.

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RISK FACTORS

Before making an investment decision, you should carefully consider the following risks as well as other information we include or incorporate by reference in this prospectus supplement and the accompanying prospectus, including the risk factors relating to us contained in our periodic or current reports filed with the Securities and Exchange Commission (“SEC”) and incorporated herein by reference. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes, our financial condition, operations and business and financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these risks.

If you attempt to sell the notes prior to maturity, the market value of the notes, if any, may be less than the principal amount of the notes.

If you wish to liquidate your investment in the notes prior to maturity, selling your notes may be your only option. At that time, there may be a very illiquid market for the notes or no market at all. Even if you were able to sell your notes, there are many factors outside of our control that may affect the market value of the notes. Some of these factors are interrelated in complex ways. As a result, the effect of any one factor may be offset or magnified by the effect of another factor. These factors include, without limitation:

- the method of calculating the principal, premium, if any, interest or other amounts payable, if any, on the notes;
- the time remaining to the maturity of the notes;
- the outstanding amount of the notes;
- the redemption or repayment features of the notes;
- market rates of interest higher than rates borne by the notes; and
- the level, direction and volatility of interest rates generally and other conditions in credit markets.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

Floating rate notes bear additional risks.

If your notes bear interest at a floating rate, there will be significant risks not associated with a conventional fixed rate debt security. These risks include fluctuation of the interest rates and the possibility that you will receive an amount of interest that is lower than expected. We have no control over a number of factors, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of these risks and their results. Interest rates can be volatile and such volatility may be expected in the future.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the value of the notes.

Regulators and law enforcement agencies in the United Kingdom and elsewhere are conducting civil and criminal investigations into whether the banks that contribute submissions to the British Bankers’ Association (the “BBA”) in connection with the daily calculation of LIBOR may have been underreporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the United Kingdom’s

Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. At this time, it is not possible to predict the effect of
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any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities, including the notes.

An investment in indexed notes entails significant risks not associated with a similar investment in fixed or conventional floating rate debt securities.

An investment in notes that are indexed, as to interest, to commodities, securities, baskets of securities or securities indices, financial, economic or other measures or other indices, either directly or inversely, entails significant risks that are not associated with similar investments in a fixed rate or conventional floating rate debt security.

These risks include the possibility that an index or indices may be subject to significant changes and that the resulting interest rate will be less than that payable on a fixed or conventional floating rate debt security issued by us at the same time. These risks depend on a number of interrelated factors, including economic, financial and political events, over which we have no control.

Additionally, if the formula used to determine the amount of interest payable with respect to such notes contains a multiplier or leverage factor, the effect of any change in the applicable index or indices will be magnified. In recent years, values of certain indices have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in the value of any particular index that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future.

The secondary market, if any, for indexed notes will be affected by a number of factors independent of our creditworthiness and the value of the applicable index or indices, including the complexity and volatility of the index or indices, the method of calculating the interest in respect of indexed notes, the time remaining to the maturity of such notes, the outstanding amount of such notes, any redemption features of such notes, the amount of other debt securities linked to such index or indices and the level, direction and volatility of market interest rates generally. Such factors also will affect the market value of indexed notes.

In addition, certain indexed notes may be designed for specific investment objectives or strategies and, therefore, may have a more limited secondary market and experience more price volatility than conventional debt securities.

Investors may not be able to sell such notes readily or at prices that will enable them to realize their anticipated yield.

You should not purchase such notes unless you understand and are able to bear the risks that such notes may not be readily saleable, that the value of such notes will fluctuate over time and that such fluctuations may be significant.

Finally, our credit ratings may not reflect the potential impact of all risks related to the structure and other factors on the market value of indexed notes. Accordingly, prospective investors should consult their own financial and legal advisors as to the risks an investment in indexed notes may entail and the suitability of the notes in light of their particular circumstances.

We may choose to redeem notes when prevailing interest rates are relatively low.

If your notes are redeemable at our option, we may choose to redeem your notes from time to time. Prevailing interest rates at the time we redeem your notes likely would be lower than the rate then borne by the notes. In such a case you would not be able to reinvest the redemption proceeds in a comparable note at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as our redemption date approaches.

The notes may have limited or no liquidity.

There is currently no secondary market for the notes and there can be no assurance that a secondary market will develop. If a secondary market does develop, there can be no assurance that it will continue or that it will be sufficiently liquid to allow you to resell your notes when you want or at a price that you wish to receive for your notes. The agents have advised us that they may from time to time purchase and sell the notes in any secondary market which may develop. However, no agent is obligated to do so and any agent may discontinue making a market in the notes at any time without notice. The notes are not, and will not be, listed on any securities exchange.

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Changes in our credit ratings may affect the market value of the notes.

Real or anticipated changes in our credit ratings may affect the market value of the notes. However, because your return on the notes depends upon factors in addition to our ability to pay our obligations, an improvement in our credit ratings will not reduce the other investment risks, if any, related to the notes.

A reduction in the credit ratings for our debt could adversely affect our liquidity and cost of debt.

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of debt funding. We currently contract with three nationally recognized statistical rating organizations to receive ratings for our secured, unsecured and subordinated debt and our commercial paper. Our credit ratings are important to our liquidity and funding costs. In order to access the commercial paper markets at current levels, we believe that we need to maintain our current ratings for commercial paper. Changes in rating agencies' rating methodology, actions by governmental entities or others, additional losses from impaired loans and other factors could adversely affect the credit ratings on our debt. A reduction in our credit ratings could adversely affect our liquidity, competitive position, or the supply or cost of debt financing available to us. A significant increase in our interest expense could cause us to sustain losses or impair our liquidity by requiring us to seek other sources of financing, which may be difficult to obtain.

The U.S. federal income tax consequences of indexed notes may be uncertain.

No statutory, judicial or administrative authority directly addresses the characterization for U.S. federal income tax purposes of some types of indexed notes. As a result, significant U.S. federal income tax consequences of an investment in those indexed notes are not certain. We are not requesting, and will not request in the future, a ruling from the Internal Revenue Service ("IRS") for any of the indexed notes we may offer, and we give no assurance that the IRS will agree with the statements made in this prospectus supplement or in the applicable pricing supplement.

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USE OF PROCEEDS

Unless we describe a different use in a particular pricing supplement, the net proceeds from the sale of the notes will be used for general corporate purposes, including but not limited to, funding loans and the retirement of outstanding debt.

DESCRIPTION OF THE MEDIUM-TERM NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or to the extent otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the notes set forth under the heading “Description of Senior Debt Securities” in the prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the prospectus and in the indenture relating to the notes.

The Medium-Term Notes, Series D are our senior obligations to be issued under an indenture dated as of December 15, 1987, as supplemented by a first supplemental indenture dated as of October 1, 1990, between CFC and U.S. Bank National Association, as successor trustee (as supplemented, the “indenture”). CFC has initially designated U.S. Bank National Association as its paying agent and security registrar for the notes. The following statements are summaries of the material provisions of the notes. The prospectus provides summaries of the material provisions of the indenture under the heading “Description of Senior Debt Securities”. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including the definition of certain terms.

General

Under the indenture, the notes will constitute a single series of securities. See “Plan of Distribution” on page S-33 of this prospectus supplement and “Plan of Distribution” on page 28 of the accompanying prospectus. The indenture limits the principal amount of senior indebtedness that may be issued under it, as described under “Restriction on Indebtedness” on page 9 of the accompanying prospectus.

Each note will mature nine months or more from the date of issue, as selected by the agent and agreed to by CFC and as specified in the applicable pricing supplement, and may be subject to redemption at the option of CFC or repaid by CFC at the option of the holder prior to stated maturity as set forth below under “— Redemption and Repayment.” Notes will be issued in registered form. Notes denominated in U.S. dollars will be sold in denominations of \$2,000 and integral multiples of \$1,000. Notes denominated in other currencies will be sold in denominations specified in the pricing supplement.

The pricing supplement relating to a note will describe the following terms:

- the foreign currency (a “specified currency”) of the note, if any;
- the principal amount of the notes offered;
- whether the note bears interest at a fixed rate or a floating rate;
- if other than 100%, the price (expressed as a percentage of the aggregate principal amount of the note) at which the note will be issued;
- the date on which the note will be issued;
- the date on which the note will mature;
-

if the note is a fixed rate note, the interest rate per year at which the note will bear interest, which may be zero in the case of certain discounted notes, and any interest payment dates;

•

if the note is a floating rate note, the method of determining and paying interest, including the base rate, the initial interest rate, the interest determination date, the interest payment dates, the reset period, the index maturity, any maximum interest rate and minimum interest rate and any spread and/or spread multiplier;

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- whether the note may be redeemed or repaid prior to maturity, and if so, the provisions relating to the redemption or repayment;

- whether the note will be issued initially as a book-entry note or a certificated note; and

- any other terms of the note not inconsistent with the provisions of the indenture.

Each note will be issued initially as either a book-entry note or a certificated note. The depository for the book-entry notes will initially be The Depository Trust Company in The City of New York (“DTC”). See “— Book-Entry Notes” on page S-21 of this prospectus supplement.

An original issue discount note is a note issued at a price lower than the principal amount and provides that upon redemption or acceleration of the note, an amount less than the principal amount shall become due and payable. In the event of redemption or acceleration of an original issue discount note, the amount payable to the holder of such note will be determined in accordance with the terms of the note. For information respecting “original issue discount” for U.S. federal income tax purposes, see “Material U.S. Federal Income Tax Considerations — Tax Consequences to U.S. Holders” on page S-24 of this prospectus supplement.

Unless specified otherwise in the applicable pricing supplement, the notes will be denominated in U.S. dollars and payments of principal, premium and any interest on the notes will be made in U.S. dollars. If any of the notes are denominated in a foreign currency (a currency other than U.S. dollars), or if the principal, premium and any interest on any of the notes is payable at the option of the holder or CFC in a currency other than that in which the note is denominated, the applicable pricing supplement will provide additional information, including applicable exchange rate information, pertaining to the terms of those notes and other matters of interest to the holders.

Payments on book-entry notes will be made through the paying agent to DTC. See “— Book-Entry Notes” on page S-21 of this prospectus supplement.

Payments of principal, premium and any interest on certificated notes payable at maturity or upon redemption will be made in immediately available funds at the office of the paying agent in the Borough of Manhattan New York City. Payments in immediately available funds will be made only if the certificated notes are presented to the paying agent in time for the paying agent to make payments in immediately available funds in accordance with its normal procedures. CFC has initially designated U.S. Bank National Association, acting through its office in the Borough of Manhattan, New York City, as its paying agent for the notes. Interest on certificated notes will be paid by wire transfer in immediately available funds, but only if appropriate instructions have been received in writing by the paying agent on or prior to the applicable regular record date for the payment of interest. If no instructions have been received in writing by the paying agent, the funds will be paid by check mailed to the address of the person entitled to the interest. Certificated notes may be presented for registration of transfer or exchange at the office of U.S. Bank National Association in the Borough of Manhattan, New York City. Book-entry notes may be transferred or exchanged through a participating member of DTC. See “— Book-Entry Notes” on page S-21 of this prospectus supplement.

The notes will be direct, unsecured obligations of CFC.

For a description of the rights attaching to different series of securities under the indenture, see “Description of Senior Debt Securities” on page 5 of the accompanying prospectus.

Interest and Interest Rates

Each note will bear interest from the date of issue or from the most recent interest payment date to which interest on that note has been paid or duly provided for at the fixed rate per year, or at the rate per year determined by the interest rate formula, stated in the note and in the applicable pricing supplement until its stated maturity or earlier redemption or repayment. Interest will be payable on each interest payment date and at maturity or upon earlier redemption or repayment. See “Description of Senior Debt Securities — Payment and Paying Agents” on page 8 of the accompanying prospectus. Interest will be payable to the registered holder at the close of business on the regular record date; however, interest payable at maturity will be payable to the person to whom principal shall be payable. Unless

specified otherwise in
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the applicable pricing supplement, the first payment of interest on any note originally issued between a regular record date and an interest payment date will be made on the interest payment date following the next succeeding regular record date to the registered holder on that next succeeding regular record date.

CFC may change interest rates, or interest rate formulas, from time to time, but no such change will affect any note already issued or for which CFC has accepted an offer to purchase. Interest rates on notes offered by CFC may differ depending upon, among other things, the aggregate principal amount of notes purchased in any transaction. Notes with similar variable terms but different interest rates may be offered concurrently at any time. CFC may also concurrently offer notes having different variable terms

(as are described in this prospectus supplement or in any other prospectus supplement or applicable pricing supplement). Unless otherwise indicated in the applicable pricing supplement, the interest payment dates and the regular record dates for fixed rate notes will be as described below under “Fixed Rate Notes.” Unless otherwise specified in the applicable pricing supplement, the interest payment dates for floating rate notes will be as described below under “Floating Rate Notes.” Unless otherwise specified, each regular record date for a floating rate note will be the fifteenth calendar day (whether or not a business day) next preceding each interest payment date. If an interest payment date for any floating rate note would otherwise fall on a day that is not a business day with respect to that note, such interest payment date will be postponed to the following day that is a business day with respect to the note. In the case of a LIBOR note, if the postponement date would fall in the next calendar month, such interest payment date will be the preceding day that is a business day with respect to the LIBOR note. If the maturity of a floating rate note falls on a day that is not a business day, the payment of principal, any premium and interest will be made on the next succeeding business day as if made on the date the payment was due, and no interest on the payment will accrue for the period from and after the maturity.

Each note will bear interest at either:

- a fixed rate or rates; or

- a variable rate determined by reference to an interest rate formula, which may be based upon an index maturity.

“Index maturity” means the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement.

A floating rate note may also have either or both of the following:

- a maximum numerical interest rate limitation, or ceiling, on the rate of interest which may accrue during any interest period; and

- a minimum numerical interest rate limitation, or floor, on the rate of interest which may accrue during any interest period.

Fixed Rate Notes

Each fixed rate note will bear interest from its date of issue at the annual rate stated in the applicable pricing supplement. Except as provided in the applicable pricing supplement, the interest payment dates for the fixed rate notes will be January 15 and July 15 of each year and the regular record dates will be January 1 and July 1 of each year. Interest on fixed rate notes will be computed and paid on the basis of a 360-day year of twelve 30-day months. Interest payments on fixed rate notes will equal the amount of interest accrued from and including the prior interest payment date or from and including the date of issue, but excluding the related interest payment date or maturity. If any interest payment date or the maturity of a fixed rate note falls on a day that is not a business day, the related payment of principal, any premium or interest will be made on the next business day as if made on the date the payment was due, and no interest will accrue on the amount payable for the period from and after that interest payment date or maturity. The rate of interest may be zero in the case of certain notes issued at a discount from the

principal amount due at maturity.

Floating Rate Notes

The interest rate on each floating rate note will equal the interest rate calculated by reference to the specified interest rate formula set forth in the applicable pricing supplement plus or minus any spread

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and/or multiplied by any spread multiplier also set forth in such pricing supplement. The “spread” is the number of basis points specified in the applicable pricing supplement as applying to the interest rate for the note and the “spread multiplier” is the percentage specified in the applicable pricing supplement as applying to the interest rate for the note. The applicable pricing supplement relating to a floating rate note will designate one or more base interest rates for the floating rate note. The base or bases will be determined by reference to:

- the commercial paper rate, in which case the note will be a commercial paper rate note;
- LIBOR, in which case the note will be a LIBOR note;
- the CD rate, in which case the note will be a CD rate note;
- the federal funds rate, in which case the note will be a fed funds note;
- the prime rate, in which case the note will be a prime rate note;
- the treasury rate, in which case the note will be a treasury rate note; or
- such other interest rate base or formula as is set forth in such pricing supplement.

The applicable pricing supplement for a floating rate note also will specify any spread and/or spread multiplier and any maximum or minimum interest rate limitation applicable to each note. In addition, the pricing supplement may define or specify for each note the following terms, if applicable: calculation date, initial interest rate, interest payment dates, regular record dates, index maturity, interest determination dates and interest reset dates with respect to such note.

The rate of interest on each floating rate note will be reset daily, weekly, monthly, quarterly, semi-annually or annually as specified in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, the interest reset date will be:

- in the case of floating rate notes that reset daily, each business day;
- in the case of floating rate notes (other than treasury rate notes) which reset weekly, the Wednesday of each week;
- in the case of treasury rate notes which reset weekly, except as set forth below, the Tuesday of each week;
- in the case of floating rate notes which reset monthly, the third Wednesday of each month;
- in the case of floating rate notes which reset quarterly, the third Wednesday of March, June, September and December;

- in the case of floating rate notes which reset semi-annually, the third Wednesday of two months of each year, as specified in the applicable pricing supplement; and
- in the case of floating rate notes which reset annually, the third Wednesday of one month of each year, as specified in the applicable pricing supplement.

However, (a) the interest rate in effect from the date of issue to the first interest reset date with respect to a floating rate note will be the initial interest rate (as set forth in the applicable pricing supplement) and (b) unless otherwise specified in an applicable pricing supplement, the interest rate in effect for the ten calendar days immediately prior to maturity, if applicable, will be that in effect on the tenth calendar day preceding maturity. If any interest reset date for any floating rate note would otherwise be a day that is not a business day for that floating rate note, the interest reset date for that floating rate note will be postponed to the next day that is a business day for such floating rate note. In the case of a LIBOR note, if the postponement date is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day. "Business day" means with respect to any note, any day that is not a Saturday or Sunday and that, in New York City, is not a day on which banking institutions generally are authorized or obligated by law to close, and with respect to LIBOR notes only, such day is also a London Business Day. "London Business Day" means with respect to LIBOR notes only, any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

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The interest determination date pertaining to an interest reset date for a commercial paper rate note, a prime rate note, a fed funds note and a CD rate note will be the second business day prior to the interest reset date with respect to the applicable note. The interest determination date pertaining to an interest reset date for a LIBOR note will be the second London Business Day prior to that interest reset date. The interest determination date pertaining to an interest reset date for a treasury rate note will be the day of the week in which that interest reset date falls on which treasury bills would normally be auctioned. Treasury bills are usually sold at auction on Monday of each week. If that day is a legal holiday, the auction is usually held on the following Tuesday, but may be held on the preceding Friday. If the auction is so held on the preceding Friday, that Friday will be the treasury interest determination date pertaining to the interest reset date occurring in the next succeeding week. If an auction date for treasury bills falls on any interest reset date for a treasury rate note, then the interest reset date will instead be the first business day immediately following that auction date.

The interest rate on the notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application. Under present New York law, subject to certain exceptions, the maximum rate of interest for any loan to an individual is 16% for a loan less than \$250,000, and 25% for a loan of \$250,000 or more but less than \$2,500,000, in each case calculated per year on a simple interest basis. There is no limit on the maximum rate of interest on loans made to individuals in an amount equal to \$2,500,000 or more. Under present New York law, the maximum rate of interest which may be charged to a corporation for any loan up to \$2,500,000 is 25% per year on a simple interest basis. There is no limit on the maximum rate of interest on loans made to corporations in an amount equal to \$2,500,000 or more.

Unless otherwise indicated in the applicable pricing supplement and except as provided below, interest will be payable:

- in the case of floating rate notes which reset daily, weekly or monthly, on the third Wednesday of each month or on the third Wednesday of March, June, September and December of each year;
- in the case of floating rate notes which reset quarterly, on the third Wednesday of March, June, September and December of each year;
- in the case of floating rate notes which reset semi-annually, on the third Wednesday of the two months of each year specified in the applicable pricing supplement;
- in the case of floating rate notes which reset annually, on the third Wednesday of the month specified in the applicable pricing supplement; and
- in each case, at maturity.

Unless otherwise indicated in the applicable pricing supplement, interest payments for floating rate notes will be the amount of interest accrued from and including the date of issue or the most recent date for which interest has been paid or provided to but excluding the interest payment date or maturity date. However, if the interest reset dates with respect to any floating rate note are daily or weekly, interest payable on any interest payment date, other than interest payable on any date on which principal on any such note is payable, will include interest accrued from but excluding the most recent regular record date for which interest has been paid or provided, or from and including the date of issue, to and including the next preceding regular record date. However, interest payments on floating rate notes made at maturity will include interest accrued to but excluding the date of maturity. Accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the face amount of a floating rate note by an accrued interest factor. The accrued interest factor is computed by adding the interest factors calculated for

each day in the period for which accrued interest is being calculated. The interest factor for each such day is computed by dividing the interest rate applicable to such date by 360, in the case of commercial paper rate notes, prime rate notes, LIBOR notes, fed funds notes or CD rate notes, or by the actual number of days in the year, in the case of treasury rate notes.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect. If it has been determined, the calculation agent will also provide the interest rate which will become effective as a result of a determination made on the most recent interest determination date

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with respect to that floating rate note. Unless otherwise provided in the applicable pricing supplement, U.S. Bank National Association will be the calculation agent with respect to the floating rate notes. Unless otherwise specified in the applicable pricing supplement, the calculation date, if applicable, pertaining to any interest determination date will be the earlier of (1) the tenth calendar day after such interest determination date, or, if such day is not a business day, the next succeeding business day or (2) the business day preceding the applicable interest payment date or maturity, as the case may be.

Unless otherwise specified in the applicable pricing supplement, all percentages resulting from any calculation on floating rate notes will be rounded to the nearest one hundred-thousandth of a percentage point, with five one millionths of a percentage point rounded upwards (e.g., 9.876545% (or 0.09876545) would be rounded to 9.87655% (or 0.0987655)), and all dollar amounts used in or resulting from this calculation will be rounded to the nearest cent or, in the case of notes denominated other than in U.S. dollars, the nearest unit (with one-half cent or unit being rounded upward).

Commercial Paper Rate

Unless otherwise specified in the applicable pricing supplement, “commercial paper rate” means, for any interest determination date relating to a floating rate note for which the commercial paper rate is an applicable base rate, to which we refer as a “commercial paper rate interest determination date,” the money market yield on that date of the rate for commercial paper having the index maturity specified in the applicable pricing supplement as published in H.15 under the caption “Commercial Paper — Nonfinancial.” If the commercial paper rate cannot be determined as described above, the following procedures will apply:

- If the rate described above is not published by 3:00 p.m., New York City time, on the relevant calculation date, then the commercial paper rate will be the money market yield of the rate on that commercial paper rate interest determination date for commercial paper of the specified index maturity indicated in the pricing supplement as published in H.15 Daily Update, or in another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper — Nonfinancial.”

- If by 3:00 p.m., New York City time, on the calculation date, the rate described is not yet published in H.15, H.15 Daily Update or another recognized electronic source, the commercial paper rate for the applicable commercial paper rate interest determination date will be calculated by the calculation agent and will be the money market yield of the arithmetic mean of the offered rates (quoted on a bank discount basis), as of 11:00 a.m., New York City time, on that commercial paper rate interest determination date of three leading dealers of U.S. dollar commercial paper in New York City, which may include one or more of the agents or their affiliates, selected by the calculation agent after consultation with us, for commercial paper of the index maturity specified in the applicable pricing supplement placed for a non-financial issuer whose bond rating is “Aa,” or the equivalent, from a nationally recognized statistical rating agency.

- If the dealers selected as described above by the calculation agent are not quoting as set forth above, the commercial paper rate with respect to that commercial paper rate interest determination date will be the commercial paper rate in effect for the immediately preceding interest reset period, or if there was no interest reset period, the rate of interest payable will be the initial interest rate.

“H.15” means the weekly statistical release designated “Statistical Release H.15, Selected Interest Rates,” or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15, available through the Internet site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/> update, or any successor site or publication. All references to this website are for your informational reference only. Information on that website is not incorporated by reference in this prospectus supplement or the accompanying prospectus.

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“Money market yield” means the yield, expressed as a percentage, calculated in accordance with the following formula:

$$\text{Money market yield} = \frac{360 \times D}{360 - (D \times M)} \times 100$$

where “D” is the annual rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” is the actual number of days in the applicable interest period.

LIBOR

Unless otherwise specified in the applicable pricing supplement, “LIBOR” means the rate determined by the calculation agent in accordance with the following procedures:

- For an interest determination date relating to a floating rate note for which LIBOR is an applicable base rate, to which we refer as a “LIBOR interest determination date,” LIBOR will be the rate for deposits in U.S. dollars having the index maturity specified in the applicable pricing supplement, commencing on the applicable interest reset date that appears on the designated LIBOR page, as defined below, as of 11:00 a.m., London time, on that LIBOR interest determination date.

- If no rate appears, as the case may be, on the designated LIBOR page as specified above, the calculation agent will request the principal London offices of each of four major reference banks, which may include one or more of the agents or their affiliates, in the London interbank market, as selected by the calculation agent after consultation with us, to provide the calculation agent with its offered quotation for deposits in U.S. dollars for the period of the index maturity specified in the applicable pricing supplement, commencing on the applicable interest reset date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that LIBOR interest determination date and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time.

- If the reference banks provide at least two such quotations, then LIBOR for that LIBOR interest determination date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, then LIBOR for that LIBOR interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., in New York City on that LIBOR interest determination date by three major reference banks in New York City, which may include one or more of the agents or their affiliates, in New York City, selected by the calculation agent after consultation with us, for loans in U.S. dollars to leading European banks, having the index maturity specified in the applicable pricing supplement and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time.

- If fewer than three banks selected by the calculation agent are quoting as set forth above, LIBOR with respect to that LIBOR interest determination date will be LIBOR for the immediately preceding interest reset period, or if there was no interest reset period, the rate of interest payable will be the initial interest rate.

“Designated LIBOR page” means the display on the Reuters screen “LIBOR01” page (or such other page as may replace such page on that service or such other page as may be nominated by the ICE Benchmark Administration Limited (“IBA”) or its successor or such other entity assuming the responsibility of IBA or its successor in calculating the London interbank offered rates for U.S. dollar deposits in the event IBA or its successor no longer does so).

CD Rate

Unless otherwise specified in the applicable pricing supplement, “CD rate” will be determined, with respect to any interest determination date relating to a floating rate note for which the CD rate is an applicable base rate, which date we refer to as a “CD rate interest determination date,” according to the following procedures:

- Calculated by the calculation agent as the arithmetic mean of the secondary market offered rates

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as of 10:00 a.m., New York City time, on that CD rate interest determination date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in New York City, which may include one or more of the agents or their affiliates, selected by the calculation agent after consultation with us, for negotiable U.S. dollar certificates of deposit of major U.S. money market banks with a remaining maturity closest to the index maturity specified in the applicable pricing supplement and, in an amount that is representative for a single transaction in that market at that time.

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If the dealers selected as described above by the calculation agent are not quoting rates as set forth above, the CD rate for that CD interest rate determination date will be the CD rate in effect for the immediately preceding interest reset period, or if there was no interest reset period, then the rate of interest payable will be the initial interest rate.

Federal Funds Rate

Unless otherwise specified in the applicable pricing supplement, “federal funds rate” means, with respect to any interest determination date relating to a floating rate note for which the federal funds rate is an applicable base rate, to which we refer as a “federal funds rate interest determination date,” the rate with respect to that date for U.S. dollar federal funds as published in H.15 under the heading “Federal Funds (Effective)” as that rate is displayed on Reuters on page FEDFUNDS1 or any other page that may replace such page on such service, under the heading “EFFECT.” If the federal funds rate cannot be determined in this manner, the following procedures will apply:

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If the rate described above does not appear on Reuters on page FEDFUNDS1 by 3:00 p.m., New York City time, on the related calculation date, then the federal funds rate will be the rate with respect to that federal funds rate interest determination date for U.S. dollar federal funds as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying that rate, under the caption “Federal Funds (Effective).”

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If the rate described above does not appear on Reuters on page FEDFUNDS1 or is not yet published in H.15, H.15 Daily Update or another electronic source by 3:00 p.m., New York City time, on the related calculation date, then the federal funds rate with respect to that federal funds rate interest determination date will be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City, which may include one or more of the agents or their affiliates, selected by the calculation agent after consultation with us, prior to 9:00 a.m., New York City time, the business day following that federal funds rate interest determination date.

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If the brokers selected as described above by the calculation agent are not quoting as set forth above, the federal funds rate with respect to that federal funds rate interest determination date will be the federal funds rate for the immediately preceding interest reset period, or if there was no interest reset period, the rate of interest payable will be the initial interest rate.

Prime Rate

Unless otherwise specified in the applicable pricing supplement, “prime rate” means, with respect to any interest determination date relating to a floating rate note for which the prime rate is an applicable base rate, to which we refer as a “prime rate interest determination date,” the rate set forth on such date in H.15 under the caption “Bank Prime Loan.” If the prime rate cannot be determined as described above, the following procedures will apply:

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If the rate described above is not published by 3:00 p.m., New York City time, on the related calculation date, then the rate on such prime rate interest determination date as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying that rate, under the caption “Bank Prime Loan” will be the prime rate.

- If the rate described above is not yet published in H.15, H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the related calculation date, then the prime

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rate will be determined by the calculation agent and will be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Page US PRIME 1, as defined below, as that bank's prime rate or base lending rate as of 11:00 a.m., New York City time, on that prime rate interest determination date.

- If fewer than four of these rates appear on the Reuters Page US PRIME 1 for that prime rate interest determination date, then the prime rate will be determined by the calculation agent and will be the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that prime rate interest determination date by three major banks in New York City, which may include one or more of the agents or their affiliates, selected by the calculation agent after consultation with us.

- If the banks selected by the calculation agent are not quoting as set forth above, the prime rate with respect to that prime rate interest determination date will remain the prime rate for the immediately preceding interest reset period, or if there was no interest reset period, the rate of interest payable will be the initial interest rate.

“Reuters Page US PRIME 1” means the display on the Reuters 3000 Xtra Service designated as “US PRIME 1”, or such other page as may replace the US PRIME 1 page on that service, for the purpose of displaying prime rates or base lending rates of major U.S. banks.

Treasury Rate

Unless otherwise specified in the applicable pricing supplement, “treasury rate” means, with respect to any interest determination date relating to a floating rate note for which the treasury rate is an applicable base rate, to which we refer as a “treasury rate interest determination date,” the rate from the auction held on such treasury rate interest determination date of direct obligations of the United States, or “treasury bills,” having the index maturity specified in the applicable pricing supplement under the caption “INVESTMENT RATE” on the display on the Reuters 3000 Xtra Service designated as USAUCTION10, or any other page as may replace such page on such service. If the treasury rate cannot be determined in this manner, the following procedures will apply:

- If the rate described above is not so published by 3:00 p.m., New York City time, on the related calculation date, the bond equivalent yield, as defined below, of the auction rate of such treasury bills as announced by the U.S. Department of the Treasury by 3:00 p.m., New York City time, on the related calculation date will be the treasury rate.

- If the auction rate described in the prior paragraph is not so announced by the U.S. Department of the Treasury, or if no such auction is held, then the treasury rate will be the bond equivalent yield of the rate on that treasury rate interest determination date of treasury bills having the index maturity specified in the applicable pricing supplement as published in H.15 under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 p.m., New York City time, on the related calculation date, the rate on that treasury rate interest determination date of those treasury bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying that rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market.”

- If the rate described in the prior paragraph is not yet published in H.15, H.15 Daily Update or another recognized electronic source, then the treasury rate will be calculated by the calculation agent and will be the bond equivalent yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on that treasury rate interest determination date, of three leading primary U.S. government securities dealers, which may include one or more of the agents or their affiliates, selected by the calculation agent after consultation with us, for the issue of treasury bills with a remaining maturity closest to the index maturity specified in the applicable pricing supplement.

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If the dealers selected as described above by the calculation agent are not quoting as set forth above, the treasury rate with respect to that treasury rate interest determination date will be the treasury rate for the immediately preceding interest reset period, or if there was no interest reset period, the rate of interest payable will be the initial interest rate.

“Bond equivalent yield” means a yield, expressed as a percentage, calculated in accordance with the following formula:

$$\text{Bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where “D” is the applicable per annum rate for treasury bills quoted on a bank discount basis, “N” refers to 365 or 366, as the case may be, and “M” is the actual number of days in the applicable interest reset period.

Indexed Notes

Notes may be issued as indexed notes, the principal amounts payable at maturity and/or the interest rate to be paid thereon to be determined by reference to the relationship between two or more currencies or currency units, to the price of one or more specified securities or commodities, to one or more securities or commodities exchange indices or other indices or by other similar methods or formulas. The pricing supplement relating to an indexed note will describe, as applicable, the method by which the amount of interest payable on any interest payment date and the amount of principal payable at maturity in respect of the indexed note will be determined, certain special tax consequences of the purchase, ownership or disposition of the indexed notes, certain risks associated with an investment in the indexed notes and other information relating to the indexed notes. See also “Risk factors — An investment in indexed notes entails significant risks not associated with a similar investment in fixed or conventional floating rate debt securities.”

Unless otherwise specified in the applicable pricing supplement, the maximum principal amount payable at maturity in respect of any indexed note will be an amount equal to twice the face amount thereof and the minimum principal amount so payable will be zero.

Unless otherwise specified in the applicable pricing supplement, (1) for purposes of determining whether holders of the requisite principal amount of securities outstanding under the indenture have made a demand or given a notice or waiver or taken any other action, the outstanding principal amount of indexed notes will be deemed to be the U.S. dollar equivalent, determined on the original issue date of that indexed note, of that principal amount and (2) if the payment of principal of and interest on any indexed note is accelerated in accordance with the provisions described under “Description of Senior Debt Securities — Events of Default, Notice and Waiver” in the accompanying prospectus, then CFC shall pay to the holder of that indexed note on the date of acceleration the principal amount determined by reference to the formula by which the principal amount of such indexed note would be determined on the stated maturity thereof, as if the date of acceleration were the stated maturity.

Original Issue Discount Notes

We may issue the notes as “original issue discount notes.” An original issue discount note is a note, including any note that does not provide for the payment of interest prior to its maturity date, which is issued at a price lower than its principal amount and which provides that upon redemption, repayment or acceleration of its stated maturity an amount less than its principal amount will be payable. If an original issue discount note is redeemed, repaid or accelerated prior to its stated maturity, the amount payable to the holder of such a note will be determined in accordance with the terms of the note, but will be an amount less than the amount payable at the stated maturity of such a note. Original issue discount notes and other notes may be treated as issued with original issue discount for U.S. federal income tax purposes. See “Material U.S. Federal Income Tax Considerations” below.

Amortizing Notes

CFC may from time to time offer amortizing notes. Unless otherwise specified in the applicable pricing supplement, interest on each amortizing note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to amortizing notes will be applied first to interest due and payable

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thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and conditions of any issue of amortizing notes will be provided in the applicable pricing supplement. A table setting forth repayment information in respect of each amortizing note will be included in the applicable pricing supplement and set forth on such note.

Interest Rate Reset

If CFC has the option with respect to any note to reset the interest rate, in the case of a fixed rate note, or to reset the spread and/or spread multiplier, in the case of a floating rate note, the pricing supplement relating to such note will indicate that option, and, if so:

- the date or dates on which the interest rate or spread and/or spread multiplier may be reset (each an “optional reset date”); and
- any basis or formula for such resetting.

CFC may exercise its option with respect to a note by notifying the paying agent of that exercise at least 45 but not more than 60 days prior to an optional reset date for that note. Not later than 40 days prior to that optional reset date, the paying agent will mail to the holder of the note a notice (the “reset notice”), first class, postage prepaid, setting forth:

- the election of CFC to reset the interest rate, in the case of a fixed rate note, or the spread and/or spread multiplier, in the case of a floating rate note;
- the new interest rate or new spread and/or spread multiplier; and
- any provisions for redemption during the period from the optional reset date to the next optional reset date or, if there is no next optional reset date, to the stated maturity of the note (each such period a “subsequent interest period”), including the date or dates on which or the period or periods during which and the price or prices at which the redemption may occur during the subsequent interest period.

Not later than 20 days prior to an optional reset date for a note, CFC may, at its option, revoke the interest rate, in the case of a fixed rate note, or the spread and/or spread multiplier, in the case of a floating rate note, in either case provided for in the reset notice and establish a higher interest rate, in the case of a fixed rate note, or a higher spread and/or spread multiplier, in the case of a floating rate note, for the subsequent interest period commencing on the optional reset date by mailing or causing the paying agent to mail notice of the higher interest rate or higher spread and/or spread multiplier, as the case may be, first class, postage prepaid, to the holder of the note. Notice will be irrevocable. All notes with respect to which the interest rate or spread and/or spread multiplier is reset on an optional reset date will bear the higher interest rate, in the case of a fixed rate note, or higher spread and/or spread multiplier, in the case of a floating rate note.

If CFC elects to reset the interest rate or the spread and/or spread multiplier of a note, the holder of that note will have the option to elect repayment of the note by CFC on any optional reset date at a price equal to the principal amount thereof plus any accrued interest to the optional reset date. In order for a note to be so repaid on an optional reset date, the holder thereof must follow the procedures set forth below under “Redemption and Repayment” for optional repayment, except that:

- the period for delivery of that note or notification to the paying agent will be a least 25 but not more than 35 days prior to the optional reset date; and
-

a holder who has tendered a note for repayment pursuant to a reset notice may by written notice to the paying agent revoke its tender for repayment until the close of business on the tenth day prior to the optional reset date.

Extension of Maturity

If CFC has the option to extend the stated maturity of any note for one or more periods (each an “extension period”) up to but not beyond the date (the “final maturity date”) set forth in the supplement relating to that note, that supplement will indicate the option and any basis or formula for setting the interest rate, in the case of a fixed rate note, or the spread and/or spread multiplier, in the case of a floating rate note, applicable to any such extension period.

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CFC may exercise its option with respect to a note by notifying the paying agent of its exercise at least 45 but not more than 60 days prior to the stated maturity of that note in effect prior to the exercise of such option. No later than 40 days prior to the original stated maturity, the paying agent will mail to the holder of that note a notice relating to the extension period, first class, postage prepaid, setting forth:

- the election of CFC to extend the stated maturity of the note;
- the new stated maturity;
- in the case of a fixed rate note, the interest rate applicable to the extension period or, in the case of a floating rate note, the spread and/or spread multiplier applicable to the extension period; and
- any provisions for redemption during the extension period, including the date or dates on which or the period or periods during which and the price or prices at which redemption may occur during the extension period.

Upon the mailing by the paying agent of an extension notice to the holder of a note, the stated maturity of that note will be extended automatically as set forth in the extension notice, and, except as modified by the extension notice and as described in the next paragraph, the note will have the same terms as prior to the mailing of the extension notice. Not later than 20 days prior to the original stated maturity for a note, CFC may, at its option, revoke the interest rate, in the case of a fixed rate note, or the spread and/or spread multiplier, in the case of a floating rate note, provided for in the extension notice and establish a higher interest rate, in the case of a fixed rate note, or a higher spread and/or spread multiplier, in the case of a floating rate note, for the extension period by mailing or causing the paying agent to mail notice of the higher interest rate or higher spread and/or spread multiplier, as the case may be, first class, postage prepaid, to the holder of that note. Notice will be irrevocable. All notes with respect to which the stated maturity is extended will bear the higher interest rate, in the case of a fixed rate note, or higher spread and/or spread multiplier, in the case of a floating rate note, for the extension period.

If CFC elects to extend the stated maturity of a note, the holder of that note will have the option to elect repayment of that note by CFC at the original stated maturity at a price equal to the principal amount thereof plus any accrued interest to that date. In order for a note to be so repaid on the original stated maturity, the holder thereof must follow the procedures set forth below under “Redemption and Repayment” for optional repayment, except that:

- the period for delivery of the note or notification to the paying agent will be at least 25 but not more than 35 days prior to the original stated maturity; and
- a holder who has tendered a note for repayment pursuant to an extension notice may by written notice to the paying agent revoke its tender for repayment until the close of business on the tenth day prior to the original stated maturity.

Renewable Notes

CFC may from time to time offer notes which will mature on an interest payment date specified in the applicable pricing supplement occurring in or prior to the twelfth month following the original issue date of such notes unless the term of all or any portion of any note (a “renewable note”) is renewed in accordance with the procedures described below.

On the interest payment date occurring in the sixth month (unless a different interval (the “special election interval”) is specified in the applicable pricing supplement) prior to the initial maturity date of a renewable note (the “initial renewal date”) and on the interest payment date occurring in each sixth month (or in the last month of each special election interval) after the initial renewal date (each, together with the initial renewal date, a “renewal date”), the term of the

renewable note may be extended to the interest payment date occurring in the twelfth month (or, if a special election interval is specified in the applicable pricing supplement, the last month in a period equal to twice the special election interval) after the renewal date, if the holder of such renewable note elects to extend the term of such renewable note or any portion thereof as described below. If a holder does not elect to extend the term of any portion of the principal

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amount of a renewable note during the specified period prior to any renewal date, that portion will become due and payable on the interest payment date occurring in the sixth month (or the last month in the special election interval) after the renewal date (the “new maturity date”).

A holder of a renewable note may elect to renew the term of the renewable note, or if so specified in the applicable pricing supplement, any portion thereof, by delivering a notice to the trustee (or any duly appointed paying agent) at the corporate trust office not less than 15 nor more than 30 days prior to the renewal date (unless another period is specified in the applicable supplement as the “special election period”). Election will be irrevocable and will be binding upon each subsequent holder of such renewable note. An election to renew the term of a renewable note may be exercised with respect to less than the entire principal amount of the renewable note only if so specified in the applicable pricing supplement and only in such principal amount, or any integral multiple in excess thereof, as is specified in the applicable pricing supplement. Notwithstanding the foregoing, the term of the renewable notes may not be extended beyond the stated maturity specified for the renewable notes in the applicable pricing supplement. If the holder does not elect to renew the term, the renewable note must be presented to the trustee (or any duly appointed paying agent) simultaneously with notice of election (or, in the event notice of election, together with a guarantee of delivery within five business days, is transmitted on behalf of a holder from a member of a national securities exchange, the Financial Industry Regulatory Authority, Inc. (“FINRA”) or a commercial bank or trust company in the United States, within five business days of the date of that notice). With respect to a renewable note that is a certificated note, as soon as practicable following receipt of the renewable note, the trustee (or any duly appointed paying agent) will issue in exchange therefor in the name of that holder:

- a note, in a principal amount equal to the principal amount of the exchanged renewable note for which the election to renew the term thereof was exercised, with terms identical to those specified on such renewable note (except for the original issue date and the initial interest rate and except that such note will have a fixed, nonrenewable stated maturity on the new maturity date); and

- if such election is made with respect to less than the full principal amount of the holder’s renewable note, a replacement renewable note, in a principal amount equal to the principal amount of the exchanged renewable note for which the election was made, with terms identical to the exchanged renewable notes.

Combination of Provisions

If so specified in the applicable pricing supplement, any note may be subject to all of the provisions, or any combination of the provisions, described above under “Interest Rate Reset,” “Extension of Maturity” and “Renewable Notes.”

Redemption and Repayment

Unless one or more redemption dates are specified in the applicable pricing supplement, the notes will not be redeemable prior to their stated maturity. If one or more redemption dates are specified with respect to any note, the applicable pricing supplement will also specify one or more redemption prices expressed as a percentage of the principal amount of the note and the redemption period or periods during which the redemption prices shall apply. Unless otherwise specified in the applicable pricing supplement, any such note will be redeemable at the option of CFC at the specified redemption price applicable to the redemption period during which that note is to be redeemed, together with interest accrued to the redemption date. Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund. CFC may redeem any of the notes that are redeemable and remain outstanding either in whole or from time to time in part, upon not less than 30 nor more than 60 days’ notice. Unless otherwise specified in the applicable pricing supplement, notes cannot be repaid prior to stated maturity. If a note is repayable at the option of the holder on a date or dates specified prior to stated maturity, the applicable pricing supplement will set forth the price or prices of such repayment, together with accrued interest to the date of repayment.

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In order for a note that is repayable at the option of the holder to be repaid, the paying agent must receive at least 30 days but not more than 60 days prior to the repayment date:

- appropriate wire instructions; and
- either:
- the note with the form entitled attached to the note duly completed; or
- a telegram, telex, facsimile transmission or letter from a member of a national securities exchange or FINRA or a commercial bank or trust company in the United States setting forth the name of the holder of the note, the principal amount of the note, the portion of the principal amount of the note to be repaid, the certificate number or a description of the tenor and terms of the note, a statement that the option to elect repayment is being exercised thereby and a guarantee that the note to be repaid with the form entitled “Option to Elect Repayment” attached to the note duly completed will be received by the paying agent not later than five business days after the date of the telegram, telex, facsimile transmission or letter, and the note and form duly completed must be received by the paying agent by that fifth business day.

Exercise of the repayment option by the holder of a note will be irrevocable, except as otherwise described above under “Interest Rate Reset” and “Extension of Maturity.” The repayment option may be exercised by the holder of a note for less than the entire principal amount of the note provided that the principal amount of the note remaining outstanding after repayment is an authorized denomination. No transfer or exchange of any note or, in the event that any note is to be repaid in part, the portion of the note to be repaid will be permitted after exercise of a repayment option. All questions as to the validity, eligibility, including time of receipt, and acceptance of any note for repayment will be determined by the trustee, whose determination will be final, binding and non-appealable.

If a note is represented by a book-entry note, DTC’s nominee will be the holder of that note and will be the only entity that can exercise a right to repayment. In order to ensure that DTC’s nominee will timely exercise a right to repayment with respect to a particular note, the beneficial owner of that note must instruct the broker or other direct or indirect participant through which it holds an interest in that note to notify DTC of its desire to exercise a right to repayment. Different firms have different cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note in order to ascertain the cut-off time by which an instruction must be given in order for timely notice to be delivered to DTC.

Unless otherwise specified in the applicable pricing supplement, if a note is an original issue discount note, the amount payable on that note in the event of redemption or repayment prior to its stated maturity will be the amortized face amount of that note, as specified in the applicable pricing supplement, as of the redemption date or the date of repayment, as the case may be.

Replacement of Notes

If any mutilated note is surrendered to the trustee, we will execute and the trustee will authenticate and deliver in exchange for such mutilated note a new note of the same series and principal amount. If we and the trustee receive evidence to our satisfaction of the destruction, loss or theft of any note and such security or indemnity as may be required by them, then we shall execute and the trustee shall authenticate and deliver, in lieu of such destroyed, lost or stolen note, a new note of the same series and principal amount. All expenses, including counsel fees and expenses, associated with issuing the new note shall be borne by the owner of the mutilated, destroyed, lost or stolen note.

Reopening of Issue

We may, from time to time, without the consent of existing noteholders, reopen an issue of notes and issue additional notes with the same terms, including maturity and interest payment terms, as notes issued on an earlier date, except for

the issue date, issue price and the first payment date of interest. After such additional notes are issued, they will be fungible with the previously issued notes to the extent specified in the applicable pricing supplement.
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Book-Entry Notes

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully-registered global securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered global securities will be issued for each issue of the book-entry notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of book-entry notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the book-entry notes on DTC's records. The ownership interest of each actual purchaser of each book-entry note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the book-entry notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

To facilitate subsequent transfers, all book-entry notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of book-entry notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the book-entry notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such book-entry notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the book-entry notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to book-entry notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to CFC as soon as possible after the record date.

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The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the book-entry notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from CFC, on payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC or CFC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of CFC, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the book-entry notes at any time by giving reasonable notice to CFC. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

CFC may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC. Certificates may also be printed and delivered in the event of an event of default under the indenture and the subsequent surrender by DTC of the book-entry notes held by DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that CFC believes to be reliable, but neither CFC nor the agents take any responsibility for the accuracy thereof.

Payments on any book-entry notes would be made by the trustee directly to holders of the book-entry notes in accordance with the procedures set forth herein and in the indenture. Interest payments and any principal payments on the book-entry notes on each interest payment date would be made to holders in whose names the book-entry notes were registered at the close of business on the related record date as set forth under "— Interest and Interest Rates" beginning on page S-8. Such payments would be made by check mailed to the address of such holders as they appear on the note register and, in addition, under the circumstances provided by the indenture, by wire transfer to a bank or depository institution located in the United States and appropriate facilities thereof. The final payment of principal and interest on any book-entry notes, however, would be made only upon presentation and surrender of such book-entry notes at the office of the paying agent for such book-entry notes.

A book-entry note may be transferred free of charge in whole or in part upon the surrender of the book-entry note to be transferred, together with the completed and executed assignment which appears on the reverse of the book-entry note, at the specified office of any transfer agent. In the case of a permitted transfer of any part of a book-entry note, a new book-entry note in respect of the balance not transferred will be issued to the transferor. Each new book-entry note to be issued upon the transfer of a book-entry note will, upon the effective receipt of such completed assignment by a transfer agent at its respective specified office, be available for delivery at such specified office, or at the request of the holder requesting such transfer, will be mailed at the risk of the transferee entitled to the new book-entry note to such address as may be specified in such completed assignment. Neither the registrar nor any transfer agent shall be required to register the transfer of or exchange of any book-entry notes within 15 days before the maturity date.

Global Clearance and Settlement Procedures

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's same-day funds settlement system.

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Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the book-entry notes among its participants, DTC is under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

Neither CFC, the trustee nor the agents will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to the accuracy of the records of DTC, DTC's nominee or any DTC participant with respect to any ownership interest in the book-entry notes, or payments to, or the providing of notice for, DTC participants or beneficial owners.

Registration, Transfer and Payment of Certificated Notes

We do not intend to issue certificated notes, except in the limited circumstances described above. If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated U.S. Bank National Association to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any note to be redeemed for a period of 15 days after the selection of the notes to be redeemed; (2) exchange or register the transfer of any note that was selected, called or is being called for redemption, except the unredeemed portion of any note being redeemed in part; or (3) exchange or register the transfer of any note as to which an election for repayment by the holder has been made, except the unrepaid portion of any note being repaid in part.

We will pay principal of and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable notes.

Repurchase

CFC may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by CFC may be held or resold or, at the discretion of CFC, surrendered to the trustee for cancellation.

Other Provisions

Any provisions with respect to the determination of an interest rate basis, the specifications of interest rate basis, calculation of the interest rate applicable to, or the principal payable at maturity on, any note, its interest payment dates or any other matter relating thereto may be modified by the terms as specified under "Other Provisions" on the face of the note, or in an annex relating thereto if specified on the face of the note, and in the applicable pricing supplement.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

General

This section summarizes the material U.S. tax considerations to holders of the notes. However, the discussion is limited in the following ways:

- The discussion only covers you if you buy your notes in the initial offering of a particular issuance of notes.
- The discussion only covers you if you hold your notes as a capital asset (generally, for investment purposes), your “functional currency” is the U.S. dollar (if you are a U.S. holder) and you do not have a special tax status.
- The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of the notes, such as your holding the notes in connection with a hedging, straddle or conversion transaction. We suggest that you consult your tax advisor about the consequences of holding the notes in your particular situation.
- The discussion does not cover you if you are a partner in a partnership (or an entity treated as a partnership for U.S. tax purposes). If a partnership holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding the notes, we suggest that you consult your tax advisor.
- The discussion is based on current law. Changes in the law may change the tax treatment of the notes.
- The discussion does not cover state, local or foreign law, and, except for the U.S. federal estate tax consequences discussed below with respect to Non-U.S. holders, does not cover any U.S. federal tax consequences other than income tax consequences.
- This discussion does not cover the Medicare tax that may be imposed on the “net investment income” of U.S. holders that are individuals, estates or trusts.
- The discussion does not cover every type of notes that we might issue. If we intend to issue notes of a type not described in this summary, additional tax information will be provided in the prospectus supplement for the notes.
- We have not requested a ruling from the IRS on the tax consequences of owning the notes. As a result, the IRS could disagree with portions of this discussion.

If you are considering buying notes, we suggest that you consult your tax advisors about the tax consequences of holding the notes in your particular situation.

Tax Consequences to U.S. Holders

This section applies to you if you are a “U.S. holder.” A “U.S. holder” is a beneficial owner of the notes that is, for U.S. federal income tax purposes:

- an individual U.S. citizen or resident alien;

- a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state);
- an estate whose worldwide income is subject to U.S. federal income tax; or
- a trust if a court within the U.S. is able to exercise primary supervision over the administration of the trust and if one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has validly elected to be treated as a U.S. person.

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Interest

The tax treatment of interest paid on the notes depends upon whether the interest is “qualified stated interest.” The notes may have some interest that is qualified stated interest and some that is not.

“Qualified stated interest” is any interest that meets all the following conditions:

-
- It is payable at least once each year.
-
- It is payable over the entire term of the notes.
-
- It is payable at a single fixed rate or at certain specified variable rates.
-
- The notes have a maturity of more than one year from their issue date.

If any interest on the notes is qualified stated interest, then:

-
- If you are a cash method taxpayer (as are most individual holders), you must report that interest in your income when you receive it.
-

If you are an accrual method taxpayer, you must report that interest in your income as it accrues.

If any interest on the notes is not qualified stated interest, it is subject to the rules for original issue discount (“OID”) described below.

Determining Amount of OID

Notes that have OID are subject to additional tax rules. The amount of OID on the notes is determined as follows:

-
- The amount of OID on the notes is the “stated redemption price at maturity” of the notes minus the “issue price” of the notes. If this amount is zero or negative, there is no OID.
-

The “stated redemption price at maturity” of the notes is the total amount of all principal and interest payments to be made on the notes, other than qualified stated interest. In a typical case where all interest is qualified stated interest, the stated redemption price at maturity is the same as the principal amount.

-
- The “issue price” of the notes is the first price at which a substantial amount of the notes are sold to the public (excluding bondhouses, brokers and persons acting in a similar capacity).
-

Under a special rule, if the OID determined under the general formula is very small, it is disregarded and not treated as OID. This disregarded OID is called “de minimis OID.” If all the interest on the notes is qualified stated interest, this rule applies if the amount of OID is less than the following items multiplied together: (a) .25% (1/4 of 1%), (b) the number of full years from the issue date to the maturity date of the notes and (c) the principal amount.

Accrual of OID Into Income

If the notes have OID, the following consequences arise:

-

You must include the total amount of OID as ordinary income over the life of the notes.

-

You must include OID in income as the OID accrues on the notes, even if you are on the cash method of accounting. This means that you are required to report OID income, and in some cases pay tax on that income, before you receive the cash that corresponds to that income.

-

OID accrues on the notes on a “constant yield” method. This method takes into account the compounding of interest. Under this method, the accrual of OID on the notes, combined with the inclusion into income of any qualified stated interest on the notes, will result in you being taxable at approximately a constant percentage of your unrecovered investment in the notes.

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- The amount of OID includible in income by you in a taxable year is the sum of the “daily portions” of OID with respect to your notes for each day of the taxable year (or portion thereof) in which you held the notes. The daily portion is determined by allocating to each day in an accrual period a pro rata portion of the OID allocable to that accrual period.

- The accruals of OID on the notes will generally be less in the early years and more in the later years.

- If any of the interest paid on the notes is not qualified stated interest, that interest is taxed solely as OID. It is not separately taxed when it is paid to you.

- Your tax basis in the notes is initially your cost. It increases by any OID (not including qualified stated interest) you report as income. It decreases by any principal payments you receive on the notes, and by any interest payments you receive that are not qualified stated interest.

Notes Subject to Additional Tax Rules

Additional or different tax rules apply to several types of notes that we may issue.

Short-term notes: We may issue notes with a maturity of one year or less. These are referred to as “short-term notes.”

- No interest on these notes is qualified stated interest. Otherwise, the amount of OID is calculated in the same manner as described above.

- You may make certain elections concerning the method of accrual of OID on short-term notes over the life of the notes.

- If you are an accrual method taxpayer, a bank, a securities dealer, or in certain other categories, you must include OID on short-term notes in income as it accrues.

- If you are a cash method taxpayer not subject to the accrual rule described above, you do not include OID on short-term notes in income until you actually receive payments on the notes. Alternatively, you can elect to include OID in income as it accrues. This election applies to all short-term notes acquired by you during the first taxable year for which the election is made and all subsequent taxable years, unless the IRS consents to a revocation.

- Two special rules apply if you are a cash method taxpayer and you do not include OID on short-term notes in income as it accrues. First, if you sell the note or it is paid at maturity, and you have a taxable gain, then the gain is ordinary income to the extent of the accrued OID on the note at the time of the sale that you have not yet taken into income. Second, if you borrow money (or do not repay outstanding debt) to acquire or hold the note, then while you hold the note you cannot deduct any interest on the borrowing that corresponds to accrued OID on the note until you include the OID in your income.

Floating rate notes: Floating rate notes are subject to special OID rules.

- If the interest rate is based on a single fixed formula based on the cost of newly borrowed funds or other objective financial information (which in either case may include a fixed interest rate for the initial period if certain conditions

are met), all the interest will be qualified stated interest. The amount of OID (if any), and the method of accrual of OID, will then be calculated by converting the notes' floating rate into a fixed rate and by applying the general OID rules described above.

-

The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during such accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period.

-

If the notes have more than one formula for interest rates, it is possible that the combination of interest rates might create OID. We suggest that you consult your tax advisor concerning the OID accruals on any floating rate notes.

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Other categories of notes: Additional rules may apply to certain other categories of notes. The pricing supplement for these notes may describe these rules. In addition, we suggest that you consult your tax advisor in these situations.

These categories of notes include:

- notes that are denominated in a currency other than U.S. dollars;
- notes with contingent payments;
- notes that you can put to CFC before their maturity;
- notes that are callable by CFC before their maturity, other than typical calls at a premium;
- indexed notes with an index tied to currencies; and
- notes that are extendable at your option or at the option of CFC.

Premium and Discount

Additional special rules apply in the following situations involving discount or premium:

- If you buy the notes in the initial offering for more than their stated redemption price at maturity, the excess amount you pay will be “bond premium.” You can elect to use bond premium to reduce your taxable interest income over the life of your notes. Under the election, the total bond premium will be allocated to interest periods, as an offset to your interest income, on a “constant yield” basis over the life of the notes — that is, with a smaller offset in the early periods and a larger offset in the later periods. You make this election on your tax return for the year in which you acquire the notes. However, if you make the election, it automatically applies to all debt instruments with bond premium that you own during that year or that you acquire at any time thereafter, unless the IRS permits you to revoke the election.
- Similarly, if the notes have OID and you buy them in the initial offering for more than the issue price, the excess (up to the total amount of OID) is called “acquisition premium.” The amount of OID you are required to include in income will be reduced by this amount over the life of the notes.
- If you buy the notes in the initial offering for less than the initial offering price to the public, special rules concerning “market discount” may apply.
- Under the market discount rules, absent an election to include market discount in income currently, you will be required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of a note, as ordinary income to the extent of the lesser of the amount of such payment or realized gain or the market discount which has not previously been included in income and is treated as having accrued on the note at the time of such payment or disposition, unless the amount of such market discount is considered to be de minimis. Market discount will accrue ratably unless you elect to accrue market discount under a constant yield method. The election to apply the constant yield method is made on a debt instrument-by-debt instrument basis, and is irrevocable. Special rules apply in applying the accrual methods for amortizing notes.

Appropriate adjustments to tax basis are made in these situations. We suggest that you consult your tax advisor if you are in one of these situations.

Accrual Election

You can elect to be taxed on the income from the notes in a different manner than described above. Under the election:

- No interest is qualified stated interest.

- You include amounts in income as it economically accrues to you. The accrual of income is in accordance with the constant yield method, based on the compounding of interest. The accrual of income takes into account stated interest, OID (including de minimis OID), market discount and premium.

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- Your tax basis is increased by all accruals of income and decreased by all payments you receive on the notes.

- The election is made for the taxable year in which you buy the notes and cannot be revoked without the consent of the IRS.

Sale or Retirement of the Notes

On your sale or retirement of your notes:

- You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the notes. Your tax basis in the notes is your cost, subject to certain adjustments.

- Your gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if you held the notes for more than one year. For non-corporate U.S. holders, net long-term capital gains are generally taxed at preferential rates. The deductibility of capital losses is subject to certain limitations.

- If (a) you purchased the notes with de minimis OID, (b) you did not make the election to accrue all OID into income, and (c) you receive the principal amount of the notes upon the sale or retirement, then you will generally have capital gain equal to the amount of the de minimis OID.

- If you sell the notes between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the notes but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

- All or part of your gain may be ordinary income rather than capital gain in certain cases. These cases include sales of short-term notes, notes with market discount, notes with contingent payments or foreign currency notes.

Information Reporting and Backup Withholding

Under the tax rules concerning information reporting to the IRS:

- Assuming you hold your notes through a broker or other intermediary, the intermediary must provide information to the IRS concerning interest, OID and retirement or sale proceeds on your notes, unless an exemption applies. As discussed above under “Premium and Discount,” the amount reported to you may have to be adjusted to reflect the amount you must report on your own tax return.

- Similarly, unless an exemption applies, you must provide the intermediary with your taxpayer identification number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

- If you are subject to these requirements but do not comply, the intermediary must apply backup withholding on all amounts payable to you on the notes (including principal payments). If the intermediary withholds, you may claim the withheld amount as a credit against your federal income tax liability if you provide the required information to the IRS.

- All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

Tax Consequences to Non-U.S. Holders

This section applies to you if you are a “Non-U.S. holder.” A “Non-U.S. holder” is a beneficial owner of the notes, other than a partnership or other entity treated as a partnership for U.S. federal income tax purposes, that is not a U.S. holder.

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Withholding Taxes

Generally, payments of principal and interest (including OID) on the notes will not be subject to U.S. withholding taxes.

However, for the exemption from withholding taxes to apply to you, you must meet one of the following requirements:

- You provide a completed Form W-8BEN or W-8BEN-E, as applicable (or substitute form) to the bank, broker or other intermediary through which you hold your notes. The Form W-8BEN or W-8BEN-E contains your name, address and a statement that you are the beneficial owner of the notes and that you are a Non-U.S. holder.
- You hold your notes directly through a “qualified intermediary,” and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. tax withholding rules under specified procedures.
- You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you must generally complete Form W-8BEN or W-8BEN-E, as applicable and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.
- The interest income on the notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI and be subject to U.S. federal income tax as described below under “— U.S. Trade or Business.”

Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

- The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.
- The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.
- An intermediary through which you hold the notes fails to comply with the procedures necessary to avoid withholding taxes on the notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN (or other documentary information concerning your status) to the withholding agent for the notes. However, if you hold your notes through a qualified intermediary — or if there is a qualified intermediary in the chain of title between you and the withholding agent for the notes — the qualified intermediary will not generally forward this information to the withholding agent.
- The amount of interest payable on the notes is based on the earnings of CFC or certain other contingencies. If this exception applies, additional information will be provided in the pricing supplement.

- You are a bank making a loan in the ordinary course of its business. In this case, you will be exempt from withholding taxes only if you are eligible for a treaty exemption or if the interest income is effectively connected with your conduct of a trade or business in the U.S., as discussed above.

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Interest payments (including OID) made to you will generally be reported to the IRS and to you on Form 1042-S. However, this reporting does not apply to you if one of the following conditions applies:

- You hold your notes directly through a qualified intermediary and the applicable procedures are complied with.
- The notes have an original maturity of 183 days or less from their issue date.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. In addition, special rules apply to certain types of Non-U.S. holders of the notes, including partnerships, trusts and other entities treated as pass-through entities for U.S. federal income tax purposes. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

Sale or Retirement of Notes

If you sell the notes or the notes are redeemed, you will not be subject to federal income tax on any gain unless one of the following applies:

- The gain is connected with a trade or business that you conduct in the U.S.
- You are an individual, you were present in the U.S. for at least 183 days during the year in which you disposed of the notes, and certain other conditions are satisfied.

- The gain represents accrued interest or OID, in which case the rules for interest would apply.

U.S. Trade or Business

If you hold your notes in connection with a trade or business that you are conducting in the U.S. and, if required by an applicable income tax treaty, you maintain a U.S. permanent establishment to which the holding of the notes is attributable:

- Any interest on the notes, and any gain from disposing of the notes, generally will be subject to U.S. federal income tax as if you were a U.S. holder.