NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form 424B5
April 18, 2013

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Filed pursuant to Rule 424(b)(5)

Registration Statement No. 333-177949

The information in this Preliminary Prospectus Supplement is not complete and may be changed. This Preliminary Prospectus Supplement and the accompanying Prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated April 18, 2013

Prospectus Supplement

(To prospectus dated November 14, 2011)

National Rural Utilities

Cooperative Finance Corporation

$

% Fixed-to-Floating Rate Subordinated Notes due 2043

(Subordinated Deferrable Interest Notes)

This is an offering by National Rural Utilities Cooperative Finance Corporation of $ aggregate principal amount of its % Fixed-to-Floating Rate Subordinated Notes due 2043 (Subordinated Deferrable Interest Notes) (the Notes). The Notes are our unsecured, subordinated debt instruments and will bear interest from the date they are issued to, but excluding, , 2023, at an annual rate of %, payable semi-annually in arrears on and of each year, beginning on , 2013 and ending on , 2023. From and including , 2023, but excluding the maturity date or any earlier redemption date, the Notes will bear interest at an annual rate equal to three-month LIBOR plus %, payable quarterly in arrears on , , and of each year, beginning on , 2023. So long as no event of default with respect to the Notes has occurred and is continuing, we have the right, on one or more occasions, to extend the payment of interest on the Notes as described in this prospectus supplement for one or more consecutive interest periods not exceeding five (5) consecutive years. Extended interest will accrue additional interest at an annual rate equal to the annual interest rate then applicable to the Notes.

The Notes will be issued in denominations of $1,000 and any integral multiple thereof.

We may redeem the Notes at our option, at any time, in whole or in part, on or after , 2023, at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest. In addition, we may redeem the Notes at any time, in whole or in part, prior to , 2023, at a make-whole redemption price equal to the price described in this prospectus supplement under the section Description of the Notes Optional Redemption. The Notes will be unsecured and will rank subordinate in right of payment to all of our current and future senior indebtedness. The Notes will be senior to our members subordinated certificates. The Notes will rank equal in right of payment and upon liquidation to our outstanding subordinated notes and any other equally-ranked subordinated notes we may issue.

We do not intend to apply for listing of the Notes on any securities exchange.

The Notes are not insured or guaranteed by any governmental agency.

Investing in the Notes involves certain risks. You should consider the information under the heading Risk Factors on page S-5 of this prospectus supplement before investing in the Notes.

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

	Per Note	Total
Public offering price (1)	%	$
Underwriting discount	%	$
Proceeds, before expenses, to us	%	$

(1) Plus accrued interest, if any, from if settlement occurs after that date.

The underwriters expect to deliver the Notes in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V., on or about April , 2013.

J.P. Morgan Securities LLC and RBC Capital Markets, LLC acted as joint structuring advisors for this transaction.

Joint Book-Running Managers

J.P. Morgan **RBC Capital Markets** **RBS**

The date of this prospectus supplement is April , 2013

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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 written communication from us or the underwriters specifying the final terms of the offering. We have not, and the underwriters have not, authorized anyone to provide you with different information. You should not assume that the information incorporated by reference or contained in this prospectus supplement, the accompanying prospectus and any written communication from us or the underwriters specifying final terms of the offering is accurate as of any date other than its respective date. We are not, and the underwriters 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 and the accompanying prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus 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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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the offering. Generally, the term prospectus refers to both parts combined.

It is important for you to read and consider all information contained in or incorporated by reference in this prospectus supplement and accompanying prospectus in making your investment decision. You should also read and consider the information contained in the documents to which we have referred you in Where You Can Find More Information in this prospectus supplement and accompanying prospectus.

All references in this prospectus supplement to CFC, the Company, we, us, our or similar references mean National Rural Utilities Cooperat Finance Corporation and its successors, and include our consolidated subsidiaries where the context so requires.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 205493. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. Our SEC filings are also available to the public at the SEC s website at http://www.sec.gov.

This prospectus supplement and the accompanying prospectus is part of a registration statement that we have filed with the SEC in connection with the Exchange Offer. As permitted by SEC rules, this prospectus supplement may not contain all of the information we have included in the registration statement and its accompanying exhibits and schedules. You may refer to the registration statement, exhibits and schedules for more information about us and the securities. The registration statement, exhibits and schedules are available through the SEC s Public Reference Room or website.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement information we have filed with the SEC, which means that we can disclose important information to you by referring you to those filed documents. The information incorporated by reference is an important part of this prospectus supplement, and the information we subsequently file with the SEC will automatically update and supersede the information in this prospectus supplement. Absent unusual circumstances, we will have no obligation to amend this prospectus supplement, other than filing subsequent information with the SEC. The historical and future information that is incorporated by reference in this prospectus supplement is considered to be a part of this prospectus supplement. The information elsewhere in this prospectus supplement and the accompanying prospectus, and the following information incorporated by reference is considered to be a part of this prospectus supplement and the accompanying prospectus:

- Annual Report on Form 10-K for the year ended May 31, 2012 (filed August 15, 2012);

- Quarterly Report on Form 10-Q for the quarter ended August 31, 2012 (filed October 15, 2012 and as amended on November 6, 2012), Quarterly Report on Form 10-Q for the quarter ended November 30, 2012 (filed January 14, 2013) and Quarterly Report on Form 10-Q for the quarter ended February 28, 2013 (filed April 12, 2013); and

- Current Reports on Form 8-K, dated September 11, 2012 (filed September 12, 2012), September 24, 2012 (filed September 25, 2012), October 9, 2012 (filed October 10, 2012), October 16, 2012 (filed October 17, 2012), December 4, 2012 (filed December 4, 2012), January 30, 2013 (filed January 30, 2013), January 30, 2013 (filed February 4, 2013), February 18, 2013 (filed February 21, 2013) and March 28, 2013 (filed April 3, 2013).

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We also incorporate by reference all future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), between the date of this prospectus supplement and the termination of the offering of the Notes. However, we are not incorporating by reference any document or information that is deemed to be furnished and not filed in accordance with SEC rules.

You may request a copy of these filings from the SEC as described under Where You Can Find More Information. You may also request, at no cost (other than an exhibit to these filings, or an exhibit to any other filings incorporated by reference into this registration statement, unless we have incorporated that exhibit by reference into this registration statement), a copy of these filings by writing to or telephoning us at the following address:

National Rural Utilities Cooperative Finance Corporation

20701 Cooperative Way

Dulles, VA 20166-6691

(703) 467-1800

Attn: J. Andrew Don, Senior Vice President and Treasurer

These filings are also available through the Financial Reporting subsection of the Investor Relations section of our website: www.nrucfc.coop. Information on our website does not constitute a part of this prospectus supplement or the accompanying prospectus.

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SUMMARY

This summary highlights selected information from this prospectus supplement and is therefore qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. It may not contain all the information that is important to you. We urge you to read carefully this entire prospectus supplement and the other documents to which it refers to understand fully the terms of the Notes and the offering. Investing in the Notes involves risk. See Risk Factors in this prospectus supplement for more information.

National Rural Utilities Cooperative Finance Corporation

CFC is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. The principal purpose of CFC is to provide its members with financing to supplement the loan programs of the Rural Utilities Service of the United States Department of Agriculture. CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists solely of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from payment of federal income taxes under the provisions of section 501(c)(4) of the Internal Revenue Code of 1986, as amended (the Code). As a member-owned cooperative, CFC has no publicly held equities outstanding. CFC funds its activities primarily through a combination of publicly and privately held debt securities and member investments. CFC s objective is to offer its members cost-based financial products and services consistent with sound financial management and is not to maximize net income. CFC allocates its net earnings, which consist of net income excluding the effect of certain non-cash accounting entries, annually to a cooperative educational fund, a members capital reserve, a general reserve, if necessary, and to members based on each member s patronage of CFC s loan programs during the year. The Company s headquarters are located at 20701 Cooperative Way, Dulles, VA 20166 and its telephone number is (703) 467-1800.

Rural Telephone Finance Cooperative (RTFC) is a cooperative association originally incorporated in South Dakota in 1987 and reincorporated as a member-owned cooperative association in the District of Columbia in 2005. RTFC s principal purpose is to provide and arrange financing for its rural telecommunications members and their affiliates. RTFC s membership consists of a combination of not-for-profit entities and for-profit entities. CFC is the sole lender to and manages the business operations of RTFC through a long-term management agreement. Under a guarantee agreement, RTFC pays CFC a fee, and in exchange, CFC reimburses RTFC for loan losses. RTFC is headquartered with CFC in Dulles, Virginia. RTFC is a taxable cooperative that pays income tax based on its net income, excluding patronage-sourced net earnings allocated to its patrons, as permitted under Subchapter T of the Code.

National Cooperative Services Corporation (NCSC) was incorporated in 1981 in the District of Columbia as a member-owned cooperative association. The principal purpose of NCSC is to provide financing to members of CFC, entities eligible to be members of CFC and for-profit and non-profit entities that are owned, operated or controlled by, or provide benefit to Class A, B and C members of CFC. NCSC s membership consists of distribution systems that are members of CFC or are eligible for such membership. CFC is the primary source of funding to and manages the business operations of NCSC through a management agreement that is automatically renewable on an annual basis unless terminated by either party. Under a guarantee agreement, NCSC pays CFC a fee and, in exchange, CFC reimburses NCSC for loan losses. NCSC is headquartered with CFC in Dulles, Virginia. NCSC is a taxable cooperative. Thus, NCSC pays income tax on the full amount of its net income.

The Company s consolidated membership totaled 1,712 as of February 28, 2013, consisting of 907 utility members, the majority of which are consumer-owned electric cooperatives, 487 telecommunications members, 65 service members and 253 associate members in 49 states, the District of Columbia and two U.S. territories. Memberships between CFC, RTFC and NCSC have been eliminated in consolidation.

CFC s financial statements consolidate the results of RTFC and NCSC because it is the primary beneficiary of variable interests in RTFC and NCSC due to its exposure to absorbing the majority of expected losses and because CFC manages the lending activities of RTFC and NCSC. CFC established limited liability corporation and partnerships to hold foreclosed assets and facilitate loan securitization transactions. CFC owns and controls all of these entities and, therefore, consolidates their financial results. A full consolidation is presented for the entity formed for loan securitization transactions. CFC presents the companies formed to hold foreclosed assets in one line on the consolidated balance sheets and the consolidated statements of operations.

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The foregoing information about us is only a general summary and is not intended to be comprehensive. For additional information, you should refer to the information under the headings Where You Can Find More Information and Incorporation by Reference.

The Notes

The following is a summary of the terms of the Notes. The Notes will be governed by that certain indenture dated as of October 15, 1996 (the Indenture), between us and U.S. Bank National Association, as successor trustee (the Trustee). Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more detailed description of the terms and conditions of the Notes, see the section of this prospectus entitled Description of the Notes.

Issuer	National Rural Utilities Cooperative Finance Corporation
Securities Offered	We are offering $ aggregate principal amount of our % Fixed-to-Floating Rate Subordinated Notes due 2043 (Subordinated Deferrable Interest Notes). The Notes will be issued in registered form and in denominations of $1,000 and integral multiples thereof.
Maturity Date	, 2043
Interest Rate; Interest Payment Dates	The Notes will bear interest from the date they are issued to, but excluding, , 2023 or any early redemption date, at an annual rate of %, payable semi-annually in arrears on and of each year, beginning on , 2013 and ending on , 2023. From and including , 2023, to but excluding the maturity date or any earlier redemption date, the Notes will bear interest at an annual rate equal to three-month LIBOR plus %, payable quarterly in arrears on , , and of each year, beginning on , 2023.
Option to Extend Interest Payment Period	So long as there is no event of default under the Indenture with respect to the Notes that is continuing, we may at any time and from time to time during the term of the Notes extend the interest payment period (such a period being referred to as an extension period) for a period not exceeding five (5) consecutive years, except that we may not extend the interest payment period beyond the maturity date, any earlier accelerated maturity date arising from an event of default or any other earlier redemption of the Notes. During an extension period, interest will continue to accrue on the Notes at the then-applicable rate described above and accrued interest on the Notes will bear additional interest at the then-applicable interest rate, compounded on each interest payment date, subject to applicable law. At the end of an extension period, unless further extended in accordance with the requirements below, we must pay all accrued and unpaid interest (and interest thereon). Before the termination of any extension period, we may further extend the interest payment period, so long as the extension period, together with all previous and further extensions, would not exceed five (5) consecutive years or extend beyond the maturity of the Notes. Upon the termination of an extension period and the payment of all amounts then due (including interest on unpaid interest), we may select a new extension period, subject to the above requirements. No interest during an extension period, except at the end thereof, shall be due and payable.

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Subordination and Ranking	The Notes will be unsecured and will rank subordinate in right of payment to all of our current and future senior indebtedness. The Notes will be senior to our members subordinated certificates. The Notes will rank equal in right of payment and upon liquidation to our outstanding subordinated deferrable debt and any other equally-ranked subordinated debt we may issue.
Optional Redemption	At any time on or after , 2023, we will have the right to redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the Notes being redeemed to, but excluding, the date of redemption.
	At any time before , 2023, we will have the right to redeem the Notes, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed (exclusive of interest accrued to the redemption date) from the redemption date to , 2023 (assuming, solely for the purposes of this calculation, that the principal amount of the Notes to be redeemed was payable on , 2023), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus basis points, plus, in either case, accrued and unpaid interest on the Notes being redeemed to, but excluding, such redemption date.
Events of Default	The following events of default are applicable to the Notes instead of the events of default described in the accompanying prospectus:
	failure to pay interest on the Notes within 60 days after such interest is due (provided, however, that a failure to pay interest during a valid optional extension period will not constitute an event of default, as described below under Description of the Notes Option to Extend Interest Payment Period);
	failure to pay principal of or any premium on the Notes when due; and
	certain bankruptcy, insolvency or reorganization events with respect to CFC.
	No event of default with respect to one series of subordinated debt securities necessarily constitutes an event of default with respect to another series of subordinated debt securities.
Use of Proceeds	We expect to receive proceeds, after deducting the underwriting discounts and other offering expenses payable by us, of approximately $ million. The proceeds will be used by us for general corporate purposes, which may include the redemption of some or all of our 6.1% Subordinated Notes due 2044, of which $88.2 million aggregate principal amount are

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	outstanding, the redemption of some or all of our 5.95% Subordinated Notes due 2045, of which $98.2 million aggregate principal amount are outstanding, or the repayment of short term debt.
Listing	We do not intend to list the Notes on any securities exchange.
Risk Factors	Investing in the Notes involves certain risks. You should consider carefully the risk factors discussed under the heading Risk Factors beginning on page S-5 of this prospectus supplement and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended May 31, 2012, as such risk factors may be updated from time to time in our Quarterly Reports on Form 10-Q, before investing in the Notes.
Governing Law	The Notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York, without regards to its principles of conflicts of laws.
Book-Entry Depository	The Depository Trust Company
Trustee	U.S. Bank National Association
Additional Issues	We may, without the consent of the holders, issue additional Notes and thereby increase the principal amount in the future, on the same terms and conditions and with the same CUSIP number as the Notes we offer by this prospectus supplement. Any such additional Notes will, together with the Notes we offer by this prospectus supplement, constitute a single series of Notes under the Indenture. We will not issue any further securities intended to form a single series with the Notes unless such further securities will be fungible with all Notes of the same series for U.S. Federal income tax purposes.

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RISK FACTORS

Your investment in the Notes will involve certain risks. You should consider carefully the following risks relating to the Notes, together with the risks and uncertainties discussed under Forward-Looking Information and the other information- included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended May 31, 2012, as such risk factors may be updated from time to time in our Quarterly Reports on Form 10-Q, before investing in the Notes. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. We cannot assure you that any of the events discussed in or incorporated by reference into this prospectus supplement will not occur. If they do, our business, financial condition or results of operations could be materially and adversely affected.

Our obligations under the Notes will be unsecured and will be subordinated.

Our obligations under the Notes are unsecured and will rank subordinate in right of payment to our senior indebtedness (as defined in the Indenture). This means that we may not make any payments of principal or interest on the Notes:

- if there shall have occurred a default in the payment of principal or mandatory prepayments of or premium, if any, sinking funds or interest on any senior indebtedness, or

- if any event of default (other than a default in the payment of principal, premium, if any, mandatory prepayments, sinking funds or interest) with respect to any senior indebtedness that permits the holders thereof to accelerate the maturity of such senior indebtedness, and such event of default has not been cured or waived and not ceased to exist.

The Notes will rank equal in right of payment and upon liquidation to our outstanding subordinated indebtedness. For more information on the subordination provisions and the definition of senior indebtedness, see Description of the Notes Ranking in this prospectus supplement.

At February 28, 2013, CFC had approximately $19.3 billion of indebtedness that will rank senior in priority with respect to the Notes, including contingent guarantees of $1.1 billion, and had $0.2 billion of subordinated indebtedness that will rank equal in right of payment and upon liquidation with the Notes. The Notes will be senior to CFC s members subordinated certificates. The Indenture contains no restrictions on the amount of additional senior or subordinated indebtedness that we may issue under it.

Due to the subordination provisions described in Description of the Notes Ranking, in the event of our insolvency, funds which we would otherwise use to pay to the holders of the Notes will be used to pay the holders of senior indebtedness to the extent necessary to pay the senior indebtedness in full.

We can extend interest payments on the Notes for one or more periods of up to five (5) consecutive years.

We will have the right at any time and from time to time during the term of the notes to extend the interest payment period to a period not exceeding five (5) consecutive years. At the end of an extension period, unless further extended in accordance with the requirements below, CFC must pay all interest then accrued and unpaid (together with interest thereon at the same rate as specified for the Notes to the extent permitted by applicable law). During any extension period, CFC may not declare or pay any dividend or interest on, or principal of, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its members subordinated certificates. Prior to the termination of any extension period, CFC may further extend the interest payment period, provided that extension period, together with all previous and further extensions thereof, may not exceed five (5) consecutive years or extend beyond the maturity of the Notes. Upon the termination of an extension period and the payment of all amounts then due, CFC may select a new extension period, subject to the above requirements. See Description of the Notes Option to Extend Interest Payment Period.

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Should an extension period occur, a holder of the Notes will be required to accrue income (as original issue discount) for U.S. Federal income tax purposes even though interest is not being paid on a current basis. As a result, a holder would be required to include such interest in gross income for U.S. Federal income tax purposes in advance of the receipt of cash, and would not receive from CFC the cash related to such income if the holder disposes of his or her Notes prior to the record date for payment of interest. See Material Federal U.S. Income Tax Considerations.

We may elect to cause the redemption of the Notes when prevailing interest rates are relatively low.

We may redeem the Notes:

- in whole at any time or in part from time to time on or after , 2023 at a redemption price equal to 100% of the principal amount being redeemed plus accrued and unpaid interest to, but excluding, the date of redemption; or

- in whole or in part, from time to time, prior to , 2023 at 100% of the principal amount being redeemed plus accrued and unpaid interest, plus any applicable make-whole premium, as discussed under Description of the Notes Optional Redemption.

We may choose to redeem the Notes for a variety of reasons, including, but not limited to, when prevailing interest rates are lower than the then applicable interest rate on the Notes. In the event we choose to redeem the Notes, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes.

Extension of interest payments and other characteristics of the Notes could adversely affect the market price of the Notes.

To the extent a secondary market develops for the Notes, the market price of the Notes is likely to be adversely affected if we extend payments of interest on the Notes. As a result of our extension right or if investors perceive that there is a likelihood that we will exercise our extension right, the market for the Notes may become less active or be discontinued during such an extension period, and the market price of the Notes may be more volatile than the market prices of other securities that are not subject to extension. If we do extend interest on the Notes and you sell your Notes during the period of that extension, you may not receive the same return on your investment as a holder that continues to hold its Notes until we pay the accrued and unpaid interest at the end of the applicable extension period.

The Trustee has only limited rights of acceleration.

The Trustee may accelerate payment of the principal and accrued and unpaid interest on the Notes only upon the occurrence and continuation of an event of default under the Notes. An event of default is generally limited to payment defaults after giving effect to our extension rights and specific events of bankruptcy, insolvency and reorganization relating to us. There is no right to acceleration upon breaches by us of other covenants under the Indenture.

Interest rate fluctuations and uncertainty relating to the LIBOR calculation process may adversely affect the value of your Notes.

From and including , 2023, to but excluding the maturity date or any earlier redemption date, the Notes will bear interest at interest rates based on LIBOR. The floating rate may be volatile over time and could be substantially less than the fixed rate. In addition to experiencing a decline in interest income, holders of the Notes could also encounter a reduction in the value of their Notes.

In addition, regulators and law enforcement agencies from a number of governments, including entities in the United Kingdom and elsewhere, are conducting civil and criminal investigations into whether the banks that contribute to the British Bankers Association (the BBA) in connection with the calculation of daily LIBOR may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR.

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Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the trading market for LIBOR-based securities, including the Notes.

The secondary market for the Notes may be illiquid.

The Notes are a new issue of securities with no established trading market and will not be listed on any national securities exchange. The underwriters have advised us that they intend to make a market for the Notes, but they have no obligation to do so and may discontinue market making at any time and for any reason without providing any notice. We cannot give any assurance as to the liquidity of any trading market for the Notes. The lack of a trading market could adversely affect your ability to sell the Notes and the price at which you may be able to sell the Notes.

If a trading market does develop, changes in our credit ratings or the debt markets could adversely affect the market price of the Notes.

The market price for the Notes depends on many factors, including, among other things:

- our credit ratings with major credit rating agencies, including with respect to the Notes;
- the prevailing interest rates being paid by other companies similar to us;
- our operating results, financial condition and future prospects;
- our election to extend interest payments on the Notes (see *Description of the Notes Option to Extend Interest Payment Period*); and
- economic, financial, geopolitical, regulatory and judicial events that affect us, the industries and markets in which we are doing business and the financial markets generally, including continuing uncertainty about the strength and speed of recovery in the United States and other key economies, the impact of governmental stimulus and austerity initiatives, and sovereign credit concerns in Europe and other key economies.

The price of the Notes may be adversely affected by unfavorable changes in these factors. The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Such fluctuations could have an adverse effect on the price of the Notes.

In addition, credit rating agencies continually review their ratings for the companies that they follow, including us. A negative change in our rating could have an adverse effect on the price of the Notes.

FORWARD LOOKING INFORMATION

This prospectus supplement and the accompanying prospectus, including the information incorporated by reference herein, contains forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as intend, plan, may, should, will, project, estimate, anticipate, beli continue, potential, opportunity and similar expressions, whether in the negative or affirmative. All statements about future expectations or projection, including statements about loan volume, the adequacy of the loan loss allowance, operating income and expenses, leverage and debt to equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance could materially differ. Factors that could cause future results to vary from current expectations include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, non-performance of counterparties to our derivative agreements and the costs and effects of legal or governmental proceedings involving CFC or its members. Some of these and other factors are discussed in our annual and quarterly reports previously filed with the SEC. Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect new information, future events or changes in expectations after the date on which the statement is made.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for the five years ended May 31, 2012 are included in Exhibit 12 to our Annual Report on Form 10-K for the fiscal year ended May 31, 2012, and are incorporated by reference into this prospectus. Our ratios of earnings to fixed charges for the three and nine months ended February 28, 2013 and February 29, 2012 are included in our Quarterly Report on Form 10-Q for the quarter ended February 28, 2013, and are incorporated by reference.

USE OF PROCEEDS

We expect to receive proceeds, after deducting the underwriting discounts and other offering expenses payable by us, of approximately $ million. The proceeds will be used by us for general corporate purposes, which may include the redemption of some or all of our 6.1% Subordinated Notes due 2044, of which $88.2 million aggregate principal amount are outstanding, the redemption of some or all of our 5.95% Subordinated Notes due 2045, of which $98.2 million aggregate principal amount are outstanding, or the repayment of short term debt.

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DESCRIPTION OF THE NOTES

The following description of specific terms of the Notes should be read in conjunction with the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus under the caption Description of Subordinated Debt Securities.

The Notes will be issued as a series of subordinated debt securities under the Indenture. We are initially offering the Notes in the principal amount of $. There is no limit on the amount of additional securities similar to the Notes that may be issued under the Indenture. We may, without the consent of the holders, issue additional Notes and thereby increase that principal amount in the future, on the same terms and conditions and with the same CUSIP number as the Notes we offer by this prospectus supplement. These additional Notes will, together with the Notes we offer by this prospectus supplement, constitute a single series of Notes under the Indenture. We will not issue any further securities intended to form a single series with the Notes unless such further securities will be fungible with all Notes of the same series for U.S. Federal income tax purposes.

Maturity

The Notes will mature on , 2043. If that day is not a business day, payment of principal and interest will be postponed to the next business day and no interest will accrue as a result of that postponement.

Interest Rate and Interest Payment Dates

Fixed-Rate Period

From and including , 2013 to but excluding , 2023 or any earlier redemption date, the Notes will bear interest at the annual rate of %, and we will pay accrued interest semi-annually in arrears on and of each year, beginning on , 2013 and ending on , 2023, subject to our rights and obligations under Option to Extend Interest Payment Period. These dates are referred to as fixed-rate interest payment dates, and the period from and including , 2013 to but excluding the first fixed-rate interest payment date and each successive period from and including a fixed-rate interest payment date to but excluding the next fixed-rate interest payment date is referred to as a fixed-rate interest period.

Interest payments will be made to the persons or entities in whose names the Notes are registered at the close of business on or (whether or not a business day), as the case may be, immediately preceding the relevant fixed-rate interest payment date. The amount of interest payable for any fixed-rate interest period will be computed on the basis of a 360-day year consisting of twelve 30-day months. In the event that any fixed-rate interest payment date falls on a day that is not a business day, the interest payment due on that date will be postponed to the next day that is a business day, and no additional interest will accrue as a result of that postponement.

Business day means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed, (iii) a day on which the corporate trust office of the Trustee is closed for business or (iv) on or after , 2023, a day that is not a London banking day.

Floating-Rate Period

From and including , 2023 to but excluding the maturity date or any earlier redemption date, the Notes will bear interest at an annual rate equal to three-month LIBOR, as defined below, plus %, and we will pay accrued interest quarterly in arrears on , , and of each year (or if any of these days is not a business day, on the next business day, except that, if such business day is in the next succeeding calendar month, interest will be payable on the immediately preceding business day), beginning on , 2023, subject to our rights and obligations under Option to Extend Interest Payment Period. These dates are referred to as floating-rate interest payment dates, and together with the fixed-rate interest payment dates, as interest payment dates, and the period from and including , 2023 to but excluding the first floating-rate interest payment date and each successive period from and including a floating-rate interest payment date to but excluding the next floating-rate interest payment date is referred to as a floating-rate interest period and together with the fixed-rate interest period, as interest payment periods.

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We will pay such accrued interest to the persons or entities in whose names the Notes are registered at the close of business on , , and of each year (whether or not a business day), as the case may be, immediately preceding the relevant floating-rate interest payment date. The amount of interest payable for any floating-rate interest period will be computed on the basis of a 360-day year and the actual number of days elapsed.

For the purposes of calculating interest due on the Notes during any floating rate interest period:

Three-month LIBOR means, with respect to any floating-rate interest period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that floating-rate interest period that appears on Reuters Page LIBOR01 as of 11:00 a.m., London time, on the LIBOR determination date (as defined below) for that floating-rate interest period. If such rate does not appear on Reuters Page LIBOR01, three-month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three-month period commencing on the first day of that floating-rate interest period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the calculation agent (as defined below) after consultation with us, at approximately 11:00 a.m., London time, on the LIBOR determination date for that floating-rate interest period. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two such quotations are provided, three-month LIBOR with respect to that floating-rate interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of such quotations. If fewer than two quotations are provided, three-month LIBOR with respect to that floating-rate interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of the rates quoted by three major banks in New York City selected by the calculation agent after consultation with us, at approximately 11:00 a.m., New York City time, on the first day of that floating-rate interest period for loans in U.S. dollars to leading European banks for a three-month period commencing on the first day of that floating-rate interest period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by the calculation agent to provide quotations are quoting as described above, three-month LIBOR for that floating-rate interest period will be the same as three-month LIBOR as determined for the previous floating-rate interest period or, in the case of the interest period beginning on , 2023, %. The establishment of three-month LIBOR for each floating-rate interest period by the calculation agent will (in the absence of manifest error) be final and binding.

Calculation agent means U.S. Bank National Association, or any other firm appointed by us, acting as calculation agent.

Reuters Page LIBOR01 means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated by us as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered Rate for U.S. dollar deposits).

LIBOR determination date means the second London banking day (as defined below) immediately preceding the first day of the relevant floating-rate interest period.

London banking day means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

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Option to Extend Interest Payment Period

So long as there is no event of default under the Indenture with respect to the Notes that is continuing, we may at any time and from time to time during the term of the Notes extend the interest payment period (such a period being referred to as an extension period) for a period not exceeding five (5) consecutive years, except that we may not extend the interest payment period beyond the maturity date, any earlier accelerated maturity date arising from an event of default or any other earlier redemption of the Notes. During an extension period, interest will continue to accrue on the Notes at the then-applicable rate described above and accrued interest on the Notes will bear additional interest at the then-applicable interest rate, compounded on each interest payment date, subject to applicable law. At the end of an extension period, unless further extended in accordance with the requirements below, we must pay all accrued and unpaid interest (and interest thereon).

During any extension period we may not declare or pay any dividend or interest on, or principal of, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our members subordinated certificates. Before the termination of any extension period, we may further extend the interest payment period, so long as the extension period, together with all previous and further extensions, would not exceed five (5) consecutive years or extend beyond the maturity of the Notes. No extension period (including as extended) may end on a day other than the last day of an interest payment period.

Upon the termination of an extension period and the payment of all amounts then due (including interest on unpaid interest), we may select a new extension period, subject to the above requirements. No interest during an extension period, except at the end thereof, shall be due and payable. We shall give the holders of the Notes and the Trustee notice of our election of extension of an extension period at least ten business days prior to the earlier of (i) the next interest payment date and (ii) the date upon which we are required to give notice to any applicable self-regulatory organization or to holders of the Notes of such next succeeding record or payment date for such interest payment.

Redemption

Optional Redemption

At any time on or after , 2023, we will have the right to redeem the Notes, in whole or in part and from time to time, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the Notes being redeemed to, but excluding, the date of redemption.

At any time before , 2023, we will have the right to redeem the Notes, in whole or in part and from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed (exclusive of interest accrued to the redemption date) from the redemption date to , 2023 (assuming, solely for the purposes of this calculation, that the principal amount of the Notes to be redeemed was payable on , 2023), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus basis points, plus, in either case, accrued and unpaid interest on the Notes being redeemed to, but excluding, such redemption date.

For purposes of these redemption provisions, the following terms have the following meanings:

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term to , 2023 of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to , 2023 of such Notes.

Comparable Treasury Price means with respect to any redemption date for the Notes, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than four such Reference Treasury Dealer Quotations are obtained, the average of all such Reference Treasury Dealer Quotations.

Quotation Agent means one of the Reference Treasury Dealers appointed by us.

Reference Treasury Dealer means each of J.P. Morgan Securities LLC, RBC Capital Markets, LLC and RBS Securities Inc. plus one other financial institution appointed by us at the time of any redemption, or their respective affiliates which are primary U.S. Government securities dealers in the United States (a Primary Treasury Dealer), and their respective successors; provided, however, that if any of the foregoing or their affiliates or successors shall cease to be a Primary Treasury Dealer, we shall substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

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Redemption Procedures

We will provide not less than 30 nor more than 60 days notice mailed to each registered holder of the Notes to be redeemed. If the redemption notice is given and funds deposited as required, then interest will cease to accrue from and after the redemption date on the Notes or portions of such Notes called for redemption. In the event that any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

Ranking

The Notes will be unsecured subordinated debt securities and will be subordinated, to the extent and in the manner set forth in the Indenture, and as described further in the accompanying prospectus under Description of Subordinated Debt Securities Subordination, in right of payment and upon liquidation to the prior payment in full of all of our senior indebtedness.

The term senior indebtedness is defined in the Indenture to mean:

- all indebtedness heretofore or hereafter incurred by us for money borrowed unless by its terms it is provided that such indebtedness is not senior indebtedness;

- all other indebtedness hereafter incurred by us which by its terms provides that such indebtedness is senior indebtedness;

- all guarantees, endorsements and other contingent obligations in respect of, or obligations to purchase or otherwise acquire or service, indebtedness or obligations of others; and

- any amendments, modifications, deferrals, renewals or extensions of any such senior indebtedness, or debentures, notes or evidences of indebtedness heretofore or hereafter issued in evidence of or exchange of such senior indebtedness.

As of February 28, 2013, outstanding senior indebtedness aggregated approximately $19.3 billion, including contingent guarantees of $1.1 billion. As of February 28, 2013, outstanding indebtedness ranking equal in right of payment and upon liquidation to the Notes aggregated approximately $0.2 billion.

The Notes will rank equal in right of payment and upon liquidation to our outstanding subordinated debt.

The Notes will be senior to our members subordinated certificates.

Events of Default

The following events of default are applicable to the Notes instead of the events of default described in the accompanying prospectus:

- failure to pay interest on the Notes within 60 days after such interest is due (provided, however, that a failure to pay interest during a valid optional extension period will not constitute an event of default, as described above under Option to Extend Interest Payment Period);

- failure to pay principal of or any premium on the Notes when due; and

- certain bankruptcy, insolvency or reorganization events with respect to CFC.

No event of default with respect to one series of subordinated debt securities necessarily constitutes an event of default with respect to another series of subordinated debt securities.

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With respect to the Notes, a failure to comply with the other covenants under the Indenture does not constitute an event of default. See Description of Subordinated Debt Securities Events of Default, Notice and Waiver in the accompanying prospectus for a description of the rights and remedies relating to events of default.

Agreement by Holders of Certain Tax Treatment

Each holder of the Notes will, by accepting the Notes or a beneficial interest therein, be deemed to have agreed that the holder intends that the Notes constitute indebtedness and will treat the Notes as indebtedness for all United States federal, state and local tax purposes.

Denomination

The Notes will be issued in denominations of $1,000 and any integral multiple thereof.

Governing Law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, without regard to its principles of conflicts of laws.

Paying Agent and Registrar

Initially, U.S. Bank National Association will act as paying agent and registrar for the Notes.

Book-Entry System

DTC, to which we refer along with its successors in this capacity as the depositary, will act as securities depositary for the Notes. The Notes will be issued only as fully registered securities registered in the name of Cede & Co. (Cede), the depositary s nominee. One or more fully registered global security certificates, representing the total aggregate principal amount of the Notes, will be issued and will be deposited with the depositary or its custodian and will bear a legend regarding the restrictions on exchanges and registration of transfer of the global securities. So long as Cede, as the nominee of DTC, is the registered owner of any global security, Cede for all purposes will be considered the sole holder of that global security. Except as provided below, owners of beneficial interests in a global security will not be entitled to have certificates registered in their names, will not receive physical delivery of certificates in definitive form and will not be considered the holders thereof.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes so long as the Notes are represented by global security certificates.

Investors may elect to hold interests in the Notes in global form through DTC in the United States or through Clearstream or Euroclear in Europe, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream s and Euroclear s names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries names on the books of DTC.

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading