ARTHUR ANDERSEN

Federal Financing Bank

Financial Statements
As of September 30,1999 and 1998
Together With Auditors' Report

ARTHUR ANDERSEN

Report of Independent Public Accountants on Financial Statements

To the Inspector General and the Fiscal Assistant Secretary of
the U.S. Department of the Treasury:

We have audited the accompanying statements of financial position of the Federal Financing Bank (the "Bank") as of September 30, 1999 and 1998, and the related statements of operations and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards** (1994 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with **Government Auditing Standards,** we have also issued our reports dated January 4,2000, on our consideration of the Bank's internal controls over financial reporting and on our tests of its compliance with laws and regulations.

Arthur Andersen LLP

Vienna, Virginia
January 4,2000

ARTHUR ANDERSEN

Report of Independent Public Accountants on Internal Controls

To the Inspector General and the Fiscal Assistant Secretary of
the U.S. Department of the Treasury:

We have audited the financial statements of the Federal Financing Bank (the "Bank") as of and for the year ended September **30,** 1999, and have issued our report thereon dated January 4,2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards** (1994 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Bank's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Bank in a separate letter dated January 4,2000.

This report is intended for the information of the Inspector General, the Fiscal Assistant Secretary of the U.S. Department of the Treasury, management of the Bank, the Office of Management and Budget, and Congress and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Vienna, Virginia
January 4,2000

ARTHUR ANDERSEN

Report of Independent Public Accountants on Compliance With Laws and Regulations

To the Inspector General and the Fiscal Assistant Secretary of
the **U.S.** Department of the Treasury:

We have audited the financial statements of the Federal Financing Bank (the "Bank") as of and for the year ended September **30,** 1999, and have issued our report thereon dated January 4, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards (1994** revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Bank is the responsibility of the Bank's management. As part of obtaining reasonable assurance about whether the statements referred to above are free of material misstatement, we performed tests of the Bank's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under **Government Auditing Standards.**

This report is intended for the information of the Inspector General, the Fiscal Assistant Secretary of the U.S. Department of the Treasury, management of the Bank, the Office of Management and Budget, and Congress and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Vienna, Virginia
January 4, 2000

Federal Financing Bank

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Federal Financing Bank

Statements of Financial Position
As of September 30,1999 and 1998
(In thousands)

Assets

	1999	1998
Funds with U.S. Treasury	$ 371,559	$ 348,163
Funds with U.S. Treasury, restricted	238,507	—
Loans receivable	43,282,000	46,141,863
Allowance for loan losses	(226,145)	(217,269)
Loans receivable, net	43,055,855	45,924,594
Accrued interest receivable	909,727	1,051,234
Other assets	16	270
Total assets	$44,575,664	$47,324,261

Liabilities and Accumulated Deficit

	1999	1998
Borrowings	$43,275,852	$49,216,664
Accrued interest payable	1,234,940	1,379,862
Cash due U.S. Treasury	238,507	—
Other liabilities	153	135
Total liabilities	44,749,452	50,596,661
Accumulated deficit	(173,788)	(3,272,400)
Total liabilities and accumulated deficit	$44,575,664	$47,324,261

The accompanying notes are an integral part of these statements

Federal Financing Bank

Statements of Operations and Accumulated Deficit
For the Years Ended September 30,1999 and 1998
(In thousands)

	1999	1998
Interest on loans	$3,712,249	$4,506,801
Interest on borrowings	(3,675,780)	(4,615,223)
Net interest income (expense)	36,469	(108,422)
Appropriations revenue	4,234,251	—
(Provision for) reversal of loan losses	(43,144)	6,019
Administrative expenses	(1,890)	(2,037)
Loss on loan prepayments	(1,127,074)	—
Net income (loss)	3,098,612	(104,440)
Accumulated deficit, beginning of the year	(3,272,400)	(3,167,960)
Accumulated deficit, end of the year	$ (173,788)	$(3,272,400)

The accompanying notes are an integral part of these statements.

Federal Financing Bank

Statements of Cash Flows
For the Years Ended September 30,1999 and 1998
(In thousands)

	1999	1998
Cash flows from operating activities:		
Net income (loss)	$ 3,098,612	$ (104,440)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations–		
Provision for (reversal of) loan losses	43,144	(6,019)
Premium/discount amortization	—	70
Decrease in accrued interest receivable	141,507	189,605
Decrease (increase) in other assets	254	(270)
Decrease in accrued interest payable	(144,922)	(586,460)
Decrease in debt prepayment premium payable	—	(2,201,191)
Increase (decrease) in other liabilities	18	(285,274)
Net cash provided by (used in) operations	3,138,613	(2,993,979)
Cash flows from investing activities:		
Loan disbursements	(218,041,521)	(136,182,566)
Proceeds from loan principal collections	220,867,116	140,117,262
Net cash provided by investing activities	2,825,595	3,934,696
Cash flows from financing activities:		
Proceeds from borrowings	221,117,782	139,264,084
Repayments of borrowings	(227,058,594)	(140,194,742)
Net cash used in financing activities	(5,940,812)	(930,658)
Net increase in cash	23,396	10,059
Cash, beginning of the year	348,163	338,104
Cash, end of the year	$ 371,559	$ 348,163

The accompanying notes are an integral part of these statements.

Federal Financing Bank

Notes to Financial Statements
For the Years Ended September 30,1999 and 1998

1. Summary of Significant Accounting Policies:

The Federal Financing Bank (the "Bank) was created by the Federal Financing Bank Act of 1973 (12 USC 2281, the "Act") as an instrumentality of the U. S. Government and a body corporate under the general supervision of the Secretary of the Treasury. The budget and audit provisions of the Government Corporation Control Act are applicable to the Bank in the same manner as they are applied to other wholly owned government corporations.

The Bank was established by Congress at the request of the Treasury Department ("Treasury") in order "to assure coordination of Federal and federally assisted borrowing programs with the overall economic and fiscal policies of the government, to reduce the cost of Federal and federally assisted borrowing from the public, and to assure that such borrowings are financed in a manner least disruptive to private financial markets and institutions." The Bank was given broad statutory authority to finance obligations issued, sold, or guaranteed by Federal agencies *so* that the Bank could meet these debt management objectives.

The Bank is authorized, with the approval of the Secretary of the Treasury, to issue obligations to the public in amounts not to exceed $15 billion. Additionally, the Bank is authorized to issue obligations in unlimited amounts to the Secretary of the Treasury and, at his discretion, the Secretary of the Treasury may agree to purchase any such obligations.

Basis of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles for commercial enterprises and, therefore, are presented on the accrual basis of accounting.

Funds With U.S. Treasury

As a government corporation, the Bank maintains a fund balance with Treasury (Fund account 20X4521) and does not hold cash. A separate account with Treasury (Fund account 2094521) is used to record the unexpended expired appropriation. For the purposes of the statements of cash flows, the funds with Treasury are considered cash. Except for the expired appropriation, which is shown as Funds with U.S. Treasury, restricted on the statement of financial position, these funds are readily available and meet the definition of cash equivalents established under Statement of Financial Accounting Standards ("SFAS") No. 95, "Statement of Cash Flows."

Debt Prepayment Premium

The debt prepayment premium is calculated as the difference between the face amount of the Treasury borrowing being prepaid (which is the amount the Bank receives in prepayment proceeds) and the present value of the expected future cash flows under the original terms, discounted at Treasury's cost of borrowing on the prepayment date (the amount the Bank must pay to Treasury in order to prepay the Bank's borrowings). The nature of the debt prepayment premium is discussed in further detail in Note 6.

Loss on Loan Prepayments

Loss on loan prepayments is calculated as the difference between the par amount of the Tennessee Valley Authority ("TVA") loans being repaid and the present value of the expected future cash flows under the original terms of the TVA loan agreement. The nature of the loss on loan prepayments for the TVA loans is discussed in further detail in Note 7.

Interest on Loans

The Bank's general policy is to charge borrowers an interest rate that is one-eighth of one percent higher than its cost of borrowing from Treasury. Under amendments to the Federal Credit Reform Act effective October 1, 1998, the Bank is still permitted to charge the one-eighth of one percent margin on new lending arrangements with government guaranteed borrowers; however, this one-eighth of one percent margin is no longer retained by the Bank and is transferred to the loan guarantor. At September 30, 1999, the Bank was not permitted to retain the margin on approximately $117 million of loans outstanding. In the event that this results in the Bank being unable to fund its administrative expenses related to these loans, the Federal Credit Reform Act, as amended, states that the Bank may require reimbursements from loan guarantors.

Allowance for Loan Losses

Loan principal and interest are generally guaranteed by federal agencies and are backed by the full faith and credit of the U.S. Government. Direct loans to the United States Postal Service ("USPS") are an exception since the U.S. Government does not guarantee them. At September 30, 1999 and 1998, direct loans to USPS were $6.3 billion and $5.7 billion, respectively. In management's opinion, loans receivable from USPS as of September 30, 1999 and 1998, were fully collectible; accordingly, no allowance for loan losses was recorded. The Bank has not incurred, and does not expect to incur, any credit-related losses on its loans.

Under Title III of the Rural Electrification Act of 1936, the Bank receives interest on certain loans to the Rural Utilities Service ("RUS") at an interest rate that is less than the contractual interest rate stated in the loan agreements to RUS. The amount of interest contractually due to the Bank is reduced by the amount of an interest credit to RUS. This interest credit is calculated based on the balance in the RUS Liquidating Fund. The Bank has no control over the balances in the RUS Liquidating Fund. The Bank does not have any recourse against RUS and must absorb the cost of the interest credit (i.e. "forgone interest"). However, the Bank is obligated to pay contractual interest on its borrowings from Treasury.

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair market value of the loan or underlying collateral. SFAS No. 114 considers a loan to be impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the original agreement. Management of the Bank has determined that certain RUS loans are impaired as defined by SFAS No. 114 since the Bank will not receive all interest due in accordance with the original terms of the loan agreements and, accordingly, has recorded an allowance for loan losses as described below.

The Bank had impaired loans, as a result of forgone interest as described above, with a book value of $4.6 billion at September 30, 1999 and 1998, before related allowances for loan losses of $226 million and $217 million, respectively. Interest on impaired loans is recognized using the current interest rate of the loan and the accrual method. The Bank recognized interest income of $496 million on its impaired loans for each of the years ended September 30, 1999 and 1998. The Bank calculates its allowance for loan losses based on the total amount of future interest credit that it expects to provide to RUS discounted at the effective interest rate on the underlying loans. The allowance for loan losses is based on estimates, and ultimate losses may vary from current estimates. Adjustments to the allowance for loan losses are reported in the period that they are determined to be necessary.

Activity in the allowance for loan losses for the years ended September 30, 1999 and 1998, is as follows:

	1999	1998
	(In thousands)	
Allowance for loan losses, beginning of year	$217,269	$300,827
Provision for (reversal of) loan losses	43,144	(6,019)
Charge-offs	(34,268)	(77,539)
Allowance for loan losses, end of year	$226,145	$217,269

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date *of* the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Related Parties

The Bank is subject to the general supervision and direction of the Secretary of the Treasury. As provided by law, the Secretary of the Treasury acts as Chairman of the Board of Directors. Employees of Treasury's departmental offices perform the Bank's management and accounting functions; its legal counsel is the General Counsel of the Treasury. The Bank reimburses Treasury for facilities and services that Treasury provides. These reimbursements totaled $1.8 million and $2.0 million for the years ended September 30, 1999 and 1998, respectively.

2. Accumulated Deficit:

At September 30, 1998, the Bank reported an accumulated deficit of $3.3 billion. The deficit results primarily from:

- One borrower takes interest credits against interest contractually owed to the Bank, thereby decreasing the cash interest collected (see Note 1).

- Certain borrowers have received legislative authority to prepay loans to the Bank at par in situations where the Bank had to pay premiums on the underlying Treasury borrowings. The payment of the premiums to Treasury were financed with additional Treasury borrowings that accrue interest (see Note 6).

The accumulated deficit was increased in October 1998 when the Bank was required to pay a $1.1 billion prepayment premium to the Civil Service Retirement and Disability Fund ("CSR & DF") pursuant **to** a recourse arrangement with CSR & DF (see Note 7).

As discussed in Note 3, the Bank received a federal appropriation in October 1998 totaling $4.5 billion. These appropriations allowed the Bank to liquidate amounts owed to Treasury arising from the payment of debt prepayment premiums and also to repay CSR & DF for amounts owed related to prepayment premiums on loans.

Despite the appropriation received, the Bank remained in an accumulated deficit position of $174 million at September 30, 1999. The Bank will continue to experience cash interest shortfalls as the borrower applies interest credits to contractually owed interest. Additionally, the Bank may be required to repurchase certain loans at the current market value of the loans pursuant to the exchange agreement discussed in Note 7. Further, although not anticipated by management of the Bank, certain borrowers may receive legislative authority in the future to prepay their loans to the Bank at par which could require the Bank to fund additional debt prepayment premiums on its Treasury borrowings.

3. Revenue and Financing Sources:

The Bank's primary source of revenue is interest earned on loans to Federal agencies. However, Public Law 105-277, approved October 21, 1998, appropriated $3.3 billion to the Bank to liquidate certain Treasury debts (see Note 6) and $1.2 billion to repay CSR & DF for premiums owed on certain TVA loans that were repurchased at par (see Note 7). The appropriation expired on September 30, 1999, and the unexpended funds are maintained in the statement of financial position as restricted cash and liability to the U.S. Treasury in accordance with applicable federal law governing appropriations accounting.

4. Loans Receivable:

Loans receivable include agency loans purchased, direct loans to federal agencies, and loans to nonfederal entities. Agency loans purchased are either notes or pools of loans sold by federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Direct loans to agencies are debt securities issued to the Bank by agencies that Congress has authorized so that these federal agencies can finance their activities. These include loans made to USPS. Loans to nonfederal entities are loans made to nonfederal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency.

Loans receivable at September 30, 1999 and 1998, consist of the following:

Agency	1999	1998
	(In thousands)	
Agency Loans Purchased:		
Farmers Home Administration, Department of Agriculture	$10,535,000	$13,175,000
Medical Facilities, Department of Health and Human Services	3,195	7,179
Health Maintenance Organization, Department of Health and Human Services	1,617	3,090
Rural Utilities Service, Department of Agriculture	4,598,907	4,598,907
Total agency loans purchased	15,138,719	17,784,176
Direct Loans to Agencies:		
U. S. Postal Service	6,279,100	5,696,100
Total direct loans to agencies	6,279,100	5,696,100
Guaranteed Loans to Nonfederal Entities:		
Foreign Military Sales, Department of Defense	2,610,933	2,829,035
General Services Administration	2,571,785	2,660,520
Community Development Block Grants – Department of Housing and Urban Development	13,632	30,424
Low Rent Public Housing, Department of Housing and Urban Development	1,419,896	1,491,412
Ship Leasing, Department of Defense, Navy	1,138,685	1,224,931
Rural Utilities Service, Department of Agriculture	13,884,971	14,166,478
Small Business Administration	193,863	233,378
Virgin Islands, Department of Interior	16,130	17,475
Historical Black Colleges and Universities, Department of Education	11,136	4,712
Federal Railroad Administration, Department of Transportation	3,689	3,822
Total guaranteed loans to nonfederal entities	21,864,720	22,662,187
Allowance for loan losses (Note 1)	(226,145)	(217,269)
Discount	(539)	(600)
Total loans receivable, net	$43,055,855	$45,924,594

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5. Borrowings:

The Bank finances its loan portfolio primarily by borrowing from Treasury. Under the Act, the Bank may, with the approval of the Secretary of the Treasury, borrow without limit from Treasury. At September 30,1999, the Bank had outstanding amounts owed to Treasury of $28.3 billion, with interest rates ranging from 4.329 to 16.241 percent and maturity dates from October 1, 1999, to January 3, 2034. At September 30, 1998, the Bank had outstanding borrowings of $34.2 billion, with interest rates ranging from 4.731 to 16.241 percent and maturity dates from October 1, 1998, to December 31, 2031. The outstanding amount at September 30, 1998, includes funds of $3.0 billion that the Bank borrowed from Treasury in September 1998 to finance the debt prepayment premium payable and related interest the Bank incurred on the liability as described in Note 6 and $0.2 billion in capitalized interest payable.

Additionally, at September 30, 1999 and 1998, the Bank had borrowings of $15.0 billion from the Civil Service Trust Fund, which is administered by the Office of Personnel Management ("OPM"). These borrowings are at interest rates ranging from 8.75 to 9.25 percent, with maturity dates ranging from June 30, 2003, to June 30, 2005.

Scheduled principal repayments of borrowings as of September 30, 1999, are as follows:

Year Ending September 30	Amount (In thousands)
2000	$ 6,228,203
2001	1,734,562
2002	1,756,105
2003	649,692
2004	1,824,133
2005 and thereafter	31,083,157
Total	$43,275,852

6. Debt Prepayment Premium:

Under the terms of its master promissory note with Treasury, the Bank must liquidate its borrowings with Treasury at the same time as loans receivable financed by those borrowings are liquidated. The Banks normal policy is to match the maturity and, except for a one-eighth of one percent spread, the interest rate on its loans receivable with the interest rate on its borrowings. In addition, for most of its loans, premiums or discounts resulting from loan prepayments are equivalent to the premiums or discounts the Bank paid or received when it simultaneously prepaid its Treasury borrowings. Premiums or discounts arise to the extent that market interest rates at the prepayment date differ from rates stated in the loan agreements. The effect of this policy is to mitigate the Bank's risk from interest rate fluctuations.

However, Congress authorized certain RUS guaranteed borrowers to prepay their loans at par rather than market value, up to a specified dollar limit. Further, legislation also authorized borrowers in the foreign military sales program guaranteed by the Department of Defense to prepay, at par, certain loans meeting specific criteria. The effect of these statutes was to waive premium payments to the Bank, which would otherwise have resulted from the fact that interest rates at the dates of prepayment were less than the rates in the loan agreements. Notwithstanding the fact that the borrowers' premiums were waived, the Bank remained liable for premiums due on its debt to the Treasury and incurred prepayment penalties. The Banks debt prepayment premium payable was repaid to the Treasury through the issuance in September 1998 of an additional $3.0 billion loan to the Bank. The Bank incurred interest expense of $19 million and $106 million related to the funding of the debt prepayment premium in fiscal years 1999 and 1998, respectively.

There were no par prepayments of the Banks loans in fiscal years 1999 and 1998 except as disclosed in note 7 herein. However, certain of the Bank's borrowers elected to prepay their loans at market value during 1999 and 1998. The Bank received premiums on loan prepayments from borrowers of $26 million and $281 million in 1999 and 1998, respectively. The Bank paid these same amounts to the Treasury in 1999 and 1998 in order to liquidate its borrowings associated with these loans. The loan prepayments received and debt prepayment premiums paid are included in interest on loans and interest on borrowings, respectively, in the accompanying statements of operations and accumulated deficit.

7. Loss on Loan Prepayments:

In February 1996, the Bank exchanged $7.9 billion of its loans made to TVA and USPS with CSR & DF for an equivalent amount of Treasury securities. The securities were simultaneously transferred to the Secretary of Treasury to reduce the Bank's outstanding borrowings. The exchange was initiated to allow Treasury to fulfill its financial obligations without increasing the statutory debt limit. The Bank continued to service these loans on behalf of CSR & DF. The terms of the exchange agreement granted CSR & DF the ability to require the Bank to repurchase, on any date, the remaining and outstanding balance of TVA and USPS loans at a price specified in the exchange agreement. The exchange agreement states that the price the Bank should pay for a mandatory repurchase of loans should approximate the current market value of the loans based on the terms of the loan agreement.

Under Section 103 of Public Law 105-277, approved October 21, 1998, TVA was allowed to repurchase $3.2 billion of these loans through the payment of the principal amount of the loans and accumulated interest at the date of the repurchase. This law waived any premium payments TVA should have made based upon the terms of the loans. CSR & DF would therefore have to absorb the difference between the par amount of the loans and the premium payments TVA should have made on the loans that were repurchased.

Due to the fact that the exchange agreement between CSR & DF and the Bank granted CSR & DF the ability to require the Bank to repurchase TVA and USPS loans at the current market value of these loans, the Bank has assumed responsibility for the payment of this premium expense. Under Section 103 of Public Law 105-277, the Bank was appropriated $1.155 billion in order to repay CSR & DF for the $1.127 billion prepayment premium and also to pay the Bank $28 million of servicing income the Bank would have received if these loans had not been prepaid at par. The loss on loan prepayments is shown as an expense in the statement of operations and accumulated deficit.

8. Fair Value of Financial Instruments:

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value. Fair values are based on estimates using the present value of estimated cash flows using a discount rate for identical or comparable instruments, commensurate with the risks involved or other valuation techniques. The resultant fair values are affected by the assumptions used, including the discount rate and estimates as to the amounts and timing of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of year end, or that will be realized in the future.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Funds With U.S. Treasury

The carrying amount approximates fair value.

Loans Receivable and Borrowings

The fair value of loans receivable and borrowings is calculated using a discounted cash flow analysis based on contractual repayment terms. The discount rates used in the loans receivable analysis is based on interest rates currently being offered by the Treasury on loans of similar maturity and other characteristics. The discount rates used in the borrowings analysis is based on interest rates of current borrowings from Treasury using similar maturity and other characteristics. The fair value of loans receivable at September 30, 1999 and 1998, was $48.9 billion and $56.4 billion, respectively. The fair value of borrowings at September 30, 1999 and 1998 was $48.6 billion and $56.0 billion, respectively.

Accrued Interest Receivable, Other Assets,
Accrued Interest Payable, Other Liabilities

The carrying amount approximates fair value.

Loan Commitments

The fair value of loan commitments is assumed to equal their carrying values, which are immaterial. Extensions of credit under these commitments, if exercised, would result in loans priced at market terms.

9. Commitments and Contingencies:

Almost all the Bank's loans are to federal agencies or to private sector borrowers whose loans are guaranteed by a federal agency. When an agency has to honor its guarantee because a borrower defaults, that agency must obtain an appropriation or use other resources to pay the Bank. However, if an appropriation is not granted or federal agencies are not allowed to fund the losses by borrowing from Treasury and the Bank is legislatively required to absorb the debt the agency owes it, then the Bank would incur a loss. The Bank has incurred such a loss related to forgone interest in fiscal years 1999 and 1998 as described in Note 1. Management of the Bank has established an allowance for losses related to forgone interest to be incurred in the future.

As of September 30, 1999 and 1998, there were $14 billion and $17 billion, respectively, of loan commitments to borrowers that represent the outstanding amount of approved loans that have not yet been requested and disbursed to the Bank's borrowers.

As part of the exchange agreement between the Bank and CSR & DF as described in Note 7, the Bank is obligated to repurchase, on any date, certain loans made to TVA and USPS. The Bank is required to repurchase these loans at the current market value of the loans based on the terms of the loan agreement. As of September 30, 1999 and 1998, there were $634 million and $3.9 billion, respectively, of these loans outstanding that the Bank could be obligated to repurchase. The current market value of these loans at September 30, 1999 and 1998, was approximately $659 million and $5.3 billion, respectively.

10. Pensions and Accrued Annual Leave:

Either the Civil Service Retirement System ("CSRS") or the Federal Employees Retirement System ("FERS") covers virtually all of the employees whose salary cost is allocated to the Bank by Treasury. For CSRS employees, Treasury withholds a portion of their base earnings. Treasury then matches the employees' contributions and the sum is transferred to the CSR & DF, from which the CSRS employees will receive retirement benefits. For FERS employees, Treasury withholds, in addition to Social Security withholdings, a portion of their base earnings Treasury contributes an amount proportional to the employee's base earnings towards retirement and a scaled amount toward each individual FERS employee's Thrift Savings Plan, depending upon his or her level of savings. The FERS employees will receive retirement benefits from the Federal Employees Retirement System, Social Security System, and the Thrift Savings Plan deposits that have accumulated in their accounts.

Although Treasury funds a portion of pension benefits under the CSRS and FERS relating to its employees and makes the necessary payroll withholdings from them, it has no liability for future payments to employees under these programs and does not account for the assets of the CSRS and FERS, nor does it report actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by OPM for the retirement systems and are not allocated to the individual employers. The OPM also accounts for health and life insurance programs for retired civilian federal employees. Similar to the accounting treatment afforded the retirement programs, the actuarial data related to the health and life insurance programs are maintained and reported by OPM and are not allocated on an individual employer basis.