



FEDERAL FARM CREDIT BANKS

Consolidated Systemwide Bonds and Discount Notes

The Federal Farm Credit Banks Funding Corporation (the "Funding Corporation"), established under the laws of the United States of America and acting as agent for the Banks of the Farm Credit System (the "Banks"), proposes to offer for sale from time to time Federal Farm Credit Banks Consolidated Systemwide Bonds ("Bonds") and Federal Farm Credit Banks Consolidated Systemwide Discount Notes ("Discount Notes") (collectively, the "Securities"). The Securities are the general unsecured joint and several obligations of the Banks and will be issued under the authority of the Farm Credit Act of 1971, as amended (the "Act"), and the regulations of the Farm Credit Administration (the "FCA") thereunder.

THE SECURITIES ARE THE JOINT AND SEVERAL OBLIGATIONS OF THE BANKS AND ARE NOT OBLIGATIONS OF, NOR ARE THEY GUARANTEED BY, THE UNITED STATES OR ANY AGENCY OR INSTRUMENTALITY THEREOF, OTHER THAN THE BANKS. SEE "DESCRIPTION OF THE SECURITIES."

The Securities will be issued in such amounts and will have various interest rates, interest rate formulae, maturities, selling prices and other terms as determined from time to time by the Funding Corporation and as set forth in the applicable Confirmation and/or Term Sheet (in each case as defined herein). The Bonds will generally have maturities ranging from three months to one year from their Issue Date (as defined herein), although other maturities may be offered, and, unless designated as Redeemable Bonds or Optional Principal Redemption Bonds (in each case as specified herein) or otherwise determined by the Funding Corporation, the Bonds will not be subject to redemption prior to maturity. Bonds may bear interest at a fixed rate ("Fixed-Rate Bonds") or a floating rate ("Floating-Rate Bonds"). Unless otherwise determined by the Funding Corporation, and subject to the exceptions set forth herein, (i) interest on Fixed-Rate Bonds will be payable semi-annually in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date (as defined herein) and (ii) interest on Floating-Rate Bonds will be payable in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date. Under the Farm Credit System Financing Calendar ("Financing Calendar") published by the Funding Corporation, subject to the funding needs of the Banks, Bonds will be publicly offered twelve times a year ("Calendar Bonds"). From time to time, the Funding Corporation may agree with one or more Members (as defined herein) to sell Bonds in negotiated transactions ("Negotiated Bonds"). The specific terms of Calendar Bonds, other than Calendar Bonds with unique features, will be set forth in an Offering Announcement (as defined herein) and/or in a Confirmation. The specific terms of Calendar Bonds with unique features and of Negotiated Bonds, including but not limited to price, redemption features (if any), interest rate, selling concession and settlement date, will be set forth in a Term Sheet, which may incorporate or reference provisions of this Offering Circular and any supplements hereto.

Discount Notes will have maturities of one to 365 days from their Issue Date as determined from time to time by the Funding Corporation, will be sold on a discounted basis, and will be paid only at maturity. Currently, the maximum aggregate par amount of Discount Notes that the Banks may have outstanding is \$25 billion, which amount is subject to change by the Funding Corporation at any time, subject to the approval of the FCA, as described herein.

The Securities will be issued and maintained, and may be transferred, only in book-entry form on the book-entry system of the Federal Reserve Banks. Unless otherwise specified by the Funding Corporation, Fixed-Rate Bonds generally will be available in minimum principal amounts of \$1,000 and multiples thereof in the case of Bonds with original maturities of 13 months or more; Fixed-Rate Bonds with original maturities of less than 13 months and Floating-Rate Bonds generally will be available in minimum principal amounts of \$5,000 and multiples thereof. See "Description of the Securities — Bonds." Discount Notes will be available in minimum par amounts of \$5,000 and multiples thereof. See "Description of the Securities — Discount Notes."

THE SECURITIES ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE BANKS ARE NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

The Securities will be offered and sold from time to time by the Funding Corporation to investment dealers and dealer banks which have agreed with the Funding Corporation to participate in the distribution of the Bonds as Members (each a "Member") pursuant to the terms and conditions of an Amended and Restated Bond Selling Group Agreement, as in effect from time to time (each the "Bond Agreement") and in the distribution of the Discount Notes as Core Dealers (each a "CD") pursuant to the terms and conditions of a Discount Note Selling Group Agreement — Core Dealers, as in effect from time to time (each the "CD Agreement"). Under the Bond Agreement and the CD Agreement, a Member and a CD, respectively, will use reasonable efforts to solicit orders for the purchase of Bonds and Discount Notes, as the case may be, offered by the Funding Corporation for sale to investors and may also offer to purchase Securities for resale to investors. The Members and CDs will purchase their respective Securities from the

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Funding Corporation as principal. Subject to the terms and conditions of the Bond Agreement, a Member may agree to purchase certain Bonds for resale to investors at the Issue Price (as defined herein) and may also agree to purchase certain Bonds for resale to investors at varying prices, according to market conditions. Subject to the terms and conditions of the CD Agreement, a CD may agree to purchase Discount Notes for resale to investors on the Issuing Day (as defined herein) at a price which is not less than the Issue Price (as defined herein), and after the Issuing Day may resell Discount Notes to investors at varying prices, according to market conditions. The Funding Corporation will have the sole right to accept offers to purchase the Securities and may reject any proposed purchase of the Securities in whole or in part. Unless otherwise agreed to by the Funding Corporation and the applicable Member or CD, the Funding Corporation will pay a concession (i) to a Member with respect to a Calendar Bond in an amount set forth in the applicable Offering Announcement; (ii) to a Member with respect to a Negotiated Bond in an amount set forth in the applicable Term Sheet; and (iii) to a CD in an amount equal to a specified percent per annum of the par amount of the Discount Notes due at maturity, currently .05 percent. The Funding Corporation may, from time to time, appoint one or more other investment dealers and dealer banks as additional Members or CDs.

In addition to CDs, certain other Members which become Designated Discount Note Dealers (each a "DDND") by entering into a Discount Note Selling Group Agreement — Designated Discount Note Dealers with the Funding Corporation, as in effect from time to time (each the "DDND Agreement"), may solicit offers for certain Discount Notes and offer to purchase Discount Notes for resale to investors, which offers generally will be communicated to the Funding Corporation through a CD. Subject to the terms and conditions of the DDND Agreement, a DDND may agree to purchase Discount Notes from a CD for sale to investors on the Issuing Day at a price which is not less than the Issue Price, and after the Issuing Day may resell Discount Notes to investors at varying prices, according to market conditions. In certain circumstances, a DDND will be entitled to receive a reallocation portion of the concession payable to a CD with respect to the sale of the Discount Notes to the CD in an amount equal to a specified percent per annum of the par amount of the Discount Notes due at maturity, currently .02 percent.

The selling concessions payable to CDs and reallocation concessions payable to DDNDs are subject to change at any time in the sole discretion of the Funding Corporation.

Either the Funding Corporation or a Member, a CD or a DDND, as the case may be, may terminate, upon notice, the status of that Member, CD or DDND as such by termination of the respective Bond, CD or DDND Agreement.

The Securities may also be sold directly by the Funding Corporation to investors. No concession will be payable on sales made directly by the Funding Corporation.

The Securities will not be listed on any securities exchange and there can be no assurance that the Securities described in this Offering Circular will be sold or that there will be a secondary market for the Securities. See "SECONDARY MARKET AND OTHER INVESTMENT RISKS." The Funding Corporation reserves the right to withdraw, cancel or modify the offer made hereby without notice.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IMPORTANT INFORMATION AND INCORPORATION BY REFERENCE

Important information regarding the Banks and the Farm Credit System, including combined financial information, is contained in disclosure information made available by the Funding Corporation. This information consists of the most recent Farm Credit System Annual Information Statement and the most recent Farm Credit System Quarterly Information Statement issued subsequent thereto (collectively, "Information Statements") and certain press releases relating to financial results or to other developments affecting the Farm Credit System issued from time to time by the Funding Corporation, all of which are hereby incorporated by reference into this Offering Circular (the "Incorporated Information"). Such Incorporated Information and the Farm Credit System Annual Report to Investors for the current and two preceding fiscal years are available for inspection at, or will be furnished (without charge) upon request to, the Federal Farm Credit Banks Funding Corporation, Financial Management Division, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; Telephone: (201) 200-8000. This Offering Circular should be read in conjunction with the Incorporated Information. Copies of this Offering Circular and the Incorporated Information are also available from the Members, the CDs and the DDNDs.

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No person is authorized to give any information or to make any representation not contained in this Offering Circular (and any supplements hereto), the Incorporated Information and, if applicable, the Funding Corporation's Offering Announcement or the Term Sheet furnished by the Funding Corporation or in the Confirmation furnished by the Member, CD or DDND, as the case may be, with respect to a particular issue of Securities, and, if given or made, such information or representation must not be relied upon as having been authorized by the Funding Corporation, the Banks, the Members, the CDs or the DDNDs. This Offering Circular does not constitute an offer to sell or a solicitation of any offer to buy any of the Securities offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer. Neither the delivery of this Offering Circular, the Incorporated Information, the Offering Announcement, the Confirmation or the Term Sheet, nor any sale hereunder, shall under any circumstances create any implication that the information herein or therein is correct as of any time subsequent to the respective dates hereof or thereof.

SECONDARY MARKET AND OTHER INVESTMENT RISKS

Generally there is an active secondary market for Calendar Bonds and for Discount Notes. However, certain Bonds, including Negotiated Bonds, may not have an established trading market when issued. Each Member and CD has agreed to use reasonable efforts to facilitate secondary market transactions in the Bonds and Discount Notes, respectively, and each DDND has agreed to use reasonable efforts to facilitate secondary market transactions in the Discount Notes purchased through CDs. The Members, CDs and DDNDs have also agreed to advise the Funding Corporation promptly of any material development known to them in the secondary market for the respective Securities or of their decision to withdraw from secondary market-making in the respective Securities. The Securities will not be listed on any securities exchange. There can be no assurance of a secondary market for the Securities. The Securities may not be suitable investments for certain investors. Risks to investors associated with the purchase of the Securities are, in general, similar to those associated with owning other comparable debt securities. In addition to the credit risk related to the aggregate creditworthiness of the Banks, the market value of the Securities will be affected by a number of risks that are independent of the creditworthiness of the Banks. These risks include, but are not limited to: (1) interest rate risk arising from changes in market rates of interest; (2) spread/market risk arising from changes in the relationship of market yields for the Securities relative to U.S. Treasury issues of similar maturities or to changes in the relationships of other indices utilized to originally price, or to reprice, the Securities; (3) prepayment risk associated with the early redemption of the Securities issued subject to one-time or periodic, full or partial, call provisions; and (4) liquidity risk arising from securities dealers' willingness to maintain a secondary market in the Securities. In particular, no investor should purchase the Securities unless the investor understands and is able to bear market, liquidity, and other possible risks which may, under various market conditions, be associated with the Securities.

SUMMARY

The information below is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular and in the Information Statements and press releases incorporated by reference herein. See “Important Information and Incorporation by Reference.”

- Issuers** The Banks of the Farm Credit System (the “Banks”) are instrumentalities of the United States, federally chartered under the Farm Credit Act of 1971, as amended (the “Act”) and are subject to regulation by the Farm Credit Administration (“FCA”). The Farm Credit System is a nationwide system of lending institutions and affiliated service and other entities which provides credit and related services to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of such cooperatives), rural utilities, and to certain foreign or domestic entities in connection with international agricultural credit transactions.
- Funding Corporation** The Federal Farm Credit Banks Funding Corporation (the “Funding Corporation”) is a corporation established under the laws of the United States and acts as agent for the Banks in the issuance of debt securities and related matters.
- Issue** The Federal Farm Credit Banks Consolidated Systemwide Bonds (“Bonds”) and Federal Farm Credit Banks Consolidated Systemwide Discount Notes (“Discount Notes”) (collectively, the “Securities”).

Under the Farm Credit System Financing Calendar published by the Funding Corporation, subject to the funding needs of the Banks, Bonds will be publicly offered twelve times a year (“Calendar Bonds”). From time to time, the Funding Corporation may agree with one or more Members (as defined below) to sell Bonds in negotiated transactions (“Negotiated Bonds”). The specific terms of Calendar Bonds, other than Calendar Bonds with unique features, will be set forth in an Offering Announcement and/or Confirmation (each as defined herein). The specific terms of Calendar Bonds with unique features and of Negotiated Bonds, including but not limited to price, redemption features (if any), interest rate, selling concession and settlement date, will be set forth in a Term Sheet (as defined herein) related to the particular issue of such Bonds which may incorporate or reference provisions of this Offering Circular and any supplements hereto. The Bonds may be offered at fixed rates of interest (“Fixed-Rate Bonds”) or with interest payable at floating rates (“Floating-Rate Bonds”).

Discount Notes are generally issued each Business Day (as defined herein) by the Funding Corporation. Currently, the maximum aggregate par amount of Discount Notes that the Banks may have outstanding is \$25 billion, which amount is subject to change from time to time by the Funding Corporation, subject to the approval of the FCA, as described herein. The Discount Notes will be offered at a discount computed on the actual number of days from the Settlement Date (as defined

herein) to the Maturity Date (as defined below), based on 360 days per year.

Offering The Securities will be offered in the United States from time to time through the investment dealers and dealer banks appointed by the Funding Corporation (the “Members” or “CDs”). The Funding Corporation may, from time to time, appoint one or more other investment dealers and dealer banks as additional Members or CDs. In addition, certain other Members which are not CDs may be designated by the Funding Corporation to participate in the distribution of the Discount Notes (the “DDNDs”). Either the Funding Corporation or a Member, a CD or a DDND, as the case may be, may terminate, upon notice, the status of that Member, CD or DDND as such by termination of the respective Bond, CD or DDND Agreement (as defined herein). In addition, under certain circumstances, the Funding Corporation may, in its sole discretion, terminate or suspend a Member, a CD or a DDND. The Securities may also be sold directly to investors by the Funding Corporation. See “Plan of Distribution.” Interest rates, Issue Prices (as defined herein), any applicable redemption provisions, maturities, any maximum or minimum interest rate limitations on floating rates, selling concessions and other terms with respect to particular issues of Securities will be established from time to time by the Funding Corporation. Such information will be made available through one or more Members, CDs and DDNDs, and may also be made available through certain financial information services.

General The Securities will be issued pursuant to authorizing resolutions adopted by the boards of directors of each Bank and under the authority of the Act and the regulations of the FCA thereunder (the “Regulations”). Pursuant to the Act, the Securities are the joint and several obligations of the Banks. Pursuant to the Regulations, the Securities, as general unsecured obligations, rank equally with Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other unsecured debt securities on which the Banks are jointly and severally liable. **The Securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the Banks. See “Description of the Securities.”**

Paying Agent Federal Reserve Banks.

Form and Denominations The Securities will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks. The Securities may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Securities have been deposited are herein referred to as “Holders” of such Securities. A Holder of a Security is not necessarily the beneficial owner thereof. Beneficial owners ordinarily will hold Securities through one or more financial intermediaries, such as banks, brokerage firms and

securities clearing organizations. Unless otherwise specified by the Funding Corporation, Bonds will be issued and may be transferred only in minimum principal amounts of \$1,000 and multiples thereof for issues with fixed interest rates and an original maturity of 13 months or more and in amounts of \$5,000 and multiples thereof for issues with fixed interest rates with an original maturity of less than 13 months or for issues with floating interest rates. Discount Notes will be issued and may be transferred only in minimum par amounts of \$5,000 and multiples thereof.

Maturity Dates Each issuance of Bonds will mature on a date (the “Maturity Date”) as determined from time to time by the Funding Corporation. The Bonds may contain provisions permitting the Funding Corporation, at its option, to elect redemption prior to maturity. The Discount Notes will have a Maturity Date from one to 365 days from the Issue Date, as determined from time to time by the Funding Corporation.

Principal Payments The outstanding principal amount of each Bond, together with interest accrued and unpaid thereon, will be payable in full on its Maturity Date or, if subject to an optional redemption and so redeemed, its date of redemption. Certain Bonds may provide for the optional or mandatory payment of a portion of their principal amount prior to the Maturity Date for such Bonds. Discount Notes will be paid on their Maturity Dates at their par amounts.

Interest Payments Interest on three month and six month Calendar Bonds will be payable on the Maturity Date of such Bonds. Unless otherwise agreed to by the Funding Corporation and the Member purchaser, and subject to the exceptions set forth above, (i) interest on other Fixed-Rate Bonds will be payable semi-annually in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date, and (ii) interest on Floating-Rate Bonds will be payable in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date. Interest on a Bond will accrue from and including its Issue Date to but excluding its Maturity Date. Unless otherwise agreed to by the Funding Corporation and the Member purchaser, interest on Fixed-Rate Bonds will be computed on the basis of a 360-day year of twelve 30-day months and interest on Floating-Rate Bonds will be computed using the day-count convention specified in the applicable Term Sheet for such Bonds. See “Description of the Securities — Bonds.” Discount Notes will be offered at a discount computed on the actual number of days from the Settlement Date to the Maturity Date, based on 360 days per year. See “Description of the Securities — Discount Notes.”

Settlement Unless otherwise agreed to by the Funding Corporation and the Member purchaser, settlement of Bonds will occur on the Issue Date. Settlement of Discount Notes will occur on the same day the Discount Notes are sold or allocated by the Funding Corporation to a CD purchaser, unless the Funding Corporation

and the CD purchaser agree on a different date. Payment for the Securities shall be made in immediately available funds and shall be effective only upon the Funding Corporation's receipt of the funds.

Use of Proceeds..... Net proceeds from sales of the Securities will be used by the Banks to fund their loan portfolios, to meet maturing debt obligations, and for other general corporate purposes.

Federal Reserve Eligibility The Securities may be accepted by the Federal Reserve Banks as collateral security for advances to depository institutions under Section 13 of the Federal Reserve Act. In addition, certain Securities are eligible for outright purchase and sale by the Federal Reserve System in its open market operations. Acting as clearing agents, the Federal Reserve Banks maintain accounts for each of the Banks.

Investment Eligibility National banks and state member banks of the Federal Reserve System may invest in the Securities, and, in doing so, are not subject to the statutory limitations and restrictions generally applicable to dealing in, underwriting and purchasing investment securities for their own account. Under the Act, the Securities are lawful investments for all fiduciary and trust funds under the jurisdiction of the Federal government. They are eligible as collateral for Federal government deposits. They are also legal investments for banks, trust companies, savings banks and trust funds in various states, subject to such conditions and restrictions as are contained in applicable state statutes and regulations. The Securities are lawful investments for Federal credit unions and Federal savings and loan associations. See "Description of the Securities — Investment Eligibility and Regulatory Constraints."

THE FARM CREDIT SYSTEM

The Farm Credit System (the “System”) is a nationwide system of lending institutions and affiliated service and other entities. Through its Banks and related associations, the System provides credit and related services to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, certain farm-related businesses, agricultural and aquatic cooperatives (or to other entities for the benefit of such cooperatives), rural utilities, and to certain foreign or domestic entities in connection with international agricultural credit transactions. System institutions are federally chartered under the Act and are subject to regulation by a Federal agency, the FCA. The Banks and related associations are not commonly owned or controlled. They are cooperatively owned, directly or indirectly, by their respective borrowers.

Unlike commercial banks and other financial institutions that lend both to the agricultural sector and to other sectors of the economy, under the Act, System institutions are restricted solely to making loans and providing financially related services to qualified borrowers in the agricultural sector and to certain related entities. Moreover, the System is required to make credit available in all areas of the nation. In order to fulfill its broad statutory mandate, the System maintains lending units in all 50 states and the Commonwealth of Puerto Rico.

The System obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities (as defined below), including the Bonds and Discount Notes. Each issuance of Systemwide Debt Securities must be approved by the FCA. Each Bank determines its participation in each issuance of Systemwide Debt Securities based on its funding and operating requirements, subject to the availability of eligible collateral (as described below), to compliance with conditions of participation as prescribed in an agreement between the Funding Corporation and the Banks, and to determinations by the Funding Corporation as to amounts, maturities, rates of interest, and terms of each issuance.

DESCRIPTION OF THE SECURITIES

General

The Securities will be issued by the Banks through the Funding Corporation pursuant to authorizing resolutions adopted by the boards of directors of each Bank and under the authority of the Act and the regulations of the FCA thereunder (the “Regulations”). The Securities are the general unsecured joint and several obligations of the Banks. **The Securities are not obligations of, nor are they guaranteed by, the United States or any agency or instrumentality thereof, other than the Banks.**

The summaries herein of certain provisions of the Act, the Regulations and the Securities do not purport to be complete and are qualified in their entirety by reference to the provisions of the Act and the Regulations.

Systemwide Debt Securities. Pursuant to the Act, the Banks are jointly and severally liable on the Securities and all other debt securities issued under Section 4.2(d) of the Act (“Systemwide Debt Securities”). Pursuant to the Regulations, the Bonds and Discount Notes rank equally with Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes and other unsecured Systemwide Debt Securities. Systemwide Debt Securities, including the Bonds and Discount Notes, are not issued under an indenture and no trustee is provided for with respect to such securities. Systemwide Debt Securities, including the Bonds and Discount Notes, are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

Joint and Several Liability. Subject to the insurance provisions discussed below, in the event the Bank having primary liability for a Systemwide Debt Security is unable to meet such liability, the FCA is required under the Act to make calls to satisfy the liability first on all non-defaulting Banks in the proportion which each such Bank’s available collateral (*i.e.*, collateral, as defined in the Act and the Regulations and described below, in excess of the aggregate of the Bank’s collateralized obligations) bears to the aggregate available collateral of all such Banks. If such calls do not satisfy the liability, then a further call would be made in proportion to each such Bank’s remaining assets. On making such a call on non-defaulting Banks with respect to a Systemwide Debt Security issued on behalf of a defaulting Bank, the FCA is required to appoint a

receiver for such Bank, which receiver is to expeditiously liquidate the Bank. Pursuant to the Act, such receiver is the Farm Credit System Insurance Corporation (the “Insurance Corporation”) discussed below.

Insurance Fund. As more fully described in the Information Statements, payment of principal of and interest on Systemwide Debt Securities, including the Bonds and Discount Notes, is insured by the Insurance Corporation to the extent provided in the Act. The Insurance Corporation maintains the Farm Credit Insurance Fund (the “Insurance Fund”) for such purpose and for other purposes specified in the Act. In the event of a default by a Bank on an insured debt obligation (as defined in the Act) for which that Bank is primarily liable, the Insurance Corporation must expend amounts in the Insurance Fund to the extent necessary to insure the timely payment of principal of and interest on such debt obligation, and the provisions of the Act providing for joint and several liability of the Banks on such obligation cannot be invoked until all amounts in the Insurance Fund have been exhausted. However, because of the other mandatory and permissive uses of the Insurance Fund specified in the Act, there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal of or interest on insured debt obligations in the event of a default by the Bank having the primary liability thereon. The insurance provided through use of the Insurance Fund is not an obligation of, nor is it a guarantee by, the United States or any agency or instrumentality thereof, other than the Insurance Corporation.

Collateral. The Act and the Regulations require, as a condition of a Bank’s participation in the issuance of Systemwide Debt Securities, such as the Bonds and Discount Notes, that the Bank maintain, free of any lien or other pledge, specified eligible assets (referred to in the Act as “collateral”) at least equal in value to the total amount of outstanding debt securities of the Bank which are subject to the collateral requirement. Such securities include all Systemwide Debt Securities, including Bonds and Discount Notes, for which the Bank is primarily liable, and investment bonds or other debt securities which the Bank has issued individually or in concert with one or more other Banks. This collateral is required to consist of notes and other obligations representing loans or real or personal property acquired in connection with loans made under the authority of the Act (valued in accordance with the Regulations and FCA directives), obligations of the United States or any agency thereof direct or fully guaranteed, other FCA-approved Bank assets, including marketable securities, or cash. The collateral requirement does not provide holders of the Bonds and Discount Notes or other Systemwide Debt Securities with a security interest in any assets of the Banks. The Banks may in the future issue Systemwide Debt Securities that are secured by specific assets. While the collateral requirement limits the circumstances under which Systemwide Debt Securities may be issued by the Banks, as described above, unless specifically provided under the terms of a particular issue, Systemwide Debt Securities, including the Bonds and Discount Notes, will not impose any additional limit upon other indebtedness or securities that may be incurred or issued by the Banks and will contain no financial or similar restrictions on the Banks.

Status in Liquidation. The Regulations provide that in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities, including the Bonds and Discount Notes, have claims against the Bank’s assets, whether or not such holders file individual claims. Under the Regulations, the claims of such holders are junior to claims relating to costs incurred by the receiver in connection with the administration of the receivership, claims for taxes, claims of secured creditors and claims of holders of bonds, including investment bonds, issued by the Bank individually, to the extent such bonds are collateralized in accordance with the requirements of the Act. The Regulations further provide that claims of holders of Systemwide Debt Securities, including the Bonds and Discount Notes, are senior to all claims of general creditors. If particular Systemwide Debt Securities were offered on a secured basis, the holders of such obligations would, under the Regulations, have the priority accorded secured creditors of the liquidated Bank. To date, the Banks have not issued secured Systemwide Debt Securities.

Bonds

The Bonds are currently the only bonds publicly issued by the Banks through the Funding Corporation. Under the Financing Calendar published by the Funding Corporation, subject to the funding needs of the Banks, Calendar Bonds will be publicly offered twelve times a year. Normally, Calendar Bonds with maturities ranging from three months to one year are offered each month, although Calendar Bonds with other maturities

may be offered. The Funding Corporation generally will announce over a nationally recognized financial information service, such as the Dow Jones Telerate Service (“Telerate”), each Calendar Bond issue to be offered through one or more selected Members. Each such announcement by the Funding Corporation (the “Offering Announcement”) will outline the terms of the offering, including, without limitation, the first date (and time) the Calendar Bonds may be traded (such date and time, the “Offering Date”), the date on which the Funding Corporation will deliver the Bonds against payment therefor (the “Settlement Date”), the amount of Calendar Bonds that are being offered, their Maturity Date and payment dates, and the concession allowed to Members. Pricing of Calendar Bonds generally will take place on the Business Day (as defined herein) immediately preceding the Offering Date and will be announced by the Funding Corporation through a nationally recognized financial information service, such as Telerate. From time to time, the Funding Corporation may agree with one or more Members to sell Negotiated Bonds. The specific terms of Negotiated Bonds and of Calendar Bonds with unique features, including but not limited to price, redemption features (if any), interest rate, selling concession and Settlement Date, will be described in supplements to this Offering Circular and/or in a term sheet related to a particular issue of such Bonds (“Term Sheet”). From time to time, the Banks may issue Bonds with the same interest rates, Maturity Dates, and other terms and conditions as Bonds already outstanding.

At the time of sale, the Funding Corporation and the Member purchaser will agree upon the terms of each issue of Bonds, including, as applicable, the principal amount thereof, the offering price (the “Issue Price”), the date from and including which interest shall accrue (the “Issue Date”), any applicable redemption or amortization provisions, the date on which the Bonds mature (the “Maturity Date”), the interest rate, the Interest Payment Dates (as defined below), the Settlement Date and certain other terms of such Bonds. Such information shall be set forth in a confirmation (a “Confirmation”), which will be sent to the purchaser of such Bond by the Member through which such Bond was purchased, or by the Funding Corporation in the case of a Bond sold directly by it. Each Confirmation should be read in conjunction with this Offering Circular and any supplement hereto and, in the case of Negotiated Bonds or Calendar Bonds with unique features, the Term Sheet related to the particular issue of such Bonds for a complete description of the terms of the Bond to which such Confirmation relates. The terms of the Bonds as set forth in the Confirmation and/or Term Sheet are subject to change by the Funding Corporation; *provided, however*, that any such change will not affect the terms of any Bond that has already been issued or as to which an offer to purchase has been accepted by the Funding Corporation, except as provided below under “Modifications and Amendments.” Any change from the terms of the Bonds described herein will be set forth in a supplement hereto and/or in a Confirmation or Term Sheet relating to a particular issue of Bonds.

Payments of Principal and Interest. Payments of principal of and interest on the Bonds will be paid on the applicable payment dates to Holders (as such term is defined under “Book-Entry System”) of the Bonds as of the close of business on the Business Day immediately preceding such payment dates by the credit of the payment amount to the Holders’ accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

Interest on three month and six month Calendar Bonds will be payable on the Maturity Date of such Bonds. Unless otherwise agreed to by the Funding Corporation and the Member purchaser, and subject to the exceptions set forth above, (i) interest on other Fixed-Rate Bonds will be payable semi-annually in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date, and (ii) interest on Floating-Rate Bonds will be payable in arrears on the dates specified in the Confirmation and/or Term Sheet for such Bonds, and on the Maturity Date. The foregoing dates are referred to herein as “Interest Payment Dates.” Interest payments on the Bonds will include interest accrued from and including the Issue Date or the most recent Interest Payment Date to or for which interest has been paid or duly provided, to but excluding the next succeeding Interest Payment Date.

The outstanding principal of each Bond, together with interest accrued and unpaid thereon, shall be due and payable on the Maturity Date. All of the principal amount of Bonds designated as “Redeemable Bonds,” and all or a portion of the principal amount of Bonds designated as “Optional Principal Redemption Bonds” or Bonds which otherwise provide for redemption prior to maturity, including Bonds with amortizing features

(“Amortizing Bonds”), may be paid prior to the Maturity Date in accordance with the terms of such Bonds. See “Redemption, Purchase and Acceleration of Bonds” below.

In any case in which an Interest Payment Date, a Redemption Date (as defined below), the Maturity Date or other payment date is not a Business Day, payment of interest on, or principal or redemption amount, if any, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, Redemption Date, Maturity Date or other payment date. “Business Day” shall mean any day, other than (i) Saturday or Sunday, (ii) a day on which the Federal Reserve Bank of New York is closed or (iii) with respect to any payment in respect of any Security, a day on which the Federal Reserve Bank maintaining the book-entry account relating to such Security is closed.

For purposes of any calculations referred to herein (unless otherwise specified), (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (*e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655)), and (ii) all U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded up).

Interest on Fixed-Rate Bonds. Each Fixed-Rate Bond will bear interest from and including its Issue Date to but excluding its Maturity Date at a specified annual interest rate. Unless otherwise agreed to by the Funding Corporation and the Member purchaser, interest on Fixed-Rate Bonds shall be computed on the basis of a 360-day year consisting of twelve 30-day months. As used herein, “Interest Period” for a Fixed-Rate Bond means the period from and including the Issue Date of such Bond to but excluding the first Interest Payment Date for such Bond and thereafter each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date.

Interest on Floating-Rate Bonds. In general, each Floating-Rate Bond will bear interest from and including its Issue Date to but excluding its Maturity Date based upon a reference rate as specified in the Term Sheet for such Bond. As used herein, “Interest Period” for a Floating-Rate Bond means the period from and including the Issue Date of such Bond to but excluding the first Interest Payment Date for such Bond and thereafter each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date. The interest rate which is in effect on a Floating-Rate Bond’s Issue Date, and which continues in effect until the first reset date, may be based upon its reference rate or may be as agreed to by the Funding Corporation and the Member purchaser. Floating-Rate Bonds may also have either or both of the following: (i) a maximum numerical interest rate limitation on the rate of interest which may accrue on any day; and (ii) a minimum numerical interest rate limitation (equal to or greater than zero percent) on the rate of interest which may accrue on any day. If any such interest rate per annum for any day would be greater than the maximum interest rate limitation of such Bond, if any, then the interest rate for that day shall be equal to the maximum interest rate limitation, or, if any such interest rate per annum for any day would be less than the minimum interest rate limitation on such Bond, if any, then the interest rate for that day shall be equal to the minimum interest rate limitation on such Bond. The day-count convention used to compute the interest on Floating-Rate Bonds will be specified in the applicable Confirmation and/or Term Sheet for such Bonds. Information concerning the current rate of interest on a Floating-Rate Bond will be available by telephone through the Funding Corporation’s Specialized Funding Department at (201) 200-8000 and may also be available through certain financial information services.

Redemption, Purchase and Acceleration of Bonds. Unless designated as “Redeemable Bonds” or “Optional Principal Redemption Bonds,” or otherwise agreed to by the Funding Corporation and the Member purchaser, the Bonds will not be subject to redemption prior to maturity. In addition, Amortizing Bonds may require prepayment of all or a portion of the principal amount of such Bonds, together with interest accrued but unpaid thereon, on Interest Payment Dates, pursuant to a predetermined schedule or otherwise, as described in the Term Sheet relating to such issue of Bonds. See “Payments of Principal and Interest” above.

Unless otherwise agreed to by the Funding Corporation and the Member purchaser, a particular issue of Bonds designated as “Redeemable Bonds” in an Offering Announcement and/or Term Sheet may be redeemed, at the Banks’ option, by the Funding Corporation, in whole only, on any day on or after a specified

Interest Payment Date for such Bonds (any such date on which Redeemable Bonds are to be redeemed, a “Redemption Date”). Unless otherwise agreed to by the Funding Corporation and the Member purchaser, the redemption price for each Redeemable Bond will be 100 percent of the principal amount thereof and the redemption payment shall be in addition to the interest due on the Redemption Date.

Unless otherwise agreed to by the Funding Corporation and the Member purchaser, a particular issue of Bonds designated as “Optional Principal Redemption Bonds” in an Offering Announcement and/or Term Sheet may be redeemed, at the Banks’ option, by the Funding Corporation, in whole or in part, on one or more specified Interest Payment Dates for such Bond (each such date on which Optional Principal Redemption Bonds are to be redeemed, a “Redemption Date”). In the event of a partial redemption, the Funding Corporation will redeem a pro rata portion of the then outstanding principal amount of each Optional Principal Redemption Bond of that particular issue. The redemption price for each Optional Principal Redemption Bond will be 100 percent of the principal amount thereof to be redeemed. The amount of the redemption payment for each Optional Principal Redemption Bond (which shall be in addition to the interest due on the Redemption Date) will be derived by multiplying (i) the original principal amount of such Bond by (ii) the difference between the Current Factor (as defined below) in effect prior to the redemption and the Current Factor in effect following the Redemption Date.

The “Current Factor” is a number that represents the fraction (expressed as a decimal) the numerator of which represents the aggregate principal amount of a particular issue of Optional Principal Redemption Bonds then outstanding and the denominator of which represents the initial aggregate principal amount of such Bonds. The outstanding principal amount of any Optional Principal Redemption Bond at any time will be equal to the original principal amount of such Bond multiplied by the then Current Factor. Until the first Redemption Date for a particular issue of Optional Principal Redemption Bonds, the Current Factor for such Optional Principal Redemption Bond will be 1.0. Unless otherwise specified in an Offering Announcement and/or Term Sheet, the Funding Corporation will round the Current Factor to ten decimal places. The Funding Corporation currently plans, but is not obligated, to display the Current Factor on screens provided by certain financial information services and to make such information available by telephone through the Funding Corporation’s Specialized Funding Department: (201) 200-8000. The Funding Corporation may discontinue providing such information by such means at any time, but intends to make it available by other means in those circumstances.

Unless otherwise agreed to by the Funding Corporation and the Member purchaser, generally not less than 12 nor more than 60 days prior to any Redemption Date for a particular issue of Redeemable Bonds or Optional Principal Redemption Bonds, the Funding Corporation will cause a notice of redemption to be broadcast through the communication system of the Federal Reserve Bank of New York and to be communicated through at least one nationally recognized financial information service which disseminates redemption information with respect to securities. Failure to give any notice, or any defect therein, shall not affect the validity of the redemption or any proceeding related to the redemption of such Redeemable Bonds or Optional Principal Redemption Bonds. The notice of redemption shall include the Redemption Date, the redemption price and the Current Factor then in effect and the Current Factor, if any, to be in effect immediately following the redemption.

The Funding Corporation and the Banks may at any time, and from time to time, purchase Bonds at any price or prices in the open market or otherwise.

The Bonds are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

Form and Denominations. The Bonds will be issued and maintained, and may be transferred, only in book-entry form through the Federal Reserve Banks, as described below under “Book-Entry System.” Unless otherwise specified by the Funding Corporation, Bonds will be issued, maintained and transferred only in minimum principal amounts of \$1,000 and multiples thereof for issues with fixed interest rates and an original maturity of 13 months or more and in amounts of \$5,000 and multiples thereof for issues with fixed interest rates with an original maturity of less than 13 months or for issues with floating interest rates.

Settlement. Settlement of the Bonds shall occur on the Issue Date or such other date as may be agreed upon by the Funding Corporation and the Member purchaser (*i.e.*, the scheduled Settlement Date). Settlement for a Bond will be effected by payment of the Issue Price for such Bond, less the Member's concession. The Issue Price of a Bond shall be 100% of its principal amount or such other percentage of the principal amount of the Bond as set forth in the Offering Announcement and/or Term Sheet relating to such Bond. Payment for the Bonds shall be made in immediately available funds and shall be effective only upon the Funding Corporation's receipt of the funds.

Discount Notes

Discount Notes will generally be offered on a daily basis. Currently, the maximum aggregate par amount of Discount Notes that Banks may have outstanding is \$25 billion, which amount is subject to change by the Funding Corporation at any time, subject to the approval of the FCA. The Discount Notes will be issued with Maturity Dates of one to 365 days from the Issue Date. The Discount Notes are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The Maturity Date, discount rate and other terms with respect to a particular issue of Discount Notes will be established from time to time by the Funding Corporation. Such information will be available through one or more CDs and may also be made available through a nationally recognized financial information service. See "Plan of Distribution." At the time of sale, the Funding Corporation and the CD purchaser will agree upon the terms of each issue of Discount Notes, including the Maturity Date, the Issue Price (as defined below), the date on which the Funding Corporation will deliver the Discount Notes against payment therefor (the "Settlement Date"), and the amount of Discount Notes that are being offered.

Discount Notes will be sold on a discounted basis. The offering price of a Discount Note to a CD purchaser (the "Issue Price") will be the difference between the par amount of the Discount Note and the amount derived from the following formula:

$$\frac{\text{Par Amount of Discount Note} \times \text{Posted Rate} \times \frac{\text{Number of Days from Settlement Date to Maturity Date of Discount Note}}{360 \text{ days}}}{100}$$

All U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded up). "Posted Rate" refers to the discount rate on the Discount Note which is determined using the normal convention for Federal Agency discount notes.

The Posted Rate for each issue of Discount Notes will be posted each Business Day on at least one nationally recognized financial information service which disseminates pricing information with respect to discount notes. Currently, it is contemplated that such Posted Rates will be made available on Telerate pages 26244-5, or their successor pages.

Form and Denominations. The Discount Notes will be issued and maintained, and may be transferred, only in book-entry form through the Federal Reserve Banks, as described below under "Book-Entry System." Unless otherwise specified by the Funding Corporation, Discount Notes may be issued, maintained and transferred in minimum par amounts of \$5,000 and multiples thereof.

Settlement. A Discount Note may be sold or allocated by the Funding Corporation to a CD purchaser between 8:00 A.M. and 11:59 P.M. on any Business Day (the "Issuing Day"). Unless otherwise agreed to by the Funding Corporation and the CD purchaser of a Discount Note, the Issue Date and the Settlement Date of a Discount Note shall be the Issuing Day of such Discount Note. Payment for Discount Notes shall be made on the Settlement Date in immediately available funds and shall be effective only upon the Funding Corporation's receipt of the funds.

Payments of Par Amount. Payments of the par amount on the Discount Notes will be paid on the applicable Maturity Date to Holders of the Discount Notes as of the close of business on the Business Day

immediately preceding such Maturity Date by the credit of the par amount to the Holders' accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

Modifications and Amendments

The Funding Corporation may modify, amend or supplement the terms of the Securities described herein, in any supplement hereto, or in any Offering Announcement, Confirmation, and/or Term Sheet, or may direct a Member, a CD or a DDND, as the case may be, to so modify, amend or supplement such documents, without the consent of any Holder or beneficial owner of any Security, (i) for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision in the terms of the Securities as described in this Offering Circular, any supplement hereto or any Offering Announcement, Confirmation, and/or Term Sheet, (ii) for the purpose of conforming the terms of a Security to, or curing any ambiguity or discrepancy resulting from any changes in, the laws and regulations applicable to the Securities, or (iii) in any manner that the Funding Corporation may determine that will not adversely affect in any material respect the interests of the Holders or beneficial owners of the Securities at the time of such modification, amendment or supplement. Any change from the terms of the Securities set forth in this Offering Circular will be set forth in a supplement hereto or in the Offering Announcement, Confirmation, and/or Term Sheet relating to a particular issue of Securities.

Book-Entry System

The Securities will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks. The Securities will be issued pursuant to three Fiscal Agency Agreements, each dated as of March 30, 1973, and a Cash Accounts Agreement, dated as of June 15, 1975 (collectively, and as subsequently amended or modified, the "Fiscal Agency Agreements"), between the Banks and the Federal Reserve Banks, as fiscal agent. The summaries herein of certain provisions of the Fiscal Agency Agreements do not purport to be complete and are qualified in their entirety by the provisions of the Fiscal Agency Agreements, copies of which may be examined at the Office of the Federal Reserve Bank of New York or the Office of the General Counsel of the Funding Corporation at the address set forth on page 2 hereof. No Securities denominated in any foreign currency or currencies may take the form of Federal Reserve book-entry securities. The Fiscal Agency Agreements make generally applicable to the Securities the regulations governing the use of the book-entry system for Systemwide Debt Securities, including the Bonds and Discount Notes, issued in book-entry form which are contained in the regulations governing the Banks' debt securities, 12 CFR Part 615, Subpart 0, as amended from time to time ("Farm Credit Securities Regulations"). Insofar as applicable, the regulations and procedures from time to time prescribed by the United States Department of the Treasury governing United States securities, currently set forth in Treasury Department Circular No. 300, 31 CFR Part 306, govern transactions in Systemwide Debt Securities for which the Federal Reserve Banks act as the Banks' agents. The foregoing regulations and procedures relate primarily to the registration, transfer, exchange and pledge of such securities. Copies of the Farm Credit Securities Regulations may be obtained upon request from the Funding Corporation and copies of Circular No. 300 may be obtained upon request from any Federal Reserve Bank, the Treasury Department or the Funding Corporation. The accounts of Holders on the Federal Reserve Banks' book-entry system are governed by the foregoing and by applicable operating circulars and letters of the Federal Reserve Banks.

Unless otherwise specified by the Funding Corporation, the Securities will be issued, maintained and are transferable in amounts of \$1,000 and multiples thereof for issues with fixed interest rates and an original maturity of 13 months or more and in amounts of \$5,000 and multiples thereof for issues with floating interest rates or an original maturity of less than 13 months.

The Securities will be evidenced by means of entries on the Federal Reserve Bank's records of (1) the name of the Holder, (2) the Holder's employer identification number, when appropriate, and (3) the amount, maturity date and a unique nine-character identification number used to identify the Securities on the records of the Federal Reserve Banks (the "CUSIP Number").

It is expected that each series of Securities will be available in book-entry form on the book-entry system of the Federal Reserve Banks on the Settlement Date for such series against payment therefor in immediately available funds. The Federal Reserve Banks will maintain book-entry accounts with respect to such Securities and make payments, for the Funding Corporation on behalf of the Banks, of principal of and interest on the Bonds and of the par amount of Discount Notes on the applicable payment dates by crediting Holders' accounts at the Federal Reserve Banks. Payment of principal of and interest on, or the par amount of, the Securities does not require the presentation of a coupon or certificate. The book-entry records of the Federal Reserve Banks will reflect a Holder's aggregate holdings of the Securities.

The Securities may be held of record only by and transferred of record only between entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Securities have been deposited are herein referred to as "Holders." A Holder is not necessarily the investor who is the beneficial owner of a Security. Beneficial owners will ordinarily hold the Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. Beneficial owners generally receive a custody receipt from their bank or non-bank dealer instead of receiving a certificate of indebtedness. Investors may choose as custodian a bank or other financial institution that maintains book-entry accounts with a member of the Federal Reserve System.

A Holder that is not the beneficial owner of a Security, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Security with respect to the Banks, the Funding Corporation and the Federal Reserve Banks may be exercised only through the Holder of such security. The Banks, the Funding Corporation and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Security that is not also the Holder of such Security. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of such Securities. The Banks, the Funding Corporation and the Federal Reserve Banks may treat the Holders as the absolute owners of the Securities for the purpose of making payments of principal of and interest on the Securities and for all other purposes.

Information and trading with respect to any Securities for which a face amount (*i.e.*, in the case of Bonds, the original principal amount and in the case of Discount Notes, the par amount) has been designated shall be with reference to such face amount.

Governing Law

The Securities are governed by and construed in accordance with Federal law and, in the absence of controlling provisions thereof, by the laws of the State of New York, unless otherwise provided under the terms of a particular issue of Securities.

Use of Proceeds

Net proceeds from sales of the Securities will be used by the Banks to fund their loan portfolios, to meet maturing debt obligations, and for other general corporate purposes. The Banks anticipate that additional financing, including financing through various types of debt securities, will be required from time to time. The amount and nature of such financing are dependent upon a number of factors, including the volume of the Banks' maturing debt obligations, the volume of loans made by and repaid to System institutions and general market conditions.

Federal Reserve Eligibility

The Securities may be accepted by the Federal Reserve Banks as collateral security for advances to depository institutions under Section 13 of the Federal Reserve Act. In addition, certain Securities are eligible for outright purchase and sale by the Federal Reserve System in its open market operations. Acting as clearing agents, the Federal Reserve Banks maintain accounts for each of the Banks.

Investment Eligibility and Regulatory Constraints

National banks and state member banks of the Federal Reserve System may invest in the Securities, and, in doing so, are not subject to the statutory limitations and restrictions generally applicable to dealing in, underwriting and purchasing investment securities for their own account.

Under the Act, the Securities are lawful investments for all fiduciary and trust funds under the jurisdiction of the Federal government. They are eligible as collateral for Federal government deposits. They are also legal investments for banks, trust companies, savings banks and trust funds in various states, subject to such conditions and restrictions as are contained in applicable state statutes and regulations. The Securities are lawful investments for Federal credit unions and Federal savings and loan associations.

The foregoing does not take into consideration the applicability of statutes, rules, regulations, orders, guidelines or agreements specifically governing investments made by a particular investor, including, but not limited to, “prudent investor” provisions, percentage-of-assets limits, and provisions that may restrict or prohibit investments in securities that are issued in book-entry form. In addition, an institution under the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or any other Federal or state agency with similar authority should review any applicable regulations, policy statements and guidelines before purchasing the Securities. Investors should consult with their own legal advisers in determining whether and to what extent the Securities, such as the Bonds and Discount Notes, constitute legal investments for such investors.

CERTAIN TAX CONSIDERATIONS

The following is a summary of certain Federal and other tax consequences of the ownership of Securities. It is based on the Act, the Internal Revenue Code of 1986, as amended (the “Code”), and final, temporary and proposed Treasury regulations, Revenue Rulings, and judicial decisions, all as of the date hereof. It is also based upon certain of the facts set forth in the applicable offering materials distributed with respect to particular issues of Securities and upon standard procedures followed in connection with the offer and sale of the Securities. This summary deals only with Securities held as capital assets by their original purchasers and does not address special tax situations. This summary does not purport to cover all the possible tax consequences of the purchase, ownership or disposition of the Securities, and it is not intended as tax advice to any owner thereof. Persons considering the purchase or sale of the Securities should consult their own tax advisers concerning the application of the income tax laws of the United States to their particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

Additional Federal and state income and other tax consequences applicable to particular Securities may be set forth in offering materials distributed with respect to particular issues of Securities.

General

The Act provides that the Securities and interest thereon are exempt from state, local and municipal income taxation. Provisions of several statutes which are analogous to the relevant tax exemption provisions of the Act applicable to the Securities have been construed by certain state courts as not exempting securities similar to the Securities or interest thereon from nondiscriminatory franchise taxes or other non-property taxes in lieu thereof imposed on corporations. As described in greater detail below, interest on the Securities is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Securities or their transfer by inheritance, gift, or other means, is not exempt from Federal taxation, and generally is not exempt from state, local or municipal taxation.

United States Owners

As used herein, “United States Owner” means a beneficial owner of a Security that is a United States person. A “non-United States Owner” is a beneficial owner that is not a United States person. As used herein, “United States person” means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof and an estate or trust the income of which is subject to Federal income taxation regardless of its source. “United

States” means the United States of America (including the States and the District of Columbia), its territories, its possessions (including the Commonwealth of Puerto Rico) and other areas subject to its jurisdiction.

In general, interest (including original issue discount (“OID”), as discussed below) on a Security will be treated as ordinary interest income to the United States Owner of the Security at the time it accrues or is received, in accordance with the United States Owner’s method of accounting for tax purposes, or, in the case of OID, specific Federal income tax provisions. The amount of OID or market discount (as discussed below) which is includible in income in respect of a Security while held by a United States Owner will be added to such United States Owner’s tax basis for such Security, and such basis will be reduced by any amortized acquisition or other premium (as discussed below) and amounts of other payments that do not constitute qualified stated interest (as defined below). A United States Owner of a Security will recognize gain or loss on the sale, exchange or retirement of such Security equal to the difference between the amount realized thereon and such owner’s tax basis in the Security, which gain or loss will generally be capital gain or loss (except to the extent of market discount that is treated as having accrued) and will be long-term capital gain or loss if at the time of the sale, exchange or retirement, the Security has been held for more than one year. The maximum rate on ordinary income for taxpayers that are individuals, estates or trusts is 39.6 percent, while the maximum rate on long-term capital gains for such taxpayers is 28 percent. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of limitations on the deductibility of capital losses.

Original Issue Discount

A Security with an “issue price” which is less than its “stated redemption price at maturity” will generally be considered to be issued at an original issue discount for Federal income tax purposes. Generally, however, under the “de minimis exception,” if the difference between a Security’s “stated redemption price at maturity” and its “issue price” is less than 0.25 percent of the stated redemption price at maturity multiplied by the number of complete years from the issue date to maturity, the Security will not be considered to have OID. “Issue price” is defined generally as the initial offering price to the public at which a substantial amount of the particular issue of Securities is sold. “Stated redemption price at maturity” is defined generally as the amount payable on an obligation at maturity, except for certain interest payments. Under Treasury regulations issued in final form on January 27, 1994 (the “OID Regulations”), stated redemption price at maturity includes all amounts payable on an obligation with the exception of payments of “qualified stated interest.” “Qualified stated interest” is generally defined as stated interest unconditionally payable or constructively received at least annually at (i) a single fixed rate, (ii) a “qualified floating rate” (a single floating rate the variations in which can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds), or (iii) an “objective rate” ((A) a single floating rate using a fixed formula based on one or more qualified floating rates and/or the yield or changes in price of one or more items of actively traded property, or (B) a fixed rate minus a qualified floating rate, but only if the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds (a “qualified inverse floating rate”), and neither (A) nor (B) results in significant front- or back-loading of interest). Stated interest unconditionally payable or constructively received at least annually at (i) multiple fixed rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single fixed rate and a single objective rate that is a qualified inverse floating rate, or (iv) multiple qualified floating rates may also constitute qualified stated interest although, depending upon the particular interest rate formula used and as discussed further below, such stated interest may be treated in whole or in part as OID. In addition, qualified stated interest does not include any payments on a debt instrument with a term of one year or less. (See below for a discussion of the application of the de minimis exception for obligations with a term of one year or less.)

If the period between the issue date of a Bond and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Bond will be a “long-period Bond.” Under the OID Regulations, a long-period Bond will not be considered issued with OID if all stated interest on the Bond is qualified stated interest. If all stated interest is not qualified stated interest because the interest rate for the long period is effectively below the rate applicable for the remainder of the Bond’s term, the Bond will not have OID if (i) in the case of a Bond that otherwise provides for interest payable at a single fixed rate, the

value of the fixed rate is adjusted in “any reasonable manner” (as discussed in the OID Regulations) to take into account the length of the long period, or (ii) in the case of all Bonds, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Bonds, but if neither exception applies, then such Bonds will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Bond at multiple fixed rates (whether or not it is a long-period Bond), then such Bond will provide for qualified stated interest only to the extent of the lowest fixed rate at which qualified interest would be payable. Any interest payable in excess of this rate will generally be considered OID.

United States Owners of Bonds with OID that mature more than one year from the issue date will generally be required to include OID in gross income for Federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, in advance of receipt of the cash payments attributable to such income. Such OID will result in the acceleration of recognition of ordinary income to cash method United States Owners. Under the constant yield method, United States Owners of such Bonds will generally be required to include in income increasingly greater amounts of OID.

Floating-Rate Bonds that provide for (i) total noncontingent principal payments at least equal to the debt instrument’s issue price (subject to a special de minimis rule) and (ii) stated interest (compounded or paid at least annually) at the current value of (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate, or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, will generally be considered “variable rate debt instruments.” Such variable rate debt instruments will not be considered to have OID merely because stated interest is payable at a floating rate. However, a variable rate debt instrument may bear OID if interest (i) is not unconditionally payable or constructively received at least annually and/or (ii) is payable at other than a single qualified floating rate or objective rate. The amount, if any, and accrual of OID and qualified stated interest with respect to such a debt instrument are generally determined by converting it into an equivalent fixed rate debt instrument (*e.g.*, by substituting for each floating rate the value of such rate as of the issue date) and then applying the general OID rules for fixed rate debt instruments as discussed above.

A Floating-Rate Bond that is not a variable rate debt instrument will generally be treated as having OID, and interest on such a debt instrument will be treated as contingent interest. In addition, a Floating-Rate Bond subject to an interest rate ceiling and/or floor will not be considered to bear interest at a qualified floating rate or at an objective rate and will be treated as bearing contingent interest unless the interest rate ceiling and/or floor is fixed throughout the term of the Floating-Rate Bond or is not reasonably expected as of the issue date to cause the yield on such Bond to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. The tax treatment of any such contingent interest is currently unclear. Treasury regulations issued in proposed form on December 16, 1994 (the “1994 Proposed Regulations”) would generally require that a projected payment schedule be determined for a debt instrument bearing contingent interest. The projected payment schedule would consist of all the noncontingent payments on the debt instrument and a projected amount for each contingent payment, which would generally be the forward price for the property right (*e.g.*, a forward contract or an option) that is substantially similar to the contingent payment. Interest would be included in income based on the schedule, with subsequent adjustments if the actual amount of a contingent payment differed from the amount projected in the schedule. (See below for a discussion of the status of the 1994 Proposed Regulations.) Alternatively, contingent interest may be includible in income as it becomes fixed, to the extent that such interest exceeds minimum stated interest, if any.

Under the OID Regulations, all payments (including all stated interest) with respect to a Security will be included in the stated redemption price at maturity if the Security has a term of one year or less (a “short-term Security”) and, thus, a United States Owner will generally be taxable on discount in lieu of stated interest. As a result, a short-term Security will in almost all circumstances fall outside the general de minimis exception discussed above. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Security, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Owners of short-term Securities are not required to accrue such discount for Federal income tax purposes and will generally be required to include stated interest (if any) in income when received, unless an election is

made to accrue discount as computed above. United States Owners who report income for Federal income tax purposes on the accrual method and certain other United States Owners, including banks and dealers in securities, are required to accrue discount on such short-term Securities (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method. The amount of discount which accrues in respect of a short-term Security while held by a United States Owner will be added to such owner's tax basis in such Security to the extent included in income. In the case of a United States Owner who is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the short-term Security will be ordinary income to the extent of the discount accrued (less the amount of stated interest received (if any) previously included in income) on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such non-electing United States Owners which are not subject to the current inclusion requirement described in this paragraph will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry such short-term Securities in an amount not exceeding the deferred interest income, until such deferred interest income is realized.

Under the OID Regulations, a United States Owner may elect to accrue all "interest" on a Security as OID (*i.e.*, using the constant yield method discussed above). If a United States Owner elects this method, the Security's issue price will be deemed to be such owner's basis in the Security at the time of its acquisition, and all of the payments on the Security will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Security has OID, and it applies to any stated interest, OID (including discount that is *de minimis* or attributable to a short-term Security) and market discount (as discussed below) on a Security, all as adjusted by any acquisition or other premium (as discussed below). This election may be made on an obligation-by-obligation basis but, once made on an obligation with bond premium, it will operate as an election to amortize premium with respect to all of such United States Owner's debt instruments with premium, not just those on which it is electing to apply the constant yield method. A similar consistency rule applies to debt instruments with market discount and the election to include such discount in income currently.

The 1994 Proposed Regulations on contingent interest are not final and are subject to change. In addition, if finalized in their current form, the 1994 Proposed Regulations will only apply to debt instruments issued on or after the date that is 60 days after final regulations are published in the Federal Register. United States Owners should therefore consult their tax advisers as to the potential application of the above-discussed provisions of the 1994 Proposed Regulations on contingent interest.

Market Discount and Premium

If a United States Owner purchases a Security other than a short-term Security (including a purchase in connection with its original issuance) for an amount that is less than its "revised issue price" (defined as the sum of the issue price of the Security, as defined above, and the aggregate amount, if any, of the OID included, without regard to the rules for acquisition premium discussed below, in the gross income of all previous owners of the Security), the amount of the difference will be treated as "market discount" for Federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a United States Owner will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Security as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Security at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Security. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Security, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Security may elect to include market discount in income currently as it accrues (on either a ratable or constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service.

A United States Owner that purchases a Security with OID for an amount that is greater than the Security's "adjusted issue price" (defined generally as the issue price of the Security increased by the aggregate amount of OID includible, if any, in the gross income of all previous owners of the Security and decreased by the aggregate amount of payments made on the Security, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Security at an "acquisition premium." The amount of OID such owner must include in its gross income with respect to such Security for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

If a United States Owner acquires a Security for an amount that is greater than both its adjusted issue price and the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Security at a premium, such Security will have no OID, and such owner may elect to amortize such premium using a constant yield method, generally over the remaining term of the Security. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Security.

Backup Withholding and Information Reporting

A 31-percent "backup" withholding tax and certain information reporting requirements may apply to certain payments to certain United States Owners of principal of and interest (including OID, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Securities made by a Bank or Banks or any paying agent thereof (in its capacity as such) to exempt recipients, such as corporations or financial institutions, but such entities may be required to establish their status as such. Under current Treasury regulations, backup withholding and information reporting also will not apply to payments on the Securities made by any custodian, nominee or other agent of a United States Owner, or to the payment of the proceeds of a sale or exchange of a Security made to a United States Owner, if such payments or proceeds are paid to exempt recipients such as corporations or financial institutions, but such entities may be required to establish their status as such. In the case of a United States Owner that has not established an exemption from information reporting and backup withholding (for example, an individual), backup withholding will not be applicable if such owner has supplied an accurate Taxpayer Identification Number, has not been notified by the Internal Revenue Service that it has failed to report properly payments of interest and dividends and, in certain circumstances, has certified under penalties of perjury that it has received no such notification and that it has supplied an accurate Taxpayer Identification Number. Any amounts withheld under the backup withholding rules from a payment to a United States Owner of a Security will be allowed as a refund or a credit against such owner's Federal income tax, provided that any required information is furnished to the Internal Revenue Service.

Non-United States Owners

Under current Federal income and estate tax laws, and subject to the discussion below concerning backup withholding:

(a) no withholding of Federal income tax will be required with respect to the payment by a Bank or Banks or any paying agent thereof (in its capacity as such) of principal or interest (which for purposes of this discussion includes OID) on a Security to a non-United States Owner, provided that (i) such owner does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code, (ii) the non-United States Owner is not a controlled foreign corporation that is related to a Bank or Banks through stock ownership, and (iii) the beneficial owner satisfies the statement requirement (described generally below) set forth in Section 871(h) and Section 881(c) of the Code;

(b) no withholding of Federal income tax will be required with respect to any gain or income realized by a non-United States Owner upon the sale, exchange or retirement of a Security; and

(c) a Security held by an individual who at the time of death is a non-United States Owner will not be subject to Federal estate tax as a result of such individual's death, provided that such individual does

not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code and provided that the interest payments with respect to such Security are not effectively connected with a United States trade or business of such individual.

To qualify for the exemption from withholding tax with respect to the Securities, the last United States person (the “Withholding Agent”) in the chain of payment prior to payment to a non-United States Owner must have received in the year in which a payment of principal or interest occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner of a Security under penalties of perjury, (ii) certifies that such beneficial owner is not a United States Owner and (iii) provides the name and address of such beneficial owner. The statement may be made on a Form W-8 or substantially similar substitute form and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Security is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent instead of the beneficial owner. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or a substitute form provided by the beneficial owner to the organization or institution holding the Security on behalf of the beneficial owner.

Backup Withholding and Information Reporting

A 31-percent “backup” withholding tax and certain information reporting requirements may apply to certain payments to certain non-United States Owners of principal of and interest (including OID, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments made by a Bank or Banks or any paying agent thereof (in its capacity as such) to a non-United States Owner of a Security with respect to which such owner has provided required certification of its non-United States person status under penalties of perjury (provided that neither a Bank or Banks nor the paying agent has actual knowledge that the owner is a United States Owner) or has otherwise established an exemption (*e.g.*, as a corporation).

If such principal or interest is collected outside the United States by the non-United States office of the foreign custodian, foreign nominee or other foreign agent of the beneficial owner of a Security and is paid by such office outside the United States to such owner, or if the non-United States office of a foreign “broker” (as defined in applicable Treasury regulations) pays the proceeds of the sale or exchange of a Security outside the United States to the seller thereof, backup withholding and information reporting will not apply to such payment (provided that such nominee, custodian, agent or broker derives less than 50 percent of its gross income for certain specified periods from the conduct of a trade or business in the United States and is not a controlled foreign corporation for United States tax purposes). Principal and interest so paid by the non-United States office of other custodians, nominees or agents, or the payment by the foreign office of other brokers of the proceeds of the sale or exchange of a Security, will not be subject to backup withholding, but will be subject to information reporting, unless the custodian, nominee, agent or broker has documentary evidence in its records that the beneficial owner or seller is not or was not, as the case may be, a United States Owner and certain conditions are met or the beneficial owner or seller otherwise establishes an exemption. Principal and interest so paid by the United States office of a custodian, nominee or agent, or the payment by the United States office of a broker of the proceeds of a sale or exchange of a Security is subject to both backup withholding and information reporting unless the beneficial owner or seller certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

PLAN OF DISTRIBUTION

Under the terms of the Bond Agreement among the Funding Corporation and Members and under the terms of the CD Agreement among the Funding Corporation and certain Members which become CDs, Bonds and Discount Notes, respectively, may be offered for sale from time to time by the Funding Corporation for resale to investors. In addition to CDs, certain other Members which become DDNDs by entering into a DDND Agreement with the Funding Corporation may solicit offers for Discount Notes and may offer to purchase Discount Notes from CDs for resale to investors. The Funding Corporation may appoint, from time to time, one or more other investment dealers and dealer banks as additional Members, CDs, or DDNDs.

Under the Financing Calendar published by the Funding Corporation, subject to the funding needs of the Banks, Calendar Bonds will be publicly offered twelve times a year. From time to time, the Funding Corporation may agree with one or more Members to sell Negotiated Bonds. Discount Notes generally are offered on a continuous basis for sale to CDs. The sales may be held on a daily basis and there may be more than one sale on a given day. Current quotations for Discount Notes of varying maturities can be obtained by contacting CDs or DDNDs, as the case may be.

A Member or CD will purchase Bonds and Discount Notes, as the case may be, as principal, regardless of whether or not the purchase of such Securities is based upon a customer order to purchase the Securities communicated to the Funding Corporation by the Member or CD.

Subject to the terms and conditions of the Bond Agreement, a Member may agree to purchase certain Bonds for resale to investors at the Issue Price and may also agree to purchase certain Bonds for resale to investors at varying prices, according to prevailing market prices at the time of resale as determined by such Member. In the case of Calendar Bonds, there is a period during which a Member may only offer such Bonds to investors at the Issue Price.

Subject to the terms and conditions of the CD Agreement, a CD may agree to purchase Discount Notes for resale to investors on the Issuing Day at a price which is not less than the Issue Price, and after the Issuing Day may resell Discount Notes to investors at varying prices, according to prevailing market prices at the time of resale as determined by such CD. A DDND will purchase Discount Notes from a CD. A DDND may agree to purchase Discount Notes for resale to investors on the Issuing Day at a price which is not less than the Issue Price, and after the Issuing Day may resell Discount Notes to investors at varying prices according to prevailing market prices at the time of resale as determined by such DDND.

The Funding Corporation has the right to accept or reject offers to purchase Securities and may reject any such offer, in whole or in part. A Member, CD or DDND, without notice to the Funding Corporation, may reject, in whole or in part, any offer received by it to purchase Securities.

With respect to Calendar Bonds, the Funding Corporation will pay a selling concession to Members at the rate specified in the Offering Announcement and/or Term Sheet for the particular issue of Calendar Bonds, which concession will vary depending upon the maturity of such Calendar Bonds. With respect to Negotiated Bonds, the selling concession will be specified in the Term Sheet pertaining to the particular issue of Negotiated Bonds. With respect to Discount Notes, the Funding Corporation will pay a selling concession to a CD in an amount equal to a specified percent per annum on the par amount of the Discount Notes due at maturity, which is currently .05 percent. Under the DDND Agreement, in certain circumstances, a DDND will be entitled to receive a reallocation of a portion of the concession payable to a CD with respect to the sale of the Discount Notes to the CD in an amount equal to a specified percent per annum of the par amount of the Discount Notes due at maturity, which is currently .02 percent. The selling concessions payable to CDs and reallocation concessions payable to DDNDs are subject to change at any time in the sole discretion of the Funding Corporation. Under certain circumstances, a Member, CD or DDND, as the case may be, is permitted under the Bond, CD or DDND Agreement to reallocate a portion of its concession with respect to a particular issue of Bonds or Discount Notes, as specified by the Funding Corporation, to an affiliate of such Member, CD or DDND, as the case may be, if such affiliate is acting in a dealer capacity and has secured an order for the Bonds or Discount Notes from a third party.

Each Member, CD, and DDND engages in transactions with and performs services for the Funding Corporation and the Banks in the ordinary course of its business.

The Funding Corporation, on the one hand, and the Members, CDs, and DDNDs, on the other, have agreed in the Bond Agreements, the CD Agreements, and the DDND Agreements, respectively, to indemnify each other against and contribute toward certain liabilities.

Either the Funding Corporation or a Member, a CD or a DDND, as the case may be, may terminate, upon notice, the status of that Member, CD or DDND as such by termination of the respective Bond, CD or DDND Agreement. In addition, under certain circumstances, the Funding Corporation may, in its sole discretion, terminate or suspend a Member, a CD or a DDND. Current lists of the Members, CDs and DDNDs, and copies of the Bond Agreement, the CD Agreement, and the DDND Agreement, as in effect from time to time, are available for inspection upon request to the General Counsel of the Funding Corporation at the address set forth on page 2 hereof.

The Funding Corporation has also reserved the right to sell the Securities to investors directly. No concession or other fees will be payable on any sales made directly by the Funding Corporation.

OFFERING CIRCULAR SUPPLEMENT

(To the Offering Circular dated January 22, 1996)



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FEDERAL FARM CREDIT BANKS CONSOLIDATED SYSTEMWIDE BONDS AND DISCOUNT NOTES

The Federal Farm Credit Banks Funding Corporation, a corporation established under the laws of the United States of America as agent for the Banks of the Farm Credit System, hereby amends and supplements the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated January 22, 1996 (the "Offering Circular"). This supplement should be read in conjunction with the Offering Circular. Capitalized terms not defined herein are defined in the Offering Circular.

CERTAIN TAX CONSIDERATIONS

Certain information set forth under "Certain Tax Considerations" in the Offering Circular is hereby amended and supplemented as follows.

The following is a summary of certain Federal and other tax consequences of the ownership of Securities. It is based on the Act, the Internal Revenue Code of 1986, as amended (the "Code"), and final, temporary and proposed Treasury regulations, Revenue Rulings, and judicial decisions, all as of the date hereof. It is also based upon certain of the facts set forth in the applicable offering materials distributed with respect to particular issues of Securities and upon standard procedures followed in connection with the offer and sale of the Securities. This summary deals only with Securities held as capital assets by their original purchasers and does not address special tax situations. This summary does not purport to cover all the possible tax consequences of the purchase, ownership or disposition of the Securities, and it is not intended as tax advice to any owner thereof. Persons considering the purchase or sale of the Securities should consult their own tax advisors concerning the application of the income tax laws of the United States to their particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

Additional Federal and state income and other tax consequences applicable to particular Securities may be set forth in offering materials distributed with respect to particular issues of Securities.

General

The Act provides that the Securities and interest thereon are exempt from state, local and municipal income taxation. Provisions of several statutes which are analogous to the relevant tax exemption provisions of the Act applicable to the Securities have been construed by certain state courts as not exempting securities similar to the Securities or interest thereon from nondiscriminatory franchise taxes or other non-property taxes in lieu thereof imposed on corporations. As described in greater detail below, interest on the Securities is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Securities or their transfer by inheritance, gift, or other means, is not exempt from Federal taxation, and generally is not exempt from state, local or municipal taxation.

The date of this Offering Circular Supplement is August 13, 1996.

United States Owners

As used herein, "United States Owner" means a beneficial owner of a Security that is a United States person. A "non-United States Owner" is a beneficial owner that is not a United States person. As used herein, "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof and an estate or trust the income of which is subject to Federal income taxation regardless of its source. "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions (including the Commonwealth of Puerto Rico) and other areas subject to its jurisdiction.

In general, interest (including original issue discount ("OID"), as discussed below) on a Security will be treated as ordinary interest income to the United States Owner of the Security at the time it accrues or is received, in accordance with the United States Owner's method of accounting for tax purposes, or, in the case of OID, specific Federal income tax provisions. The amount of OID or market discount (as discussed below) which is includible in income in respect of a Security while held by a United States Owner will be added to such United States Owner's tax basis for such Security, and such basis will be reduced by any amortized acquisition or other premium (as discussed below) and amounts of other payments that do not constitute qualified stated interest (as defined below). A United States Owner of a Security will recognize gain or loss on the sale, exchange or retirement of such Security equal to the difference between the amount realized thereon and such owner's tax basis in the Security, which gain or loss will generally be capital gain or loss (except to the extent of market discount that is treated as having accrued) and will be long-term capital gain or loss if at the time of the sale, exchange or retirement, the Security has been held for more than one year. The maximum rate on ordinary income for taxpayers that are individuals, estates or trusts is 39.6 percent, while the maximum rate on long-term capital gains for such taxpayers is 28 percent. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of limitations on the deductibility of capital losses.

Original Issue Discount

A Security with an "issue price" which is less than its "stated redemption price at maturity" will generally be considered to be issued at an original issue discount for Federal income tax purposes. Generally, however, under the "de minimis exception," if the difference between a Security's stated redemption price at maturity and its issue price is less than .25 percent of the stated redemption price at maturity multiplied by the number of complete years from the issue date to maturity, the Security will not be considered to have OID. "Issue price" is defined generally as the initial offering price to the public at which a substantial amount of the particular issue of Securities is sold. "Stated redemption price at maturity" is defined generally as the amount payable on an obligation at maturity, except for certain interest payments. Under Treasury regulations issued in final form on January 27, 1994 (the "OID Regulations"), stated redemption price at maturity includes all amounts payable on an obligation with the exception of payments of "qualified stated interest." "Qualified stated interest" is generally defined as stated interest unconditionally payable or constructively received at least annually at (i) a single fixed rate, (ii) a "qualified floating rate" (a single floating rate the variations in which can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds), or (iii) an "objective rate" ((A) a single floating rate using a fixed formula based on objective financial or economic information (*e.g.*, generally a rate that is based on one or more qualified floating rates or on the yield of actively traded property), or (B) a fixed rate minus a qualified floating rate, but only if the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (a "qualified inverse floating rate"), and neither (A) nor (B) results in significant front- or back-loading of interest). Stated interest unconditionally payable or constructively received at least annually at (i) multiple fixed rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single fixed rate and a single objective rate that is a qualified inverse floating

rate, or (iv) multiple qualified floating rates may also constitute qualified stated interest although, depending upon the particular interest rate formula used and as discussed further below, such stated interest may be treated in whole or in part as OID. In addition, qualified stated interest does not include any payments on a debt instrument with a term of one year or less. (See below for a discussion of the application of the de minimis exception for obligations with a term of one year or less.)

If the period between the issue date of a Bond and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Bond will be a "long-period Bond." Under the OID Regulations, a long-period Bond will not be considered issued with OID if all stated interest on the Bond is qualified stated interest. If all stated interest is not qualified stated interest because the interest rate for the long period is effectively below the rate applicable for the remainder of the Bond's term, the Bond will not have OID if (i) in the case of a Bond that otherwise provides for interest payable at a single fixed rate, the value of the fixed rate is adjusted in "any reasonable manner" (as discussed in the OID Regulations) to take into account the length of the long period, or (ii) in the case of all Bonds, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Bonds, but if neither exception applies, then such Bonds will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Bond at multiple fixed rates (whether or not it is a long-period Bond), then such Bond will provide for qualified stated interest only to the extent of the lowest fixed rate at which qualified stated interest would be payable. Any interest payable in excess of this rate will generally be considered OID.

United States Owners of Bonds with OID that mature more than one year from the issue date will generally be required to include OID in gross income for Federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, in advance of receipt of the cash payments attributable to such income. Such OID will result in the acceleration of recognition of ordinary income to cash method United States Owners. Under the constant yield method, United States Owners of such Bonds will generally be required to include in income increasingly greater amounts of OID.

Floating-Rate Bonds that provide for total noncontingent principal payments at least equal to the debt instrument's issue price (subject to a special de minimis rule) and do not provide for stated interest other than stated interest (compounded or paid at least annually) at the current value of (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate, or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, will generally be considered "variable rate debt instruments." Such variable rate debt instruments will not be considered to have OID merely because stated interest is payable at a floating rate. However, a variable rate debt instrument may bear OID if interest (i) is not unconditionally payable or constructively received at least annually and/or (ii) is payable at other than a single qualified floating rate or objective rate. The amount, if any, and accrual of OID and qualified stated interest with respect to such a debt instrument are generally determined by converting it into an equivalent fixed rate debt instrument (*e.g.*, by substituting for each qualified floating rate the value of such rate as of the issue date) and then applying the general OID rules for fixed rate debt instruments as discussed above. The qualified stated interest allocable to an accrual period is adjusted to the extent interest actually paid during the period differs from the interest assumed to be paid on the equivalent fixed rate debt instrument.

A Floating-Rate Bond that is not a variable rate debt instrument will generally be treated as having OID, and interest on such a debt instrument will be treated as contingent interest. In addition, a Floating-Rate Bond subject to an interest rate ceiling and/or floor will not be considered to bear interest at a qualified floating rate or at an objective rate and will be treated as bearing contingent interest unless the interest rate ceiling and/or floor is fixed throughout the term of the Floating-Rate Bond or is not reasonably expected as of the issue date to cause the yield on such Bond to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. Treasury regulations effective for debt

instruments issued on or after August 13, 1996, generally require that the issuer determine the “comparable yield” for a debt instrument bearing contingent interest. The “comparable yield” is generally the yield at which the issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the contingent payment debt instrument, all as of the issue date. The issuer then determines a projected payment schedule that produces the comparable yield. The projected payment schedule will consist of all the noncontingent payments on the debt instrument and a projected amount for each contingent payment, which amount will generally be the forward price for the property right (*e.g.*, a forward contract or an option) that is substantially similar to the contingent payment. Interest will be includible in income based on the schedule, with subsequent adjustments if the actual amount of a contingent payment differs from the amount projected in the schedule. A United States Owner must follow this projected payment schedule unless such owner determines its own schedule and describes on its Federal income tax return that fact and the reason why it set its own schedule (*e.g.*, why the schedule it was provided was unreasonable). The Confirmation or Term Sheet relating to an issue of Bonds with contingent interest will contain the projected payment schedule for such issue of Bonds as well as additional information on the timing of the inclusion of interest income and subsequent adjustments thereto.

Under the OID Regulations, all payments (including all stated interest) with respect to a Security will be included in the stated redemption price at maturity if the Security has a term of one year or less (a “short-term Security”) and, thus, a United States Owner will generally be taxable on discount in lieu of stated interest. As a result, a short-term Security will in almost all circumstances fall outside the general *de minimis* exception discussed above. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Security, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, individuals and other cash method United States Owners of short-term Securities are not required to accrue such discount for Federal income tax purposes and will generally be required to include stated interest (if any) in income when received, unless an election is made to accrue discount as computed above. United States Owners who report income for Federal income tax purposes on the accrual method and certain other United States Owners, including banks and dealers in securities, are required to accrue discount on such short-term Securities (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method. The amount of discount which accrues in respect of a short-term Security while held by a United States Owner will be added to such owner's tax basis in such Security to the extent included in income. In the case of a United States Owner who is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the short-term Security will be ordinary income to the extent of the discount accrued (less the amount of stated interest received (if any) previously included in income) on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such non-electing United States Owners which are not subject to the current inclusion requirement described in this paragraph will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry such short-term Securities in an amount not exceeding the deferred interest income, until such deferred interest income is realized.

Under the OID Regulations, a United States Owner may elect to accrue all “interest” on a Security as OID (*i.e.*, using the constant yield method discussed above). If a United States Owner elects this method, the Security's issue price will be deemed to be such owner's basis in the Security at the time of its acquisition, and all of the payments on the Security will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Security has OID, and it applies to any stated interest, OID (including discount that is *de minimis* or attributable to a short-term Security) and market discount (as discussed below) on a Security, all as adjusted by any acquisition or other premium (as discussed below). This election may be made on an obligation-by-obligation basis but, once made on an obligation with bond premium, it will operate as an election to amortize premium with respect to all of such United States Owner's debt instruments with premium, not just those on which it is electing to apply the constant yield method. A similar consistency rule applies to debt instruments with market discount and the

election to include such discount in income currently.

Market Discount and Premium

If a United States Owner purchases a Security other than a short-term Security (including a purchase in connection with its original issuance) for an amount that is less than its "revised issue price" (defined as the sum of the issue price of the Security, as defined above, and the aggregate amount, if any, of the OID included, without regard to the rules for acquisition premium discussed below, in the gross income of all previous owners of the Security), the amount of the difference will be treated as "market discount" for Federal income tax purposes, unless such difference is less than a specified de minimis amount. Under the market discount rules, a United States Owner will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Security as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Security at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Security. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Security, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Security may elect to include market discount in income currently as it accrues (on either a ratable or constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service.

A United States Owner that purchases a Security with OID for an amount that is greater than the Security's "adjusted issue price" (defined generally as the issue price of the Security increased by the aggregate amount of OID includible, if any, in the gross income of all previous owners of the Security and decreased by the aggregate amount of payments made on the Security, if any, other than payments of qualified stated interest) but less than or equal to the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Security at an "acquisition premium." The amount of OID such owner must include in its gross income with respect to such Security for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

If a United States Owner acquires a Security for an amount that is greater than both its revised issue price and the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Security at a premium, such Security will have no OID, and such owner may elect to amortize such premium using a constant yield method, generally over the remaining term of the Security. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Security.

Backup Withholding and Information Reporting

A 31-percent "backup" withholding tax and certain information reporting requirements may apply to certain payments to certain United States Owners of principal of and interest (including OID, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Securities made by a Bank or Banks or any paying agent thereof (in its capacity as such) to exempt recipients, such as corporations or financial institutions, but such entities may be required to establish their status as such. Under current Treasury regulations, backup withholding and information reporting also will not apply to payments on the Securities made by any custodian, nominee or other agent of a United States Owner, or to the payment of the proceeds of a sale or exchange of a Security made to a United States Owner, if such payments or

proceeds are paid to exempt recipients such as corporations or financial institutions, but such entities may be required to establish their status as such. In the case of a United States Owner that has not established an exemption from information reporting and backup withholding (for example, an individual), backup withholding will not be applicable if such owner has supplied an accurate Taxpayer Identification Number, has not been notified by the Internal Revenue Service that it has failed to report properly payments of interest and dividends and, in certain circumstances, has certified under penalties of perjury that it has received no such notification and that it has supplied an accurate Taxpayer Identification Number. Any amounts withheld under the backup withholding rules from a payment to a United States Owner of a Security will be allowed as a refund or a credit against such owner's Federal income tax, provided that any required information is furnished to the Internal Revenue Service.

Non-United States Owners

Under current Federal income and estate tax laws, and subject to the discussion below concerning backup withholding:

(a) no withholding of Federal income tax will be required with respect to the payment by a Bank or Banks or any paying agent thereof (in its capacity as such) of principal or interest (which for purposes of this discussion includes OID) on a Security to a non-United States Owner, provided that (i) such owner does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code, (ii) the non-United States Owner is not a controlled foreign corporation that is related to a Bank or Banks through stock ownership, (iii) the beneficial owner satisfies the statement requirement (described generally below) set forth in Section 871(h) and Section 881(c) of the Code, and (iv) in the case of interest, such interest is not effectively connected with a United States trade or business of such owner;

(b) no withholding of Federal income tax will be required with respect to any gain or income realized by a non-United States Owner upon the sale, exchange or retirement of a Security, provided that such gain or income is not effectively connected with a United States trade or business of such owner; and

(c) a Security held by an individual who at the time of death is a non-United States Owner will not be subject to Federal estate tax as a result of such individual's death, provided that such individual does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code and provided that the interest payments with respect to such Security are not effectively connected with a United States trade or business of such individual.

To qualify for the exemption from withholding tax with respect to the Securities, the last United States person (the "Withholding Agent") in the chain of payment prior to payment to a non-United States Owner must have received in the year in which a payment of principal or interest occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner of a Security under penalties of perjury, (ii) certifies that such beneficial owner is not a United States Owner and (iii) provides the name and address of such beneficial owner. The statement may be made on a Form W-8 or substantially similar substitute form and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Security is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent instead of the beneficial owner. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or a substitute form provided by the beneficial owner to the organization or institution holding the Security on behalf of the beneficial owner.

Backup Withholding and Information Reporting

A 31-percent "backup" withholding tax and certain information reporting requirements may apply to certain payments to certain non-United States Owners of principal of and interest (including OID, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments made by a Bank or Banks or any paying agent thereof (in its capacity as such) to a non-United States Owner of a Security with respect to which such owner has provided required certification of its non-United States person status under penalties of perjury (provided that neither a Bank or Banks nor the paying agent has actual knowledge that the owner is a United States Owner) or has otherwise established an exemption (*e.g.*, as a corporation).

If such principal or interest is collected outside the United States by the non-United States office of the foreign custodian, foreign nominee or other foreign agent of the beneficial owner of a Security and is paid by such office outside the United States to such owner, or if the non-United States office of a foreign "broker" (as defined in applicable Treasury regulations) pays the proceeds of the sale or exchange of a Security outside the United States to the seller thereof, backup withholding and information reporting will not apply to such payment (provided that such nominee, custodian, agent or broker derives less than 50 percent of its gross income for certain specified periods from the conduct of a trade or business in the United States and is not a controlled foreign corporation for United States tax purposes). Principal and interest so paid by the non-United States office of other custodians, nominees or agents, or the payment by the foreign office of other brokers of the proceeds of the sale or exchange of a Security, will not be subject to backup withholding, but will be subject to information reporting, unless the custodian, nominee, agent or broker has documentary evidence in its records that the beneficial owner or seller is not or was not, as the case may be, a United States Owner and certain conditions are met or the beneficial owner or seller otherwise establishes an exemption. Principal and interest so paid by the United States office of a custodian, nominee or agent, or the payment by the United States office of a broker of the proceeds of a sale or exchange of a Security is subject to both backup withholding and information reporting unless the beneficial owner or seller certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

On April 15, 1996, the Internal Revenue Service issued proposed regulations on withholding of Federal income tax, backup withholding and certain information reporting requirements. If finalized in their current form, these regulations would apply to payments on Securities made after December 31, 1997, including payments on Securities issued on or before that date. In general, the proposed regulations would not significantly alter the present rules discussed above, except in certain special situations. Accordingly, owners of Securities should consult their tax advisors as to the potential impact of the proposed regulations on their particular situations.

OFFERING CIRCULAR SUPPLEMENT

(To the Offering Circular dated January 22, 1996, as amended and supplemented)

*Federal Farm Credit Banks
Consolidated Systemwide
Bonds and Discount Notes*



The Federal Farm Credit Banks Funding Corporation, a corporation established under the laws of the United States of America as agent for the Banks of the Farm Credit System, hereby amends and supplements the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated January 22, 1996, as amended and supplemented (the "Offering Circular"). This supplement supersedes the Offering Circular Supplement dated August 13, 1996. This supplement should be read in conjunction with the Offering Circular. Capitalized terms not defined herein are defined in the Offering Circular.

The fifth paragraph on page 1 of the Offering Circular is hereby amended and supplemented as follows by changing the denominations for the Securities:

The Securities will be issued and maintained, and may be transferred, only in book-entry form on the book-entry system of the Federal Reserve Banks. Unless otherwise specified by the Funding Corporation, effective June 1, 1997, Bonds will be available in minimum principal amounts of \$5,000 and \$1,000 multiples thereof. See "Description of the Securities-Bonds." Unless otherwise specified by the Funding Corporation, Discount Notes will be available in minimum par amounts of \$5,000 and \$1,000 multiples thereof. Such denominations apply to all Discount Notes outstanding as of June 1, 1997 and to all Discount Notes issued on or after June 1, 1997. See "Description of the Securities-Discount Notes."

The fourth full sentence on page 2 of the Offering Circular is hereby amended and supplemented as follows by changing the concession currently paid to CDs on Discount Notes from .05 percent to .04 percent:

Unless otherwise agreed to by the Funding Corporation and the applicable Member or CD, the Funding Corporation will pay a concession (i) to a Member with respect to a Calendar Bond in an amount set forth in the applicable Offering Announcement; (ii) to a Member with respect to a Negotiated Bond in an amount set forth in the applicable Term Sheet; and (iii) to a CD in an amount equal to a specified percent per annum of the par amount of the Discount Notes due at maturity, currently .04 percent.

The date of this Offering Circular Supplement is June 1, 1997.

The fifth full paragraph on page 2 of the Offering Circular is hereby amended and supplemented as follows by changing the title of the section referred to in this paragraph:

The Securities will not be listed on any securities exchange and there can be no assurance that the Securities described in this Offering Circular will be sold or that there will be a secondary market for the Securities. See "Certain Investment Considerations." The Funding Corporation reserves the right to withdraw, cancel or modify the offer made hereby without notice.

Certain information set forth in the sixth full paragraph on page 2 of the Offering Circular is hereby amended and supplemented as follows:

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INVESTORS SHOULD HAVE THE FINANCIAL STATUS AND THE KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS SUFFICIENT TO EVALUATE THE MERITS AND RISKS OF INVESTING IN THE SECURITIES.

THIS OFFERING CIRCULAR DOES NOT DESCRIBE ALL OF THE RISKS OF INVESTMENT IN THE SECURITIES RESULTING FROM PRINCIPAL OR INTEREST BEING DETERMINED BY REFERENCE TO ONE OR MORE INTEREST RATES OR OTHER INDICES OR FORMULAS. THE BANKS, THE FUNDING CORPORATION, THE MEMBERS, THE CDS AND THE DDNDS DISCLAIM ANY RESPONSIBILITY TO ADVISE PROSPECTIVE INVESTORS OF SUCH RISKS AND INVESTMENT CONSIDERATIONS AS THEY EXIST AT THE DATE OF THIS OFFERING CIRCULAR OR AS THEY MAY CHANGE FROM TIME TO TIME. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISORS AS TO THE RISKS AND INVESTMENT CONSIDERATIONS ARISING FROM AN INVESTMENT IN SUCH SECURITIES. SUCH SECURITIES ARE NOT AN APPROPRIATE INVESTMENT FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO TRANSACTIONS INVOLVING THE APPLICABLE INTEREST RATE OR OTHER INDICES OR FORMULAS. SEE "CERTAIN INVESTMENT CONSIDERATIONS."

NO ISSUE OF SECURITIES WILL HAVE AN ESTABLISHED TRADING MARKET WHEN ISSUED. THERE CAN BE NO ASSURANCE THAT THE SECURITIES WILL HAVE SECONDARY MARKET LIQUIDITY. THE SECONDARY MARKET OBLIGATIONS OF THE MEMBERS, CDS AND DDNDS REFERRED TO HEREIN MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE TO HOLDERS OF THE SECURITIES. SEE "CERTAIN INVESTMENT

CONSIDERATIONS—SECONDARY MARKET RISKS.”

Certain information set forth under “Secondary Market and Other Investment Risks” in the Offering Circular is hereby amended and supplemented as follows:

CERTAIN INVESTMENT CONSIDERATIONS

The following does not describe all the risks of an investment in the Securities. Prospective investors should consult their own financial and legal advisors about risks associated with investing in a particular issue of Securities and the suitability of investing in the Securities in light of their particular circumstances.

The Securities may not be suitable investments for certain investors. Risks to investors associated with the purchase of the Securities are, in general, similar to those associated with owning other comparable debt securities. In addition to the credit risk related to the aggregate creditworthiness of the Banks, the market value of the Securities will be affected by a number of risks that are independent of the creditworthiness of the Banks.

Investors whose investment activities are subject to legal investment laws and regulations or to review or regulation by certain authorities may be subject to restrictions on investments in certain types of debt securities. Investors should review and consider such restrictions prior to investing in the Securities. In addition, any institution that is subject to the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Department of the Treasury or any other Federal or state agency with similar authority should review and consider the applicability of rules, guidelines, regulations and policy statements adopted by their respective regulators prior to investing in the Securities.

Structure Risks. Interest rate risks include interest rate risk arising from changes in market rates of interest and spread/market risk arising from changes in the relationship of market yields for the Securities relative to U.S. Treasury issues of similar maturities or to changes in the relationships of other indices utilized to originally price, or to reprice, the Securities. In particular, an investment in an issue of Securities with principal or interest determined by reference to one or more interest rates or other indices, either directly or inversely, entails significant risks not associated with an investment in a conventional fixed or floating rate debt security. Such risks include, without limitation, the possibility that such index or indices may be subject to significant changes, that the resulting interest rate will be less than that payable on a comparable conventional fixed or floating rate debt security issued on behalf of the Banks at the same time or that no interest will be payable, that the repayment of principal can occur at times other than that expected by the investor, and that the investor could lose all or a substantial portion of the principal of its investment in such Securities (whether payable at maturity or upon redemption). Such risks depend on a number of interrelated factors, including financial, economic and political events, over which the Banks have no control. In addition, if the formula used to determine the amount of principal or interest payable with respect to an issue of Securities contains a multiple or leverage factor, the effect of any change in such index or indices will be magnified. In recent years, certain interest rates and other indices have been highly volatile and such volatility may be expected to continue in the future.

Fluctuations in any particular interest rate or other index that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future.

Any redemption feature of an issue of the Securities might affect the market value of such Securities. Since the Banks may be expected to redeem the Securities when prevailing interest rates are relatively low, an investor might not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on such Securities.

Secondary Market Risks. Generally there is an active secondary market for Calendar Bonds and for Discount Notes. However, certain Bonds, including Negotiated Bonds, may not have an established trading market when issued. Each Member and CD has agreed to use reasonable efforts to facilitate secondary market transactions in the Bonds and Discount Notes, respectively, and each DDND has agreed to use reasonable efforts to facilitate secondary market transactions in the Discount Notes purchased through CDs. The Members, CDs and DDNDs have also agreed to advise the Funding Corporation promptly of any material development known to them in the secondary market for the respective Securities or of their decision to withdraw from secondary market-making in the respective Securities. The Securities will not be listed on any securities exchange. There can be no assurance that the Securities will have secondary market liquidity.

The secondary market for the Securities will be affected by a number of factors independent of the creditworthiness of the Banks and the value of any applicable index or indices, which may include, but may not be limited to, the complexity and volatility of such index or indices, the method of calculating the principal or any interest to be paid in respect of such Securities, the time remaining to the maturity of such Securities, the outstanding amount of such Securities, any redemption features of such Securities, the amount of other securities linked to such index or indices and the level, direction and volatility of market interest rates generally. Such factors also will affect the market value of the Securities. In addition, certain Securities may be designed for specific investment objectives or strategies and therefore may have a more limited secondary market and experience more price volatility than conventional debt securities. Investors may not be able to sell Securities readily or at prices that will enable investors to realize their anticipated yield. No investor should purchase Securities unless such investor understands and is able to bear the risk that certain Securities may not be readily saleable, that the value of Securities will fluctuate over time and that such fluctuations may be significant.

The prices at which zero-coupon instruments, as well as other instruments issued at a substantial discount from their principal amount payable at maturity, trade in the secondary markets tend to fluctuate more in relation to general changes in interest rates than do such prices for conventional interest-bearing securities of comparable maturities.

Certain Floating-Rate Securities may trade in secondary markets at prices which may fluctuate differently in relation to general changes in interest rates than do prices for conventional interest-bearing securities of comparable maturities.

The sixth and seventh sentences set forth under “Summary-Form and Denominations” in the Offering Circular are hereby amended and supplemented as follows by changing the denominations for the Securities:

Unless otherwise specified by the Funding Corporation, effective June 1, 1997, the Bonds will be issued and may be transferred only in minimum principal amounts of \$5,000 and \$1,000 multiples thereof. Unless otherwise specified by the Funding Corporation, Discount Notes will be issued and may be transferred only in minimum par amounts of \$5,000 and \$1,000 multiples thereof. The denominations for Discount Notes apply to all Discount Notes outstanding as of June 1, 1997 and to all Discount Notes issued on or after June 1, 1997.

Certain information set forth under “Description of the Securities~~Bonds~~ Form and Denominations” is hereby amended and supplemented as follows by changing the denominations:

Form and Denominations. The Bonds will be issued and maintained, and may be transferred, only in book-entry form through the Federal Reserve Banks, as described below under “Book-Entry System.” Unless otherwise specified by the Funding Corporation, effective June 1, 1997, Bonds will be issued, maintained and transferred only in minimum principal amounts of \$5,000 and integral multiples of \$1,000 in excess thereof.

Certain information set forth under “Description of the Securities~~Discount Notes~~ Form and Denominations” is hereby amended and supplemented as follows by changing the denominations:

Form and Denominations. The Discount Notes will be issued and maintained, and may be transferred, only in book-entry form through the Federal Reserve Banks, as described under “Book-Entry System.” Unless otherwise specified by the Funding Corporation, Discount Notes will be issued, maintained and transferred only in minimum par amounts of \$5,000 and integral multiples of \$1,000 in excess thereof. Such denominations apply to all Discount Notes outstanding as of June 1, 1997 and to all Discount Notes issued on or after June 1, 1997.

All references in the Offering Circular to “Holder” or “Holders” should be changed to “Participant” or “Participants” and certain information set forth under “Description of the Securities~~Book-Entry System~~” is hereby amended and supplemented as follows:

Book-Entry System

The Securities will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks. Unless otherwise specified by the Funding Corporation, the Securities will be issued, maintained and are transferable in minimum amounts of \$5,000 and integral multiples of \$1,000 in excess thereof. See “Description of the Securities~~Bonds~~” and “Description of the Securities~~Discount Notes~~.”

The Securities will be issued pursuant to one or more fiscal agency agreements (collectively, and as subsequently amended or modified, the "Fiscal Agency Agreement"), between the Banks and the Federal Reserve Banks, as fiscal agent. The summaries herein of certain provisions of the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by the provisions of the Fiscal Agency Agreement, copies of which may be examined at the Office of the Federal Reserve Bank of New York or the Office of the General Counsel of the Funding Corporation at the address set forth on page 2 hereof. No Securities denominated in any foreign currency or currencies may take the form of Federal Reserve book-entry securities. The Fiscal Agency Agreement makes generally applicable to the Securities the following regulations and other documents that govern transactions in Systemwide Debt Securities, including the Securities, issued in book-entry form for which the Federal Reserve Banks act as the Banks' agent: (i) the Regulations governing the Banks' debt securities, 12 CFR Part 615, Subpart 0, as amended from time to time ("Farm Credit Securities Regulations"); (2) applicable operating circulars or letters of the Federal Reserve Banks; and (3) insofar as applicable, the regulations and procedures from time to time prescribed by the United States Department of the Treasury governing United States securities, currently set forth in 31 CFR Parts 306 and 357, as amended from time to time ("Treasury Securities Regulations"). Copies of the Farm Credit Securities Regulations may be obtained upon request from the Funding Corporation and copies of the Treasury Securities Regulations may be obtained upon request from any Federal Reserve Bank, the Treasury Department or the Funding Corporation. The accounts of Participants on the Federal Reserve Banks' book-entry system are governed by the foregoing and by applicable operating circulars and letters of the Federal Reserve Banks.

The Securities will be evidenced by means of entries on a Federal Reserve Bank's records of (1) the name of the Participant, (2) the Participant's employer identification number, when appropriate, and (3) the amount, maturity date and a unique nine-character identification number used to identify the Securities on the records of the Federal Reserve Banks (the "CUSIP Number").

It is expected that each series of Securities will be available in book-entry form on the book-entry system of the Federal Reserve Banks on the Settlement Date for such series against payment therefor in immediately available funds. The Federal Reserve Banks will maintain book-entry accounts with respect to the Securities and make payments, for the Funding Corporation on behalf of the Banks, of principal of and interest on the Bonds and of the par amount of Discount Notes on the applicable payment dates by crediting Participants' accounts at the Federal Reserve Banks. Payment of principal of and interest on, or the par amount of, the Securities does not require the presentation of a coupon or certificate. The book-entry records of the Federal Reserve Banks will reflect a Participant's aggregate holdings of the Securities.

The Securities may be held of record only by and transferred of record only between entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Securities have been deposited are herein referred to as "Participants." A Participant is not necessarily the investor who is the beneficial owner of a Security. Beneficial owners will ordinarily hold the Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations ("Securities Intermediaries"). Beneficial owners generally receive a custody receipt from their bank or non-bank dealer instead of receiving a certificate of indebtedness. Investors may choose as custodian a bank or other financial institution that maintains book-entry accounts with a member of the Federal Reserve System.

A Participant that is not the beneficial owner of a Security, and each other Securities Intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Security with respect to the Banks, the Funding Corporation and the Federal Reserve Banks may be exercised only through the Participant that holds such security. The Banks, the Funding Corporation and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Security that is not also a Participant. The Federal Reserve Banks will act only upon the instructions of Participants in recording transfers of the Securities. The Banks, the Funding Corporation and the Federal Reserve Banks may treat the Participants as the absolute owners of the Securities for the purpose of making payments of principal of and interest on the Bonds and of the par amount of Discount Notes and for all other purposes.

Information and trading with respect to any Securities for which a face amount (*i.e.*, in the case of Bonds, the original principal amount and in the case of Discount Notes, the par amount) has been designated shall be with reference to such face amount.

CERTAIN TAX CONSIDERATIONS

Certain information set forth under “Certain Tax Considerations” in the Offering Circular is hereby amended and supplemented as follows:

The following is a summary of certain Federal and other tax consequences of the ownership of Securities. It is based on the Act, the Internal Revenue Code of 1986, as amended (the “Code”), and final, temporary and proposed Treasury regulations, Revenue Rulings, and judicial decisions, all as of the date hereof. It is also based upon certain of the facts set forth in the applicable offering materials distributed with respect to particular issues of Securities and upon standard procedures followed in connection with the offer and sale of the Securities. This summary deals only with Securities held as capital assets by their original purchasers and does not address special tax situations. This summary does not purport to cover all the possible tax consequences of the purchase, ownership or disposition of the Securities, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Securities should consult their own tax advisors concerning the application of the income tax laws of the United States to their particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

Additional Federal and state income and other tax consequences applicable to particular Securities may be set forth in offering materials distributed with respect to particular issues of Securities.

General

The Act provides that the Securities and interest thereon are exempt from state, local and municipal income taxation. Provisions of several statutes which are analogous to the relevant tax exemption provisions of the Act applicable to the Securities have been construed by certain state courts as not exempting securities similar to the Securities or interest thereon from nondiscriminatory franchise taxes or other non-property taxes in lieu thereof imposed on corporations. As described in greater detail below, interest on the Securities is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Securities or their transfer by inheritance, gift, or other means, is not exempt from Federal taxation, and generally is not exempt from, state, local or municipal taxation.

United States Owners

As used herein, "United States Owner" means a beneficial owner of a Security that is a United States person. A "non-United States Owner" is a beneficial owner that is not a United States person. As used herein, "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to Federal income taxation regardless of its source, or a trust subject to the supervision of a court within the United States and the control of a United States fiduciary as described in Section 7701(a)(30) of the Code. "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions (including the Commonwealth of Puerto Rico) and other areas subject to its jurisdiction.

In general, interest (including original issue discount, as discussed below) on a Security will be treated as ordinary interest income to the United States Owner of the Security at the time it accrues or is received, in accordance with the United States Owner's method of accounting for tax purposes, or, in the case of original issue discount, specific Federal income tax provisions. The amount of original issue discount or market discount (as discussed below) which is includible in income in respect of a Security while held by a United States Owner will be added to such United States Owner's tax basis for such Security, and such basis will be reduced by any amortized acquisition or other premium (as discussed below) and amounts of other payments that do not constitute qualified stated interest (as defined below). A United States Owner of a Security will recognize gain or loss on the sale, exchange or retirement of such Security equal to the difference between the amount realized thereon and such owner's tax basis in the Security, which gain or loss will generally be capital gain or loss (except to the extent of market discount that is treated as having accrued) and will be long-term capital gain or loss if at the time of the sale, exchange or retirement, the Security has been held for more than one year. The maximum rate on ordinary income for taxpayers that are individuals, estates or trusts is 39.6 percent, while the maximum rate on long-term capital gains for such taxpayers is 28 percent. The distinction between capital gain or loss and ordinary income or loss is also relevant for purposes of limitations on the deductibility of capital losses.

Original Issue Discount

A Security with an "issue price" which is less than its "stated redemption price at maturity" will generally be considered to be issued at an original issue discount for Federal income tax purposes. Generally, however, under the "de minimis exception," if the difference between a Security's stated redemption price at maturity and its issue price is less than .25 percent of the stated redemption price at maturity multiplied by the number of complete years from the issue date to maturity, the Security will not be considered to have original issue discount. "Issue price" is defined generally as the initial offering price to the public at which a substantial amount of the particular issue of Securities is sold. "Stated redemption price at maturity" is defined generally as the amount payable on an obligation at maturity, except for certain interest payments. Under Treasury regulations issued in final form on January 27, 1994 (the "Original Issue Discount Regulations"), stated redemption price at maturity includes all amounts payable on an obligation with the exception of payments of "qualified stated interest." "Qualified stated interest" is generally defined as stated interest unconditionally payable or constructively received at least annually at (i) a single fixed rate, (ii) a "qualified floating rate" (a single floating rate the variations in which can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds), or (iii) an "objective rate" ((A) a single floating rate using a fixed formula based on objective

financial or economic information (*e.g.*, generally a rate that is based on one or more qualified floating rates or on the yield of actively traded property), or (B) a fixed rate minus a qualified floating rate, but only if the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (a "qualified inverse floating rate"), and neither (A) nor (B) results in significant front-or back-loading of interest). Stated interest unconditionally payable or constructively received at least annually at (i) multiple fixed rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single fixed rate and a single objective rate that is a qualified inverse floating rate, or (iv) multiple qualified floating rates may also constitute qualified stated interest although, depending upon the particular interest rate formula used and as discussed further below, such stated interest may be treated in whole or in part as original issue discount. In addition, qualified stated interest does not include any payments on a debt instrument with a term of one year or less. (See below for a discussion of the application of the *de minimis* exception for obligations with a term of one year or less.)

If the period between the issue date of a Bond and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Bond will be a "long-period Bond." Under the Original Issue Discount Regulations, a long-period Bond will not be considered issued with original issue discount if all stated interest on the Bond is qualified stated interest. If all stated interest is not qualified stated interest because the interest rate for the long period is effectively below the rate applicable for the remainder of the Bond's term, the Bond will not have original issue discount if (i) in the case of a Bond that otherwise provides for interest payable at a single fixed rate, the value of the fixed rate is adjusted in "any reasonable manner" (as discussed in the Original Issue Discount Regulations) to take into account the length of the long period, or (ii) in the case of all Bonds, the *de minimis* exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Bonds, but if neither exception applies, then such Bonds will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Bond at multiple fixed rates (whether or not it is a long-period Bond), then such Bond will provide for qualified stated interest only to the extent of the lowest fixed rate at which qualified stated interest would be payable. Any interest payable in excess of this rate will generally be considered original issue discount.

United States Owners of Bonds with original issue discount that mature more than one year from the issue date will generally be required to include original issue discount in gross income for Federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, in advance of receipt of the cash payments attributable to such income. Such original issue discount will result in the acceleration of recognition of ordinary income to cash method United States Owners. Under the constant yield method, United States Owners of such Bonds will generally be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Bonds that provide for total noncontingent principal payments at least equal to the debt instrument's issue price (subject to a special *de minimis* rule) and do not provide for stated interest other than stated interest (compounded or paid at least annually) at the current value of (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate, or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, will generally be considered "variable rate debt instruments." Such variable rate debt instruments will not be considered to have original issue discount merely because stated interest is payable at a floating rate. However, a variable rate debt instrument may bear original issue discount if interest (i) is not

unconditionally payable or constructively received at least annually and/or (ii) is payable at other than a single qualified floating rate or objective rate. The amount, if any, and accrual of original issue discount and qualified stated interest with respect to such a debt instrument are generally determined by converting it into an equivalent fixed rate debt instrument (*e.g.*, by substituting for each qualified floating rate the value of such rate as of the issue date) and then applying the general original issue discount rules for fixed rate debt instruments as discussed above. The qualified stated interest allocable to an accrual period is adjusted to the extent interest actually paid during the period differs from the interest assumed to be paid on the equivalent fixed rate debt instrument.

A Floating-Rate Bond that is not a variable rate debt instrument will generally be treated as having original issue discount, and interest on such a debt instrument will be treated as contingent interest. In addition, a Floating-Rate Bond subject to an interest rate ceiling and/or floor will not be considered to bear interest at a qualified floating rate or at an objective rate and will be treated as bearing contingent interest unless the interest rate ceiling and/or floor is fixed throughout the term of the Floating-Rate Bond or is not reasonably expected as of the issue date to cause the yield on such Bond to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. Treasury regulations effective for debt instruments issued on or after August 13, 1996, generally require that the issuer determine the "comparable yield" for a debt instrument bearing contingent interest. The "comparable yield" is generally the yield at which the issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the contingent payment debt instrument, all as of the issue date.

The issuer then determines a projected payment schedule that produces the comparable yield. The projected payment schedule will consist of all the noncontingent payments on the debt instrument and a projected amount for each contingent payment, which amount will generally be the forward price for the property right (*e.g.*, a forward contract or an option) that is substantially similar to the contingent payment. Interest will be includible in income based on the schedule, with subsequent adjustments if the actual amount of a contingent payment differs from the amount projected in the schedule. A United States Owner must follow this projected payment schedule unless such owner determines its own schedule and describes on its Federal income tax return that fact and the reason why it set its own schedule (*e.g.*, why the schedule it was provided was unreasonable). The Confirmation or Term Sheet relating to an issue of Bonds with contingent interest will contain the projected payment schedule for such issue of Bonds as well as additional information on the timing of the inclusion of interest income and subsequent adjustments thereto.

Under the Original Issue Discount Regulations, all payments (including all stated interest) with respect to a Security will be included in the stated redemption price at maturity if the Security has a term of one year or less (a "short-term Security") and, thus, a United States Owner will generally be taxable on discount in lieu of stated interest. As a result, a short-term Security will in almost all circumstances fall outside the general *de minimis* exception discussed above. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Security, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, individuals and other cash method United States Owners of short-term Securities are not required to accrue such discount for Federal income tax purposes and will generally be required to include stated interest (if any) in income when received, unless an election is made to accrue discount as computed above. United States Owners who report income for Federal income tax purposes on the accrual method and certain other United States Owners, including banks and dealers in securities, are required to accrue discount on such short-term Securities (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method. The amount of discount which accrues in respect of

a short-term Security while held by a United States Owner will be added to such owner's tax basis in such Security to the extent included in income. In the case of a United States Owner who is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the short-term Security will be ordinary income to the extent of the discount accrued (less the amount of stated interest received (if any) previously included in income) on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such non-electing United States Owners which are not subject to the current inclusion requirement described in this paragraph will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry such short-term Securities in an amount not exceeding the deferred interest income, until such deferred interest income is realized.

Under the Original Issue Discount Regulations, a United States Owner may elect to accrue all "interest" on a Security as original issue discount (*i.e.*, using the constant yield method discussed above). If a United States Owner elects this method, the Security's issue price will be deemed to be such owner's basis in the Security at the time of its acquisition, and all of the payments on the Security will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Security has original issue discount, and it applies to any stated interest, original issue discount (including discount that is de minimis or attributable to a short-term Security) and market discount (as discussed below) on a Security, all as adjusted by any acquisition or other premium (as discussed below). This election may be made on an obligation-by-obligation basis but, once made on an obligation with bond premium, it will operate as an election to amortize premium with respect to all of such United States Owner's debt instruments with premium, not just those on which it is electing to apply the constant yield method. A similar consistency rule applies to debt instruments with market discount and the election to include such discount in income currently.

Market Discount and Premium

If a United States Owner purchases a Security other than a short-term Security (including a purchase in connection with its original issuance) for an amount that is less than its "revised issue price" (defined as the sum of the issue price of the Security, as defined above, and the aggregate amount, if any, of the original issue discount included, without regard to the rules for acquisition premium discussed below, in the gross income of all previous owners of the Security), the amount of the difference will be treated as "market discount" for Federal income tax purposes, unless such difference is less than a specified de minimis amount. Under the market discount rules, a United States Owner will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Security as ordinary income to the extent of the market discount which has not previously been included in income and is treated as having accrued on such Security at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Security or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Security. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Security, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Security may elect to include market discount in income currently as it accrues (on either a ratable or constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service.

A United States Owner that purchases a Security with original issue discount for an amount that is greater than the Security's "adjusted issue price" (defined generally as the issue price of the Security increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Security and decreased by the aggregate amount of payments made on the Security, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Security at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Security for any taxable year will be reduced by the portion of such acquisition premium properly allocable to such year.

If a United States Owner acquires a Security for an amount that is greater than both its revised issue price and the sum of all amounts payable on the Security after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Security at a premium, such Security will have no original issue discount, and such owner may elect to amortize such premium using a constant yield method, generally over the remaining term of the Security. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Security.

Backup Withholding and Information Reporting

A 31-percent "backup" withholding tax and certain information reporting requirements may apply to certain payments to certain United States Owners of principal of and interest (including original issue discount, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Securities made by a Bank or Banks or any paying agent thereof (in its capacity as such) to exempt recipients, such as corporations or financial institutions, but such entities may be required to establish their status as such. Under current Treasury regulations, backup withholding and information reporting also will not apply to payments on the Securities made by any custodian, nominee or other agent of a United States Owner, or to the payment of the proceeds of a sale or exchange of a Security made to a United States Owner, if such payments or proceeds are paid to exempt recipients such as corporations or financial institutions, but such entities may be required to establish their status as such. In the case of a United States Owner that has not established an exemption from information reporting and backup withholding (for example, an individual), backup withholding will not be applicable if such owner has supplied an accurate Taxpayer Identification Number, has not been notified by the Internal Revenue Service that it has failed to report properly payments of interest and dividends and, in certain circumstances, has certified under penalties of perjury that it has received no such notification and that it has supplied an accurate Taxpayer Identification Number. Any amounts withheld under the backup withholding rules from a payment to a United States Owner of a Security will be allowed as a refund or a credit against such owner's Federal income tax, provided that any required information is furnished to the Internal Revenue Service.

Non-United States Owners

Under present Federal income and estate tax laws, and subject to the discussion below concerning backup withholding:

- (a) no withholding of Federal income tax will be required with respect to the payment by a Bank or Banks or any paying agent thereof (in its capacity as such) of principal or interest (which for

purposes of this discussion includes original issue discount) on a Security to a non-United States Owner, provided that (i) such owner does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code, (ii) the non-United States Owner is not a controlled foreign corporation that is related to a Bank or Banks through stock ownership, (iii) the beneficial owner satisfies the statement requirement (described generally below) set forth in Section 871(h) and Section 881(c) of the Code, and (iv) in the case of interest, such interest is not effectively connected with a United States trade or business of such owner;

(b) no withholding of Federal income tax will be required with respect to any gain or income realized by a non-United States Owner upon the sale, exchange or retirement of a Security, provided that such gain or income is not effectively connected with a United States trade or business of such owner; and

(c) a Security held by an individual who at the time of death is a non-United States Owner will not be subject to Federal estate tax as a result of such individual's death, provided that such individual does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of a Bank or Banks entitled to vote within the meaning of Section 871(h)(3) of the Code and provided that the interest payments with respect to such Security are not effectively connected with a United States trade or business of such individual.

To qualify for the exemption from withholding tax with respect to the Securities, the last United States person (the "Withholding Agent") in the chain of payment prior to payment to a non-United States Owner must have received in the year in which a payment of principal or interest occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner of a Security under penalties of perjury, (ii) certifies that such beneficial owner is not a United States Owner and (iii) provides the name and address of such beneficial owner. The statement may be made on a Form W-8 or substantially similar substitute form and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Security is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent instead of the beneficial owner. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or a substitute form provided by the beneficial owner to the organization or institution holding the Security on behalf of the beneficial owner.

Backup Withholding and Information Reporting

A 31-percent "backup" withholding tax and certain information reporting requirements may apply to certain payments to certain non-United States Owners of principal of and interest (including original issue discount, if any) on, and proceeds of the sale or exchange before maturity of, a Security. Under current Treasury regulations, backup withholding and information reporting will not apply to payments made by a Bank or Banks or any paying agent thereof (in its capacity as such) to a non-United States Owner of a Security with respect to which such owner has provided required certification of its non-United States person status under penalties of perjury (provided that neither a Bank or Banks nor the paying agent has actual knowledge that the owner is a United States Owner) or has otherwise established an exemption (*e.g.*, as a corporation).

If such principal or interest is collected outside the United States by the non-United States office

of the foreign custodian, foreign nominee or other foreign agent of the beneficial owner of a Security and is paid by such office outside the United States to such owner, or if the non-United States office of a foreign "broker" (as defined in applicable Treasury regulations) pays the proceeds of the sale or exchange of a Security outside the United States to the seller thereof, backup withholding and information reporting will not apply to such payment (provided that such nominee, custodian, agent or broker derives less than 50 percent of its gross income for certain specified periods from the conduct of a trade or business in the United States and is not a controlled foreign corporation for United States tax purposes). Principal and interest so paid by the non-United States office of other custodians, nominees or agents, or the payment by the foreign office of other brokers of the proceeds of the sale or exchange of a Security, will not be subject to backup withholding, but will be subject to information reporting, unless the custodian, nominee, agent or broker has documentary evidence in its records that the beneficial owner or seller is not or was not, as the case may be, a United States Owner and certain conditions are met or the beneficial owner or seller otherwise establishes an exemption. Principal and interest so paid by the United States office of a custodian, nominee or agent, or the payment by the United States office of a broker of the proceeds of a sale or exchange of a Security is subject to both backup withholding and information reporting unless the beneficial owner or seller certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

On April 15, 1996, the Internal Revenue Service issued proposed regulations on withholding of Federal income tax, backup withholding tax and certain information reporting requirements. If finalized in their current form, these regulations would apply to payments on Securities made after December 31, 1997, including payments on Securities issued on or before that date. In general, the proposed regulations would not significantly alter the present rules discussed above, except in certain special situations. Accordingly, owners of Securities should consult their tax advisors as to the potential impact of the proposed regulations on their particular situations.

The third sentence in the seventh paragraph set forth under "Plan of Distribution" in the Offering Circular is hereby amended and supplemented as follows by changing the current concession paid to CDs on Discount Notes from .05 percent to .04 percent:

With respect to Discount Notes, the Funding Corporation will pay a selling concession to a CD in an amount equal to a specified percent per annum on the par amount of the Discount Notes due at maturity, which is currently .04 percent.

The eighth paragraph set forth under "Plan of Distribution" in the Offering Circular is hereby amended and supplemented by adding the following sentence at the end:

In connection with any particular issue of Securities, one or more of the Banks may enter into hedging transactions with a Member, a CD or a DDND, as the case may be, participating in such transaction or an affiliate thereof.