

## OFFERING CIRCULAR

**\$15,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes*  
*Due One to 30 Years from Date of Issue*



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 (the "Funding Corporation"), proposes to offer for sale from time to time Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue (the "Notes") in an aggregate principal amount outstanding at any one time of up to \$15,000,000,000. The Notes are the general unsecured joint and several obligations of the Banks of the Farm Credit System (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 NOTES 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 NOTES."

The Notes will have various interest rates, interest rate formulae, maturities, selling prices, and other terms as agreed to by the Funding Corporation and the purchaser and specified in a Term Sheet (as defined herein). Each Note, except for a Zero-Coupon Note (as defined herein), will be sold at 100% of its principal amount unless otherwise agreed to by the Funding Corporation and the purchaser. The Notes will have maturities from one to 30 years and, unless designated as "Redeemable Notes" or "Optional Principal Redemption Notes" (in each case as defined herein), or otherwise agreed to by the Funding Corporation and the purchaser, the Notes will not be subject to redemption prior to maturity. In addition, Notes designated as "Amortizing Notes" (as defined herein) may require prepayment of all or a portion of the principal amount of such Notes, together with interest accrued but unpaid thereon, on Interest Payment Dates (as defined herein), pursuant to a predetermined schedule or otherwise, as described in the Term Sheet relating to such issue of Notes. Unless otherwise agreed to by the Funding Corporation and the purchaser, and subject to the exceptions set forth herein, (i) interest on Fixed-Rate Notes (as defined herein) will be payable semi-annually in arrears on the dates specified in the Term Sheet for such Notes, and on the Maturity Date (as defined herein) and (ii) interest on Floating-Rate Notes (as defined herein) will be payable in arrears on the dates specified in the Term Sheet for such Notes, and on the Maturity Date. No periodic payments of interest will be made on Zero-Coupon Notes. The Notes will be issued and maintained, and may be transferred, in book-entry form only on the book-entry system of the Federal Reserve Banks. Fixed-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof (or integral multiples of \$5,000 in the case of Fixed-Rate Notes having a maturity of thirteen months or less from the Issue Date (as defined herein)). Floating-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. See "Description of the Notes."

THE NOTES 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 Notes 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 Notes as Selling Group Members (each an "SGM") pursuant to the terms and conditions of Medium-Term Notes Selling Group Member Agreements, as in effect from time to time (each the "SGM Agreement"). Under the SGM Agreement, an SGM will use reasonable efforts to solicit orders for the purchase of certain Notes offered by the Funding Corporation for sale to investors at the Issue Price (as defined herein) and may also offer to purchase Notes for resale to investors at varying prices, according to market conditions. In all cases SGMs will purchase the Notes from the Funding Corporation as principal. The Funding Corporation will have the sole right to accept offers to purchase the Notes and may reject any proposed purchase of the Notes, in whole or in part. Unless otherwise agreed to by the Funding Corporation and an SGM, the Funding Corporation will pay to an SGM a commission not to exceed 0.400% of the principal amount of the Note, which commission will vary depending upon the maturity of the Note. The current SGMs are listed below. The Funding Corporation may, from time to time, appoint one or more other investment dealers and dealer banks as additional SGMs.

In addition, certain other members of the Federal Farm Credit Banks Bond Selling Group which become Designated Selling Group Members (each a "DSGM") by entering into Medium-Term Notes Designated Selling Group Member Agreements (each the "DSGM Agreement") with the Funding Corporation may solicit offers for certain Notes, which offers may be communicated to the Funding Corporation through an SGM. Subject to the terms and conditions of the DSGM Agreement, a DSGM may agree to purchase Notes from an SGM for sale to investors at the Issue Price and may also offer to purchase Notes for resale to investors at varying prices, according to market conditions. In certain circumstances, a DSGM will be entitled to receive a reallocation of a portion of the commission payable to an SGM with respect to the sale of the Notes to the SGM.

Either the Funding Corporation or an SGM or a DSGM, as the case may be, may terminate, upon notice, the status of that SGM or DSGM as such by termination of the respective SGM or DSGM Agreement.

The Notes may also be sold directly by the Funding Corporation. No commission will be payable on sales made directly by the Funding Corporation.

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

**Bank of America NT & SA**  
**Carroll McEntee & McGinley Incorporated**  
**Dean Witter Reynolds Inc.**  
**First Chicago Capital Markets, Inc.**  
**Goldman, Sachs & Co.**  
**Morgan Keegan & Company, Inc.**  
**NationsBanc Capital Markets, Inc.**  
**Salomon Brothers Inc**

**Bear, Stearns & Co. Inc.**  
**Craigie Incorporated**  
**Donaldson, Lufkin & Jenrette Securities Corporation**  
**Fuji Securities Inc.**  
**Merrill Lynch Government Securities, Inc.**  
**Morgan Stanley & Co. Incorporated**  
**Prudential Securities Incorporated**  
**Smith Barney, Harris Upham & Co. Incorporated**

*The date of this Offering Circular is July 19, 1993.*

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.

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## 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 any Farm Credit System Quarterly Information Statements issued subsequent thereto (collectively, "Information Statements") and certain press releases 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 the Federal Farm Credit Banks Funding Corporation, Financial Management Division, by request to: Vice President of Financial Analysis and Disclosure, 10 Exchange Place, Jersey City, New Jersey 07302; Telephone: (201) 200-8000. This Offering Circular should be read in conjunction with the Incorporated Information. Upon request, the Funding Corporation will furnish, without charge, copies of the Incorporated Information. Copies of this Offering Circular and the Incorporated Information are available from the SGMs and the DSGMs.

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This Offering Circular supersedes the Offering Circular for the Notes dated August 18, 1992, and supplements thereto, and shall apply to Notes issued pursuant to Term Sheets dated on or after the date hereof. This Offering Circular will be updated from time to time as determined by the Funding Corporation.

No person is authorized to give any information or to make any representation not contained in this Offering Circular, the Incorporated Information and the Term Sheet furnished by the Funding Corporation with respect to a particular issue of Notes, 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 SGMs or the DSGMs. 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, such Incorporated Information or 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.

## 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 (the "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 certain foreign or domestic entities in connection with international 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** ..... An aggregate principal amount outstanding at any one time of up to \$15,000,000,000 of Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue (the "Notes"). The Notes may be offered at fixed rates of interest ("Fixed-Rate Notes"), with no periodic interest payments ("Zero-Coupon Notes") or with interest payable at floating rates ("Floating-Rate Notes") which will be determined by reference to a specified index rate (a "Reference Rate") or to an interest rate formula based upon one or more Reference Rates, and may also include a Spread (as defined herein) and may be subject to maximum and/or minimum interest rates. The Reference Rates include, but are not limited to, the "constant maturity" rate for U.S. Treasury Notes (with respect to "Treasury Note—Indexed Notes"), the London Interbank Offered Rate (with respect to "LIBOR—Indexed Notes"), the commercial paper rate (with respect to "Commercial Paper—Indexed Notes") (each of the foregoing Reference Rates having a maturity agreed to by the Funding Corporation and the purchaser), the 91-day U.S. Treasury Bill rate (with respect to "T-Bill—Indexed Notes"), the prevailing commercial banking industry prime loan rate (with respect to "Prime—Indexed Notes") and the Eleventh Federal Home Loan Bank District cost of funds index rate (with respect to "COFI—Indexed Notes"). Any Floating-Rate Notes offered at a floating rate of interest based on a Reference Rate other than the rates mentioned above will be described in a supplement to this Offering Circular or in the Term Sheet (as defined herein) to be provided to the purchaser with respect to a particular issue of Notes. In addition, the Funding Corporation may from time to time offer other types of Notes which

will be described in supplements to this Offering Circular or in a Term Sheet.

**Offering** . . . . . The Notes will be offered in the United States from time to time through the investment dealers and dealer banks appointed by the Funding Corporation (the “SGMs”). The SGMs appointed as of the date hereof are listed on the cover of this Offering Circular. The Funding Corporation may, from time to time, appoint one or more other investment dealers and dealer banks as additional SGMs. In addition, certain other members of the Federal Farm Credit Banks Bond Selling Group may be designated by the Funding Corporation to participate in the distribution of the Notes (the “DSGMs”). Either the Funding Corporation or an SGM or a DSGM, as the case may be, may terminate, upon notice, the status of that SGM or DSGM as such by termination of the respective SGM or DSGM Agreement (as defined herein). The Notes may also be sold directly by the Funding Corporation. See “Distribution.” Interest rates, Spreads, Issue Prices (as defined herein), any applicable redemption provisions, maturities, any maximum or minimum interest rate limitations on floating rates and other terms with respect to particular issues of Notes will be established from time to time by the Funding Corporation. Such information will be made available through one or more SGMs and DSGMs, and may also be made available through certain financial information services.

**General** . . . . . The Notes will be issued under the authority of the Act and the regulations of the FCA thereunder (the “Regulations”). Pursuant to the Act, the Notes are the joint and several obligations of the Banks. Pursuant to the Regulations, the Notes, as general unsecured obligations, rank equally with Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes and other unsecured debt securities on which the Banks are jointly and severally liable. **The Notes 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 Notes.”**

**Paying Agent** . . . . . Federal Reserve Banks.

**Form and Denominations** . . . . . The Notes will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks. The Notes 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 Notes have been deposited are herein referred to as “Holders.” A Holder is not necessarily the beneficial owner of a Note. Beneficial owners will ordinarily hold Notes through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. Fixed-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof (or integral multiples of \$5,000 in the case of Fixed-

Rate Notes having a maturity of thirteen months or less from the Issue Date (as defined below). Floating-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.

**Maturity Dates** ..... The Notes will have maturity dates (each a “Maturity Date”) of not less than one year nor more than 30 years from the dates the Notes are issued (each an “Issue Date”) as agreed to by the Funding Corporation and the purchaser.

**Redemption** ..... Unless designated as “Redeemable Notes” or “Optional Principal Redemption Notes,” or otherwise agreed to by the Funding Corporation and the purchaser, Notes will not be subject to redemption prior to maturity. Unless otherwise agreed to by the Funding Corporation and the purchaser, a particular issue of Notes designated as “Redeemable Notes” in a Term Sheet may be redeemed, at the Banks’ option, by the Funding Corporation, in whole, on any day after a specified Interest Payment Date (as defined below) for such Notes. Unless otherwise agreed to by the Funding Corporation and the purchaser, the redemption price for each Redeemable Note will be 100% of the principal amount thereof. Unless otherwise agreed to by the Funding Corporation and the purchaser, a particular issue of Notes designated as “Optional Principal Redemption Notes” in a 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 Notes. 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 Note of that particular issue. Unless otherwise agreed to by the Funding Corporation and the purchaser, the redemption price for each Optional Principal Redemption Note will be 100% of the principal amount thereof to be redeemed. See “Description of the Notes—Redemption, Purchase and Acceleration.”

**Principal Payments** ..... The outstanding principal of each Note, together with interest accrued and unpaid thereon, shall be due and payable on the Maturity Date. All of the principal amount of Notes designated as “Redeemable Notes” and all or a portion of the principal amount of Notes designated as “Optional Principal Redemption Notes,” Notes which otherwise provide for redemption prior to maturity or Notes with amortizing features (“Amortizing Notes”) may be paid prior to the Maturity Date in accordance with the terms of such Notes. Unless otherwise agreed to by the Funding Corporation and the purchaser, Amortizing Notes may require prepayment of all or a portion of the principal amount of such Notes, 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 Notes.

**Interest Payments** ..... Unless otherwise agreed to by the Funding Corporation and the purchaser, and subject to the exceptions set forth herein, (i) interest on Fixed-Rate Notes will be payable semi-annually in arrears on the dates specified in the Term

Sheet for such Notes, and on the Maturity Date, and (ii) interest on Floating-Rate Notes will be payable in arrears on the dates specified in the Term Sheet for such Notes, and on the Maturity Date (each such date an “Interest Payment Date”). See “Description of the Notes.” Interest on a Note will accrue from and including its Issue Date to but excluding its Maturity Date. No periodic payments of interest will be made on Zero-Coupon Notes.

**Settlement** ..... Settlement of the Notes will occur on the Issue Date selected by the Funding Corporation, which shall be five Business Days (as defined herein) after the Funding Corporation’s acceptance of an offer to purchase the Notes, unless the Funding Corporation and the purchaser agree on a different date. Payment for the Notes shall be made in Federal Funds and shall be effective only upon the Funding Corporation’s receipt of the funds. (As used herein, “Federal Funds” means funds credited to the Funding Corporation’s account at the Federal Reserve Bank of New York.)

**Use of Proceeds** ..... Net proceeds from sales of the Notes 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 Notes 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, the Notes 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 Notes, and, in doing so, are not subject to statutory limitations and restrictions generally applicable to dealing in, underwriting and purchasing investment securities for their own account. In particular, the limitation that such banks shall not invest more than ten percent of their capital stock and surplus funds in the securities of one obligor does not apply to the Notes. Under the Act, the Notes 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 Notes are lawful investments for Federal credit unions and Federal savings and loan associations. See “Description of the Notes — Investment Eligibility.”

## THE FARM CREDIT SYSTEM

The Farm Credit System is a nationwide system of lending institutions and affiliated service and other entities (the “System”). 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 certain foreign or domestic entities in connection with international 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 to qualified borrowers in the agricultural sector and to certain related entities. Moreover, the System is required to make credit and other services 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 Notes. 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 determinations by the Funding Corporation as to conditions of participation and terms of each issuance, and to FCA approval.

## DESCRIPTION OF THE NOTES

### General

The Notes will be issued by the Banks through the Funding Corporation under the authority of the Act and the regulations of the FCA thereunder (the “Regulations”). The Notes are the general unsecured joint and several obligations of the Banks. **The Notes 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 Notes 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 Notes and all other debt securities issued under Section 4.2(d) of the Act (“Systemwide Debt Securities”). Pursuant to the Regulations, the Notes rank equally with Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Farm Credit Banks Consolidated Systemwide Discount Notes and other unsecured Systemwide Debt Securities. Systemwide Debt Securities, including the Notes, are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The Act and the Regulations require, as a condition of a Bank’s participation in the issuance of Systemwide Debt Securities, such as the 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. 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 Notes or other Systemwide Debt Securities with a security interest in any assets of the Banks. While the collateral requirement limits the circumstances under which Systemwide Debt Securities may be issued by the Banks, as described above, the terms of the Notes will not impose any additional limit upon other indebtedness or securities that may be incurred or issued by the Banks, and the Notes will contain no financial or similar restrictions on the Banks or any restrictions on their ability to secure other indebtedness.

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 described in the preceding paragraph) 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.

The Regulations provide that in the event a Bank is placed in liquidation, holders of Systemwide Debt Securities, including the 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 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.

**Farm Credit Insurance Fund.** As more fully described in the Information Statements, payment of principal of and interest on Systemwide Debt Securities, including the 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 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.

**Certain Terms of the Notes.** The Notes will be issued from time to time in an aggregate principal amount outstanding at any one time of up to \$15,000,000,000 with maturity dates of not less than one year nor more than 30 years from the Issue Date as agreed to by the Funding Corporation and the purchaser (each a "Maturity Date"). The Notes may be offered (i) at fixed rates of interest ("Fixed-Rate Notes"), (ii) with no periodic interest payments ("Zero-Coupon Notes") or (iii) with interest payable at floating rates ("Floating-Rate Notes"). Interest rates, Spreads (as defined below), Issue Prices, any applicable redemption or amortization provisions, Maturity Dates, Interest Payment Dates, any minimum or maximum interest rate limitations on floating rates and other terms with respect to particular issues of Notes will be established from time to time by the Funding Corporation. Such information will be available through one or more SGMs and DSGMs and may also be made available through certain financial information services. In addition, the Funding Corporation may from time to time offer other types of Notes which will be described in supplements to this Offering Circular or in a Term Sheet.

A Fixed-Rate Note may have more than one fixed rate of interest, but in no event will there be more than one fixed rate of interest in effect for an Interest Period (as defined below). Fixed-Rate Notes with more than one fixed rate of interest will be designated as "Step-Up Notes" in the Term Sheet for such Notes.



The interest rate in effect from time to time on a Floating-Rate Note will be determined by reference to a specified index rate (a “Reference Rate”) or to an interest rate formula based upon one or more Reference Rates, and may also include a Spread and may be subject to maximum and/or minimum interest rates. The Reference Rates include, but are not limited to, (i) the “constant maturity” rate for U.S. Treasury Notes (the “Treasury Note Rate”) for “Treasury Note—Indexed Notes,” (ii) the London Interbank Offered Rate (“LIBOR”) for “LIBOR—Indexed Notes,” (iii) the commercial paper rate (the “Commercial Paper Rate”) for “Commercial Paper—Indexed Notes” (each of the foregoing Reference Rates having a maturity agreed to by the Funding Corporation and the purchaser), (iv) the 91-day U.S. Treasury Bill rate (the “T-Bill Rate”) for “T-Bill—Indexed Notes,” (v) the prevailing commercial banking industry prime loan rate (the “Prime Rate”) for “Prime—Indexed Notes” and (vi) the Eleventh Federal Home Loan Bank District cost of funds index rate (the “COFI Rate”) for “COFI—Indexed Notes.” Each of the foregoing Reference Rates is determined as described below under “Interest on Floating-Rate Notes.” The “Spread” is the constant amount or percentage, if any, to be added to, subtracted from or multiplied by the Reference Rate, as the case may be, to determine the interest rate for each relevant day or Reset Period (as defined below), as the case may be. Interest rates on Floating-Rate Notes may also be determined by subtracting a designated Reference Rate or an interest rate determined by reference to an interest rate formula based upon one or more Reference Rates from a specified rate of interest, with the difference being the rate of interest applicable to such Notes (in such cases the relevant Floating-Rate Note will also include the designation “Yield Curve” and in general such Notes are referred to herein as “Yield Curve Notes”). A floating rate of interest based on a Reference Rate other than the Treasury Note Rate, LIBOR, the Commercial Paper Rate, the T-Bill Rate, the Prime Rate or the COFI Rate will be described in a supplement to this Offering Circular or in the Term Sheet relating to the Floating-Rate Note offered at such rate of interest.

At the time of sale, the Funding Corporation and the purchaser will agree upon the terms of each issue of Notes, including, as applicable, the principal amount thereof, the Issue Price, the Issue Date, any applicable redemption or amortization provisions, the Maturity Date, the interest rate, the Reference Rate, the Spread, any minimum or maximum interest rate limitations, the Interest Payment Dates, the interest rate reset frequency and/or Reset Dates (as defined below), the settlement date and certain other terms of such Notes. Such information shall be set forth in a term sheet (a “Term Sheet”), which will be sent to the purchaser of such Note by the SGM or the DSGM through which such Note was purchased, or by the Funding Corporation in the case of a Note sold directly by it. Prior to issuance of any particular Notes, the applicable terms of such Notes as described herein can be superseded or replaced, in whole or in part, by a supplement hereto or by a Term Sheet related to such Notes. Each Term Sheet should be read in conjunction with this Offering Circular and any applicable supplement hereto for a complete description of the terms of the Note to which such Term Sheet relates. The terms of the Notes as set forth in the Term Sheet are subject to change by the Funding Corporation; *provided, however*, that any such change will not affect the terms of any Note 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 “Modification and Amendment.” Any change from the terms of the Notes described herein will be set forth in a supplement hereto or in a Term Sheet relating to a particular issue of Notes. From time to time, the Banks may issue Notes with the same interest rates, Maturity Dates, and other terms and conditions as Notes already outstanding.

The Notes will not be issued under an indenture and no trustee is provided with respect to the Notes.

**Form and Denominations.** The Notes will be issued and maintained in book-entry form only through the Federal Reserve Banks, as described below under “Book-Entry System.” Fixed-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof (or integral multiples of \$5,000 in the case of Fixed-Rate Notes having a maturity of thirteen months or less from the Issue Date). Floating-Rate Notes will be issued in minimum denominations of \$100,000 and integral multiples of \$5,000 in excess thereof.

**Settlement.** Except for the Notes sold directly by the Funding Corporation, each issue of Notes shall have an original issue date as specified in the Term Sheet for such Notes (the “Issue Date”). Unless otherwise agreed to by the Funding Corporation and the purchaser, settlement of the Notes shall occur on the Issue Date, which, unless otherwise agreed to by the Funding Corporation and the purchaser, shall be five

Business Days (as defined below) after the Funding Corporation's acceptance of an offer to purchase the Notes. Settlement for a Note will be effected by payment of the Issue Price for such Note, less the SGM's commission. The "Issue Price" of a Note shall be 100% of its principal amount or such other percentage of the principal amount of the Note as is set forth in the Term Sheet relating to such Note. Payment for the Notes shall be made in Federal Funds and shall be effective only upon the Funding Corporation's receipt of the funds. (As used herein, "Federal Funds" means funds credited to the Funding Corporation's account at the Federal Reserve Bank of New York.)

### **Payment of Principal and Interest**

Payment of principal of and interest on the Notes will be made on the applicable payment dates to Holders (as such term is defined under "Book-Entry System") of such Notes as of the close of business on the Business Day 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.

Unless otherwise agreed to by the Funding Corporation and the purchaser, and subject to the exceptions set forth below, (i) interest on Fixed-Rate Notes will be payable semi-annually in arrears on the dates specified in the Term Sheet for such Notes, and on the Maturity Date, and (ii) interest on Floating-Rate Notes will be payable in arrears on the dates specified in the Term Sheet for such Notes, and on the Maturity Date. The foregoing dates are referred to herein as "Interest Payment Dates." If, however, a Fixed-Rate Note is issued during the ten-calendar-day period prior to what would otherwise be an Interest Payment Date applicable to that Note, then the first Interest Payment Date shall be the next succeeding date which is an Interest Payment Date applicable to that Note. Interest payments on the Notes 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 Note, together with interest accrued and unpaid thereon, shall be due and payable on the Maturity Date. All of the principal amount of Notes designated as "Redeemable Notes" and all or a portion of the principal amount of Notes designated as "Optional Principal Redemption Notes," Notes which otherwise provide for redemption prior to maturity or Notes with amortizing features ("Amortizing Notes") may be paid prior to the Maturity Date in accordance with the terms of such Notes. Unless otherwise agreed to by the Funding Corporation and the purchaser, Amortizing Notes may require prepayment of all or a portion of the principal amount of such Notes, 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 Notes.

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 or principal, 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" means any day, other than a Saturday or Sunday, that is (a) a day on which the Federal Reserve Bank of New York is generally open for business or commercial banks settle payments in U.S. dollars in New York City, and (b) solely for purposes of determining LIBOR Reset Dates, a day on which commercial banks and foreign exchange markets settle payments in U.S. dollars in New York City and London. For purposes of determining LIBOR only, "London Banking Days" means any day, other than a Saturday or Sunday, on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London.

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 Notes**

Each Fixed-Rate Note 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 purchaser, interest on Fixed-Rate Notes 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 Note means the period from and including the Issue Date of such Note to but excluding the first Interest Payment Date for such Note 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 Notes**

In general, each Floating-Rate Note will bear interest from and including its Issue Date to but excluding its Maturity Date based upon its Reference Rate. The interest rate which is in effect on a Floating-Rate Note’s Issue Date, and which continues in effect until the first Reset Date (as defined below), may be based upon its Reference Rate or may be as agreed to by the Funding Corporation and the purchaser. Floating-Rate Notes 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 on such Note, 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 Note, if any, then the interest rate for that day shall be equal to the minimum interest rate limitation on such Note. Information concerning the current rate of interest on a Floating-Rate Note and the relevant accrued interest factor (as described below) 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.

As used herein: “Interest Period” for a Floating-Rate Note means the period from and including the Issue Date of such Note to but excluding the first Interest Payment Date for such Note and thereafter each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date; a “Reset Date” is a date on which the rate of interest on Floating-Rate Notes is adjusted, as described below or in a Term Sheet relating to a particular issue of Notes; and “Designated Maturity” means the period of time specified as such in the Term Sheet, as agreed to by the Funding Corporation and the purchaser, relating to the period to maturity of the instrument or obligation from which the Reference Rate is calculated. Except as otherwise described herein or otherwise agreed to by the Funding Corporation and the purchaser, any adjustment to the rate of interest on a Floating-Rate Note on a Reset Date shall be effective as of that Reset Date to but excluding the next Reset Date. Amounts to be paid on an Interest Payment Date, a Redemption Date or the Maturity Date shall be calculated on the day which is six Business Days prior to such date (the “Calculation Date”). “H.15 (519)” means the Federal Reserve Statistical Release for Selected Interest Rates H.15 (519) which is currently published by the Board of Governors of the Federal Reserve System each Monday with data from the prior week, or any successor publication. “Composite Quotations” means the daily statistical release entitled “Composite 3:30 P.M. Quotations for U.S. Government Securities” or any successor publication, as published by the Federal Reserve Bank of New York.

“Telerate” means, when used in connection with any designated page and any Reference Rate, the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service, or such other service as may be designated as the information vendor, for the purpose of displaying rates or prices comparable to that Reference Rate).

“Bond-equivalent yield” means, in respect of any security with a maturity of six months or less, a yield (expressed as a percentage) calculated in accordance with the following formula:

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

“Money market yield” means, in respect of any security with a maturity of six months or less, a yield (expressed as a percentage) calculated in accordance with the following formula:

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

With respect to the foregoing formulae: “D” refers to the per annum rate for the security, quoted on a bank discount basis and expressed as a decimal; “N” refers to 365 days (or 366 days if the relevant period includes February 29); and “M” refers to, if the Designated Maturity approximately corresponds to the length of the Interest Period for which the bond-equivalent yield or money market yield, as the case may be, is being calculated, the actual number of days in that Interest Period and, otherwise, the actual number of days from and including the applicable Reset Date to but excluding the day which numerically corresponds to that Reset Date (or, if there is no such numerically corresponding day, the last day) in the calendar month that is the number of months corresponding to the Designated Maturity after the month in which that Reset Date occurred.

**Treasury Note—Indexed Notes.** Each Treasury Note—Indexed Note will bear interest (i) at a rate per annum equal to the Treasury Note Rate for the Specified Treasury Notes (as defined below) calculated as described below under “Calculation of Treasury Note Rate,” either plus, minus or multiplied by a Spread, if any, or (ii) in the case of a Treasury Note—Indexed Yield Curve Note, at a rate per annum determined by subtracting the Treasury Note Rate (which may be multiplied by a factor) from a specified rate of interest. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on Treasury Note—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 365 days, unless any portion of the Interest Period falls in a leap year, in which case interest will be computed based upon the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 plus (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365.

*Calculation of Treasury Note Rate.* The initial Treasury Note Rate and the Treasury Note Rate effective beginning on each Reset Date will be determined with reference to the quotation published in H.15 (519) under the caption “Treasury Constant Maturities” opposite the heading for direct obligations of the United States with a constant maturity specified in the Term Sheet for an issue of Treasury Note—Indexed Notes (“Specified Treasury Notes”). Upon publication, H.15 (519) is also available on Telerate, currently at page 7059. If any discrepancy arises between Telerate and the printed version of H.15 (519), the printed version of H.15 (519) will take precedence. Unless otherwise agreed to by the Funding Corporation and the purchaser, the initial Treasury Note Rate with respect to such Treasury Note—Indexed Note shall be the rate set forth for such Specified Treasury Notes for the last Business Day included in the most recent H.15 (519) published before the Issue Date of such Treasury Note—Indexed Note. Unless otherwise provided in the Term Sheet with respect to a Treasury Note—Indexed Note, the Treasury Note Rate effective beginning on each Reset Date shall be the rate set forth for such Specified Treasury Notes for the last Business Day included in the H.15 (519) published for the calendar week immediately before such Reset Date. The date with reference to which the Treasury Note Rate is determined shall be the “Determination Date.”

If, by the Calculation Date, the Treasury Note Rate for a Reset Date is not yet published in H.15 (519), then the Treasury Note Rate in effect for the Treasury Note — Indexed Notes for that Reset Date will be the rate in effect for the Treasury Note—Indexed Notes for the last Business Day included in the last publication of H.15 (519) prior to such Reset Date; *provided, however*, that if no Treasury Note Rate is so published by the second Reset Date following the last Reset Date on which the Treasury Note Rate was adjusted based upon rates published in H.15 (519) for the calendar week prior to such Reset Date, then, until such time as the Treasury Note Rate is again so published, if ever, the Treasury Note Rate for such second Reset Date shall be determined on the first Business Day following such second Reset Date and thereafter shall be determined on the last Business Day of the calendar week prior to each subsequent Reset Date by the Funding Corporation and shall be the bond-equivalent yield of the arithmetic mean of the secondary market bid rates (in each case, the bids will be as quoted by three primary United States government securities dealers in New

York City, selected by the Funding Corporation, as of 3:30 p.m. (New York City time) on the Determination Date) for the issue of Treasury Notes with a remaining maturity closest to the original maturity of the Specified Treasury Notes.

*Accrued Interest Factor for Treasury Note—Indexed Notes.* Accrued interest for a Treasury Note—Indexed Note will be calculated by multiplying the principal amount of such Treasury Note—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor on any day is computed by (i) determining the interest rate applicable to each day on which such Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is being computed, (ii) calculating for each such day the quotient equal to (A) the interest rate applicable to such day divided by (B) the number of days in the calendar year in which such day falls, and (iii) determining the sum of the quotients calculated pursuant to clause (ii) of this sentence.

**LIBOR—Indexed Notes.** Each LIBOR—Indexed Note will bear interest from and including its Issue Date to its Maturity Date (i) at a rate per annum equal to LIBOR calculated as provided below under “Calculation of LIBOR,” either plus, minus or multiplied by a Spread, if any, or (ii) in the case of a LIBOR—Indexed Yield Curve Note, at a rate per annum determined by subtracting LIBOR (which may be multiplied by a factor) from a specified rate of interest. If designated in a Term Sheet, a LIBOR—Indexed Note will bear interest for the initial period from and including its Issue Date to but excluding the date specified in the Term Sheet for such Note as the first Reset Date at a specified initial interest rate as agreed to by the Funding Corporation and the purchaser. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on LIBOR—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 360 days.

*Calculation of LIBOR.* LIBOR effective beginning on each Reset Date will be the British Bankers Association (the “BBA”) Interest Settlement Rate for deposits in U.S. dollars for a period of the Designated Maturity which, unless otherwise agreed to by the Funding Corporation and the purchaser, corresponds to the applicable Reset Period and appears on Telerate, currently at page 3750, based on calculations from quotations taken as of 11:00 a.m. (London time) on the Determination Date corresponding to the relevant Reset Period. “Determination Date” means, with respect to any Reset Period of a LIBOR—Indexed Note, the date which is two London Banking Days preceding that Reset Date beginning such period. “Reset Period” means, with respect to a LIBOR—Indexed Note, each successive period equal to the Designated Maturity specified in the Term Sheet for such Note, which shall be one month, three months, six months, or such other Designated Maturity as the Funding Corporation and the purchaser shall agree. “Reset Date,” with respect to the calculation of LIBOR, means the first day of a Reset Period.

If, on a Determination Date, LIBOR for that Reset Date does not yet appear as described above, then LIBOR for that Reset Date will be determined on the basis of the rates at which deposits in U.S. dollars are offered by the principal London offices of four major banks, selected by the Funding Corporation, as of 11:00 a.m. (London time) on the Determination Date to prime banks in the London interbank market for a period of the Designated Maturity commencing on that Reset Date and in a principal amount equal to an amount determined by the Funding Corporation to be representative for a single transaction in that market at such time (the “Representative Amount”). The Funding Corporation will request the quotations from each of the selected banks. If at least two such quotations are provided, LIBOR for that Reset Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, LIBOR for that Reset Date will be the arithmetic mean of the rates quoted by four major banks in New York City, selected by the Funding Corporation, as of 11:00 a.m. (New York City time) on that Reset Date for loans in U.S. dollars to leading European banks for a period of the Designated Maturity commencing on that Reset Date and in the Representative Amount; *provided, however*, that if the banks selected as aforesaid by the Funding Corporation are not quoting as described in this sentence, then LIBOR means the rate for that Reset Date will be the rate in effect for the immediately preceding Reset Date (or if there was no preceding Reset Date, then LIBOR for such Reset Date will be the rate in effect on the Issue Date).

The interest rate in effect on each day will be (i) if such day is a Reset Date, the interest rate with respect to the Determination Date pertaining to such Reset Date, or (ii) if such day is not a Reset Date, the interest rate with respect to the Determination Date pertaining to the immediately preceding Reset Date; *provided, however*, that the interest rate in effect for the period from the Issue Date to the first Reset Date with respect to LIBOR—Indexed Notes will be, if designated in a Term Sheet, the specified initial interest rate as agreed to by the Funding Corporation and the purchaser.

*Accrued Interest Factor for LIBOR—Indexed Notes.* Accrued interest for a LIBOR—Indexed Note will be calculated by multiplying the principal amount of such LIBOR—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor on any day is computed by adding the interest rates applicable to each day on which such Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is being computed and dividing the sum by 360.

**Commercial Paper—Indexed Notes.** Each Commercial Paper—Indexed Note will bear interest (i) at a rate per annum equal to the Commercial Paper Rate calculated as provided below under “Calculation of Commercial Paper Rate,” either plus, minus, or multiplied by a Spread, if any, or (ii) in the case of a Commercial Paper—Indexed Yield Curve Note, at a rate per annum determined by subtracting the Commercial Paper Rate (which may be multiplied by a factor) from a specified rate of interest. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on Commercial Paper—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 360 days.

*Calculation of Commercial Paper Rate.* The Commercial Paper Rate effective beginning on the Issue Date and each Reset Date will be the money market yield of the rate set forth in H.15 (519) for that day opposite the Designated Maturity under the caption “Commercial Paper.” The Commercial Paper Rate is also available on Telerate, currently at page 120. If any discrepancy arises between Telerate and the printed version of H.15 (519), the printed version of H.15 (519) will take precedence. If a Reset Date is not a Business Day, then the Commercial Paper Rate for that Reset Date will be the Commercial Paper Rate for the Business Day immediately preceding such Reset Date.

If, by the Calculation Date, the Commercial Paper Rate for a Reset Date is not yet published in H.15(519), then the Commercial Paper Rate for that Reset Date will be the money market yield of the rate set forth in Composite Quotations for that day in respect of the Designated Maturity under the caption “Commercial Paper” (with a designated maturity of one or three months deemed to be equivalent to a designated maturity of 30 or 90 days, respectively). If, by the Calculation Date, the Commercial Paper Rate for a Reset Date is not yet published in either H.15 (519) or Composite Quotations, then the Commercial Paper Rate for that Reset Date will be the money market yield of the arithmetic mean of the offered rates of three leading dealers of U.S. dollar commercial paper in New York City, selected by the Funding Corporation, as of 11:00 a.m. (New York City time) on that day for U.S. dollar commercial paper for a period of the Designated Maturity placed for an industrial issuer whose bond rating is “Aa” or the equivalent from a nationally recognized rating agency; *provided, however*, that if the dealers selected as aforesaid by the Funding Corporation are not quoting as described in this sentence, then the Commercial Paper Rate means the rate for that Reset Date will be the rate in effect for the immediately preceding Reset Date (or if there was no preceding Reset Date, the Commercial Paper Rate for such Reset Date will be the rate in effect on the Issue Date).

*Accrued Interest Factor for Commercial Paper—Indexed Notes.* Accrued interest for a Commercial Paper—Indexed Note will be calculated by multiplying the principal amount of such Commercial Paper—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor on any day is computed by determining the interest rate applicable to each day on which such Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is being computed and dividing the sum by 360.

**T-Bill—Indexed Notes.** Each T-Bill—Indexed Note will bear interest (i) at a rate per annum equal to the T-Bill Rate calculated as provided below under “Calculation of T-Bill Rate,” either plus, minus, or multiplied by a Spread, if any, or (ii) in the case of a T-Bill—Indexed Yield Curve Note, at a rate per annum determined by subtracting the T-Bill Rate (which may be multiplied by a factor) from a specified rate of interest. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on T-Bill—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 365 days, unless any portion of the Interest Period falls in a leap year, in which case interest will be computed based upon the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 plus (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365.

*Calculation of T-Bill Rate.* The initial T-Bill Rate and the T-Bill Rate effective beginning on each Reset Date will be equal to the bond-equivalent yield of the auction average per annum discount rate applied on a daily basis for direct obligations of the United States with a maturity of thirteen weeks (“91-day Treasury Bills”) sold at the applicable 91-day Treasury Bill auction generally held weekly, as reported in H.15 (519) for the applicable 91-day Treasury Bill auction opposite the heading “3-month” under the caption “U.S. Government Securities/Treasury Bills/Auction Average (Investment).” The T-Bill rate is also available on Telerate, currently at page 56. If any discrepancy arises between Telerate and the printed version of H.15 (519), the printed version of H.15 (519) will take precedence. Unless otherwise agreed to by the Funding Corporation and the purchaser, the initial T-Bill Rate shall be based upon the results of the most recent 91-day Treasury Bill auction prior to the Issue Date and the T-Bill Rate shall thereafter be subject to adjustment on each Reset Date; *provided, however*, that (i) the T-Bill Rate in effect from the first day of each Interest Period through and including the date of the first 91-day Treasury Bill auction on or after the first day of such Interest Period shall be based upon the results of the most recent 91-day Treasury Bill auction prior to such day, and (ii) the T-Bill Rate in effect for the period beginning on the Calculation Date through and including the calendar day preceding an Interest Payment Date shall be based upon the results of the most recent 91-day Treasury Bill auction prior to such period. A “Reset Date” for purposes of the calculation of the T-Bill Rate means the calendar day of each auction of 91-day Treasury Bills, except as described below. If, by the Calculation Date, the results of the 91-day Treasury Bill auction held on a Reset Date have not been published in H.15 (519), the rate for that Reset Date will be the bond-equivalent yield of the auction average rate for 91-day Treasury Bills as announced by the United States Department of the Treasury for that date.

Except as provided in the immediately preceding paragraph with respect to the period from and including the Calculation Date to but excluding the Interest Payment Date for a T-Bill—Indexed Note, in the event that no auction of 91-day Treasury Bills is held during any period of seven consecutive calendar days ending on and including any Friday, then until such time, if ever, as an auction is held, the T-Bill Rate (i) shall be adjusted on the date, as determined by the Funding Corporation, on which the last 91-day Treasury Bill auction should have been held in accordance with usual practices of the United States Department of the Treasury, and thereafter on the first Business Day of each week (in such circumstances, each such date will be a “Reset Date”), and (ii) shall be the bond-equivalent yield of the rate set forth in H.15 (519) for that Reset Date opposite the heading “3-month” under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” (the “Secondary Market Rate”). If, by the Calculation Date, the Secondary Market Rate has not been published in H.15 (519), the rate for that Reset Date shall be the bond-equivalent yield of the arithmetic mean of the secondary market bid rates for the issue of U.S. Treasury Bills with a remaining maturity closest to 91 days (in each case, the bids will be as quoted by three primary United States government securities dealers in New York City, selected by the Funding Corporation, as of 3:30 p.m. (New York City time) on the Reset Date).

*Accrued Interest Factor for T-Bill—Indexed Notes.* Accrued interest for a T-Bill—Indexed Note will be calculated by multiplying the principal amount of such T-Bill—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor on any day is computed by (i) determining the interest rate applicable to each day on which such Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is

being computed, (ii) calculating for each such day the quotient equal to (A) the interest rate applicable to such day divided by (B) the number of days in the calendar year in which such day falls, and (iii) determining the sum of the quotients calculated pursuant to clause (ii) of this sentence.

**Prime—Indexed Notes.** Each Prime—Indexed Note will bear interest (i) at a rate per annum equal to the Prime Rate calculated as provided below under “Calculation of Prime Rate,” either plus, minus, or multiplied by a Spread, if any, or (ii) in the case of a Prime—Indexed Yield Curve Note, at a rate per annum determined by subtracting the Prime Rate (which may be multiplied by a factor) from a specified rate of interest. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on Prime—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 360 days.

*Calculation of Prime Rate.* The Prime Rate effective beginning on each Reset Date will be the rate set forth in H.15 (519) opposite the caption “Bank Prime Loan” for such day; *provided, however*, that the Prime Rate with respect to any day which is in the period beginning on the Calculation Date through and including the calendar day first preceding an Interest Payment Date, shall be the rate as described above in effect on such Calculation Date. The Prime Rate is also available on Telerate, currently at page 125. If any discrepancy arises between Telerate and the printed version of H.15 (519), the printed version of H.15 (519) will take precedence. “Reset Date,” with respect to the calculation of the Prime Rate, means each Business Day in an Interest Period, unless otherwise agreed to by the Funding Corporation and the purchaser.

If, by the Calculation Date, the Prime Rate for a Reset Date is not yet published in H.15 (519), then the Prime Rate for that Reset Date will be determined by calculating the arithmetic mean of the rates of interest publicly announced by each bank named on Telerate under the heading “Prime Rate—Top 30 U.S. Banks,” currently at page 38, as such bank’s U.S. dollar prime rate or base lending rate as in effect on such day at 3:30 p.m. (New York City time). If fewer than four such rates appear on Telerate for such Reset Date, then the Prime Rate shall be the arithmetic mean of the rates of interest publicly announced by three major banks in New York City, selected by the Funding Corporation, as their U.S. dollar prime rate or base lending rate as in effect for such day.

*Accrued Interest Factor for Prime—Indexed Notes.* Accrued interest for Prime—Indexed Notes will be calculated by multiplying the principal amount of such Prime—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor is computed by adding the interest rates applicable to each day on which such Prime—Indexed Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is being computed and dividing the sum by 360.

**COFI—Indexed Notes.** Each COFI—Indexed Note will bear interest (i) at a rate per annum equal to the COFI Rate calculated as provided below under “Calculation of COFI Rate,” either plus, minus or multiplied by a Spread, if any, or (ii) in the case of a COFI—Indexed Yield Curve Note, at a rate per annum determined by subtracting the COFI Rate (which may be multiplied by a factor) from a specified rate of interest. Unless otherwise agreed to by the Funding Corporation and the purchaser, interest on COFI—Indexed Notes will be computed on the basis of the actual number of days in the applicable Interest Period and based on a year of 360 days.

*Calculation of COFI Rate.* The COFI Rate effective beginning on each Reset Date will be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District as of 11:00 a.m. (San Francisco time) which appears on Telerate under the caption “11th District,” currently at page 7058 (the “Published COFI Rate”), on that Reset Date. If a Reset Date is not a Business Day, the COFI Rate for that Reset Date will be the Published COFI Rate for the Business Day immediately preceding such Reset Date.

If, by the Calculation Date, the Published COFI Rate for a Reset Date does not yet appear as described above, then the COFI Rate for that Reset Date will be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced by



the Federal Home Loan Bank of San Francisco (the “FHLBSF”), or its successor, as such cost of funds for the calendar month preceding the date of such announcement. If the FHLBSF fails to announce such rate for that calendar month, then the rate for that Reset Date will be determined on the basis of the latest comparable rate announced by the FHLBSF, as determined by the Funding Corporation, prior to the Calculation Date immediately following that Reset Date.

*Accrued Interest Factor for the COFI—Indexed Notes.* Accrued interest for a COFI—Indexed Note will be calculated by multiplying the principal amount of such COFI—Indexed Note by an “accrued interest factor.” Unless otherwise agreed to by the Funding Corporation and the purchaser, the accrued interest factor on any day is computed by adding the interest rates applicable to each day on which such COFI—Indexed Note has been outstanding during the period from and including the later of the Issue Date or the last date to or for which interest has been paid or duly provided, to but excluding the date as of which the accrued interest factor is being computed, and dividing the sum by 360.

### **Redemption, Purchase and Acceleration**

Unless designated as “Redeemable Notes” or “Optional Principal Redemption Notes,” or otherwise agreed to by the Funding Corporation and the purchaser, the Notes will not be subject to redemption prior to maturity. In addition, Amortizing Notes may require prepayment of all or a portion of the principal amount of such Notes, 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 Notes. See “Payment of Principal and Interest” above.

Unless otherwise agreed to by the Funding Corporation and the purchaser, a particular issue of Notes designated as “Redeemable Notes” in a Term Sheet may be redeemed, at the Banks’ option, by the Funding Corporation, in whole, on any day after a specified Interest Payment Date for such Notes (any such date on which the Redeemable Notes are to be redeemed, a “Redemption Date”). Unless otherwise agreed to by the Funding Corporation and the purchaser, the redemption price for each Redeemable Note will be 100% 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 purchaser, a particular issue of Notes designated as “Optional Principal Redemption Notes” in a 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 Notes (each such date on which Optional Principal Redemption Notes 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 Note of that particular issue. The redemption price for each Optional Principal Redemption Note will be 100% of the principal amount thereof to be redeemed. The amount of the redemption payment for each Optional Principal Redemption Note (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 Note 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.

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 Notes then outstanding and the denominator of which represents the initial aggregate principal amount of such Notes. The outstanding principal amount of any Optional Principal Redemption Note at any time will be equal to the original principal amount of such Note multiplied by the then Current Factor. Until the first Redemption Date for a particular issue of Optional Principal Redemption Notes, the Current Factor for such Optional Principal Redemption Notes will be 1.0. 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, but intends to make it available by other means in those circumstances.

Unless otherwise agreed to by the Funding Corporation and the purchaser, not less than 30 nor more than 60 days prior to any Redemption Date for a particular issue of Redeemable Notes or Optional Principal Redemption Notes, 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 information service of national recognition 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 Notes or Optional Principal Redemption Notes. 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 Notes at any price or prices in the open market or otherwise.

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

### **Modifications and Amendments**

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

### **Book-Entry System**

The Notes will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks, in the case of Fixed-Rate Notes, in minimum principal amounts of \$100,000 and integral multiples of \$1,000 in excess thereof (or integral multiples of \$5,000 in the case of a Fixed-Rate Note having a maturity of thirteen months or less from the Issue Date) and, in the case of Floating Rate Notes, in minimum principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof.

The Notes will be evidenced by means of entries on a 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 Notes on the records of the Federal Reserve Banks (the "CUSIP Number").

The Federal Reserve Banks will maintain book-entry accounts with respect to the Notes and make payments, for the Funding Corporation on behalf of the Banks, of principal of and interest on the Notes on the applicable payment dates by crediting Holders' accounts at the Federal Reserve Banks. Payment of principal of and interest on book-entry 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 Notes.

The Notes 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 Notes have been deposited are herein referred to as "Holders." A Holder is not necessarily the investor who is the beneficial owner of a Note. Beneficial owners will ordinarily hold the Notes 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 Note, 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 Note with respect to the Banks, the Funding Corporation and the Federal Reserve Banks may be exercised only through the Holder thereof. The Banks, the Funding Corporation and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Note that is not also the Holder of such Note. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of the Notes. The Banks, the Funding Corporation and the Federal Reserve Banks may treat the Holders as the absolute owners of the Notes for the purpose of making payments of principal of and interest on the Notes and for all other purposes.

Regulations governing the use of the book-entry system for Systemwide Debt Securities, including the Notes, issued in book-entry form 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 Number 300, 31 CFR Part 306, govern transactions in Systemwide Debt Securities for which the Federal Reserve Banks act as the Banks' agent. 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.

#### **Federal Reserve Eligibility**

Systemwide Debt Securities, including the Notes, 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, Systemwide Debt 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 Systemwide Debt Securities, including the Notes, 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. In particular, the limitation that such banks shall not invest more than ten percent of their capital stock and surplus funds in the securities of one obligor does not apply to Systemwide Debt Securities.

Under the Act, Systemwide Debt Securities, including the Notes, 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. Systemwide Debt 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. Investors should consult with their own legal advisors in determining whether and to what extent Systemwide Debt Securities, such as the Notes, constitute legal investments for such investors.

## **Governing Law**

The Notes 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 Notes.

## **Secondary Market Risks**

The Notes will not have an established trading market when issued. Each SGM and DSGM has agreed to use reasonable efforts to facilitate secondary market transactions in the Notes. The Notes will not be listed on any securities exchange. Although the SGMs and DSGMs may make a market in the Notes, they are not obligated to do so and may discontinue any market-making at any time without notice. There can be no assurance of a secondary market for the Notes.

The prices at which zero-coupon instruments, such as Zero-Coupon Notes, may trade in 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 Notes, such as Yield Curve Notes, 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.

## **Use of Proceeds**

Net proceeds from sales of the Notes 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.

## **CERTAIN TAX CONSIDERATIONS**

The following is a summary of certain Federal and other tax consequences of the ownership of Notes. 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 this Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes 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 Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements hereto or in the Term Sheet with respect to a particular issue of Notes.

## **General**

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes or their transfer by

inheritance, gift, or other means, is not exempt from Federal, 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 Note 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) on a Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner’s tax basis for such Note, and such basis will be reduced by any amortized 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner’s tax basis in the Note, 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 Note has been held for more than one year. Capital gains are generally taxed at the same rate as ordinary income, although the maximum rate on ordinary income for taxpayers that are individuals, estates or trusts is 31 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 Note 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 Note’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 Note 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 Notes 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 proposed form on December 22, 1992 (the “Proposed 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 at least annually at (i) a single fixed rate, (ii) a single floating rate that can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds (a “qualified floating rate”), (iii) a single qualified floating rate followed by a second qualified floating rate, (iv) a single fixed rate followed by a single qualified floating rate, or (v) a single floating rate using a fixed formula based on one or more qualified floating rates or on the price of actively traded property or an index of the prices of such property (an “objective rate”). Qualified stated interest does not include, however, any payments on an obligation 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a “long-period Note.” Under the Proposed Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note's term, the Note will not have original issue discount if the de minimis exception discussed above, with certain modifications, applies. The modified de minimis exception will generally apply to long-period Notes without qualified stated interest, but if it does not, then all stated interest in excess of interest payable at the effective interest rate for the long period will be includible in stated redemption price at maturity and the Note will generally have original issue discount.

United States Owners of Notes 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 Notes will be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes that provide for payments of qualified stated interest will not be considered to have original issue discount merely because stated interest is payable at a floating rate. However, United States Owners of Floating-Rate Notes that have original issue discount because they provide for stated interest that is not unconditionally payable at least annually will be required to include in income for an accrual period the amount of stated interest that actually accrues under the terms of the Notes during the accrual period. In addition, a Floating-Rate Note that provides for a fixed interest rate followed by a qualified floating rate will have accelerated interest or deferred interest unless the fixed rate is a "reasonable substitute" (as described in the Proposed Regulations) for the qualified floating rate during the interval for which the fixed rate is applicable. A similar rule applies where one qualified floating rate is followed by a second qualified floating rate. Any such accelerated or deferred interest is includible in income in accordance with the constant yield method discussed above.

The Proposed Regulations provide that a debt instrument having a floating rate of interest which does not provide for total noncontingent principal payments at least equal to the debt's issue price or does not provide for stated interest determined by reference to current values of a qualified floating rate or objective rate will be treated as having original issue discount, and that interest on such debt instrument will be treated as contingent interest. In addition, a Floating-Rate Note 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 if the interest rate ceiling and/or floor is very likely to cause the interest rate in one or more accrual periods to differ significantly from the overall expected return on the Note. Under Treasury regulations issued in proposed form on April 8, 1986 (the "1986 Proposed Regulations"), contingent interest is generally includible in income as it becomes fixed, to the extent that such interest exceeds minimum stated interest, if any. (See below for a discussion of the status of the 1986 Proposed Regulations.)

Under the Proposed Regulations, all payments (including all stated interest) with respect to a Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, United States Owners will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, an individual or certain other cash method United States Owners of a short-term Note 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes in an amount not exceeding the deferred interest income, until such deferred interest income is realized.

Under the Proposed Regulations, a United States Owner that uses the accrual method of accounting for tax purposes may elect to accrue all “interest” on a Note as original issue discount (*i.e.*, using the constant yield method discussed above). For purposes of employing the elective constant yield method, the Note’s issue price will be deemed to be the owner’s basis in the Note at the time of its acquisition, and none of the payments on the Note will be treated as qualified stated interest payments. This election is available whether or not such a Note 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 Note) and “market discount” (as discussed below) on a Note, 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 conformity rule applies to debt instruments with market discount and the election to include such discount in income currently.

The Proposed Regulations and the 1986 Proposed Regulations on contingent interest are not final and are subject to change. It is impossible to predict whether or in what form the Proposed Regulations and the 1986 Proposed Regulations on contingent interest will become final and what the scope or the effective date of any such final regulations might be. In addition, on January 22, 1993, proposed regulations amending the 1986 Proposed Regulations on contingent interest were withdrawn. It is unclear whether such regulations will be repropounded and if so in what form. United States Owners should therefore consult their tax advisors as to the potential application of the above-discussed provisions of the Proposed Regulations and the 1986 Proposed Regulations on contingent interest.

**Market Discount and Premium.** If a United States Owner purchases a Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note’s “adjusted issue price” (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of

qualified stated interest) but less than the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an “acquisition premium.” The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its adjusted issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note to a non-United States Owner, provided (i) that 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 Note; and

(c) a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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% 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 Note, 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 Note 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.

## DISTRIBUTION

Under the terms and conditions of the SGM Agreements, the Notes will be offered from time to time by the Funding Corporation through the SGMs. The SGMs appointed as of the date hereof are Bank of America NT & SA, Bear, Stearns & Co. Inc., Carroll McEntee & McGinley Incorporated, Craigie Incorporated, Dean Witter Reynolds Inc., Donaldson, Lufkin & Jenrette Securities Corporation, First Chicago Capital Markets, Inc., First Tennessee Bank N.A., Fuji Securities Inc., Goldman, Sachs & Co., Lehman Government Securities Inc., Merrill Lynch Government Securities, Inc., Morgan Keegan & Company, Inc., J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, NationsBanc Capital Markets, Inc., PaineWebber Incorporated, Prudential Securities Incorporated, Salomon Brothers Inc, and Smith Barney, Harris Upham &

Co. Incorporated. The Funding Corporation may appoint, from time to time, one or more other investment dealers and dealer banks as additional SGMs. The SGMs have agreed to use reasonable efforts to solicit orders for the purchase of certain Notes offered by the Funding Corporation for sale to investors at the Issue Price. SGMs may also offer to purchase Notes for resale to investors at varying prices, according to prevailing market prices at the time of resale as determined by such SGMs. Under the SGM Agreement, an SGM will purchase Notes from the Funding Corporation as principal, regardless of whether the purchase of Notes is based upon a customer order communicated to the Funding Corporation by an SGM or upon an SGM's offer to purchase the Notes for resale to investors at varying prices. In addition, certain other members of the Federal Farm Credit Banks Bond Selling Group which become DSGMs by entering into DSGM Agreements with the Funding Corporation may solicit offers for certain Notes which offers may be communicated to the Funding Corporation through an SGM. Subject to the terms and conditions of the DSGM Agreement, a DSGM may agree to purchase Notes from an SGM for sale to investors at the Issue Price and may also offer to purchase Notes for resale to investors at varying prices, according to prevailing market prices at the time of resale as determined by such DSGM. Copies of the SGM Agreement and the DSGM 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 under the heading "Important Information and Incorporation by Reference."

Unless otherwise agreed to by the Funding Corporation and the SGM, the Funding Corporation will pay to an SGM a commission not to exceed 0.400% of the principal amount of the Note, which commission will vary depending upon the maturity of the Note. Under the SGM and DSGM Agreements, an SGM will reallow a percentage of its commission with respect to particular Notes, as specified by the Funding Corporation, to a DSGM. Unless otherwise specified by the Funding Corporation, in connection with an offering of Notes, the percentage of an SGM's commission reallowable to a DSGM shall be 62.5%; however, this percentage is subject to change at the discretion of the Funding Corporation.

Each SGM and DSGM engages in transactions with and performs services for the Funding Corporation and the Banks in the ordinary course of its business.

Either the Funding Corporation or an SGM or a DSGM, as the case may be, may terminate, upon notice, the status of that SGM or DSGM as such by termination of the respective SGM or DSGM Agreement. In addition, under certain circumstances, the Funding Corporation may, in its sole discretion, terminate or suspend an SGM or a DSGM. A list of the SGMs and DSGMs as in effect from time to time is available for inspection upon request to the Specialized Funding Department at the Funding Corporation at the address set forth on page 2 hereof under the heading "Important Information and Incorporation by Reference."

The Funding Corporation, on the one hand, and the SGMs and DSGMs, on the other, have agreed to indemnify each other against and contribute toward certain liabilities.

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

**OFFERING CIRCULAR SUPPLEMENT**

*(To the Offering Circular dated July 19, 1993)*

**\$15,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes*  
*Due One to 30 Years from Date of Issue*



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 certain information set forth under "Certain tax Considerations" in the Offering Circular dated July 19, 1993, and this Offering Circular Supplement should be read in conjunction therewith. Capitalized terms not defined herein are defined in "Description of the Notes" in such Offering Circular.

United States Owners. The Offering Circular states that the maximum rate of Federal income tax on ordinary income of individuals, estates and trusts is 31 percent. Pursuant to the Omnibus Budget Reconciliation Act of 1993, which was signed into law by the President on August 10, 1993, the maximum rate of tax for such taxpayers was increased to 39.6 percent, effective for taxable years beginning after December 31, 1992.

**Bank of America NT & SA  
Carroll McEntee & McGinley Incorporated  
Dean Witter Reynolds Inc.  
First Chicago Capital Markets, Inc.  
Goldman, Sachs & Co.  
Morgan Keegan & Company, Inc.  
NationsBanc Capital Markets, Inc.  
Salomon Brothers Inc**

**Bear Stearns & Co. Inc.  
Craigie Incorporated  
Donaldson, Lufkin & Jenrette Securities Corporation  
First Tennessee Bank N.A.  
Lehman Brothers Inc. Merrill Lynch Government Securities, Inc.  
J.P. Morgan Securities Inc. Morgan Stanley & Co. Incorporated  
PaineWebber Incorporated Prudential Securities Incorporated  
Smith Barney, Harris Upham & Co. Incorporated**

*The date of this Offering Circular Supplement is August 19, 1993.*

## **OFFERING CIRCULAR SUPPLEMENT**

*(To the Offering Circular dated July 19, 1993, as amended and supplemented)*

**\$20,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes  
Due One to 30 Years from Date of Issue*



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 Banks of the Farm Credit System, hereby amends and supplements the Federal Farm credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended and supplemented (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.

### **AGGREGATE PRINCIPAL AMOUNT OUTSTANDING**

The aggregate principal amount outstanding at any one time of Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue which the Funding Corporation, as agent for the Banks, proposes to offer for sale from time to time is hereby increased from the aggregate principal amount outstanding at any one time of up to \$15,000,000,000 to an aggregate principal amount outstanding at any one time of up to \$20,000,000,000.

The aggregate principal amount of Notes to be outstanding at any one time may be further increased in the future. As of the date hereof, \$14,160,914,800. of the Notes are outstanding.

### **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 Notes. It is based on the Act, the Internal Revenue Code of 1986, as amended (the "Code"), and final, temporary and proposed

**Bank of America NT & SA  
Carroll McEntee & McGinley Incorporated  
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PaineWebber Incorporated Prudential Securities Incorporated  
Smith Barney, Harris Upham & Co. Incorporated**

*The date of this Offering Circular Supplement is March 21, 1994.*

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 this Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes 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 Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements hereto or in the Term Sheet with respect to a particular issue of Notes.

## **General**

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes or their transfer by inheritance, gift, or other means, is not exempt from Federal, 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 Note 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) on a Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner's tax basis for such Note, 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner's tax basis in the Note, 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 Note 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 Note 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 Note'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 Note 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 Notes 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 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 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a "long-period Note." Under the Original Issue Discount Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note's term, the Note will not have original issue discount if (i) in the case of a Note 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 Notes, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Notes, but if neither exception applies, then such Notes will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Note at multiple fixed rates (whether or not it is a long-period Note), then such Note 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 Notes 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 Notes will be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes that provide for (i) total noncontingent principal payments at least equal to the debt'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 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 is 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 original issue discount rules for fixed rate debt instruments as discussed above.

A Floating-Rate Note 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 Note 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 Note and is not reasonably expected as of the issue date to cause the yield on such Note to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. Under Treasury regulations issued in proposed form on April 8, 1986 (the "1986 Proposed Regulations"), contingent interest is generally includible in income as it becomes fixed, to the extent that such interest exceeds minimum stated interest, if any. (See below for a discussion of the status of the 1986 Proposed Regulations.)

Under the Original Issue Discount Regulations, all payments (including all stated interest) with respect to a Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, United States Owners will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, an individual or certain other cash method United States Owners of a short-term Note 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes 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 Note as original issue discount (i.e., using the constant yield method discussed above). If a United States owner elects this method, the Note's issue price will be deemed to be such owner's basis in the Note at the time of its acquisition, and all of the payments on the Note will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Note 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 Note) and market discount (as discussed below) on a Note, 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 Original Issue Discount Regulations apply to debt instruments issued on or after April 4, 1994, although United States Owners may generally rely on such regulations for debt instruments issued after December 21, 1992 (except with respect to the election to accrue all "interest" as original issue discount). The 1986 Proposed Regulations on contingent interest are not final, however, and are subject to change. It is impossible to predict whether or in what form the 1986 Proposed Regulations on contingent interest will become final and what the scope or the effective date of any such final regulations might be. In addition, on January 22, 1993, proposed regulations amending the 1986 Proposed Regulations on contingent interest were withdrawn. It is unclear whether such regulations will be repropounded and if so in what form. United States Owners should therefore consult their tax advisors as to the potential application of the above-discussed provisions of the 1986 Proposed Regulations on contingent interest.

**Market Discount and Premium.** If a United States Owner purchases a Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note's "adjusted issue price" (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its adjusted issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note to a non-United States Owner, provided (i) that 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© 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 Note; and

(c) a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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% 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 Note, 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 Note 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.

**OFFERING CIRCULAR SUPPLEMENT**

*(To the Offering Circular dated July 19, 1993, as amended and supplemented)*

**\$25,000,000,000**  
*Federal Farm Credit Banks*  
*Consolidated Systemwide*  
*Medium-Term Notes*  
Due One to 30 Years from Date of Issue



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 Banks of the Farm Credit System, hereby amends and supplements the Federal Farm credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended and supplemented (the "Offering Circular"). This supplement supersedes Offering Circular Supplements dated August 19, 1993 and March 21, 1994. This supplement should be read in conjunction with the Offering Circular. Capitalized terms not defined herein are defined in the Offering Circular.

**AGGREGATE PRINCIPAL AMOUNT OUTSTANDING**

The aggregate principal amount outstanding at any one time of Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue which the Funding Corporation, as agent for the Banks, proposes to offer for sale from time to time is hereby increased from the aggregate principal amount outstanding at any one time of up to \$20,000,000,000 to an aggregate principal amount outstanding at any one time of up to \$25,000,000,000.

The aggregate principal amount of Notes to be outstanding at any one time may be further increased in the future. As of the date hereof, \$19,175,748,051. of the Notes are outstanding.

**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 Notes. It is based on the Act, the Internal Revenue Code of 1986, as amended (the "Code"), and final, temporary and proposed Treasury

**Bank of America NT & SA**  
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**J.P. Morgan Securities Inc.**      **Morgan Stanley & Co. Incorporated**  
**PaineWebber Incorporated**      **Prudential Securities Incorporated**  
**Smith Barney Inc.**

*The date of this Offering Circular Supplement is June 30, 1995.*

regulations, Revenue Rulings, and judicial decisions, all as of the date hereof. It is also based upon certain of the facts set forth in this Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes 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 Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements hereto or in the Term Sheet with respect to a particular issue of Notes.

## **General**

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes or their transfer by inheritance, gift, or other means, is not exempt from Federal, 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 Note 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) on a Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner's tax basis for such Note, 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner's tax basis in the Note, 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 Note 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 Note 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 Note'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 Note 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 Notes 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 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 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a "long-period Note." Under the Original Issue Discount Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note's term, the Note will not have original issue discount if (i) in the case of a Note 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 Notes, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Notes, but if neither exception applies, then such Notes will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Note at multiple fixed rates (whether or not it is a long-period Note), then such Note 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 Notes 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 Notes will be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes that provide for (i) total noncontingent principal payments at least equal to the debt'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 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 is 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 original issue discount rules for fixed rate debt instruments as discussed above.

A Floating-Rate Note 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 Note 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 Note and is not reasonably expected as of the issue date to cause the yield on such Note to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. Under Treasury regulations issued in proposed form on April 8, 1986 (the "1986 Proposed Regulations"), contingent interest is generally includible in income as it becomes fixed, to the extent that such interest exceeds minimum stated interest, if any. (See below for a discussion of the status of the 1986 Proposed Regulations.)

Under the Original Issue Discount Regulations, all payments (including all stated interest) with respect to a Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, United States Owners will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, unless the United States Owner elects to compute this discount using tax basis instead of issue price. In general, an individual or certain other cash method United States Owners of a short-term Note 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes 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 Note as original issue discount (i.e., using the constant yield method discussed above). If a United States owner elects this method, the Note's issue price will be deemed to be such owner's basis in the Note at the time of its acquisition, and all of the payments on the Note will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Note 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 Note) and market discount (as discussed below) on a Note, 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 Original Issue Discount Regulations apply to debt instruments issued on or after April 4, 1994, although United States Owners may generally rely on such regulations for debt instruments issued after December 21, 1992 (except with respect to the election to accrue all "interest" as original issue discount). The 1986 Proposed Regulations on contingent interest are not final, however, and are subject to change. It is impossible to predict whether or in what form the 1986 Proposed Regulations on contingent interest will become final and what the scope or the effective date of any such final regulations might be. In addition, on January 22, 1993, proposed regulations amending the 1986 Proposed Regulations on contingent interest were withdrawn. It is unclear whether such regulations will be repropounded and if so in what form. United States Owners should therefore consult their tax advisors 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 Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note's "adjusted issue price" (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its adjusted issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note to a non-United States Owner, provided (i) that 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© 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 Note; and

(c) a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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% 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 Note, 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 Note 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.

## **OFFERING CIRCULAR SUPPLEMENT**

*(To the Offering Circular dated July 19, 1993, as amended and supplemented)*

**\$30,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes*  
Due One to 30 Years from Date of Issue



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 Banks of the Farm Credit System, hereby amends and supplements the Federal Farm credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended and supplemented (the "Offering Circular"). This supplement supersedes Offering Circular Supplements dated August 19, 1993, March 21, 1994 and June 30, 1995. This supplement should be read in conjunction with the Offering Circular. Capitalized terms not defined herein are defined in the Offering Circular.

### **AGGREGATE PRINCIPAL AMOUNT OUTSTANDING**

The aggregate principal amount outstanding at any one time of Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue which the Funding Corporation, as agent for the Banks, proposes to offer for sale from time to time is hereby increased from the aggregate principal amount outstanding at any one time of up to \$25,000,000,000 to an aggregate principal amount outstanding at any one time of up to \$30,000,000,000.

The aggregate principal amount of Notes to be outstanding at any one time may be further increased in the future. As of the date hereof, \$23,675,105,150. of the Notes are outstanding.

### **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 Notes. It is based on the Act, the Internal Revenue Code of 1986, as amended (the "Code"), and final, temporary and proposed

**BA Securities Inc.**

**CS First Boston**

**Donaldson, Lufkin & Jenrette Securities Corporation**

**First Tennessee Bank N.A.**

**Goldman, Sachs & Co.**

**Merrill Lynch Government Securities, Inc.**

**NationsBanc Capital Markets, Inc.**

**Salomon Brothers Inc**

**HSBC Securities, Inc.**

**J.P. Morgan Securities Inc.**

**PaineWebber Incorporated**

**Sanwa Securities (USA) Co., L.P.**

**Bear Stearns & Co. Inc.**

**Dean Witter Reynolds Inc.**

**First Chicago Capital Markets, Inc.**

**Fuji Securities Inc.**

**Lehman Brothers Inc.**

**Morgan Stanley & Co. Incorporated**

**Prudential Securities Incorporated**

**Smith Barney Inc.**

*The date of this Offering Circular Supplement is April 12, 1996.*

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 this Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes 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 Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements hereto or in the Term Sheet with respect to a particular issue of Notes.

## **General**

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes or their transfer by inheritance, gift, or other means, is not exempt from Federal, 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 Note 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) on a Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner's tax basis for such Note, 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner's tax basis in the Note, 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 Note 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 Note 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 Note'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 Note 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 Notes 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 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 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a "long-period Note." Under the Original Issue Discount Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note's term, the Note will not have original issue discount if (i) in the case of a Note 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 Notes, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Notes, but if neither exception applies, then such Notes will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Note at multiple fixed rates (whether or not it is a long-period Note), then such Note 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 Notes 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 Notes will be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes that provide for (i) total noncontingent principal payments at least equal to the debt'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 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 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.

A Floating-Rate Note 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 Note 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 Note and is not reasonably expected as of the issue date to cause the yield on such Note to be significantly more or less, as the case may be, than the expected yield determined without such ceiling and/or floor. Under Treasury regulations issued in proposed form on April 8, 1986 (the "1986 Proposed Regulations"), contingent interest is generally includible in income as it becomes fixed, to the extent that such interest exceeds minimum stated interest, if any. (See below for a discussion of the status of the 1986 Proposed Regulations.)

Under the Original Issue Discount Regulations, all payments (including all stated interest) with respect to a Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, United States Owners will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, 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 a short-term Note 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes 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 Note as original issue discount (i.e., using the constant yield method discussed above). If a United States owner elects this method, the Note's issue price will be deemed to be such owner's basis in the Note at the time of its acquisition, and all of the payments on the Note will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Note 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 Note) and market discount (as discussed below) on a Note, 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 advisors 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 Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note's "adjusted issue price" (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its revised issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note to a non-United States Owner, provided (i) that 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 Note; and

(c) a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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% 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 Note, 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 Note 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.



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**OFFERING CIRCULAR SUPPLEMENT**

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*(To the Offering Circular dated July 19, 1993, as amended and supplemented)*

**\$30,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes*  
Due One to 30 Years from Date of Issue



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 Banks of the Farm Credit System, hereby amends and supplements the Federal Farm credit Banks Consolidated Systemwide Medium-Term Notes Offering Circular dated July 19, 1993, as amended and supplemented (the "Offering Circular"). This supplement supersedes Offering Circular Supplements dated August 19, 1993, March 21, 1994 and June 30, 1995 and certain information set forth under "Certain Tax Considerations" in the Offering Circular Supplement dated April 12, 1996. 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 Notes. 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 this Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes held as capital assets by their original purchasers and does not address

**BA Securities Inc.**

**CS First Boston**

**Donaldson, Lufkin & Jenrette Securities Corporation**

**First Tennessee Bank N.A.**

**Goldman, Sachs & Co.**

**Merrill Lynch Government Securities, Inc.**

**NationsBanc Capital Markets, Inc.**

**Salomon Brothers Inc**

**HSBC Securities, Inc.**

**J.P. Morgan & Co.**

**PaineWebber Incorporated**

**Sanwa Securities (USA) Co., L.P.**

**Bear Stearns & Co. Inc.**

**Dean Witter Reynolds Inc.**

**First Chicago Capital Markets, Inc.**

**Fuji Securities Inc.**

**Lehman Brothers Inc.**

**Morgan Stanley & Co. Incorporated**

**Prudential Securities Incorporated**

**Smith Barney Inc.**

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

special tax situations. This summary does not purport to cover all the possible tax consequences of the purchase, ownership or disposition of the Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements hereto or in the Term Sheet with respect to a particular issue of Notes.

## **General**

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes or their transfer by inheritance, gift, or other means, is not exempt from Federal, 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 Note 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) on a Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner's tax basis for such Note, 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner's tax basis in the Note, 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 Note 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 Note 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 Note'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 Note 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 Notes 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a “long-period Note.” Under the Original Issue Discount Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note’s term, the Note will not have original issue discount if (I) in the case of a Note 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 Notes, the *de minimis* exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Notes, but if neither exception applies, then such Notes will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Note at multiple fixed rates (whether or not it is a long-period Note), then such Note 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 Notes 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 Notes will be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes that provide for total noncontingent principal payments at least equal to the debt’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, © 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 Note 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 Note 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 Note and is not reasonably expected as of the issue date to cause the yield on such Note 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 Term Sheet relating to an issue of Notes with contingent interest will contain the projected payment schedule for such issue of Notes 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 Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, United States Owners will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, 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 a short-term Note 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes 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 Note as original issue discount (i.e., using the constant yield method discussed above). If a United States owner elects this method, the Note's issue price will be deemed to be such owner's basis in the Note at the time of its acquisition, and all of the payments on the Note will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Note 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 Note) and market discount (as discussed below) on a Note, 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 Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note's "adjusted issue price" (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of qualified stated interest) but less than or equal to the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its revised issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note to a non-United States Owner, provided (i) that 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© 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 Note, provided that such gain or income is not effectively connected with a United States trade or business of such owner; and

© a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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% 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 Note, 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 Note 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 Notes made after December 31, 1997, including payments on Notes 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 Notes should consult their tax advisors as to the potential impact of the proposed regulations on their particular situations.

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OFFERING CIRCULAR SUPPLEMENT

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*(To the Offering Circular dated July 19, 1993, as amended and supplemented)*

**\$40,000,000,000**  
*Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes*



*Due One to 30 Years from Date of Issue*

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 Medium-Term Notes Offering Circular dated July 19, 1993, 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.

**AGGREGATE PRINCIPAL AMOUNT OUTSTANDING**

The aggregate principal amount outstanding at any one time of Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes Due One to 30 Years from Date of Issue which the Funding Corporation, as agent for the Banks, proposes to offer for sale from time to time is hereby increased from the aggregate principal amount outstanding at any one time of up to \$30,000,000,000 to an aggregate principal amount outstanding at any one time of up to \$40,000,000,000.

**BancAmerica Securities, Inc.**  
**Credit Suisse First Boston**  
**Donaldson, Lufkin & Jenrette Securities Corporation**  
**First Tennessee Capital Markets**  
**Goldman, Sachs & Co.**  
**Merrill Lynch & Co.**  
**NationsBanc Capital Markets, Inc.**  
**Salomon Brothers Inc.**

**HSBC Securities, Inc.**  
**J.P. Morgan & Co.**  
**PaineWebber Incorporated**  
**Sanwa Securities (USA) Co., L.P.**

**Bear Stearns & Co. Inc.**  
**Dean Witter Reynolds Inc.**  
**First Chicago Capital Markets, Inc.**  
**Fuji Securities Inc.**  
**Lehman Brothers Inc.**  
**Morgan Stanley & Co. Incorporated**  
**Prudential Securities Inc.**  
**Smith Barney Inc.**

*The date of this Offering Circular Supplement is February 26, 1997.*



The aggregate principal amount of Notes to be outstanding at any one time may be further increased in the future. As of the date hereof, \$27,543,599,350. of the Notes are outstanding.

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Certain information set forth in the first 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 NOTES 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 NOTES.

THIS OFFERING CIRCULAR DOES NOT DESCRIBE ALL OF THE RISKS OF INVESTMENT IN THE NOTES 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 SGMS AND THE DSGMS 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 NOTES. SUCH NOTES 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 NOTES WILL HAVE AN ESTABLISHED TRADING MARKET WHEN ISSUED. THERE CAN BE NO ASSURANCE THAT THE NOTES WILL HAVE SECONDARY MARKET LIQUIDITY. THE SECONDARY MARKET OBLIGATIONS OF THE SGMS AND DSGMS REFERRED TO HEREIN MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE TO HOLDERS OF THE NOTES. SEE "CERTAIN INVESTMENT CONSIDERATIONS - SECONDARY MARKET RISKS."

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The following should be inserted following "Summary" in the Offering Circular:

**CERTAIN INVESTMENT CONSIDERATIONS**

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

The Notes may not be suitable investments for certain investors. Risks to investors associated with the purchase of the Notes 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 Notes 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 Notes. 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 Notes.

**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 Notes 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 Notes. In particular, an investment in an issue of Notes 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 Notes (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 Notes 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 Notes might affect the market value of such Notes. Since the Banks may be expected to redeem the Notes 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 Notes.

**Secondary Market Risks.** The Notes will not have an established trading market when issued. Each SGM and DSGM has agreed to use reasonable efforts to facilitate secondary market transactions in the particular issue of Notes that it distributes. Although the SGMs and DSGMs may make a market in the Notes, they are not obligated to do so and may discontinue any market-making at any time without notice. The Notes will not be listed on any securities exchange. There can be no assurance that the Notes will have secondary market liquidity.

The secondary market for the Notes 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 Notes, the time remaining to the maturity of such Notes, the outstanding amount

of such Notes, any redemption features of such Notes, the amount of other 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 Notes. In addition, certain Notes may be designed for specific investment objectives or strategies and therefore may have a more limited secondary market and experience more price volatility than conventional debt securities. Investors may not be able to sell Notes readily or at prices that will enable investors to realize their anticipated yield. No investor should purchase Notes unless such investor understands and is able to bear the risk that certain Notes may not be readily saleable, that the value of Notes will fluctuate over time and that such fluctuations may be significant.

The prices at which zero-coupon instruments, such as Zero-Coupon Notes, 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 Notes, such as Yield Curve Notes, 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.

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Certain information set forth under “Description of the Notes - Secondary Market Risks” in the Offering Circular is hereby amended and supplemented as follows:

See “Certain Investment Considerations” above for a discussion of the absence or existence of a secondary market and certain investment risks associated with an investment in an issue of Notes.

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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 Notes-Book-entry System” is hereby amended and supplemented as follows:

**Book-Entry System**

The Notes will be issued and maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks. Fixed-Rate Notes will be issued in minimum principal amounts of \$100,000 and integral multiples of \$1,000 in excess thereof (or integral multiples of \$5,000 in the case of a Fixed-Rate Note having a maturity of thirteen months or less from the Issue Date) and Floating-Rate Notes will be issued in minimum principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof.

The Notes 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. The Fiscal Agency Agreement makes generally applicable to the Notes the following regulations and other documents that govern transactions in Systemwide Debt Securities, including the Notes, 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 Notes 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 Notes on the records of the Federal Reserve Banks (the "CUSIP Number").

The Federal Reserve Banks will maintain book-entry accounts with respect to the Notes and make payments, for the Funding Corporation on behalf of the Banks, of principal of and interest on the Notes on the applicable payment dates by crediting Participants' accounts at the Federal Reserve Banks. Payment of principal of and interest on book-entry 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 Notes.

The Notes 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 Notes have been deposited are herein referred to as "Participants." A Participant is not necessarily the investor who is the beneficial owner of a Note. Beneficial owners will ordinarily hold the Notes 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 Note, 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 Note 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 Note that is not also a Participant. The Federal Reserve Banks will act only upon the instructions of Participants in recording transfers of the Notes. The Banks, the Funding Corporation and the Federal Reserve Banks may treat the Participants as the absolute owners of the Notes for the purpose of making payments of principal of and interest on the Notes and for all other purposes.

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## 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 Notes. 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 Offering Circular and upon standard procedures followed in connection with the offer and sale of the Notes. This summary deals only with Notes 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 Notes, and it is not intended as tax advice to any owner thereof. **Persons considering the purchase or sale of the Notes 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 Notes may be set forth in supplements to the Offering Circular or in the Term Sheet with respect to a particular issue of Notes.

### General

The Act provides that the Notes 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 Notes have been construed by certain state courts as not exempting securities similar to the Notes 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 Notes is not exempt from Federal income taxation. In addition, gain from the sale or other disposition of the Notes 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 Note 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

<b>BancAmerica Securities, Inc.</b>	<b>Bear Stearns &amp; Co. Inc.</b>
<b>Credit Suisse First Boston</b>	<b>Dean Witter Reynolds Inc.</b>
<b>Donaldson, Lufkin &amp; Jenrette Securities Corporation</b>	<b>First Chicago Capital Markets, Inc.</b>
<b>First Tennessee Capital Markets</b>	<b>Fuji Securities Inc.</b>
<b>Goldman, Sachs &amp; Co.</b>	<b>HSBC Securities, Inc.</b>
<b>Merrill Lynch &amp; Co.</b>	<b>J.P. Morgan &amp; Co.</b>
<b>NationsBanc Capital Markets, Inc.</b>	<b>Morgan Stanley &amp; Co. Incorporated</b>
<b>Salomon Brothers Inc.</b>	<b>PaineWebber Incorporated</b>
	<b>Sanwa Securities (USA) Co., L.P.</b>
	<b>Prudential Securities Inc.</b>
	<b>Smith Barney Inc.</b>

*The date of this Offering Circular Supplement is February 26, 1997.*

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 Note will be treated as ordinary interest income to the United States Owner of the Note 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 Note while held by a United States Owner will be added to such United States Owner's tax basis for such Note, 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 Note will recognize gain or loss on the sale, exchange or retirement of such Note equal to the difference between the amount realized thereon and such owner's tax basis in the Note, 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 Note 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 Note 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 Note'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 Note 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 Notes 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 Note and the first Interest Payment Date is longer than the periods between subsequent Interest Payment Dates, the Note will be a "long-period Note." Under the Original Issue Discount Regulations, a long-period Note will not be considered issued with original issue discount if all stated interest on the Note 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 Note's term, the Note will not have original issue discount if (i) in the case of a Note 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 Notes, the de minimis exception discussed above, with certain modifications, applies. One of these exceptions will generally apply to long-period Notes, but if neither exception applies, then such Notes will generally be treated as bearing interest at multiple fixed rates.

If interest is payable on a Note at multiple fixed rates (whether or not it is a long-period Note), then such Note 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 Notes 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 Notes will generally be required to include in income increasingly greater amounts of original issue discount.

Floating-Rate Notes 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 Note 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 Note 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 Note or is not reasonably expected as of the issue date to cause the yield on such Note 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 Term Sheet relating to an issue of Notes with contingent interest will contain the projected payment schedule for such issue of Notes 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 Note will be included in the stated redemption price at maturity if the Note has a term of one year or less (a "short-term Note") and, thus, a United States Owner will generally be taxable on discount in lieu of stated interest. As a result, a short-term Note 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 Note, 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 Notes 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 Notes (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 Note while held by a United States Owner will be added to such owner's tax basis in such Note 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 Note 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 Notes 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 Note as original issue discount (*i.e.*, using the constant yield method discussed above). If a United States Owner elects this method, the Note's issue price will be deemed to be such owner's basis in the Note at the time of its acquisition, and all of the payments on the Note will be treated as included in its stated redemption price at maturity. This election is available whether or not such a Note 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 Note) and market discount (as discussed below) on a Note, 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 Note other than a short-term Note (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 Note, 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 Note), 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 Note 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 Note at the time of such payment or disposition. In addition, the United States Owner may be required to defer, until the maturity of the Note 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 Note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the Maturity Date of the Note, unless the United States Owner elects to accrue on a constant yield method. A United States Owner of a Note 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 Note with original issue discount for an amount that is greater than the Note's "adjusted issue price" (defined generally as the issue price of the Note increased by the aggregate amount of original issue discount includible, if any, in the gross income of all previous owners of the Note and decreased by the aggregate amount of payments made on the Note, if any, other than payments of qualified stated interest) but less than the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest) will be considered to have purchased such Note at an "acquisition premium." The amount of original issue discount such owner must include in its gross income with respect to such Note 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 Note for an amount that is greater than both its revised issue price and the sum of all amounts payable on the Note after the purchase date (other than payments of qualified stated interest), such owner will be considered to have purchased such Note at a premium, such Note 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 Note. Such premium shall be deemed to be an offset to interest otherwise includible in income in respect of such Note.

**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 Note. Under current Treasury regulations, backup withholding and information reporting will not apply to payments on the Notes 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 Notes 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 Note 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 Note 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 Note 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 Note, provided that such gain or income is not effectively connected with a United States trade or business of such owner; and

(c) a Note 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 Note 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 Notes, 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 Note 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 Note 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 Note 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 Note. 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 Note 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 Note 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 Note 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 Note, 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 Note 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 Notes made after December 31, 1997, including payments on Notes 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 Notes should consult their tax advisors as to the potential impact of the proposed regulations on their particular situations.

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## DISTRIBUTION

The third paragraph set forth under "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 Notes, one or more of the Banks may enter into hedging transactions with an SGM or DSGM participating in such transaction or an affiliate thereof.

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**OFFERING CIRCULAR SUPPLEMENT**

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(To the Offering Circular dated July 19, 1993, as amended and supplemented)

\$40,000,000,000  
***Federal Farm Credit Banks  
Consolidated Systemwide  
Medium-Term Notes***



*Due One to 30 Years from Date of Issue*

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 Medium-Term Notes Offering Circular dated July 19, 1993 (the “Offering Circular”), as amended and supplemented by the Offering Circular Supplement dated February 26, 1997 (the “Offering Circular Supplement”). This supplement should be read in conjunction with the Offering Circular and the Offering Circular Supplement. Capitalized terms not defined herein are defined in the Offering Circular or the Offering Circular Supplement.

**FORM AND DENOMINATIONS**

In the Offering Circular, the eighth and ninth sentences of the third paragraph on the cover page, the sixth and seventh sentences under “**Form and Denominations**” in the section entitled “**Summary**” and the second and third sentences of “**Form and Denominations**” under “**Description of the Notes**” are deleted and replaced with the following:

As of June 18, 1999, Fixed-Rate Notes (other than Fixed-Rate Notes with structured features, as determined by the Funding Corporation) will be maintained and transferred in minimum denominations of \$5,000 and integrals of \$1,000 in excess thereof, and Floating-Rate Notes and Fixed-Rate Notes with structured features will be maintained and transferred in minimum denominations of \$100,000 and integrals of \$1,000 in excess thereof.

**BOOK-ENTRY SYSTEM**

The first paragraph under “**Book-Entry System**” in the Offering Circular Supplement is deleted and replaced with the following:

As of June 18, 1999, the Notes will be maintained, and may be transferred, only on the book-entry system of the Federal Reserve Banks, in the case of Fixed-Rate Notes (other than Fixed-Rate Notes with structured features, as determined by the Funding Corporation), in minimum denominations of \$5,000 and integrals of \$1,000 in excess thereof and, in the case of Floating-Rate Notes and Fixed-Rate Notes with structured features, in minimum denominations of \$100,000 and integrals of \$1,000 in excess thereof.

The date of this Offering Circular Supplement is June 11, 1999.

The first sentence of the second paragraph under “**Book-Entry System**” in the Offering Circular Supplement is deleted and replaced with the following:

The Notes will be maintained pursuant to a fiscal agency agreement dated May 21, 1998 (as subsequently amended or modified, the “Fiscal Agency Agreement”) between the Funding Corporation, acting on behalf of the Banks, and the Federal Reserve Banks, as fiscal agent.

## **DISTRIBUTION**

The section entitled “**Distribution**” in the Offering Circular is hereby amended and supplemented by adding as a new paragraph the following:

As of June 18, 1999, it is the intention of the Funding Corporation and the Banks not to issue additional Notes and the SGM and DSGM Agreements will be terminated effective as of June 18, 1999. Notes that have been issued and are outstanding will continue to be governed by the terms and conditions set forth in the Offering Circular, as amended and supplemented. As of June 18, 1999, it is intended that all future Systemwide Debt Securities will be issued pursuant to the Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes Offering Circular dated June 18, 1999, and the Federal Farm Credit Banks Global Debt Program Offering Circular dated October 10, 1996.