



**National Rural Utilities
Cooperative Finance Corporation**

SERVICE | INTEGRITY | EXCELLENCE

Managing the Debt Portfolio

Trevor Barnett
CFC Regional Vice President

NSAC – Cooperative Compass 2025, Kansas City



Trevor Barnett, CFC Regional Vice President (AR, LA, OK)



25

17

10



Today's Agenda

Managing the Debt Portfolio

- 1) Factors of decision making and our options
- 2) Working within your risk tolerance
- 3) Understanding the interest rate environment

Managing your Debt Portfolio – Intro

Cooperatives are very capital intensive...

- Fixed charges (depreciation & interest) can make up 40% of total operating cost of service
- Net utility plant can make up 70-80% of total assets
- Debt can make up 50-70% of total liabilities

Why *can* cooperatives carry so much debt?



Managing your Debt Portfolio – Intro

Interest Expense

- Loan pricing and repricing

Cash Flows

- Interest expense plus principal payments
- Term and structure

Managing your Debt Portfolio – Intro

Back in the day...

- There were very few options for cooperatives
- Most loans had a rate that was fixed for the term of the loan

Nowadays

- There are many loan options/considerations
 - Fixed vs. Variable Rates
 - Interest Only, Balloon and Bullets
 - Lines of Credit (traditional, bridge and emergency)
 - Leasing, etc

Factors of Decision Making and Debt Options



Factors of Decision Making

Loan Considerations

- 1) Term
 - What is being financed and for how long?
- 2) Loan Structure
 - What amortization method makes the most sense?
 - Security and loan support
- 3) Pricing
 - How should we structure interest rates?

Factors of Decision Making

Loan Considerations – Term

Long term loans finance long-life assets

- Plant 30 to 25 years
- AMI 7 to 15 years

Short term loans finance temporary cash flow needs

- Work plan bridge line of credit
- Operating lines of credit
- Emergency needs

Term impacts total interest cost and cash flow

- \$10M loan @ 5%
 - 20 years = \$5.8M
 - 30 years = \$9.5M

Factors of Decision Making

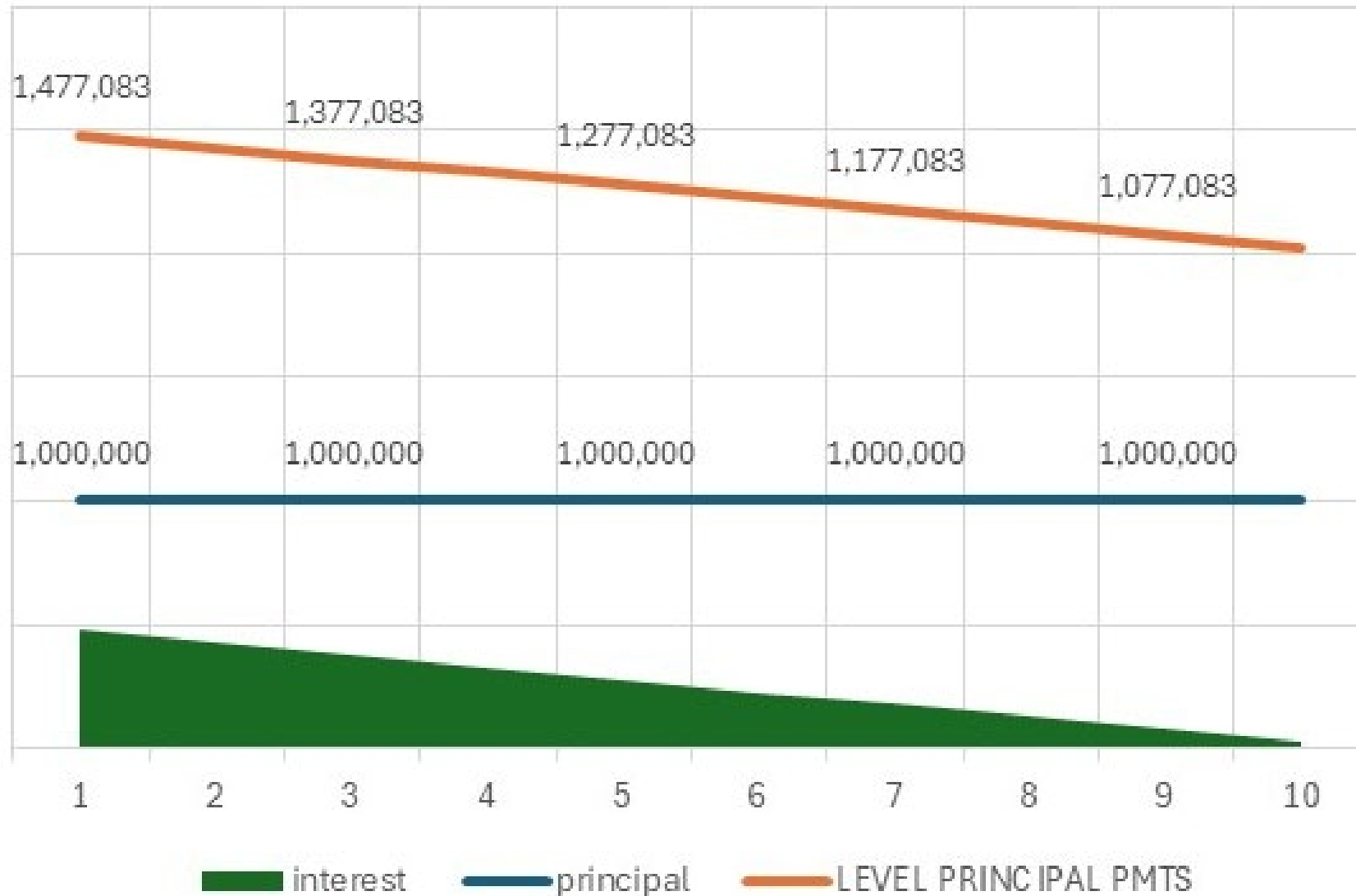
Loan Considerations – Structure

Amortization Methods

- 1) Level Debt Payments
 - Cash flows remain constant
 - Works like your home mortgage
- 2) Level Principal Payments
 - Principal payments remain constant over life of loan
 - Higher debt service at beginning of loan, decreasing over time
 - Lowest interest costs over all
- 3) Interest Only
 - Non-amortizing

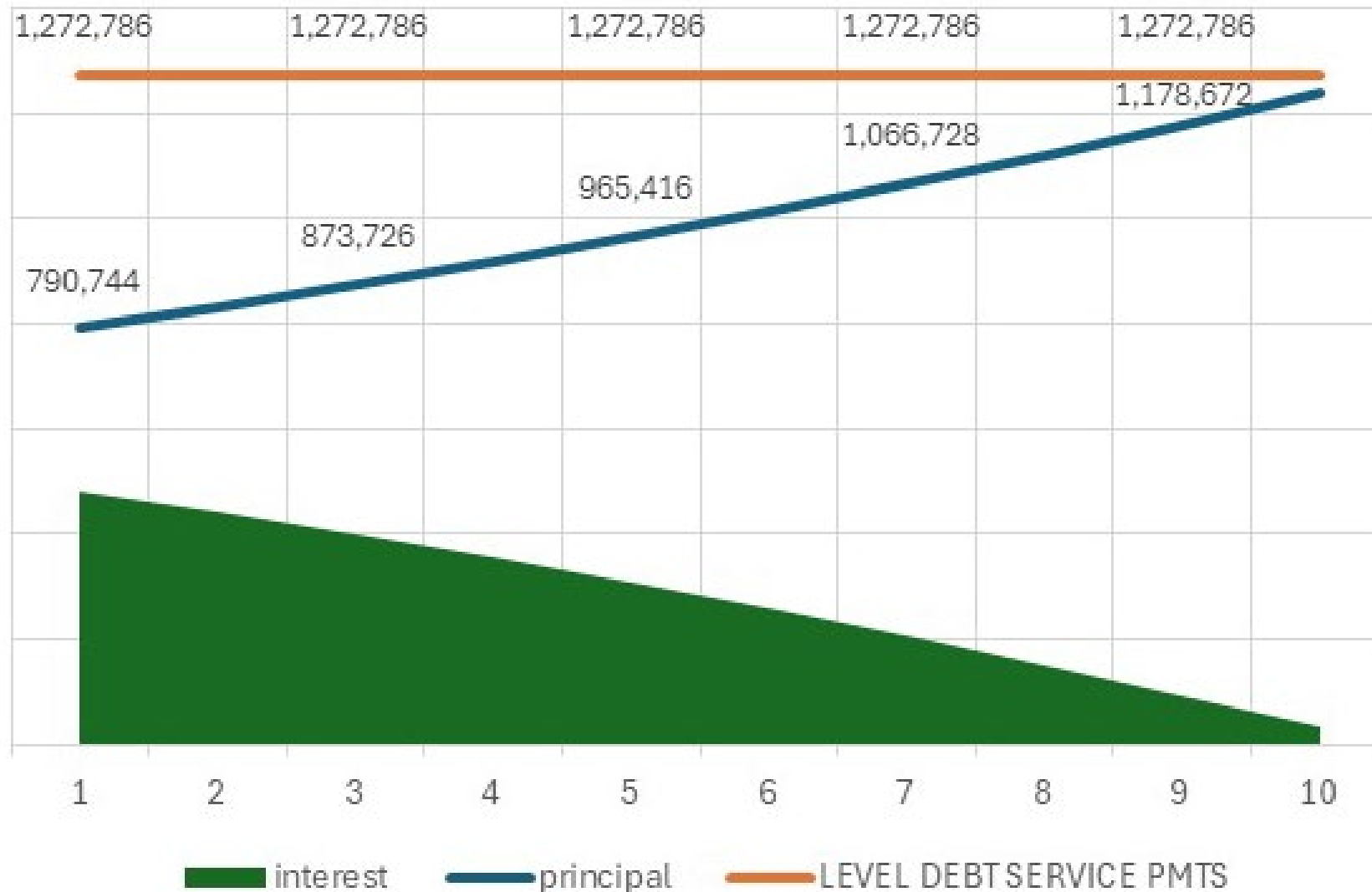
Factors of Decision Making

Loan Considerations – Structure



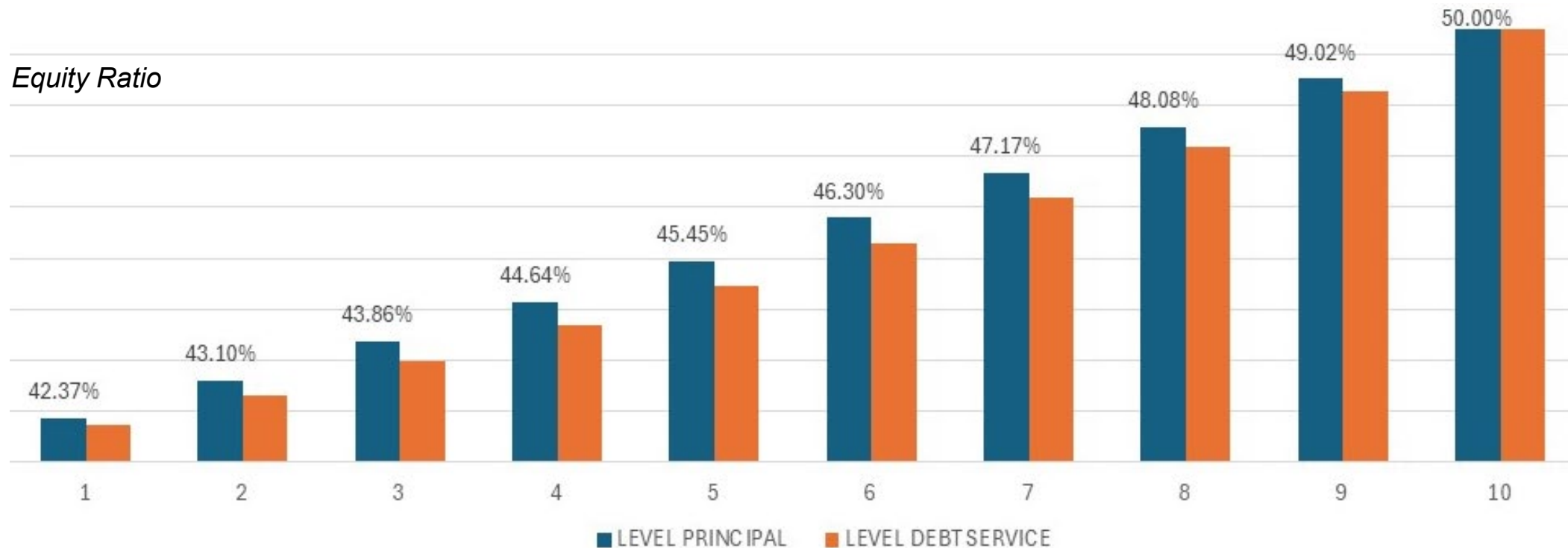
Factors of Decision Making

Loan Considerations – Structure



Factors of Decision Making

Loan Considerations – Structure



											TOTAL
DIFFERENCE	204,297	154,297	104,297	54,297	4,297	(45,703)	(95,703)	(145,703)	(195,703)	(245,703)	(207,028)
principal	209,256	168,800	126,274	81,573	34,584	(14,808)	(66,728)	(121,304)	(178,672)	(238,975)	0
interest	(4,959)	(14,503)	(21,977)	(27,275)	(30,287)	(30,894)	(28,975)	(24,399)	(17,031)	(6,728)	(207,028)

Factors of Decision Making

Loan Considerations – Pricing

1) Fixed Interest Rate

- Fixed to Maturity
- Fixed to Reprice

➤ What is the proper mix of fixed and variable rate debt in your cooperative's debt portfolio?

2) Variable Interest Rate

- How often will it change?
- Is it convertible?

Factors of Decision Making

Loan Considerations – Pricing

Components of a CFC rate quote:

Rate Type	Rate Term	Stated Rate	Estimated Pat Cap	Effective Rate
FTR	1 yr	5.195%	0.15%	5.045%
FTR	2 yr	5.145%	0.15%	4.995%
FTR	3 yr	5.185%	0.15%	5.035%
FTR	4 yr	5.345%	0.15%	5.195%
FTR	5 yr	5.445%	0.15%	5.295%
FTM	30 yr	6.465%	0.15%	6.315%

FTR = Fixed to Reprice

FTM = Fixed to Maturity

Quiz Question #1:

What are the three considerations for new loans?

1) Term

2) Structure

3) Pricing

Working within your Risk Tolerance



What is your personal risk tolerance?

- Consider how you are managing your 401k
 - Some investors are willing to take a greater risk for potential gains
 - Some want a steady income/payment structure with little variation
 - Some investors do not want to miss out on some perceived future benefit

Question: How do we want to run the co-op?

Risk Tolerance

Measuring Risk at Your Cooperative

Willingness

- Management philosophy – Is management (and especially the board) comfortable with variable rate debt?
- Current percentage of fixed / floating rate debt

Ability

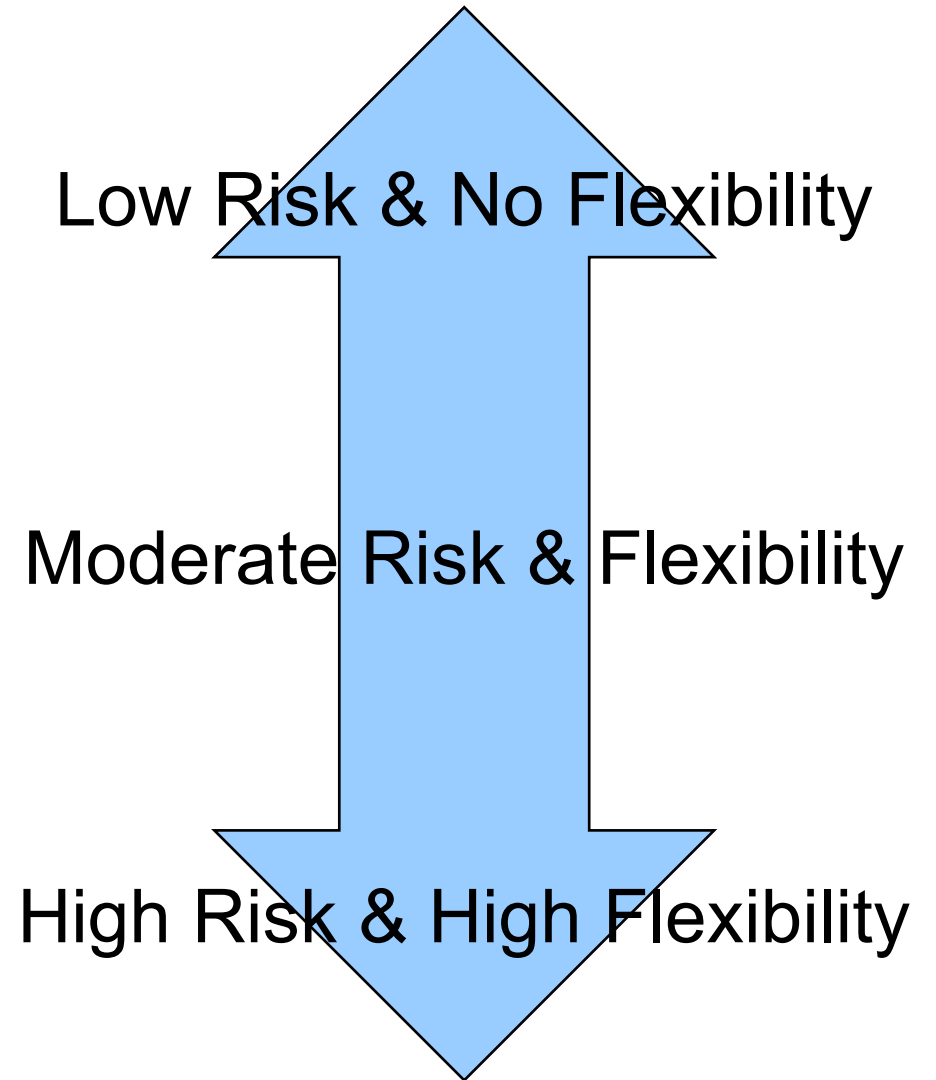
- Staff time to consistently monitor interest rate trends
- Strong / weak tier, MDSC
- Equity level on balance sheet



Lean on your lender

Risk Tolerance

- Entirely Fixed Rate
- Mix of Fixed and Variable
- Entirely Variable
- Postpone Term Borrowing



Risk Tolerance

Measuring Risk at Your Cooperative

	Current Interest Rate	Rate Maturity									
		<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>
Loan A	1.50%										
Loan B	2.00%										
Loan C	3.00%										
Loan D	4.75%	\$1M									
Loan E	5.25%			\$2M							
Loan F	5.25%			\$4M							
Loan G	5.25%		\$3M								
Loan H	6.15%	\$1M	\$1M	\$1M	\$1M	\$1M	\$1M	\$1M	\$1M	\$1M	\$1M

Question: What is this co-op thinking?

Repricing Year

Risk Tolerance Circumstance

High Risk Tolerance

- Strong equity position
- Ability to recover additional interest expense
- No cash flow challenges
- Expectation of additional cash

Low Risk Tolerance

- Thin budgeted margins
- Low equity position
- Weather dependent
- Cash flow challenges

Quiz Question #2:

Which of the following loan amortization structures results in the lowest interest paid over the term?

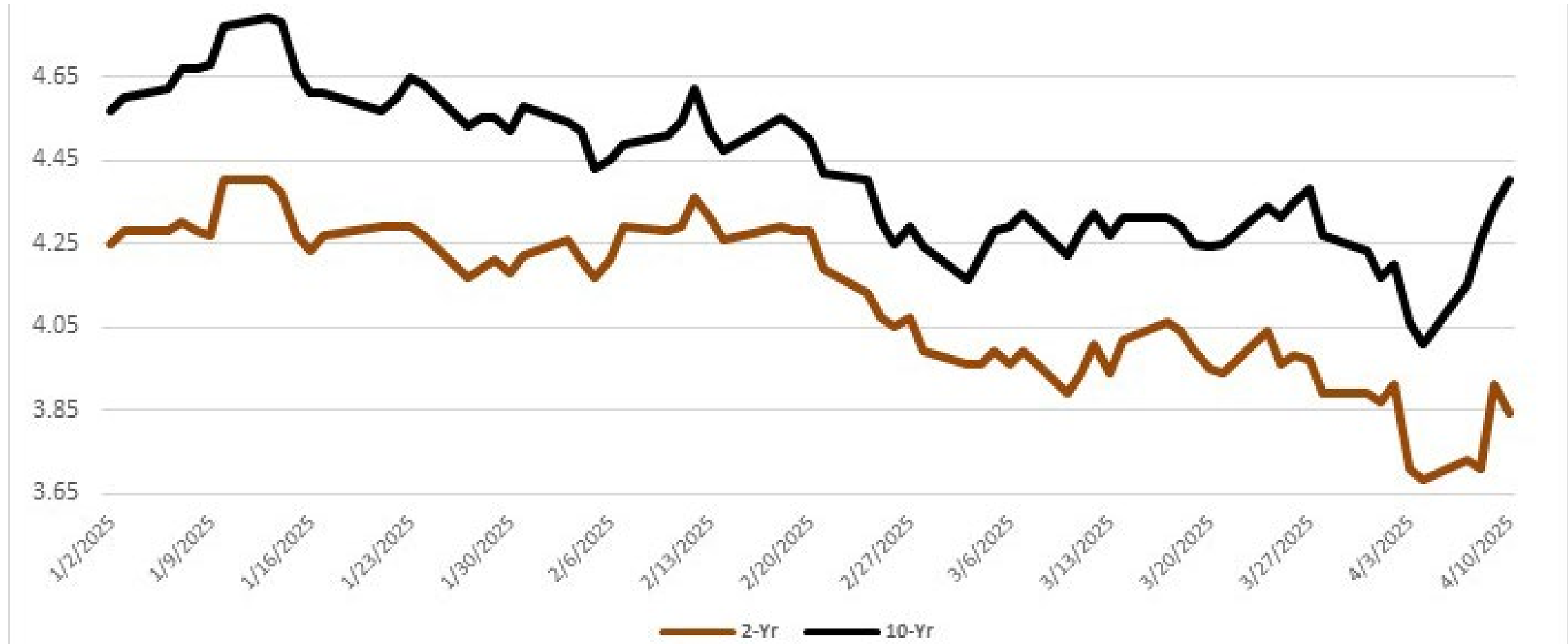
- 1) Interest Only (bullet note)
- 2) Level Principal Payments
- 3) Level Debt Service Payments
- 4) Immaterial difference

Understanding the Interest Rate Environment



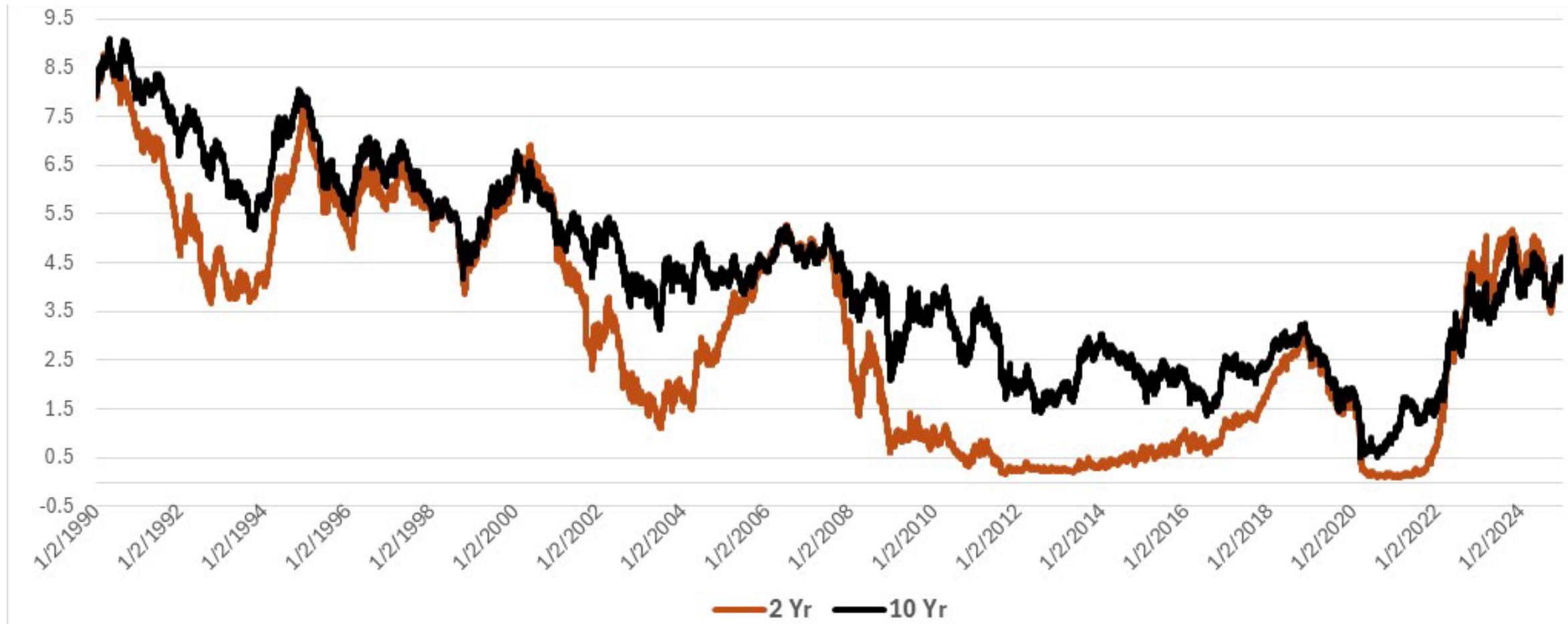
Understanding the Interest Rate Environment

Where are Interest Rates Today?



Understanding the Interest Rate Environment

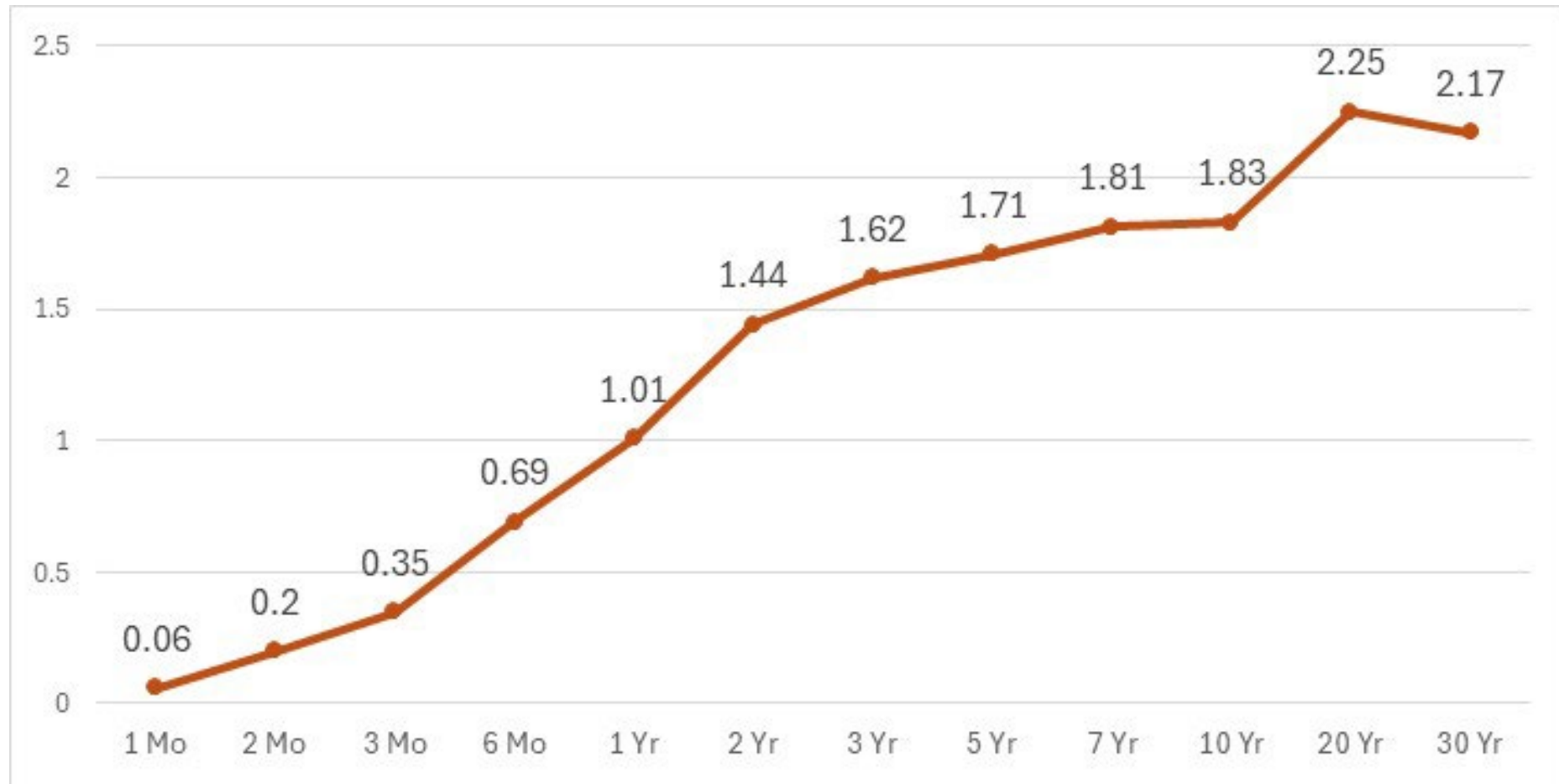
Where are Interest Rates Today?



Understanding the Interest Rate environment

Yield Curves – Treasury Rates

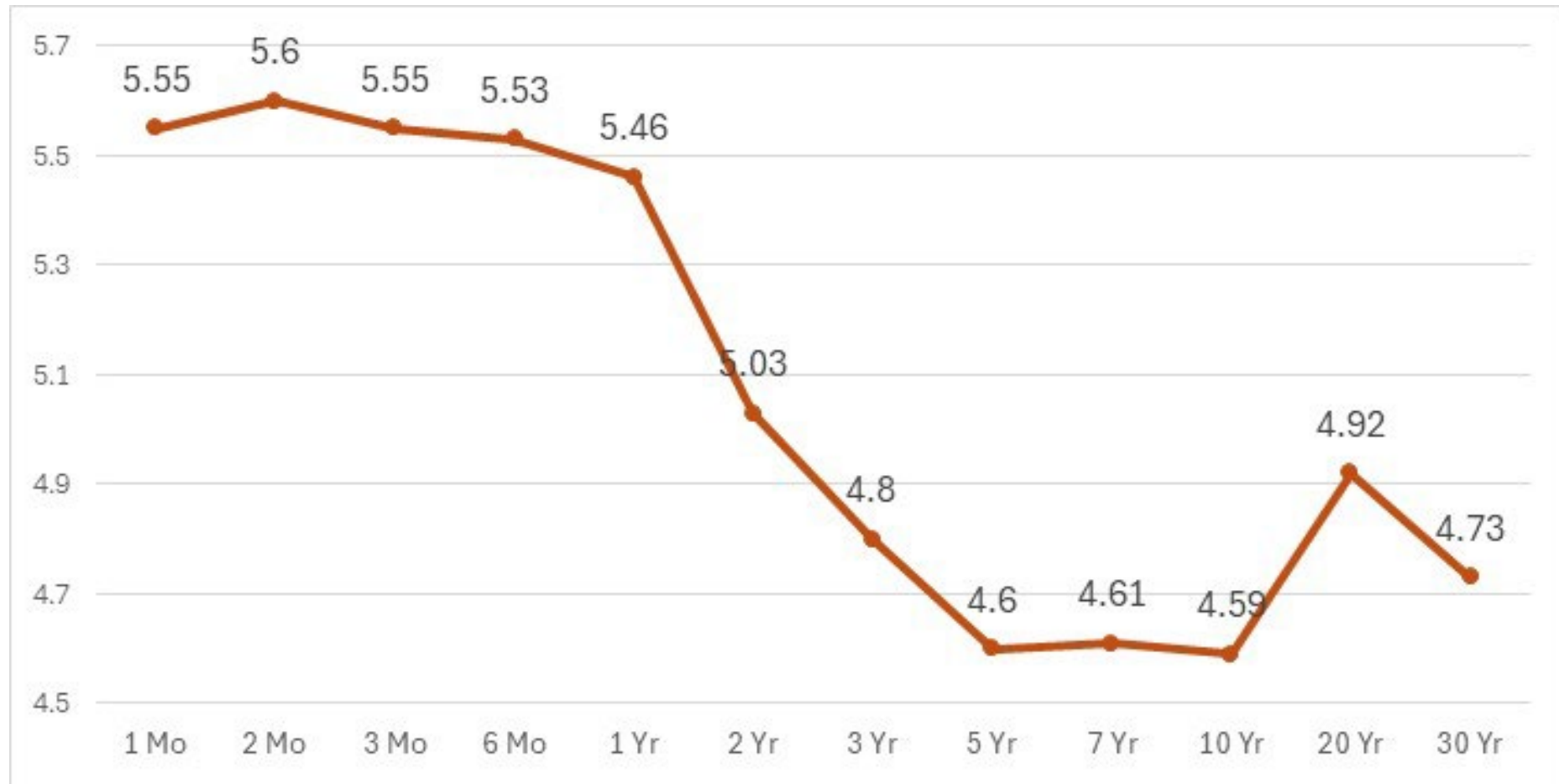
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Understanding the Interest Rate environment

Yield Curves – Treasury Rates

9/29/2023



Factors of Decision Making

Loan Considerations – Pricing

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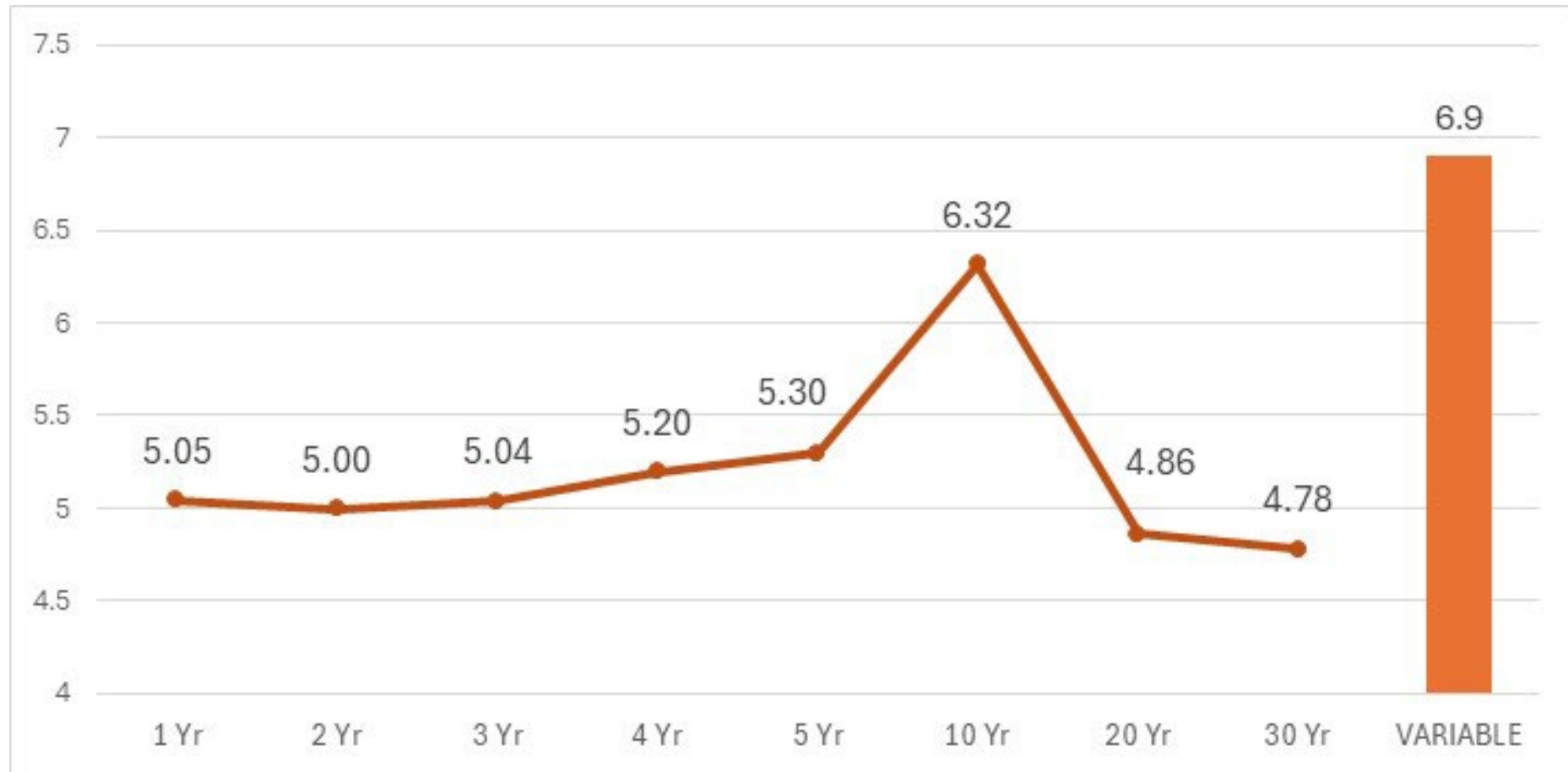
FTR = Fixed to Reprice

FTM = Fixed to Maturity

Variable LOC = 6.90%

Understanding the Interest Rate environment

Yield Curves – Treasury Rates



Quiz Question #3:

Happy Days Electric Cooperative has maxed out its bridge line of credit while waiting for its lender to approve their construction work plan loan. What are the impacts?

- 1) Higher interest expense
- 2) Exposure to interest rate fluctuations
- 3) Lack of principal amortization
- 4) Mismatch of loan term and asset-life
- 5) All the above

Borrowing Strategies

In Conclusion

- Understand all your options, by lender, and the implications of your decisions.
- Managing debt is not just about interest expense. Cash flow impact and future repricing/pay-off flexibility is equally important.
- Remember that we do not have a crystal ball.

