

MEMORANDUM OF AGREEMENT

This Memorandum of Agreement (Agreement), dated as of November 1, 1997, by and among the RURAL UTILITIES SERVICE (RUS), the RURAL BUSINESS COOPERATIVE SERVICE (RBS) and the NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (CFC) sets forth the understanding and agreement of the parties concerning security for loans made by RBS to an entity that has a RUS or Rural Telephone Bank loan or loan guarantee for an electric or telephone purpose under the provisions of the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 *et seq.*) (Borrower).

RECITALS

WHEREAS, the Borrower has executed and delivered to RUS, or its predecessor the Rural Electrification Administration (REA), and to CFC, and, in certain cases to other lenders, security instruments, as they may have been amended, supplemented, restated, or consolidated or as they may be amended, supplemented, restated, or consolidated from time to time in accordance with their terms (Security Instrument); and

WHEREAS, the Borrower has mortgaged, pledged and granted a security interest in and lien on all property, real, personal or mixed, tangible and intangible, including accounts, proceeds, and revenues (Property), as described in the Security Instrument, to secure payment of and performance of certain obligations owed to RUS, CFC, and, in certain cases to other lenders, all as set forth in the Security Instrument.

WHEREAS, the Security Instrument has been recorded and filed to constitute a first and prior lien upon the Property; and

WHEREAS, RBS makes loans to Borrowers pursuant to its Intermediary Relending Program (IRP) and its Rural Economic Development Loan and Grant program (RED); and

WHEREAS, RBS requires security for its loans to Borrowers; and

WHEREAS, RUS and CFC and other lenders, as the case may be, have a security interest in and a first and prior lien on the Property of the Borrower, including, without limitation, all Property acquired by the Borrower after the date of the delivery of the Security Instrument; and

WHEREAS, all parties to this Agreement desire to facilitate the participation of a Borrower in IRP and in RED;

NOW, THEREFORE, for and in consideration of the mutual agreement herein contained, RUS, CFC and RBS agree as follows:

1. The Property derived from or generated solely by the proceeds of the RBS loan or any funds of the Borrower required specifically by RBS to match any amount of such loan (such amount not to exceed the amount of the RBS loan (matching funds)) shall be considered and treated, among the parties, as collateral for the RBS loan and such RBS lien shall be considered prior to the lien of CFC and RUS when perfected by RBS.

2. When a Borrower's most recent audited financial statement indicates equity of less than 20 percent of assets, or when RBS otherwise determines it appropriate, RUS and CFC shall, upon the written request of RBS, execute necessary documents providing for the release from the lien of the Security Instrument of the Property of a Borrower, derived from or generated solely by the proceeds of the RBS loan and any matching funds of the Borrower. The Property contemplated as collateral for and proceeds derived from or generated by an RBS loan and matching funds may include, among other things, notes receivable, portfolio of investments generated solely from the Borrower's IRP revolving fund (as such term is defined in the applicable IRP loan documents and regulations), any assignment to the Borrower of a security interest in real and personal property solely by the ultimate recipients of RBS loans, investments made by the Borrower from the funds maintained in its IRP revolving fund, and other accounts receivable, notes receivable, contract rights, chattel paper, general intangibles, notes, drafts, acceptances, gifts, incomes, revenue, pledges, goods, inventory, fixtures, or other personal property owned or acquired and assigned to RBS, including all proceeds thereto, interest, fees, and other revenue generated solely in connection with the Borrower's IRP revolving fund.

3. Upon the written request to RUS, CFC and the Borrower by RBS for additional collateral for a RBS loan, whether the request is made at the time the RBS loan is made or at some later date, RUS and CFC agree to give approval to the Borrower, if RUS or CFC approval is required, to give RBS a subordinate lien on the Property to the extent of the amount outstanding on the RBS loan. RBS acknowledges that Property pledged as collateral by the Borrower to RBS in accordance with this paragraph will be subject to the first and prior lien of RUS and CFC and will be junior to the first and prior liens, rights, and claims by RUS and CFC.

4. RBS will provide a list of Borrowers to RUS by May 30 of each year and RUS will provide to RBS, by July 30 of each year, a list of Borrowers whose most recent audited financial statements indicate equity of less than 20 percent of assets.

This Agreement is effective upon execution by all parties and will continue in effect until modified or revoked by agreement of all parties, or revoked by a party upon 30 days written notice to all parties. This Agreement governs the transactions as contemplated for all IRP and RED loans to Borrowers, whether the loans were made before or after the date of this Agreement. Loans made prior to revocation of this Agreement will be governed by the terms of this Agreement, unless modified.

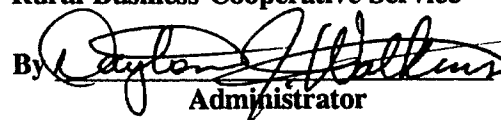
Rural Utilities Service

By:


Administrator

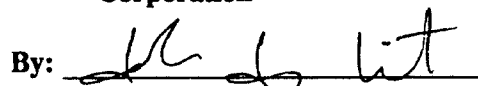
Rural Business-Cooperative Service

By:


Administrator 1/13/98

National Rural Utilities Cooperative Finance Corporation

By:


SENIOR VICE-PRESIDENT
Title

oOo