

accounting principles consistently applied, and the supplemental letter, if any, all prepared by Borrower's independent certified public accountant; and (b) such other information, reports or statements concerning the operations, business affairs and/or financial condition of Borrower as CFC may request from time to time.

6.17 Loan Capital Term Certificate. Purchase a LCTC in the amount of five percent of each Advance hereunder at the time of and with funds from such Advance or from such other source as CFC may approve.

6.18 Mortgages. Deliver to CFC within ten (10) days of the acquisition by Borrower of any real property, a properly executed and recorded mortgage covering such real property in CFC's standard form.

6.19 Special Affirmative Covenants. Comply with any special affirmative covenants identified in Schedule 1 hereto.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees with CFC that Borrower will not, directly or indirectly, without CFC's prior written consent:

7.01 Merger, Sale of Assets, etc. Enter into or be a party to any merger or consolidation, sell, assign, transfer, convey or lease all or any substantial part of its property or any interest therein except in the ordinary course of Borrower's business as now being conducted; purchase or otherwise acquire all or substantially all of the assets of shares of stock of, or similar interest in, any other person.

7.02 Change of Name. Change the name of Borrower.

7.03 Issuance of Voting Stock. Except for the admission of new members to the Borrower that would not change its Associate Member status in CFC, consent to or facilitate the transfer or issuance of any shares of any Voting Stock of Borrower without the prior written consent of CFC.

7.04 Change of Location. Change the location of the principal place of business of Borrower, the place where all records and books of Borrower pertaining to the Collateral are located, and the location for the storage or warehousing of Inventory.

8. EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an "Event of Default":

8.01 Representations and Warranties. Any representation or warranty made herein, in any of the Other Agreements or in any statement, report, certificate, opinion, financial statement or other document furnished or to be furnished in connection with this Agreement or the Other Agreements shall be false or misleading in any material respect.

8.02 Payment. Failure of Borrower to pay any of the Obligations, including, without limitation, any sum due CFC under this Agreement or any of

the Other Agreements, when and as the same shall become due, and such failure continues for five Business Days thereafter, whether at the due date thereof, by demand, by acceleration or otherwise.

8.03 Other Covenants. Failure of Borrower to observe or perform any warranty, covenant, condition or agreement to be observed or performed by Borrower under this Agreement or any of the Other Agreements which shall remain unremedied for thirty (30) days after notice thereof provided, however, default in the observance or performance of the covenant contained in Section 7.01 shall be deemed an immediate Event of Default.

8.04 Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business.

8.05 Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation.

8.06 Bankruptcy. A court shall enter a decree or order for relief with respect to the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of ninety (90) consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking of possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors.

8.07 Dissolution or Liquidation. Other than as provided in Section 8.06 above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment, shall not be vacated within thirty (30) days.

9. RIGHTS AND REMEDIES

9.01 Rights and Remedies of CFC. Upon the occurrence of an Event of Default, CFC may, without notice or demand, exercise in any jurisdiction in which enforcement hereof is sought, the following rights and remedies, in addition to the rights and remedies of a secured party under the Uniform Commercial Code and all other rights and remedies available to CFC under applicable law, all such rights and remedies being cumulative and enforceable alternatively, successively or concurrently:

(a) Declare the Note, all interest accrued and unpaid thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

(b) Institute any proceedings to enforce the Obligations and any Liens of CFC or institute a suit for specific performance, injunctive relief or damages.

(c) Take possession of the Collateral, and for that purpose, so far as Borrower may give authority therefor, enter upon the premises on which the Collateral or any part thereof may be situated and remove the same therefrom without any liability for suit, action or other proceeding by Borrower, BORROWER HEREBY WAIVING ANY AND ALL RIGHTS TO PRIOR NOTICE AND TO JUDICIAL HEARING WITH RESPECT TO REPOSSESSION OF COLLATERAL, and require Borrower, at Borrower's expense, to assemble and deliver the Collateral to such place or places as CFC may designate.

(d) With respect to the Collateral and to any instruments, accounts, contract rights or other debts payable to Borrower securing the Obligations, notify any account debtors and other obligors to make payments thereon directly to CFC, take control of the cash and non-cash proceeds thereof, demand, collect, sue for and receive any money or property at any time due, payable or receivable on account thereof, compromise and settle with any person liable thereon, and extend the time of payment or otherwise change the terms thereof, without incurring liability or responsibility to Borrower.

(e) Operate, manage and control the Collateral, or permit the Collateral or any portion thereof to remain idle, or store the same, and collect all rents and revenues therefrom and sell or otherwise dispose of any or all of the Collateral upon such terms and under such conditions as CFC, in its sole discretion, may determine, all without any notice or demand, and purchase or acquire any of the Collateral at any such sale or other disposition, all to the extent permitted by applicable law.

9.02 Cumulative Nature of Remedies. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver or any other right, power or remedy.

9.03 Costs and Expenses. Borrower agrees to pay and to be liable for any and all expenses, including reasonable attorney's fees and court costs, incurred by CFC in exercising, enforcing or preparing to enforce any of its rights hereunder or under the Other Agreements, together with interest thereon at the rate and determined in the manner provided in the Note. CFC may apply all Collateral and proceeds of all Collateral to the Obligations in any manner which CFC, in its sole discretion, deems appropriate, and Borrower will continue to be liable for any deficiency.

9.04 Late Payment Charges. If payment of any principal and/or interest due under the terms of the Note is not received at CFC's office in Herndon, Virginia or such other location as CFC may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as CFC may from time to time prescribe in its policies of general application in connection with any late payment charges (such unpaid amount of principal and/or interest being herein called the "delinquent amount" and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower will pay to CFC, in addition to all other amounts due under the terms of the Note and this Agreement, any late-payment charge as may be fixed by CFC from time to time in accordance with CFC's Policy and Procedure Memorandum, on the delinquent amount for the late-payment period.

10. MISCELLANEOUS

10.01 Performance for Borrower. Borrower agrees and hereby authorizes that CFC may, in CFC's sole discretion, but CFC shall not be obligated to, advance funds on behalf of Borrower without prior notice to Borrower, in order to insure Borrower's compliance with any covenant, warranty, representation or agreement of Borrower made in or pursuant to this Agreement or any of the Other Agreements, to preserve or protect any right or interest of CFC in the Collateral or under or pursuant to this Agreement or any of the Other Agreements, including without limitation, the payment of any insurance premiums or taxes and the satisfaction or discharge of any judgment or any Lien upon the Collateral or other property or assets of Borrower; provided, however, that the making of any such advance by CFC shall not constitute a waiver by CFC of any Event of Default with respect to which such advance is made nor relieve Borrower of any such Event or Default. Borrower shall pay to CFC upon demand all such advances made by CFC with interest thereon at the rate and determined in the manner provided in the Note. All such advances shall be deemed to be included in the Obligations and secured by the security interest granted CFC hereunder.

10.02 Expenses. Whether or not any of the transactions contemplated hereby shall be consummated, Borrower agrees to pay to CFC at Closing or thirty (30) days after the execution and delivery hereof, whichever is earlier, all expenses of CFC (including the reasonable fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by CFC at the time of, or subsequent to, the execution of this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this Section 10.02 shall survive the execution and delivery of this Agreement and the payment of all other Obligations.

10.03 Waivers by Borrower. Borrower hereby waives, to the extent the same may be waived under applicable law: (a) in the event CFC seeks to repossess any or all of the Collateral by judicial proceedings, any bond(s) or demand(s) for possession which otherwise may be necessary or required; (b) presentment, demand for payment, protest and notice of non-payment and all exemptions; (c) any and all other notices or demands which by applicable law must be given to or made upon Borrower by CFC; (d) substitution, impairment, exchange or release of any collateral security for any of the Obligations. Borrower agrees that CFC may exercise any or all of its rights and/or remedies hereunder and under the Other Agreements without resorting to and without regard to any collateral security or sources of liability with respect to any of the Obligations.

10.04 Waivers by CFC. Neither any failure nor any delay on the part of CFC in exercising any right, power or remedy hereunder or under any of the Other Agreements shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

10.05 Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, CFC is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or

owed to the Borrower or for the credit or account of the Borrower against any and all of the Obligations. CFC agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

10.06 CFC's Records. Every statement of account or reconciliation rendered by CFC to Borrower with respect to any of the Obligations shall be presumed conclusively to be correct and shall constitute an account stated between CFC and Borrower unless, within ten (10) Business Days after such statement or reconciliation shall have been mailed, postage prepared, to Borrower, CFC shall receive written notice of specific objection thereto.

10.07 Modifications. No modification or waiver of any provision of this Agreement or the Note, and no consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent.

10.08 Notices. All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are as follows:

(a) if to Borrower, at the address identified in Schedule 1 hereto; and

(b) if to CFC, at Woodland Park, 2201 Cooperative Way, Herndon, VA 22071-3025, Fax No. (703) 709-6776, Attention: Loan Officer

10.09 APPLICABLE LAW. THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

10.10 Survival; Successors and Assigns. All covenants, agreements, representations and warranties made herein and in the Other Agreements shall survive Closing and the execution and delivery to CFC of the Note, and shall continue in full force and effect until all of the Obligations have been paid in full. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. All covenants, agreements, representations and warranties by or on behalf of Borrower which are contained in this Agreement and the Other Agreements shall inure to the benefit of the successors and assigns of CFC. This Agreement may not be assigned by Borrower without the prior written consent of CFC.

10.11 Use of Terms. The use of any gender or the neuter herein shall also refer to the other gender or the neuter and the use of the plural shall also refer to the singular, and vice versa.

10.12 Severability. If any term, provision or condition, or any part thereof, of this Agreement or any of the Other Agreements shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note, and the Other Agreements shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

10.13 Merger and Integration. This Agreement and the attached Exhibit contains the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made by any party hereto, or by any employee, officer, agent or attorney of any party hereto, which is not contained herein, shall be valid or binding.

10.14 Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute one and the same instrument.

10.15 Holiday Payments. If any payment to be made by the Borrower hereunder shall become due on a Saturday, Sunday or business holiday of CFC, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

10.16 Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

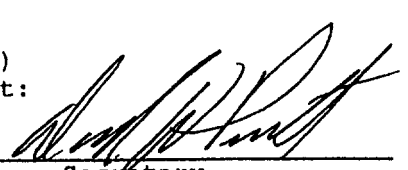
10.17 Schedule 1. Schedule 1, attached hereto, is an integral part of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed or caused to be executed this Agreement under seal as of the date first above written.

CAP ROCK COOPERATIVE FINANCE
CORPORATION

(SEAL)
Attest:

By


Secretary

By:


Title:


President

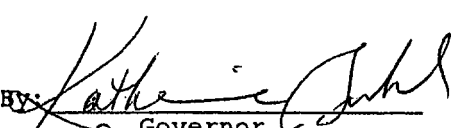
NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)
Attest:

By:


Assistant Secretary-Treasurer

By:


for Governor

002064

SCHEDULE 1

1. The CFC Commitment is \$3,127,566.00.
2. The months relating to the Payment Date are February, May, August and November.
3. The method of amortization of Advances referred to in Section 2.03 shall be based upon the method indicated below:

X level principal

 level debt service

 other
4. The place referred to in Section 3.02 (e) is: 500 West Wall Street, Suite 400, Midland, Texas 79701.
5. The place referred to in Section 3.02(f) is in Midland, Texas.
6. The date referred to in Section 4.06 is N/A.
7. The entity referred to in Section 5.02(g) is Cap Rock Electric Cooperative, Inc.
8. The special conditions referred to in Section 5.03 are as follows:

Prior to the first Advance, CFC shall have received from Cap Rock Electric Cooperative, Inc., the parent corporation of the Borrower ("CREC") a satisfactory financial statement for its fiscal year ending March 31, 1995, audited and certified by Arthur Anderson & Co.
9. The purpose referred to in Section 6.11 is to refinance a demand note payable by NewCorp Resources, CREC's power supply subsidiary, to CREC in connection with "soft costs" incurred in connection with the establishment of NewCorp Resources and, at the Borrower's option, to purchase LCTCs.
10. The special affirmative covenants referred to in Section 6.19 are as follows: N/A
11. The address of Borrower, referred to in Section 10.8, is: 500 West Wall Street, Suite 400, Midland, Texas 79701.

PROMISSORY NOTE

\$

Date

_____ a _____ corporation (the "Borrower"), for value received, hereby promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (the "Payee"), at its office in Herndon, Virginia or such other location as the Payee may designate to the Borrower, in lawful money of the United States, the principal sum of the aggregate unpaid principal amount of all Advances made by the Payee pursuant to that certain Loan and Security Agreement between the Borrower and the Payee, dated as of even date herewith and as it may be amended from time to time (the "Loan Agreement") and to pay interest on all amounts remaining unpaid hereunder from the date of each Advance in like money, at said office, at the rate and in amounts and on the dates as provided in the Loan Agreement together with any other amount payable under the Loan Agreement, except that if not sooner paid, any balance of the principal amount and interest accrued thereon shall be due and payable _____ years from the date hereof (such date herein called the "Maturity Date").

The principal hereof and accrued interest thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest and notice of non-payment of this Note and waives the defense of usury.

This Note is the Note referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed as of the date hereof.

(SEAL)

(Borrower)Attest: _____
Secretary

By: _____

Title: _____

Loan No.: _____

002066

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NATIONAL
RURAL
UTILITIES
COOPERATIVE
FINANCE
CORPORATION

January 11, 1996

Mr. John Parker
Chief Executive Officer
Cap Rock Cooperative Finance Corporation
500 West Wall St.
Midland, TX 79701

LOAN DESIGNATION: TX 703-A-9001

Dear John:

Your cooperative has executed and returned all required CFC loan documents and supporting papers in connection with the loan designated above. These documents have been reviewed and found legally acceptable and satisfactory to CFC and thus constitute a binding agreement between CFC and the borrower.

Loan funds will be advanced today in connection with your request of December 20, 1995.

I have enclosed the original loan agreement (copy 2) for your records. Please feel free to contact me if you have any questions.

Sincerely,

Katherine M. Buhl
Senior Loan Analyst

KMB/aah

cc: Ronnie Lyon, Esquire

409

Pioneer 1-34

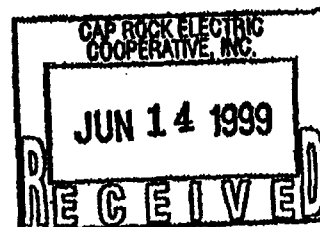


NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
Powerful Financial Solutions

2201 Cooperative Way • Herndon, Virginia 20171-3025
<http://www.nrufc.org>
703-709-6700

June 9, 1999

Mr. John Parker
President and Chief Financial Officer
Cap Rock Cooperative Finance Corporation
500 West Wall Street
Midland, TX 79701



Dear Mr. Parker:

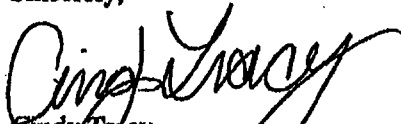
Re: CFC Associate Member Long-Term Loan #TX 703-A-9003

We have completed processing and have approved your company's application for a 10 year long-term loan in the amount of \$5,896,985. This loan was approved for the purpose of providing funding for NewCorp Resources to refinance existing obligations.

The terms and conditions associated with this loan will be reflected in the CFC loan documents. The CFC loan and security documents, including the Guarantee Agreement to be executed by Cap Rock Electric Cooperative, Inc., will be prepared and sent to you shortly.

We are pleased to serve you and appreciate your selection of CFC as the lender for this loan. If you have any questions regarding this loan or any of CFC's other financial products and services, please feel free to call me at (800) 424-2954.

Sincerely,


Cindy Tracy
Associate Vice President

cc: Harry Staley, Regional Vice President

002068

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SECURED PROMISSORY NOTE

\$5,896,985.00

6-22-99, 1999

CAP ROCK COOPERATIVE FINANCE CORPORATION, a Texas corporation ("Borrower"), for value received promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("Payee") at the Payee's main office or such other place as designated by the Payee, in lawful money of the United States, the sum of the aggregate unpaid principal amount of all Advances (as defined in the Loan Agreement referred to herein) made by the Payee, pursuant to a Loan Agreement dated as of even date herewith between the Borrower and the Payee, as may be amended from time to time (the "Loan Agreement"), on the dates provided in the Loan Agreement, *provided, however*, that if not sooner paid as provided in the Loan Agreement, then any balance shall be due and payable on the date that is ten (10) years from the date hereof (such date being the Maturity Date hereof), *provided, however*, that if such date is not a Payment Date (as defined in the Loan Agreement), then the Maturity Date shall be the Payment Date immediately preceding such date, with interest thereon in like money from the respective dates of each Advance hereunder, at the rate or rates and payable at the times provided in said Loan Agreement together with any other amount payable under the Loan Agreement.

This Note is secured under a Security Agreement dated as of even date herewith between the Borrower and the Payee, as it may have been or shall be supplemented, amended, consolidated or restated from time to time ("Security Agreement"). This Note is one of the Notes referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

The principal hereof and interest accrued thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Security Agreement or the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment of this Note.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and to be attested by its duly authorized officers, all as of the day and year first above written.

CAP ROCK COOPERATIVE FINANCE CORPORATION

(SEAL)

By: John D. Parker
Title: President

Attest: _____

Secretary

Loan No. TX 703-A-9003

002069

LOAN AGREEMENT

LOAN AGREEMENT (this "Agreement") dated as of 6-22-99, between CAP ROCK COOPERATIVE FINANCE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the State of Texas, and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association incorporated under the laws of the District of Columbia.

RECITALS

WHEREAS, the Borrower has applied to CFC for a loan and agrees to use the proceeds thereof for the purpose set forth on Schedule 1 hereto, consistent with the Borrower's articles of incorporation, bylaws and applicable federal, state and local laws and regulations;

WHEREAS, CFC has approved a loan to the Borrower in the aggregate principal amount of the CFC Commitment, subject to the terms and conditions stated herein; and

WHEREAS, the Borrower has agreed to execute one or more secured promissory notes to evidence Borrower's indebtedness to CFC under this Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Section 1. For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the Security Agreement.

"Accounting Requirements" shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Borrower or, in the absence thereof, the requirements of generally accepted accounting principles applicable to businesses similar to that of the Borrower.

"Advance" or "Advances" shall mean one or more advances of funds by CFC to Borrower under a Note and pursuant to the terms and conditions of this Agreement.

"Amortization Basis Date" shall mean, with respect to an Advance that amortizes, the earlier of (a) two (2) years from the date hereof, (b) the date on which the CFC Commitment has been fully advanced, (c) the date the date Borrower selects to begin amortizing such Advance as stated on Schedule 1 hereto, or, if not stated on Schedule 1, then such date as stated on the written funds requisition submitted by Borrower to CFC pursuant to the terms hereof.

"Business Day" shall mean any day that both CFC and the depository it utilizes for funds transfers hereunder are open for business.

"CFC Commitment" shall have the meaning as defined in Schedule 1.

"CFC Fixed Rate" shall mean the fixed rate as available for loans similarly classified pursuant to CFC's policies and procedures in effect at the time a conversion request is approved.

"CFC Fixed Rate Term" shall mean the specific period of time that a CFC Fixed Rate is in effect.

"CFC Variable Rate" shall mean the rate established by CFC for variable interest rate loans similarly classified pursuant to CFC's policies and procedures in effect at the time a conversion request is approved.

"Collateral" shall have the meaning as defined in the Security Agreement.

"Conversion Request" shall mean a request from any duly authorized official of the Borrower, in form and substance satisfactory to CFC, that requests an interest rate conversion.

"Debt Service Coverage Ratio ("DSC")" shall mean the ratio determined as follows: for any calendar year add (a) Operating Margins, (b) Non-Operating Margins--Interest, (c) Interest Expense, (d) Depreciation and Amortization Expense for such year, and (e) cash received in respect of generation and transmission and other capital credits, and divide the sum so obtained by the sum of all payments of Principal and Interest Expense during such calendar year; provided, however, that in the event that any Long-Term Debt has been refinanced during such year the payments of Principal and Interest required to be made during such year on account of such Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced Long-Term Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payment of Principal and Interest Expense required to be made during the following year on account of such refinancing debt.

"Depreciation and Amortization Expense" shall mean an amount constituting the depreciation and amortization of the Borrower computed pursuant to Accounting Requirements.

"Distributions" shall have the meaning defined in Section 5.H.

"Equities and Margins" shall mean Borrower's equities and margins computed pursuant to Accounting Requirements.

"Equity" shall mean the aggregate of Borrower's Equities and Margins computed pursuant to Accounting Requirements.

"Interest Expense" shall mean an amount constituting the interest expense with respect to Total Long-Term Debt of the Borrower computed pursuant to Accounting Requirements. In computing Interest Expense, there shall be added, to the extent not otherwise included, an

amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Borrower over two percent (2%) of the Borrower's Equities and Margins.

"LCTC" shall mean the Loan Capital Term Certificate as described in Section 4.H. hereto.

"Long-Term Debt" shall mean any amount included in Total Long-Term Debt pursuant to Accounting Requirements.

"Maturity Date", with respect to each Note, shall mean the date set forth therein, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

"Non-Operating Margins--Interest" shall mean the amount of non-operating margins--interest of Borrower computed pursuant to Accounting Requirements.

"Note" or "Notes" shall mean one or more secured promissory notes executed by Borrower pursuant to this Agreement in the aggregate principal amount of the CFC Commitment.

"Operating Margins" shall mean the amount of net patronage capital and operating margins of the Borrower computed pursuant to Accounting Requirements.

"Patronage Capital or Operating Margins" shall mean the amount of net patronage capital or margins of the Borrower computed pursuant to Accounting Requirements.

"Payment Date" shall mean the last day of each of the months referred to in Schedule 1.

"Payment Notice" shall mean a notice furnished by CFC to Borrower that indicates the precise amount of each payment of principal and interest and the total amount of each payment.

"Principal" shall mean the amount of principal billed on account of Total Long-Term Debt of the Borrower as computed for purposes of the Accounting Requirements.

"Restricted Rentals" shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of three (3) years and covering property having an initial cost in excess of \$250,000 other than automobiles, trucks, trailers, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

"Security Agreement" shall have the meaning set forth in Schedule 1.

"Termination Date" shall mean a date four (4) years after the date hereof.

"Total Assets" shall mean an amount constituting the total assets of the Borrower computed pursuant to Accounting Requirements.

"Total Long-Term Debt" shall mean an amount constituting the long-term debt of the Borrower computed pursuant to Accounting Requirements.

ARTICLE II

LOAN

Section 2.1. Advances. CFC agrees to make, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time at the main office of CFC, or at such other place as may be mutually agreed upon, in an aggregate principal amount not to exceed the CFC Commitment.

On the Termination Date, CFC may stop advancing funds and limit the CFC Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by one or more Notes. The Borrower shall give CFC written notice of the date on which each Advance is to be made.

Section 2.2. Interest Rate and Payment. Notes shall be payable and bear interest as follows:

A. Payments; Maturity; Amortization.

(1) Each Note shall have a Maturity Date as stated therein, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

(2) Prior to or at the time of each amortizing Advance on a Note, Borrower may elect an amortization method and Amortization Basis Date for principal. If no election is made, then said Advance shall amortize on a level debt service basis, and the Amortization Basis Date shall be as provided in the definitions section of this Agreement.

(a) *Amortizing Advances:* Each amortizing Advance shall amortize over a period not to exceed thirty-five (35) years from the date of such Advance, *provided, however*, that such period shall not extend beyond the Maturity Date. The Borrower, upon receipt of an invoice relating to an Advance, shall promptly pay interest only on each Payment Date until the first Payment Date of the first full quarter following the Amortization Basis Date. Thereafter, quarterly or monthly installments, as determined by CFC, of interest and/or principal in the amounts shown in the Payment Notice, shall be paid on each Payment Date; except that if not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees, if any, shall be due and payable on the Maturity Date. The amortization method and amortization term for each Advance shall be as stated on Schedule 1 or, if not so stated, then as stated on the written requisition for such Advance submitted by Borrower to CFC pursuant to the terms hereof or as otherwise set forth in the immediately preceding subparagraph (2).

(b) *Non-Amortizing Advances:* With the prior consent of CFC, the Borrower may elect not to amortize an Advance. In such case, the Advance shall be repaid within thirty-five (35) years from the date of such Advance, or the Maturity Date, whichever is earlier. On each

Payment Date, Borrower shall promptly pay interest only until the final Payment Date corresponding to the term of such Advance, or the Maturity Date (whichever is applicable), upon which date all unpaid principal, interest accrued thereon and fees, if any, shall be due and payable. If the term of a non-amortizing Advance ends on a date that is not a Payment Date, then the repayment of such Advance shall be due and payable on the Payment Date immediately preceding such date.

(3) CFC will furnish to the Borrower a Payment Notice at least ten (10) days before each Payment Date, provided, however, that CFC's failure to send a Payment Notice shall not constitute a waiver by CFC or be deemed to relieve Borrower of its obligation to make payments as and when due as provided for herein.

(4) No provision of this Agreement or the Notes shall require payment, or permit the collection, of interest in excess of the Maximum Lawful Rate. As used herein, "Maximum Lawful Rate" means the greater of (i) the highest non-usurious rate permitted by applicable United States law, or (ii) a rate per annum equal to the applicable weekly ceiling described in Chapter 303 of the Texas Finance Code and Art. 5069-1D.002 and Art. 5069-1D.003 of the Texas Credit Title, as amended, as such weekly ceiling is in effect from time to time. Unless precluded by law, changes in the Maximum Lawful Rate created by statute or governmental action during the term of the this Agreement and the Notes shall be immediately applicable to the Notes, the Advances, this Agreement, and all other agreements between the Borrower and CFC on the effective date of such changes.

All agreements and transactions between the Borrower and CFC, whether now existing or hereafter arising, whether contained herein or in any other instrument, and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the term of any Advance or the maturity of any Note, late payment, prepayment, or otherwise, shall the amount of interest contracted for, charged or receive by CFC from the Borrower for the use, forbearance, or detention of the principal indebtedness or interest hereof, which remains unpaid from time to time, exceed the Maximum Lawful Rate, it particularly being the intention of the parties hereto to conform strictly to the applicable usury laws of the State of Texas (or applicable United States law to the extent that it permits the Borrower to contract for, charge or receive a greater amount of interest than under Texas law). Any interest payable hereunder or under any other instrument relating to the indebtedness evidenced hereby that is in excess of the Maximum Lawful Rate shall, in the event of acceleration of maturity, late payment, prepayment, or otherwise, be applied to a reduction of the unrepaid indebtedness hereunder and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of such unrepaid indebtedness, such excess shall be refunded to the Borrower. To the extent not prohibited by applicable law, determination of the Maximum Lawful Rate shall at all times be made by amortizing, prorating, allocating and spreading in equal parts during the full term of this loan, all interest at any time contracted for, charged or received from the Borrower in connection with this loan, so that the actual rate of interest on account of such indebtedness is uniform throughout the term of this Agreement, the Notes, and all other agreements between the Borrower and CFC.

B. Application of Payments. Each payment shall be applied first to any charges other than interest or principal then due on the related Note, second to interest accrued on the principal amount to the due date of such payment on such Note (or, at the election of the holder of the Note, to the date of such payment if the same is not paid on its due date), and the balance to

the reduction of principal against the Note according to an amortization schedule provided to Borrower by CFC.

C. Election of Interest Rate and Interest Rate Computation. Prior to each Advance on a Note, the Borrower must select in writing either a CFC Fixed Rate or the CFC Variable Rate, as follows:

(1) CFC Fixed Rate. If the Borrower elects a CFC Fixed Rate for an Advance, then such rate shall be in effect for the CFC Fixed Rate Term selected by Borrower. CFC shall provide the Borrower with at least sixty (60) days prior written notice of the date on which a CFC Fixed Rate is no longer in effect. Pursuant to CFC's policies of general application for repricing, the Borrower may choose any of the interest rate options then available for similarly classified borrowers repricing from a CFC Fixed Rate. If Borrower does not select an interest rate in writing when a CFC Fixed Rate is subject to repricing, then outstanding Advances shall reprice for the same CFC Fixed Rate Term as in effect immediately prior to the repricing, and shall bear interest at the then prevailing CFC Fixed Rate in effect for such term. CFC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date. For any Advance, the Borrower may not select a CFC Fixed Rate with a CFC Fixed Rate Term that extends beyond the Maturity Date. Interest on amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the complete calendar quarter following the Amortization Basis Date. Thereafter, interest shall be computed on the basis of a 30-day month and 360-day year. Interest on non-amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

(2) CFC Variable Rate. If the Borrower elects the CFC Variable Rate for an Advance, then such CFC Variable Rate shall apply until the Maturity Date, unless the Borrower elects to convert to a CFC Fixed Rate pursuant to the terms hereof. Interest on Advances bearing interest at the CFC Variable Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

Section 2.3. Conversion of Interest Rates.

A. CFC Variable Rate to a CFC Fixed Rate. The Borrower may, at its option, at any time convert from the CFC Variable Rate to a CFC Fixed Rate by submitting to CFC a Conversion Request requesting that a CFC Fixed Rate apply to any outstanding Advance. The rate shall be equal to the rate of interest offered by CFC in effect on the date of the Conversion Request. The effective date of the new interest rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

B. CFC Fixed Rate to CFC Variable Rate. The Borrower may, at its option, at any time convert a CFC Fixed Rate to the CFC Variable Rate by: (i) submitting a Conversion Request requesting that the CFC Variable Rate apply to any outstanding Advance; and (ii) paying to CFC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the CFC Variable Rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

C. A CFC Fixed Rate to Another CFC Fixed Rate. The Borrower may, at its option, at any time convert from a CFC Fixed Rate to another CFC Fixed Rate if the Borrower: (i) submits a Conversion Request requesting that a CFC Fixed Rate apply to any outstanding loan balance on an Advance and (ii) pays to CFC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the new interest rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

Section 2.4. Prepayment. The Borrower may at any time, on not less than thirty (30) days prior written notice to CFC, prepay any Advance, in whole or in part, together with the interest accrued to the date of prepayment and any prepayment premium prescribed by CFC pursuant to its policies of general application in effect from time to time.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3. The Borrower represents and warrant to CFC as of the date of this Agreement that:

A. Good Standing. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, is duly qualified to do business and is in good standing in those states in which it is required to be qualified to conduct its business, and has the corporate power to enter into and perform this Agreement, to borrow hereunder and to give security as provided for herein.

B. Authority. Borrower has the corporate power and authority to enter into this Agreement, the Note and the Security Agreement; to make the borrowing hereunder; to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, in the Note and in the Security Agreement, all of which have been duly authorized by all necessary and proper corporate and other action; and no consent or approval of any person, including, without limitation, stockholders and members of Borrower and any public authority or regulatory body, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

C. No Conflicting Agreements. This execution, delivery of and performance by Borrower of this Agreement, the Note and the Security Agreement, and the transactions contemplated hereby or thereby, will not: (i) violate any provision of law, any order, rule or regulation of any court or other agency of government, any award of any arbitrator, the articles of incorporation or by-laws of Borrower, or any indenture, contract, agreement, mortgage, deed of trust or other instrument to which Borrower is a party or by which it or any of its property is bound; or (ii) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such award, indenture, contract, agreement, mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien (other than contemplated hereby) upon any of the property or assets of Borrower.

D. Taxes. Borrower has paid or caused to be paid all federal, state and local taxes to the extent that such taxes have become due. Borrower has filed or caused to be filed all federal, state and local tax returns which are required to be filed by Borrower.

E. Title to Properties. Borrower has good and marketable title to all of its real properties and owns all of its other properties and assets free and clear of any liens, except the lien of the Security Agreement and such liens and encumbrances as are permitted by the Security Agreement.

F. Licenses and Permits. Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like necessary to own and operate its property and business that are required by federal, state and local laws of the jurisdictions in which Borrower conducts its business and each remains valid and in full force and effect.

G. Litigation. There are no outstanding judgments, suits, claims, actions or proceedings pending, or to the knowledge of the Borrower, threatened against or affecting the Borrower or its properties which, if adversely determined, would have a material adverse effect upon the financial condition or the business of the Borrower. The Borrower is not, to its knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court, governmental agency or other instrumentality which would have a material adverse effect on the Borrower.

H. Financial Statements. The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, and the statement of operations of the Borrower for the period ending on said date, heretofore furnished to CFC, are complete and correct. Said balance sheet fairly presents the financial condition of the Borrower as at said date and said statement of operations fairly reflects its operations for the period ending on said date. The Borrower has no contingent obligations or unusual forward or long-term commitments except as specifically stated in said balance sheet or herein. There has been no material adverse change in the financial condition or operations of the Borrower from that set forth in said financial statements except changes disclosed in writing to CFC prior to the date hereof.

I. Location of Office. The chief executive office of the Borrower and the office where its records concerning accounts and contract rights are kept is identified in Schedule 1.

J. Location of Properties. All property owned by the Borrower is located in the county(ies) identified in Schedule 1.

K. No Other Liens. As to property which is presently included in the description of Collateral, the Borrower has not, without the prior written approval of CFC, signed any security agreement or mortgage or filed or permitted to be filed any financing statement with respect to assets owned by it, other than security agreements, mortgages and financing statements running in favor of CFC or except as disclosed in writing to CFC prior to the date hereof.

L. Required Approvals. No license, consent or approval of any governmental agency or authority is required to enable the Borrower to enter into this Agreement, any Note or the Security Agreement, or to perform any of its obligations provided for in such documents, except as disclosed in Schedule 1, all of which Borrower has obtained prior to the date hereof.

ARTICLE IV
CONDITIONS OF LENDING

Section 4. The obligation of CFC to make any Advance hereunder is subject to satisfaction of the following conditions:

A. Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for CFC and, as to all matters of local law, to such local counsel as counsel for CFC may retain.

B. Documents. CFC shall have been furnished with executed originals, satisfactory to CFC, of this Agreement, each Note and the Security Agreement and certified copies, satisfactory to CFC, of all such corporate documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require. CFC shall have received an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require.

C. Government Approvals. The Borrower shall have furnished to CFC true and correct copies of all certificates, authorizations and consents necessary for the execution, delivery or performance by the Borrower of this Agreement, each Note and the Security Agreement.

D. Representations and Warranties. The representations and warranties contained in Article II shall be true on the date of the making of each Advance hereunder with the same effect as though such representations and warranties had been made on such date; no Event of Default specified in Article VI and no event which, with the lapse of time or the notice and lapse of time specified in Article VI would become such an Event of Default, shall have occurred and be continuing or will have occurred after giving effect to the Advance on the books of the Borrower; there shall have occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower; and nothing shall have occurred which in the opinion of CFC materially and adversely affects the Borrower's ability to meet its obligations hereunder.

E. Financing Statement. A financing statement (and any amendments or continuation statements as CFC may require from time to time) shall have been duly filed, recorded or indexed to perfect a security interest in the Collateral wherever CFC shall have requested, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

F. Requisitions. Borrower shall have requested the Advance in writing by submitting its requisition to CFC in form and substance satisfactory to CFC.

G. Other Information. Borrower shall have furnished such other information as CFC may reasonably require, including but not limited to (i) information regarding the specific purpose for an Advance and the use thereof, and (ii) feasibility studies, cash flow projections, financial analyses and pro forma financial statements sufficient to demonstrate to CFC's reasonable satisfaction that after giving effect to the Advance requested, Borrower shall continue to achieve the DSC ratio set forth in Section 5.B. herein, to meet all of its debt service obligations, and

otherwise to perform and to comply with all other covenants and conditions set forth in this Agreement.

H. Loan Capital Term Certificate. The Borrower shall purchase an LCTC in the amount of five percent (5%) of each Advance hereunder at the time of and with funds from such Advance or from such other source as CFC may approve.

I. Special Conditions. Borrower shall have complied with any special conditions listed in Schedule 1.

J. Guaranty. CFC shall have been furnished with (i) an executed original of an absolute and unconditional guaranty of the Borrower's obligations hereunder from a guarantor acceptable to CFC, (ii) certified copies of all such corporate documents and proceedings of said guarantor relating to such guaranty, and (iii) and an opinion of counsel for the guarantor addressing such legal matters as CFC shall reasonably require. The documentation identified in (i) through (iii) shall be in form and substance satisfactory to CFC.

ARTICLE V

COVENANTS

Section 5. Borrower covenants and agrees with CFC that until payment in full of all Notes and performance of all obligations of the Borrower hereunder:

A. Membership. Borrower agrees that it will either (i) remain a member in good standing of CFC, (ii) continue to be owned, controlled or operated by one or more Class A, B, or C members of CFC, or (iii) as determined by CFC, continue to provide substantial benefit to one or more Class A, B, or C members of CFC.

B. Financial Ratios. The Borrower, subject to events in the judgment of CFC to be beyond the control of the Borrower, shall so operate and manage its business as to achieve an annual DSC of not less than that identified on Schedule 1 hereto, said DSC ratio being determined by averaging the two (2) highest annual ratios during the most recent three (3) calendar years.

C. Annual Certificates. Within one hundred twenty (120) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, Borrower will deliver to CFC a written statement, in form and substance satisfactory to CFC, signed by Borrower's General Manager or other authorized executive officer, stating that during such year, and that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement, each Note, and the Security Agreement throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof. Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

D. Notice of Change in Chief Executive Office. Borrower will not change the location of its principal place of business or the office where its records concerning accounts and

contract rights are kept without giving prior written notice to CFC thirty (30) days prior to the effective date of any change.

E. Management Fees. Borrower agrees that it will not pay any management fees or, if currently paying a management fee, pay any increase in management fees without the prior written consent of CFC.

F. Financial Books; Financial Reports; Right of Inspection. The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with generally accepted accounting principles. When requested by CFC, the Borrower will prepare and furnish CFC from time to time, not later than the last day of each month, financial and statistical reports on its condition and operations for the previous month. Such reports shall be in such form and include such information as may be specified by CFC, including without limitation an analysis of Borrower's revenues, expenses and consumer accounts. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such calendar year, in form and substance satisfactory to CFC. In addition, within one hundred twenty (120) days of the end of each Borrower's fiscal years during the term hereof, Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such fiscal year, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to CFC and accompanied by a report of such audit in form and substance satisfactory to CFC. CFC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in any way pertaining to its property or business.

G. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets. The Borrower shall not consolidate with, merge, or sell all or substantially all of its business or assets, to another entity without the prior written consent of CFC.

H. Limitations on Dividends, Patronage Refunds and Other Distributions.

(1) The Borrower may make Distributions in any calendar year if, after giving effect to the Distribution, the total Equity of the Borrower will be at least thirty percent (30%) of its Total Assets.

(2) If, after giving effect to the Distribution, the total Equity of the Borrower will be less than thirty percent (30%) of its Total Assets, then the Borrower may nevertheless make Distributions of up to thirty percent (30%) of its Patronage Capital or Operating Margins for the preceding calendar year.

(3) Notwithstanding anything to the contrary in subparagraphs (1) and (2) above, the Borrower shall not make any Distribution without the prior written consent of CFC if (a) a payment default or other Event of Default under this Agreement has occurred and is continuing, or (b) after giving effect to the Distribution, the Borrower's total current and accrued assets

would be less than its total current and accrued liabilities, or (c) such Distribution would be in excess of the Distributions permitted by subparagraphs (1) or (2), above.

(4) For purposes of this paragraph H., the term "Distribution" means any dividend, patronage refund, patronage capital retirement or cash distribution to its members, stockholders or consumers (including but not limited to any general cancellation or abatement of charges for electric energy or services furnished by the Borrower). The term "Distribution" shall *not* include (a) a distribution by the Borrower to the estate of a deceased patron, (b) repayment by the Borrower of a membership fee upon termination of a membership, or (c) any rebate to a patron resulting from a cost abatement received by the Borrower, such as a reduction of wholesale power cost previously incurred.

I. Limitations on Loans, Investments and Other Obligations.

(a) The Borrower shall not, without first obtaining the written approval of CFC: (i) purchase or make any commitment to purchase any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interests in, (ii) make any other investment in, (iii) make any loan to, or (iv) guarantee, assume, or otherwise become liable for any obligation of any corporation, association, partnership, joint venture, trust, government or any agency or department thereof, or any other entity of any kind if the aggregate amount of all such purchases, investments, loans and guarantees exceeds the greater of three percent (3%) of Total Assets or twenty-five percent (25%) of Equities and Margins.

(b) The following shall not be included in the limitation of purchases, investments, loans and guarantees in (a) above: (i) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States government or any agency or instrumentality thereof; (ii) bonds, notes, debentures, stock, commercial paper, subordinated capital certificates, or any other security or obligation of institutions whose senior unsecured debt obligations are rated by at least two nationally recognized rating organizations in either of their two highest categories; (iii) investments incidental to loans made by CFC; and (iv) any deposit that is fully insured by the Federal Government.

(c) In no event may the Borrower take any action pursuant to subsection (a) when there is: (i) unpaid any due installment of principal and/or interest on a Note; or (ii) Borrower has failed to meet the financial ratio tests in Section 5.B. herein.

J. Change of Name. Borrower will not change its name without giving written notice to CFC thirty (30) days prior to the effective date of any change.

K. Notice of Additional Secured Debt. Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC.

L. Funds Requisition; Use of Proceeds. Borrower agrees (1) that CFC may rely conclusively upon the interest rate option, interest rate term and other written instructions submitted to CFC in Borrower's written request for an Advance hereunder, (2) that such instructions shall constitute a covenant under this Agreement to repay the Advance in accordance with such instructions, the applicable Note, the Security Agreement and this Agreement, (3) to

request Advances only for the purposes set forth herein, and (4) to use the proceeds thereof only in accordance with the terms hereof.

M. Issuance of Equity Interests. Borrower shall not issue any voting stock or sell, transfer or issue any equity interest in the Borrower without the prior written consent of CFC.

N. Special Affirmative Covenants. Borrower agrees to comply with any special affirmative covenant(s) identified in Schedule 1.

ARTICLE VI

EVENTS OF DEFAULT

Section 6. The following shall be "Events of Default" under this Agreement:

A. Payment. Borrower shall fail to pay any amount due under the terms of a Note or this Agreement within five (5) Business Days of when the same is due and payable, whether by acceleration or otherwise;

B. Representations and Warranties. Any representation or warranty made by the Borrower herein, in the Security Agreement or in any certificate or financial statement furnished to CFC hereunder shall prove to be false or misleading in any material respect;

C. Other Covenants. Failure of the Borrower to observe or perform any other covenant or agreement contained in this Loan Agreement, in a Note or the Security Agreement, which shall continue for thirty (30) days after written notice thereof shall have been given to the Borrower by CFC;

D. Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;

E. Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;

F. Bankruptcy. The Borrower or any guarantor of the Borrower's obligations hereunder shall file a petition in bankruptcy or be adjudicated bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization, or proceedings instituted by others for its reorganization shall not be dismissed within sixty (60) days after the institution thereof;

G. Dissolution or Liquidation. Other than as provided in subsection F. above, the dissolution or liquidation of the Borrower or any guarantor of the Borrower's obligations hereunder, or failure by the Borrower or any such guarantor promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business

or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days, or

H. Final Judgment. A final judgment in excess of \$100,000 shall be entered against the Borrower and shall remain unsatisfied or without a stay for a period of sixty (60) days.

ARTICLE VII

REMEDIES

Section 7. If any of the Events of Default listed in Section 6 hereof shall occur after the date of this Agreement and shall not have been remedied within the grace periods specified therein, then CFC may pursue all rights and remedies available to CFC that are contemplated by this Agreement, the Security Agreement or any of the Notes in the manner, upon the conditions, and with the effect provided in this Agreement, the Security Agreement or any of the Notes, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of CFC to pursue all rights and legal and equitable remedies available to a creditor following the occurrence of an Event of Default listed in Section 6 hereof. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

ARTICLE VIII

MISCELLANEOUS

Section 8.1. Notices. All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered or telecopied to the intended recipient at the "Address for Notices" specified below, or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when personally delivered or, in the case of a telecopied or mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are as follows:

CFC:

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attention: Senior Vice President - Member Services
Fax: (703) 709-6776

Borrower:

the address set forth in
Schedule 1 hereto

Section 8.2. Expenses. The Borrower will pay all costs and expenses of CFC, including reasonable fees of counsel, incurred in connection with the enforcement of this Agreement, the Note, the Security Agreement and the other instruments provided for herein or with the preparation for such enforcement if CFC has reasonable grounds to believe that such enforcement may be necessary.

Section 8.3. Late Payments. If payment of any amount due hereunder is not received at CFC's office in Herndon, Virginia, or such other location as CFC may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as CFC may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower will pay to CFC, in addition to all other amounts due under the terms of a Note, the Security Agreement and this Agreement, any late-payment charge as may be fixed by CFC from time to time on the delinquent amount for the late-payment period.

Section 8.4. Filing Fees. To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the fees and expenses of its counsel) in connection with the filing or recordation of the Security Agreement, all financing statements and instruments as may be required by CFC in connection with this Agreement, including, without limitation, any supplements, amendments or restatements thereto, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on a Note.

Section 8.5. No Waiver. No failure on the part of CFC to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by CFC of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

SECTION 8.6. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

(A) THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

(B) BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A

COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(C) THE BORROWER AND CFC HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 8.7. Holiday Payments. If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 8.8. Modifications. No modification or waiver of any provision of this Agreement or a Note, and no consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent.

Section 8.9. Merger and Integration. This Agreement (including the Recitals and all exhibits and schedules hereto), the instructions contained in the written funds requisition statement with respect to each Advance, and matters incorporated by reference herein together contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby.

Section 8.10. Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 8.11. Severability. If any term, provision or condition, or any part thereof, of this Agreement, any Note or the Security Agreement shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, any Note, and the Security Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 8.12. Right of Setoff. Upon the occurrence and during the continuance of any Event of Default, CFC is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under any Note. CFC agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

Section 8.13. Prior Loan Documents. It is understood and agreed that with respect to all long-term loan agreements previously entered into by and between CFC and Borrower and all promissory notes thereto secured under the Security Agreement (both hereinafter being referred to as "Prior Loan Documents") the Borrower shall be required, after the date hereof, to meet reporting and financial covenants as set forth in this Agreement rather than those set forth in the Prior Loan Documents. In the event of any conflict between any reporting and financial covenant set forth in a Prior Loan Document and any reporting and financial covenant in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify any special condition, special affirmative covenant or special negative covenant, if any, unless specifically agreed to in writing by CFC. Furthermore, the interest rate options available to Borrower as set forth in this Agreement shall supersede the interest rate options as set forth in any Prior Loan Documents.

Section 8.14. Schedule 1. Schedule 1 attached hereto is an integral part of this Agreement.

Section 8.15 Rescission Fee. The Borrower may elect not to borrow all or any portion of the CFC Commitment in which event CFC shall release the Borrower from its obligation hereunder, provided the Borrower complies with such terms and conditions as CFC may impose for such release including, without limitation, payment of any rescission fee that CFC may from time to time prescribe, pursuant to its policies of general application.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

(SEAL)

CAP ROCK COOPERATIVE FINANCE CORPORATION

By: John D. Parker
Title: President

Attest: Sharon A. Hoelscher
Secretary

(SEAL)

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

By: Cindy Tracy
Assistant Secretary-Treasurer

Attest: [Signature]
Assistant Secretary-Treasurer

SCHEDULE 1

1. The aggregate "CFC Commitment" is \$5,896,985.00. Within this aggregate amount, Borrower may, at its discretion, execute one or more Notes, each Note representing a separate loan with CFC and containing a face amount and Maturity Date in accordance with the terms, conditions and provisions of this Agreement. Borrower shall use the proceeds of this for re-lending to NewCorp Resources Electric Cooperative, Inc.
2. The "Security Agreement" shall mean the Security Agreement dated as of even date herewith between the Borrower and CFC, as it may have been or shall be supplemented, amended, consolidated, or restated from time to time.
3. The "Payment Date" months are February, May, August and November.
4. The date of the Borrower's balance sheet referred to in Section 3.H. is December 31, 1998.
5. The chief executive office of the Borrower referred to in Section 3.I. is 500 West Wall Street, Suite 400, Midland, TX 79701-1601.
6. The location of the Collateral, referred to in Section 3.J., is Midland County in the State of Texas.
7. The special condition(s) referred to in Section 4.I. is (are): None
8. The special affirmative covenant(s) referred to in Section 5.N. is (are): None
9. The governmental authority referred to in Section 3.L. is: N/A.
10. The guarantor referred to in Section 4.J. is Cap Rock Electric Cooperative, Inc..
11. The DSC ratio referred to in Section 5.B. is: 1.15.
12. The address for notices to the Borrower referred to in Section 8.1 is 500 West Wall Street, Suite 400, Midland, TX 79701-1601.
13. The Borrower selects the following number of Loans, the amount of each Loan, and the amortization method and/or Amortization Basis Date for each Loan:

LOAN NUMBER	AMOUNT	AMORTIZATION METHOD/BASIS DATE
TX 703-A-9003	\$5,896,985.00	Level principal payments.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT, (this "Agreement"), dated 6-22-99, 1999 is by and between CAP ROCK COOPERATIVE FINANCE CORPORATION, a corporation organized and existing under the laws of the State of Texas ("Borrower"), and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association incorporated under the laws of the District of Columbia.

WHEREAS, Borrower and CFC are parties to a Loan Agreement dated as of the date hereof (as modified and supplemented and in effect from time to time, the "Loan Agreement"), providing, subject to the terms and conditions thereof, for one or more loans to be made by CFC to Borrower.

WHEREAS, to induce CFC to enter into the Loan Agreement and to lend money thereunder and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower has agreed to pledge and grant a security interest in the Collateral (as hereinafter defined) as security for the Secured Obligations (as so defined). Accordingly, the parties hereto agree as follows:

Section 1. Definitions. Any capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Loan Agreement or, if not defined therein, as defined in the Uniform Commercial Code as the same may from time to time be in effect in the Commonwealth of Virginia (the "UCC"):

"Accounts Receivable" means all accounts, fees or other revenues receivable, contract rights for the payment of money, royalties, instruments, chattel paper, other obligations and receivables, expense reimbursements and all other rights to payment; and all other types of any property of Borrower included within the term "Account" as defined in the UCC, in all cases whether now owned or existing or hereafter acquired or hereafter arising.

"Collateral" means (i) all Accounts Receivable, (ii) all Equipment, (iii) all contract rights, leases, easements, licenses, insurance proceeds and other General Intangibles of Borrower, (iv) all Inventory, and (v) all proceeds, products, additions and accessions to and substitutions or replacements for any of the foregoing.

"Equipment" means all machinery, equipment, appliances, furniture, fixtures, goods, supplies and tangible personal property of every kind and description including, but not limited to, property included within the term "equipment" as defined in the UCC, in all cases whether now owned or existing or hereafter acquired or hereafter arising.

"General Intangibles" means all of Borrower's catalogs, books, records, computer software and programs and the like pertaining to operations by or the business of Borrower; all licenses, consents, permits, variances, certifications and approvals of governmental agencies held by Borrower pertaining to its operations or business; all rights of Borrower to receive return of deposits and trust payments; all rights of Borrower to payment under letters of credit and similar agreements; all tax refunds owed to Borrower; all causes of action, rights, contract rights, claims

and warranties of Borrower against third parties; all rights of Borrower as lessor or lessee under any lease or rental agreement; all rights of Borrower in chattel paper, documents, and instruments; all rights of Borrower with respect to employee benefit plan assets; all rights of Borrower under any insurance, surety or similar contract or arrangement; and all other types of property of Borrower included within the term "general intangibles" as defined in the UCC, in all cases whether now owned or existing or hereafter acquired or hereafter arising.

"Inventory" shall mean all right, title and interest of Debtor in and to inventory of every type and description, now owned and hereafter acquired and wherever located, including, without limitation, raw materials, work in process, finished goods, goods returned or repossessed or stopped in transit, goods used for demonstration, promotion, marketing or similar purposes, property in or on which any of the foregoing may be stored or maintained and all materials and supplies usable or used or consumed in the course of Debtor's business, together with all accessions, replacement parts and additions thereto in any form whatsoever.

"Secured Obligations" means, collectively, principal, interest and all other sums due under the Loan Agreement, any note or notes executed and delivered by Borrower pursuant to the Loan Agreement, including any substitute note, modification or additional note or notes issued pursuant thereto, and all other obligations set forth in the Loan Agreement and in any such note or notes.

Section 2. Security Interest. Borrower, its successors and assigns, hereby gives and grants to CFC, its successors and assigns, a security interest in all the Collateral and all of Borrower's right, title and interest therein, whether now owned or existing or hereafter acquired or arising, together with all proceeds therefrom, to secure the Secured Obligations, including, without limitation, the following:

- a) the payment of all principal under the Loan Agreement and all interest from time to time outstanding thereunder;
- b) the payment by Borrower of all costs and expenses (including attorneys' fees and expenses) incurred by CFC in the collection of the amounts due under the Loan Agreement and in the enforcement of its rights thereunder;
- c) the payment of all amounts from time to time owing to CFC under or in connection with the Loan Agreement and this Agreement, including all costs and expenses (including attorneys' fees and expenses) incurred by CFC in the enforcement of its rights under the Loan Agreement and this Agreement; and
- d) performance by Borrower of all of its obligations under the Loan Agreement and this Agreement.

Section 3. Accounts Receivable. Borrower covenants and agrees as follows:

- a) CFC shall have the right from time to time (at Borrower's expense) to arrange for verification of all Accounts Receivable directly with the account debtors or by other

methods reasonably satisfactory to CFC. Any such verification shall be conducted in such a manner as to minimize disruption to Borrower's business.

- b) In the event any Account Receivable of Borrower is evidenced by chattel paper or other negotiable instruments, Borrower shall, after the occurrence and during the continuance of a Default, deliver the same to CFC (with all requisite endorsements, in favor of CFC, which CFC may make as attorney-in-fact for Borrower, CFC being hereby appointed as attorney-in-fact for Borrower for such purpose) as soon as possible and prior to such delivery shall hold the same in trust for the benefit of CFC.
- c) Except as otherwise provided in this Section, Borrower shall use its best efforts to collect, at its own expense, all amounts due or to become due to Borrower on the Accounts Receivable. After a Default, CFC shall have the sole right at any time, upon written notice to Borrower and at the expense of Borrower, to take such action in accordance with applicable law to collect the Accounts Receivable as CFC deems proper, and to adjust, settle and compromise payment thereof (without notice to or the consent of Borrower), in the same manner and to the same extent as Borrower might have done. At such time as CFC exercises its rights pursuant to the preceding sentence, Borrower shall not take any action to collect, adjust, settle or compromise any Account Receivable except with the written consent of CFC and any collections of Accounts Receivable received or held by Borrower shall be property of CFC, shall be held in trust for the benefit of CFC and shall be delivered to CFC immediately with all requisite endorsements in favor of CFC which CFC may make as attorney-in-fact for Borrower. CFC does not have any obligation to Borrower to collect or attempt to collect any Accounts Receivable or to preserve any rights against any party in connection therewith.

If any of the Accounts Receivable includes a charge for any tax payable to any governmental authority, CFC is hereby authorized (but in no event obligated) in its discretion, to pay the amount thereof to the proper taxing authority for Borrower's account and to charge Borrower's account therefor. CFC shall have the right to retain the full proceeds of such Accounts Receivable and shall not be liable for any taxes that may be due from Borrower by reason of the sale and delivery creating such Accounts Receivable.

Section 4. Records.

Borrower will at all times keep accurate and complete records of the Collateral, and CFC shall have the right, at all reasonable times upon one day's notice and at its own expense prior to the occurrence of any Default but at Borrower's expense thereafter, to examine and inspect the same and to make copies thereof.

Section 5. Representations, Warranties and Covenants.

Borrower hereby represents and warrants to CFC as follows:

- a) It is and will be the sole owner of all of the Collateral now or hereafter appearing on its books, and that the same are and will be, during the term of this Agreement, free and clear from any and all assignments, liens, and security interests, except for purchase money security interests, those in favor of CFC or as otherwise provided herein or in the Loan Agreement, and that all its books and records concerning the Collateral are kept at the Borrower's principal place of business;
- b) The Collateral and all records concerning the Collateral will be kept at the location(s) identified on Schedule 1 to the Loan Agreement;
- c) Borrower will not permit the sale or lease of any Collateral (except for dispositions occurring in the ordinary course of business) nor permit any Collateral to become subject to any lien or other security interest, whether prior or subordinate to the Security Interests of CFC created hereunder, except for those in favor of CFC or as otherwise provided herein or in the Loan Agreement;
- d) Borrower agrees to indemnify and hold harmless CFC from any present or future claim for liability for any tax and any penalties or interest with respect thereto, which may be assessed, levied or collected by any jurisdiction in connection with this Agreement or the Collateral;
- e) Borrower will prepare and execute all necessary financing statements and supplements thereto, if any, and will attend to the filing of any and all continuation statements as required by CFC or applicable law from time to time in order to continue the perfection and priority of the Security Interests of CFC hereunder; and
- f) Borrower shall, from time to time as requested by CFC, take such action and execute and deliver to CFC all such instruments, supplements, further assurances, financing statements and security or other agreements as may be required or requested by CFC in order to perfect and maintain CFC's security interest in the Collateral.

Section 6. Default and Remedies.

6.01. Borrower shall be in default under this Agreement upon the occurrence of any one or more of the following events (each, a "Default"):

- a) An Event of Default under the Loan Agreement.
- b) A breach of any agreement, representation, warranty or covenant under this Agreement which shall be continuing for a period of thirty (30) days after notice thereof to Borrower.

6.02 If a Default shall occur, CFC shall have the following rights:

- a) to perform any defaulted covenant or agreement of this Agreement to such extent as CFC shall determine and advance such moneys as it shall deem advisable for the aforesaid purpose and all monies so advanced shall be secured hereby and shall be repaid promptly without demand; provided, however, that nothing herein contained shall be construed to require CFC to advance money for any of the aforesaid purposes;
- b) to notify all account debtors to make payments directly to CFC or otherwise as CFC may specify;
- c) to exercise its rights, options, and remedies under this Agreement and/or other rights, options, and remedies as provided under applicable law;
- d) where applicable, to take immediate possession of the Collateral and, with or without taking possession of the Collateral, to sell, lease or otherwise dispose of any or all of the Collateral, either at public or private sale, upon commercially reasonable terms, and CFC may become the purchaser thereof at public sale. Any notice given at least ten (10) days prior to such sale shall be deemed to comply with law and constitute reasonable notice. Any sale may be adjourned at any time and from time to time to a reasonably specified time and place by announcement at the time and place of sale as previously fixed, without further notice by publication or otherwise of the time and place of such adjourned sale. The proceeds of any sale shall be applied (i) first to the expenses of taking, holding and preparing for sale or disposition, and sale or disposition and the like (including reasonable attorneys' fees), (ii) next to the principal and interest due under the Loan Agreement and the other Secured Obligations, and (iii) any surplus to Borrower, and Borrower shall remain liable for any deficiency and any court costs relating to the sale or other disposition of Collateral. Any such sale, public or private, may be made on credit at the option of CFC. CFC shall have the right to conduct any such sale on Borrower's premises, and CFC shall have such right of possession of said premises as shall be necessary or convenient for such purpose. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by CFC until the selling price is paid by the purchaser thereof, but CFC shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice. CFC, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose on and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction;
- e) to take immediate possession of the Collateral and to use or operate the Collateral in order to preserve the same or its value, and collect, receive and use all of the net profits from such use or operation to pay the Secured Obligations;

- f) to require Borrower, to the extent practicable and at Borrower's expense, to assemble the Collateral and make it available to CFC at such locations within the county wherein such Collateral is located as CFC shall designate;
- g) to proceed to protect and enforce its rights under the Loan Agreement or this Agreement by a suit or suits in equity or at law, whether for specific performance or observance of any terms, provisions, covenants or conditions herein or therein contained, in aid of the execution of any power herein or therein granted, for any foreclosure hereunder or thereunder, or for the enforcement of any other proper legal or equitable remedy;
- h) to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any of the General Intangibles, for such term or terms, on such conditions, and in such manner, as CFC shall in its sole discretion determine;
- i) upon request by CFC, Borrower will execute and deliver to CFC a power of attorney, in form and substance satisfactory to CFC, for the implementation of any lease, assignment, license, sublicense, grant of option, sale, or other disposition of General Intangibles. Borrower hereby releases CFC from any claims, causes of action and demands at any time arising out of or with respect to any actions taken or omitted to be taken by CFC hereunder except for any such claims, causes of action and demands arising out of the gross negligence or willful misconduct of CFC. Borrower agrees to pay when due all reasonable costs incurred in any such disposition, including any taxes, fees and reasonable attorneys fees;
- j) CFC shall have any and all other rights and remedies provided by law or equity to a secured party. All of CFC's rights and remedies will be cumulative, and no waiver of any default will affect any other subsequent default. The rights and remedies provided in this Agreement, including, without limitation, obtaining and selling the Collateral, are cumulative, may be exercised concurrently or separately, may be exercised from time to time and in such order, without any marshaling, as CFC shall determine; and
- k) to exercise rights of set-off against the Collateral in order to pay the Secured Obligations.

Nothing herein contained shall be construed as preventing CFC from taking all lawful actions to protect its interest in the event that liquidation, insolvency, bankruptcy, reorganization or foreclosure proceedings of any nature whatsoever affecting the property or assets of Borrower should be instituted.

Section 7. Miscellaneous.

7.01 No Waiver. No failure on the part of CFC or any of its agents to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy

hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by CFC or any of its agents of any right, power or remedy hereunder preclude any other or further exercise thereof or exercise of any other rights, power or remedy. The remedies herein are cumulative and are not exclusive of any remedies provided by law.

7.02 Choice of Law; Jurisdiction; Waiver of Jury Trial.

The performance and construction of this Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.

Borrower hereby submits to the nonexclusive jurisdiction of the united states courts located in Virginia and of any state court so located for purposes of all legal proceedings arising out of or relating to this agreement or the transactions contemplated hereby. Borrower irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the establishing of the venue of any such proceeding brought in such a court and any claim that any such proceeding has been brought in an inconvenient forum.

Each of the Borrower and CFC hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this agreement or the transactions contemplated hereby.

7.03 Notices. All notices, requests, consents and demands hereunder shall be in writing and telexed, telecopied, telegraphed, cabled or delivered to the intended recipient at this address or telex number specified in of the Loan Agreement and shall be deemed to have been given at the times specified therein.

7.04 Waivers, etc. The terms of this Agreement may be waived, altered or amended only by an instrument in writing duly executed by Borrower and CFC. Any such amendment or waiver shall be binding upon CFC, each holder of any Secured Obligation and Borrower.

7.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower, CFC and each holder of the Secured Obligations (provided, however, that Borrower shall not assign or transfer its rights hereunder without the prior written consent of CFC).

7.06 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

7.07 Agents. CFC may employ agents and attorneys-in-fact in connection herewith and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith.

7.08 Severability. If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, the other provisions hereof shall remain in full force

and effect in such jurisdiction and shall be liberally construed in favor of CFC in order to carry out the intentions of the parties hereto as nearly as may be possible.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CAP ROCK COOPERATIVE FINANCE CORPORATION

(SEAL)

By: John D. Parker
Title: President

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

(SEAL)

By: Cindy Trapp
Assistant Secretary-Treasurer

LAW OFFICES OF RONALD W. LYON, P.C.

**115 S. TRAVIS STREET
SHERMAN, TEXAS 75090**

—•••••—
**(903)813-0377
FAX (903)868-2492
E-Mail: rlyon1@airmail.net**

June 29, 1999

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attn.: General Counsel

Re: CAP ROCK COOPERATIVE FINANCE CORPORATION
Loan Designation TX 703-A-9003

Dear Sir:

002097

I am counsel for CAP ROCK COOPERATIVE FINANCE CORPORATION, a corporation organized under the laws of the State of Texas ("Borrower"), and render this opinion to you in connection with the loan of \$5,896,985.00 provided for in the loan agreement ("CFC Loan Agreement"), dated as of June 29, 1999, made by and between the Borrower and National Rural Cooperative Finance Corporation ("CFC").

I have examined such corporate records and proceedings of the Borrower, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

I have also examined the following documents as executed and delivered: (1) the CFC Loan Agreement, (2) the secured promissory note dated as of June 29, 1999 ("CFC Note"), and (3) the Security Agreement dated as of even date herewith by and between Borrower and CFC, as it may have been supplemented, amended, consolidated or restated from time to time ("Security Agreement"). The CFC Loan Agreement, the CFC Note and the Security Agreement are collectively referred to herein as the "CFC Loan Documents."

I have also examined or caused to be examined, the records and files of all offices in which there might be recorded, filed or indexed evidence of the Borrower's title, and any liens of any nature whatsoever affecting the title, to any personal property of the Borrower.

I have supervised, examined, or caused to be examined by competent and trustworthy persons, (i) the filing of a UCC-1 financing statement ("Financing Statement") with the Secretary of State of Texas and in such other locations necessary to provide CFC with a perfected lien on the Collateral, as defined in the Security Agreement, to the extent set forth below. All taxes, recording and filing fees required to be paid in connection with the filing of the Financing Statement have been paid.

Based upon the foregoing, I am of the opinion that:

(i) the Borrower is a duly organized, validly existing corporation in good standing under the laws of the jurisdiction of its organization, and the Borrower has full corporate power (a) to execute and deliver the CFC Loan Documents; (b) to perform all acts required to be done by it under the CFC Loan Documents; and (c) to own, operate and maintain its properties and operate its business as conducted at the date of this Opinion;

(ii) to the extent reasonably required for the maintenance and operation of its properties and business taken as a whole, the Borrower has complied with all requirements of the laws of all states in which it operates or does business and, to the extent reasonably required to enable the Borrower to engage in the business currently transacted by it, the Borrower holds all certificates, licenses, consents or approvals of governmental authorities required to be obtained on or prior to the date of this Opinion;

(iii) the CFC Loan Documents have been duly authorized, executed and delivered by the Borrower to CFC and constitute the valid and binding obligations of the Borrower, enforceable against the Borrower, in accordance with their respective terms provided, however, that such enforceability may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights and that the enforcement thereof may be limited by laws with respect to or affecting the remedies provided for in the CFC Loan Documents; provided further, however, that the inclusion of certain provisions for remedies in the CFC Loan Documents does not affect the validity of such instruments and each such instrument contains adequate enforceable provisions for the practical realization of the material benefits and security afforded thereby;

(iv) the execution and performance by the Borrower of the CFC Loan Documents, and the transactions contemplated thereby will not violate any provision of law, the articles of incorporation or bylaws of the Borrower, or result in the breach of, or constitute a default under, any agreement, indenture or other instrument to which the Borrower is a party, or by which it may be bound, known to the undersigned;

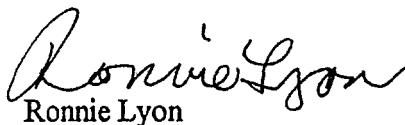
(v) no authorization from any regulatory body is required in connection with the execution, delivery and performance of the CFC Loan Documents by the Borrower;

(vi) I know of no legal proceedings pending or threatened against or affecting the Borrower or its property which, if adversely determined, would have a material adverse effect upon the business, operations or financial condition of the Borrower; and

(vii) the Security Agreement creates a validly recorded, filed and perfected lien on, and security interest in, all of Borrower's property (other than real property), including, without limitation, all such property of the Borrower acquired after the date of the execution of the Security Agreement, securing Borrower's obligations under the CFC Note and the CFC Loan Agreement, subject and subordinate only to those liens and encumbrances expressly permitted by the Security Agreement.

Although the parties have agreed that the CFC Loan Agreement and the CFC Note shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, if a court were to hold that the CFC Loan Agreement is to be governed by and construed in accordance with the laws of the State of Texas, the CFC Loan Agreement and the CFC Note would under the laws of the State of Texas be legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms, subject as to enforceability only to those qualifications referenced in subparagraph (iii), above.

Sincerely,


Ronnie Lyon

RL:lm

RESOLUTION

RESOLVED, that the Company borrow from National Rural Utilities Cooperative Finance Corporation ("CFC"), from time to time as determined by the officers or proper persons designated by the Board of Directors of the Company, an aggregate amount not to exceed \$5,896,985.00 and purchase with general funds a Loan Capital Term Certificate if required, in an amount not to exceed the amount set forth in the Loan Agreement;

RESOLVED, that the proceeds of this loan be used for the purpose set forth in the Loan Agreement;

RESOLVED, that each of the individuals listed below is hereby authorized on behalf of the Company to execute and to deliver to CFC the following documents (including as many counterparts as may be required under its corporate seal, which the Secretary or Assistant Secretary is directed to affix and attest):

- (a) an agreement with CFC, substantially in the form of the CFC Loan Agreement submitted to this meeting;
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate equal the principal amount of \$5,896,985.00, bearing such interest and providing for such payment as is set forth in the Loan Agreement and each note, substantially in the form of the note presented to this meeting; and
- (c) a security agreement with CFC as secured party, substantially in the form of the security agreement presented to this meeting.

RESOLVED, that each of the following individuals is hereby authorized in the name and on behalf of the Company to execute and to deliver all such other documents and instruments as may be necessary or appropriate, to make all payments, and to do all such other acts as in the opinion of such authorized individual acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions.

<u>Title or Office</u>	<u>Name</u>
President/CEO	John D. Parker
Secretary/Treasurer	David W. Pruitt

I, David W. Pruitt, do hereby certify that I am the secretary of Cap Rock Cooperative Finance Corporation, and that the above is a correct copy of the original resolution entered in the Minute Book of the Cooperative, at the regular meeting of the Board of Directors of Cap Rock Cooperative Finance Corporation.

The foregoing resolution has not been amended, rescinded, or modified and is in full force and effect on the date hereof.

Witness by signature under the seal of Cap Rock Cooperative Finance Corporation this
29th day of June, 1999.



David W. Pruitt, Secretary

(SEAL)

CERTIFICATE OF RESOLUTIONS AND INCUMBENCY

I, David W. Pruitt, do hereby certify to National Rural Utilities Cooperative Finance Corporation ("CFC") that (i) I am the Secretary of CAP ROCK COOPERATIVE FINANCE CORPORATION (hereinafter called the "Company"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Company at a meeting held on June 29, 1999; (iii) the meeting was duly and regularly called and held in accordance with the bylaws of the Company; (iv) the Company is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Company; (v) forms of the CFC loan documents were submitted to the meeting and were authorized by the board of directors to be executed; (vi) none of the following resolutions has been rescinded or modified as of this date; and (vii) the persons listed in the resolutions are duly qualified and acting officers or authorized representatives of the Company, duly elected or appointed to the offices and authorized to represent the Company in the capacities set forth opposite their respective names on the date of actual execution of the CFC loan documents:

RESOLVED, that the Company borrow from National Rural Utilities Cooperative Finance Corporation ("CFC"), from time to time as determined by the officers or proper persons designated by the board of directors of the Company, an aggregate amount not to exceed \$5,896,985.00 and purchase with general funds a Loan Capital Term Certificate if required, in an amount not to exceed the amount set forth in the Loan Agreement;

RESOLVED, that the proceeds of this loan be used for the purpose set forth in the Loan Agreement;

RESOLVED, that each of the individuals listed below is hereby authorized on behalf of the Company to execute and to deliver to CFC the following documents (including as many counterparts as may be required under its corporate seal, which the Secretary or Assistant Secretary is directed to affix and attest):

- (a) an agreement with CFC, substantially in the form of the CFC Loan Agreement submitted to this meeting;
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate equal the principal amount of \$5,896,985.00, bearing such interest and providing for such payment as is set forth in the Loan Agreement and each note, substantially in the form of the note presented to this meeting; and
- (c) a security agreement with CFC as secured party, substantially in the form of the security agreement presented to this meeting.

RESOLVED, that each of the following individuals is hereby authorized in the name and on behalf of the Company to execute and to deliver all such other documents and instruments as may be necessary or appropriate, to make all payments, and to do all such other acts as

LAW OFFICES OF RONALD W. LYON, P.C.

115 S. TRAVIS STREET
SHERMAN, TEXAS 75090



(903)813-0377
FAX (903)868-2492
E-Mail: rlyon1@airmail.net

June 29, 1999

General Counsel
National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025

Re: Cap Rock Electric Cooperative, Inc. Guaranty

Dear Sir:

I am counsel for Cap Rock Electric Cooperative, Inc., a corporation organized under the laws of the State of Texas ("Guarantor") and render this opinion to you in connection with the loan of \$5,896,985.00 provided for in the loan agreement ("CFC Loan Agreement"), dated as of June 29, 1999, made by and between CAP ROCK COOPERATIVE FINANCE CORPORATION (hereinafter called the "Borrower") and National Rural Utilities Cooperative Finance Corporation ("CFC").

I have examined such corporate records and proceedings of the Guarantor, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

I have also examined the following documents as executed and delivered: (1) the Guaranty ("Guaranty"), dated June 29, 1999, (2) the CFC Loan Agreement, and (3) the Secured Promissory Note, dated the date of the CFC Loan Agreement, in the principal amount set forth hereinabove payable to the order of CFC.

Based upon the foregoing, I am of the opinion that:

(i) the Guarantor is a duly organized, validly existing corporation in good standing under the laws of the jurisdiction of its organization, and the Guarantor has full corporate power (a) to execute and deliver the Guaranty; (b) to perform all acts required to be done by it under the Guaranty; and (c) to own, operate and maintain its properties and operate its business as conducted at the date of this Opinion;

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CONTINUING GUARANTY

For and in consideration of loans, advances, discounts, extensions of credit or other financial accommodations made or to be made by NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, a corporation organized and existing under the laws of the District of Columbia ("CFC"), to, for the account of, or on behalf of CAP ROCK COOPERATIVE FINANCE CORPORATION ("Borrower"), pursuant to a Loan Agreement dated as of even date herewith between the Borrower and CFC (the "Loan Agreement"), the undersigned ("Guarantor") hereby absolutely and unconditionally guarantees to CFC (i) the full and prompt payment of the principal, interest and other sums due from the Borrower to CFC; whether by acceleration or otherwise, evidenced by that certain promissory note or notes dated of even date herewith from Borrower to CFC, in the aggregate principal amount of \$5,896,985.00, (ii) accrued interest thereon, (iii) all other costs, fees or expenses of CFC for which the Borrower is obligated thereon (including costs of collection and reasonable attorney's fees), and (iv) all other indebtedness of Borrower to CFC, whether now existing or hereafter created or arising, direct or indirect, matured or unmatured, whether absolute or contingent or arising out of or in connection with the Loan Agreement. The obligations referred to in items (i) through (iv) above are collectively referred to herein as the "Guaranteed Debt".

The obligations of Guarantor hereunder are absolute and unconditional, and shall continue until payment in full to CFC of the Guaranteed Debt. No act by CFC to grant credit from time to time to Borrower, Guarantor or any other party, and no act or omission by CFC with respect to any matter whatsoever shall operate to release Guarantor from its obligations hereunder other than the execution and delivery by CFC to Guarantor of an express written release of this Guaranty.

In the event Borrower shall at any time fail to pay CFC all or any portion of the Guaranteed Debt when due (by maturity, acceleration or otherwise), then Guarantor promises to pay such amount to CFC forthwith (including payment of interest accruing after the filing of any petition by the Borrower under applicable bankruptcy laws).

Guarantor expressly waives the following:

- (a) notice that Borrower has incurred debt to or is in default to CFC;
- (b) CFC's acceptance of this Guaranty;
- (c) presentment, demand for payment, protest, notice of protest, notice of dishonor, notice of any election, acceptance, diligence in collection, notice of non-payment of any instrument evidencing any indebtedness of the Borrower, and to the extent permitted by law, all benefit of valuation, appraisal, exemptions and any and all other notices that would otherwise be required under the laws of the Commonwealth of Virginia;
- (d) any right to require CFC to institute and prosecute with due diligence to judgment and by execution suit against the Borrower, another guarantor or any other person on the underlying debt of the Borrower or for performance of the Borrower or any other guarantor under any agreement with CFC;

- (e) any right to require suit against the Borrower, another guarantor or any other person before enforcing this Guaranty, and with respect thereto, Guarantor specifically agrees that any proceeding for collection under this Guaranty may be brought against Guarantor before, after or simultaneously with any proceeding that may be brought against Borrower, another guarantor, or any other party for nonpayment of any indebtedness to CFC, notwithstanding any notices or demands to the contrary that Guarantor may transmit to CFC;
- (f) any right to have security applied before enforcing this Guaranty;
- (g) until the Borrower's indebtedness to CFC is paid in full, any right of subrogation to CFC's rights against the Borrower;
- (h) any right or remedy which Guarantor may now have or may hereafter acquire against the Borrower that would otherwise act to release Guarantor hereunder, including but not limited to any right of contribution, indemnification, subrogation, reimbursement, exoneration or participation, regardless of whether such right or remedy arises under equity, contract, in common law or otherwise; and
- (i) any rights of setoff, deduction, recoupment or counterclaim against CFC.

Guarantor hereby agrees that, without notice of any kind to Guarantor and without altering the absolute and unconditional obligation of Guarantor hereunder, CFC may renew time of payment, extend time of payment, surrender, release, exchange, substitute, deal with or take additional collateral security, take or release other guarantees, abstain from taking advantage of or realizing upon any collateral security or other guarantees, discharge, compromise, release or settle any or all of Borrower's indebtedness to CFC (regardless of whether such indebtedness is part of the Guaranteed Debt), extend, grant indulgences, forbear against or otherwise modify any term, provision, covenant, obligation or condition with respect to any or all of the Borrower's indebtedness to CFC (regardless of whether such indebtedness is part of the Guaranteed Debt).

If an Event of Default (as defined in the Loan Agreement) shall occur with respect to Borrower, then the Guaranteed Debt shall, for the purpose of this Guaranty, be deemed at CFC's election to have become immediately due and payable.

In the event Guarantor fails to pay its obligations hereunder in full upon demand, then CFC is hereby authorized at any time and from time to time, without prior notice to Guarantor, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to Guarantor or for the credit or account of Guarantor against any and all of the obligations of Guarantor hereunder. CFC agrees to notify Guarantor promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have.

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Guarantor further agrees to pay to CFC, in addition to payment of the Guaranteed Debt, any and all costs, expenses and reasonable attorneys' fees paid or incurred by CFC in collecting or endeavoring to collect the Guaranteed Debt from Guarantor, regardless of whether suit is brought.

If any payment or thing of value should be received and accepted by CFC in payment of the Guaranteed Debt or any obligation of the Borrower under any loan documents between the Borrower and CFC and it should subsequently be determined or adjudged that such payment be void or voidable under any law or statute now or hereafter in effect, the receipt of such payment by CFC shall, as to the Guarantor, be deemed a provisional receipt and if any such payment should be avoided or set aside under any such law or statute the Guarantor shall be and remain liable to CFC in respect thereof as if such payment had not been received by CFC notwithstanding any release or discharge of this Guaranty to the Guarantor issued or granted by CFC in the belief or assumption that its receipt of such payment was absolute and not subject to any avoidance.

Guarantor represents and warrants that, during the term of this Guaranty, (i) the aggregate amount of obligations guaranteed hereunder shall not exceed the maximum amount allowed under a mortgage, indenture, or agreement of any kind entered into by or affecting Guarantor, and (ii) Guarantor will not, without the written consent of CFC, make any loan, deposit, advance, investment or obligation which would cause the total aggregate indebtedness guaranteed hereunder to exceed said maximum allowable amount.

This Guaranty shall be binding upon Guarantor and its successors and assigns, and shall inure to the benefit of CFC and its successors and assigns. The terms "Guarantor" and "Borrower" and any pronouns referring thereto as used herein shall be construed in the singular or plural as the context may require.

THE PERFORMANCE AND CONSTRUCTION OF THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

GUARANTOR HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY. GUARANTOR IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

GUARANTOR AND CFC HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY.

No modification or waiver of any provision of this Guaranty shall in any event be effective unless the same shall be in writing signed by CFC.

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