

**Rural Telephone Bank**  
**Minutes of the 141st Board Meeting**  
**August 16, 2002**

Time and Place of Meeting

The 141st meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Friday, August 16, in Conference Room 104-A, U.S. Department of Agriculture, Washington, D.C., pursuant to notice published in the Federal Register on July 30th, 2002. Secretary Curtis Sampson, Acting Chairperson, called the meeting to order at 9:00 a.m.

Attendants

Directors present were:	John McAllister	Curtis Sampson
	David Crothers	Larry Sevier
	John Dillard	

Among others present were Governor Hilda Gay Legg and staff members Deputy Administrator Curtis Anderson, Assistant Governor Roberta Purcell, and Assistant Treasurer Kenneth Ackerman. Also present was Frank Clover from the Office of the General Counsel. (Directors not present: Michael Jensen and six vacancies.)

Action on the Minutes

On motion duly made and seconded, the minutes of the May 8, 2002, board meeting were adopted as prepared.

Secretary's Report

Secretary Curtis Sampson reported that four loans were approved in the third quarter totaling \$14,272,650. These loans were commingled with \$24,501,000 of RUS cost of money funds. Interest rates used in feasibility studies ranged from 5.27% to 5.53%.

Treasurer's Report

Treasurer John McAllister reported on the finances of the Bank for the third quarter of fiscal year 2002. Mr. McAllister reported, among other things, that net revenue year to date totalled \$74 million, compared to \$86 million one year ago; total class B stock, net of conversions to C stock, amounted to \$738 million, compared to \$667 million last year, and total class C stock increased from \$448 million to \$465 million. Advances on loan commitments for the quarter totalled \$24 million, compared to \$15 million for the same quarter last fiscal year, and unadvanced loan commitments totalled \$1,051 million, up from \$981 million one year ago. There being no questions for Mr. McAllister, the Chair moved to the next agenda item.

Privatization Committee Report

The Privatization Committee met with staff and Science Applications International Corporation (SAIC) on August 15, 2002, in Washington DC. The meeting focused on a report presented by SAIC entitled "An RTB Marketing Analysis: Interim Progress Report." There was also considerable discussion on the Asset and Liability Strategy Report, which was presented in May of 2002. Regulatory issues were also examined, as well as related organizational structure options – with a focus on cooperative type structure versus other types such as a finance company or commercial institution. The meeting concluded with a discussion on the Outreach Program currently being conducted by SAIC

Report on Loan Loss Reserve for Fiscal Year 2002

Assistant Governor Roberta Purcell reported to the board the results of its review of the financial performance of Bank borrowers. Ms. Purcell reported that the current loan loss reserve is \$5.5 million which staff believes is more than adequate to account for the risk associated with current loans outstanding. Based upon the staff's risk analysis, only two borrowers were identified in the high-risk category. The first borrower owes the Bank approximately \$600,000. It was placed in the high-risk category because its parent company has filed for bankruptcy, which staff reports will have little of no impact on the Bank borrower. The second borrower owes the Bank approximately \$3.8 million. A recent acquisition and the amortization of good will associated with that acquisition is the reason for this borrower's high-risk categorization. Although this is a "non-cash" item, it caused the financial performance to drop significantly from the prior year. It is not believed that this borrower will be unable to meet its obligations to the Bank based on staff analysis of this borrower.

The Board concurred with the recommendations of staff and took no action to change the reserve balance.

Consideration of Resolution to Retire Class A Stock in FY 2001

On motion made by Mr. Crothers and seconded by Mr. Dillard, the Board approved the retirement of \$22,643,274 in Class A stock, the maximum amount possible this fiscal year. The following resolution was unanimously approved.

**Resolution No. 2002-4**

WHEREAS, Section 406(c) of the Rural Electrification Act of 1936, as amended, provides, in part, that:

Class A stock shall be redeemed and retired by the Telephone Bank as soon as practicable after September 30, 1995, but not to the extent that the Telephone Bank Board determines that such retirement will impair the operations of the Telephone Bank: Provided, That the minimum amount of Class A stock that shall be retired each year after said date shall equal the amount of Class B stock sold by the Telephone Bank during such year...;

and

WHEREAS, the United States Government purchased a maximum amount of \$592,079,627 of Class A stock of the Rural Telephone Bank (Telephone Bank); and

WHEREAS, for the past six consecutive years, the Telephone Bank has repurchased \$139,214,152 of its Class A stock, leaving \$452,865,457 outstanding; and

WHEREAS, the Agriculture Appropriations Act of 2001 provides that, in fiscal year 2001 no more than five percent of the Class A stock of the Telephone Bank may be retired: an amount equal to approximately \$22,643,274 and

WHEREAS, the Telephone Bank Board has received and had explained to it the attached study entitled *Retirement of Class A Stock of the Rural Telephone Bank*, which demonstrates that the Telephone Bank has sufficient funds to retire \$22,643,274 of Class A stock without impairing the Telephone Bank's operations (see attachment); and

THEREFORE, BE IT RESOLVED, the Telephone Bank Board determines that the retirement of \$22,643,274 will not impair the operations of the Telephone Bank based on the attachment; and

RESOLVED, That for fiscal year 2001 the Telephone Bank Board directs that \$22,643,274 of Class A stock be retired prior to October 1, 2001.

#### Consideration of Resolution to set Annual Class C Stock Dividend Rate

After some discussion, Mr. Dillard moved and Mr. Sevier seconded the adoption of an annual dividend rate for this fiscal year of 4.20 percent. The following resolution was unanimously approved.

#### **Resolution No. 2002-5**

WHEREAS, it is the responsibility of the Board of Directors to annually review and declare the Class C stock dividend; and

WHEREAS, the dividend by law may not exceed the average interest rate on the Rural Telephone Bank debt due to Treasury, which is presently about 6.50 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 4.20 percent annual dividend rate be declared on the Class C stock of the Rural Telephone Bank payable December 12 to the Class C stockholders of record during fiscal year 2002 on the basis of one-twelfth of the annual dividend for each full month, or portion of a month, the stock was held during fiscal year 2002.

#### Action on the Bank's Annual Report

On motion made by Mr. Sevier and seconded by Mr. McAllister, the annual report for the year 2001 was approved as prepared.

Action on Appoint of Deputy Governor

On motion made by Mr. Crothers and seconded by Mr. McAllister, the Board approved the Governor's recommendation of Mr. Curtis Anderson, Deputy Administrator of the Rural Utilities Service, to serve as Deputy Governor of the Rural Telephone Bank.

Governor's Remark's

Governor Legg acknowledged the work of staff, particularly with regards to their increasing responsibilities under new programs directed by the 2002 Farm Bill, and new loan land grant pilot programs. Ms. Legg also provided the board with an update on the status of the vacant board position, stating that names had been submitted to the White House for action.

Next Quarterly Board Meeting in Washington, D.C.

Staff Briefing:	Thursday, November 7 at 2:00 p.m.
Board Meeting:	Friday, November 8 at 9:00 a.m.

Adjournment

Whereupon motion to adjourn was made and the meeting was adjourned at 9:50 a.m.

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Secretary