

**Rural Telephone Bank**  
**Minutes of the 137<sup>th</sup> Board Meeting**  
**August 17, 2001**

Time and Place of Meeting

The 137<sup>th</sup> meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Friday, August 17, 2001, in Conference Room 104-A, U.S. Department of Agriculture, Washington, D.C., pursuant to notice published in the Federal Register on August 8, 2001.<sup>1</sup> Acting Chairperson (Chair) Curtis Sampson called the meeting to order at 9:15 a.m.

Attendants

Directors present were:	Curtis Sampson	John McAllister
	David Crothers	Larry Sevier
	John Dillard	Robert Lee Stanton
	Michael Jensen	

Among others present were Acting Governor Blaine Stockton and staff members Roberta Purcell and Ken Ackerman. Also present was Frank Clover from the Office of the General Counsel (OGC). (Directors not present: Six vacancies.)

Action on the Minutes

On motion duly made and seconded, the minutes of the May 11, 2001, board meeting were adopted as prepared.<sup>2</sup>

Report on the Allowance for Loan Losses Reserve

Assistant Governor Roberta Purcell reported that the current loan loss reserve is \$5.8 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 one borrower was identified in the high-risk category. That borrower experienced an ice storm the year before last and was still experiencing some significant extraordinary maintenance costs to re-install property as a result of that ice storm. Additionally, the borrower invested in what proved to be an unprofitable start-up company. The borrower has since exited that start-up company and staff has reason to believe that this borrower's operations for 2001 will be significantly better. The current outstanding debt associated with that one particular borrower is \$774,000.

In the second highest risk category, only two borrowers were cause for concern. In both cases, their subsidiary operations were losing money. Staff is continuing to monitor those borrowers, however, they do not seem to pose any eminent risk. The Board took no action to change the reserve balance.

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<sup>1</sup> Exhibit 137-1

<sup>2</sup> Exhibit 137-2

Consideration of Resolution to Retire Class A Stock in FY 2001

On motion made by Mr. Crothers and seconded by Mr. Jensen, the Board approved the retirement of \$23,835,025 in Class A stock, the maximum amount possible this fiscal year. The following resolution was unanimously approved.<sup>3</sup>

**Resolution No. 2001-2**

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 five consecutive years, the Telephone Bank has repurchased \$115,379,127 of its Class A stock, leaving \$476,700,500 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 \$23,835,025 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 \$23,835,025 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 \$23,835,025 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 \$23,835,025 of Class A stock be retired prior to October 1, 2001.

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<sup>3</sup> Exhibit 137-3

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 5.45 percent. The following resolution was unanimously approved.<sup>4</sup>

**Resolution No. 2001-3**

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 6.43 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 5.45 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 2001 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 2001.

Action on Amendment to Bylaw Section 2.2(c)

Assistant Governor Roberta Purcell summarized the reason for the proposed bylaw amendment. In response to the Board's May 11 request, Ms. Purcell presented definitions of "control" and "eligible" for consideration by the Board at today's meeting. (*Also, see May 11 and February 6, 2001 Minutes for additional information.*) On motion made by Mr. Crothers and seconded by Mr. Jensen, the following amendment to bylaw section 2.2(c) was unanimously approved by the Board.<sup>5</sup>

**Bylaw Amendment**

Changes Underlined

(Section 2.2, paragraph (c) was revised and re-designated as paragraphs (c) and (d), and existing paragraph (d) was re-designated as (e).)

- (c) Class C stock shall have a par value of one thousand dollars (\$1,000) per share, shall be issued only at par, shall be held only by borrowers or by corporations and public bodies eligible to borrow under section 408 of the Act, or by organizations controlled by such borrowers, corporations and public bodies, and shall be voting stock. A corporation or public body is considered eligible to borrow if it is engaged in activities that the Bank determines could be financed under section 408 of the Act. An organization is considered controlled if (1) a majority of the voting stock or other controlling authority in the organization is held by borrowers or by corporations and public bodies eligible to borrow under section 408 of the Act and (2) such borrowers, corporations, and public bodies are not prevented by any agreement or other restriction from exercising such controlling authority as they may desire.

<sup>4</sup> Exhibit 137-4

<sup>5</sup> Exhibit 137-5

**Bylaw Amendment** *(continued)*

- (d) At such times and in such amounts as the Board may designate, dividends may be declared and paid to holders of Class C stock, but only from income of the Bank. Until all Class A stock is retired, the annual rate of any such dividend shall not exceed the current average rate payable on the bonds, debentures, notes and other evidences of indebtedness issued by the Bank (hereinafter collectively called "telephone debentures"). No dividend on Class C stock shall be paid at any time when any portion of the cumulative 2 percent return on Class A stock required by section 406(c) of the Act remains unpaid. Prior to dissolution or liquidation of the Bank, Class C stock may be redeemed and retired only after all shares of Class A stock shall have been redeemed and retired. Upon dissolution or liquidation of the Bank, holders of Class C stock shall be entitled to retirement of their stock at par after payment of all liabilities of the Bank and after retirement of all Class A and Class B stock at par, but shall not be entitled to share in any remaining surpluses or contingency reserves, as provided in section 411 of the Act. Class C stock shall not be transferable, absolutely or by way of collateral, except to a borrower, or a corporation or public body eligible to borrow under section 408 of the Act, or an organization controlled by such borrowers, corporations, or public bodies.
- (e) Re-designated existing paragraph (d) as (e).

Other Business

Mr. Sampson reported that the Privatization Committee participated in the drafting of the requirements contained in the Request for Proposals (RFP) for a Business Advisor. The Bank will be procuring the services of an independent Business Advisor with expert banking, legal, and telecommunications credentials to provide advice and written recommendations to the Bank in preparation for privatization of the Bank. The RFP will go out for bidding this month (August, 2001).

On motion made by Mr. Jensen and seconded by Mr. McAllister, the Board thanked Mr. Stockton, Ms. Purcell, and staff for procuring funds for a Business Advisor and for the continuation of a Legal Advisor, and for securing proxies for the stockholders' meeting.

Next Board Meeting in Washington, DC

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

Adjournment

Whereupon motion to adjourn was made and the meeting was adjourned at 9:40 a.m.

Signed Curtis Sampson

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Secretary