

Rural Telephone Bank
Minutes of the 146th Board Meeting
August 19, 2003

Time and Place of Meeting

The 146th meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Tuesday, August 19, in Conference Room 104-A, U.S. Department of Agriculture, Washington, D.C., pursuant to notice published in the Federal Register on August 6, 2003. Chairman Thomas Dorr, called the meeting to order at 9:00 a.m.

Attendants

Directors present were: Thomas Dorr; Luis Luna; James House, Clay Davis; Curtis Sampson; John McAllister; David Crothers; Larry Sevier; and John Dillard.

Directors absent were: Gilbert Gonzales, Roberto Salazar, Christine Olsen and Michael Jensen.

Among others present were Governor Hilda Gay Legg and staff members Deputy Governor Curtis Anderson, Assistant Governor Roberta Purcell, Deputy Assistant Governor and Assistant Secretary Jonathan Claffey and Assistant Treasurer Kenneth Ackerman as well as Geoargann Gutteridge and Terrance Brady from the Office of the General Counsel. In addition, Roger Kodat and Michael Scott from the Department of Treasury and Adrienne Erbach from the Office of Management and Budget were also present.

Action on the Minutes

On motion duly made and seconded, the minutes of the May 9, 2003, board meeting were adopted as prepared.

Secretary's Report

Secretary Curtis Sampson reported that four Bank loans totaling \$61.7 million were approved in the third quarter of fiscal year 2003. Mr. Sampson noted that those loans were made in conjunction with four RUS loans, including one loan from the Federal Financing Bank. Mr. Sampson further noted that, while Treasury interest rates for loans of a similar maturity were approximately lower than five percent, the Bank is statutorily prohibited from making loans at interest rates less than five percent. The maturities for the loans ranged from ten to 17 years.

Treasurer's Report

Treasurer John McAllister reported on the finances of the Bank for the third quarter of fiscal year 2003. Mr. McAllister reported, among other things, that net revenue for the quarter totaled \$22 million, compared to \$26 million one year ago; total class B stock, net of conversions to C stock, amounted to \$677 million, compared to \$652 million for fiscal year ended 2002, an increase of \$25 million, and total class C stock increased from \$551 million to \$600 million. Advances on loan commitments for the

totaled \$13 million, compared to \$24 million for last year, and unadvanced loan commitments totalled \$1,163 million, up from \$1,051 million one year ago, an increase of \$112 million.

Privatization Presentation

Chairman Dorr called representatives from the Office of Management and Budget (OMB) and the Department of Treasury (Treasury) to present to the Board their views on the privatization study performed by SAIC and assess various issues and concerns regarding privatization of the Bank. The presentation covered a variety of topics, including several issues raised by the SAIC study focusing primarily on the need for further industry market analysis and the "viability" of a privatized Bank. OMB and Treasury stated support for the mission of the Bank; recognized the statutory direction to privatize the RTB; expressed concern about the possibility of a privately-owned, Federal entity and an "on-going" federal linkage. They stated that they were committed to working expeditiously and that they recognize complexity and importance of the Bank, stating a desire to build quality communications with owners and other stakeholders. (A copy of the presentation is available on request.) Several members of the Board entered into discussions with Treasury and OMB following the presentation with regard to the Bank's current operating characteristics, including the large amount of unadvanced loan commitments, and its potential success as a private entity given various lending levels (see meeting transcript for more details). Chairman Dorr concluded the discussion by proposing to address some of the outstanding issues with a study aimed at assessing the potential viability of the Bank focusing on a thorough market assessment and analysis for discussion at the upcoming stockholders' meeting.

Stockholders' Meeting

After discussion regarding the proposed location of the Stockholders meeting, it was decided to hold the meeting in Washington, DC, November 14, 2003.

Consideration of Resolution to Retire Class A Stock

On a motion duly made by Mr. Dillard and seconded by Mr. Sampson, the Board adopted the following resolution:

Resolution No. 2003-2

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 six consecutive years, the Telephone Bank has repurchased \$161,857,426 of its Class A stock, leaving \$430,222,201 outstanding; and

WHEREAS, the Agriculture Appropriations Act of 2003 provides that, in fiscal year 2003 no more than five percent of the Class A stock of the Telephone Bank may be retired: an amount equal to approximately \$21,511,110 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 \$21,511,110 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 \$21,511,110 will not impair the operations of the Telephone Bank based on the attachment; and

RESOLVED, That for fiscal year 2003 the Telephone Bank Board directs that \$21,511,110 of Class A stock be retired prior to October 1, 2003.

Consideration of Resolution to Set Annual Class C Stock Dividend Rate

On a motion duly made by Mr. Sampson and seconded by Mr. McAllister, the Board adopted the following resolution:

Resolution No. 2003-3

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 6.46 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 4.2 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 2003 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 2003.

Report on Allowance for Loan Loss Reserve

The Chairman called on Assistant Governor Roberta Purcell to report to the Board on the annual level of the loan loss reserve. Ms. Purcell reported to the board the results of its review of the financial performance of Bank borrowers. Ms. Purcell reported that the current minimum loan loss reserve is \$4.2 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 three borrowers were identified in the high-risk category. Ms. Purcell described the characteristics of those borrowers' situations and informed the board of any actions taken or proposed to monitor and correct the situation.

After some discussion, the Board concurred with the recommendations of staff and took no action to change the reserve balance.

Governor's Remark's

Governor Legg relayed to the Board and OMB and Treasury her appreciation for the work to date and their willingness to work together to further study the best course of action for the Bank.

Adjournment

Whereupon motion to adjourn was made and the meeting was adjourned at approximately 11:00 a.m.

Secretary