

Rural Telephone Bank
Minutes of the 150th Board Meeting
August 10, 2004

Time and Place of Meeting

The 150th meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Tuesday, August 10, in Conference Room 104-A, U.S. Department of Agriculture, Washington, D.C., pursuant to notice published in the Federal Register on July 30, 2004. Chairman Thomas Dorr called the meeting to order at 9:10 a.m.

Attendants

Directors present were: Thomas Dorr; Gilbert Gonzalez, James House, Clay Davis; Roberto Salazar, Curtis Sampson; Michael Jensen; David Crothers; Larry Sevier; and John Dillard.

Directors absent were: Christine Olsen and John McAllister.

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 David Grahn from the Office of the General Counsel.

Action on the Minutes

On motion duly made and seconded, the minutes of the May 14, 2004, board meeting were adopted as prepared.

Secretary's Report

Secretary Curtis Sampson reported that no Bank loans approved in the third quarter of fiscal year 2004. Mr. Sampson noted that he had been informed by staff that there loans in process that would use the allotted funding for the fiscal year.

Treasurer's Report

Assistant Treasurer Ken Ackerman reported on the finances of the Bank for the third quarter of fiscal year 2004. Mr. Ackerman reported, among other things, that net revenue for the quarter totaled \$24 million, compared to \$22 million one year ago; total class B stock, net of conversions to C stock, amounted to \$523 million, compared to \$541 million for fiscal year ended 2003, an decrease of \$18 million, and total class C stock increased from \$737 million to \$820 million. Advances on loan commitments for the totaled \$16 million, compared to \$13 million for last year, and unadvanced loan commitments totalled \$1,125 million, down from \$1,163 million one year ago.

Report on Allowance for Loan Loss Reserve

The Chairman called on Deputy Assistant Governor Jonathan Claffey to report to the Board on the annual level of the loan loss reserve. Mr. Claffey reported to the board the results of its review of the financial performance of Bank borrowers. Mr. Claffey reported that the current minimum loan loss reserve is \$4.1 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, no borrowers were identified in the high-risk category.

Consideration of Resolution to Retire Class A Stock

On a motion duly made and seconded, the Board adopted the following resolution:

Resolution No. 2004-1

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 \$592.1 million of Class A stock of the Rural Telephone Bank (Telephone Bank); and

WHEREAS, for the past eight consecutive years, the Telephone Bank has repurchased \$183.4 million of its Class A stock, leaving \$408.7 million outstanding; and

WHEREAS, the Agriculture Appropriations Act of 2004 provides that, in fiscal year 2004 no more than five percent of the Class A stock of the Telephone Bank may be retired: an amount equal to approximately \$20.4 million 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 \$20.4 million 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 \$20.4 will not impair the operations of the Telephone Bank based on the attachment; and

RESOLVED, That for fiscal year 2004 the Telephone Bank Board directs that \$20.4 of Class A stock be retired prior to October 1, 2004.

Consideration of Resolution to Set Annual Class C Stock Dividend Rate

On a motion duly made and seconded, the Board adopted the following resolution:

Resolution No. 2004-2

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 6.13 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 6.0 percent annual dividend rate be declared on the Class C stock of the Rural Telephone Bank payable December 2004 to the Class C stockholders of record during fiscal year 2004 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 2004.

Privatization Discussion

Chairman Dorr called on Deputy Assistant Governor Claffey for a discussion on the status of a funds analysis being performed by the Chief Financial Office. Mr. Claffey explained that, at the request of the Bank's Privatization Working Group, the CFO would prepare a cash flow analysis of the Bank's financial position since its inception. This analysis would provide the basis for identify and analyzing, among other thing, the sources, both private and government, and uses of cash by the Bank. Christine Burgess reported on the specifics of the analysis and reported that it should be completed in mid September.

Governor's Remark's

Governor Legg relayed to the Board and staff her appreciation for the work to date and their willingness to work together to further study the best course of action for the Bank. In addition, the Governor provided a status report on the Broadband Loan program, noting funding levels approved, types of applications, and uses of various technologies.

Adjournment

Whereupon motion to adjourn was made and the meeting was adjourned at approximately 10:15 a.m.

Secretary