



# CAPITAL CONNECTIONS

*A Quarterly News Bulletin*

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## Buchanan Speaks at RUS Hearing

RTFC Vice President of Industry Affairs Hank Buchanan was recently invited to testify at a public meeting of the Rural Utilities Service concerning rural broadband access.

As RUS considers how to set up and implement the rural broadband loan and loan guarantees program authorized by the Farm Security and Rural Investment Act of 2002, organizations like RTFC, NECA, NRTC, NTCA and OPASTCO are playing a strong role.

“Most rural LECs have used RUS or RTB funding to finance their broadband infrastructure,” Buchanan told the RUS panel on June 27. “This is simply another chapter in the 50-plus-year success story of the public-private partnership that is the RUS telephone program.”

Buchanan recommended that the provision of the act that excludes rural LECs whose territories fall within a designated Metropolitan Statistical Area be changed. He also urged RUS to not lend to applicants other than rural local exchange carriers who want to deploy broadband in rural service territories. “Prudent lending practices will dictate that RUS not fund competition to an existing borrower,” Buchanan said.

Lastly, he urged RUS to favor a technology-neutral approach in funding broadband strategies. “In rural areas where the incumbent regional LEC will not make the investment to provide higher bandwidth services, technologies such as satellite or terrestrial wireless may be key to getting service to the people,” Buchanan said.

The Farm Bill requires RUS to promulgate regulations about program eligibility and procedures by the first week of November, so the decisions will be made soon.

## OPASTCO Members Help Rural VFD

The Shanksville Volunteer Fire Department was the first emergency responder to Flight 93 that crashed in Pennsylvania on September 11. Unfortunately, the department’s aging tanker truck was unable to contribute much to the blaze. Thanks to the generosity of OPASTCO member telcos, this rural volunteer fire department is now better equipped to safeguard its community through the purchase of a new tanker truck.

In deciding where to donate the monies raised by the FRED/OPASTCO September 11th Disaster Relief Fund, a committee sought a recipient who was overlooked by other fund-raising efforts and would feel a significant impact from FRED’s donation. Shanksville’s obvious need, as well as its location in rural America, made it the outstanding choice.



*OPASTCO and FRED members presented a check for \$60,030 to Shanksville Volunteer Fire Department President Steve Yoder and Chief Terry Shaffer. RTFC Vice President of Industry Affairs and FRED President Hank Buchanan and OPASTCO Director A.J. Passarella, standing left and right of the check, respectively, made the presentation.*

## Meet Your Board

### Schmidt: Telecom Not Dull

After 20 years in the Marine Corps as a communicator and cryptographer, a civilian career in telecommunications seems a natural fit for David Schmidt, General Manager of Heart of Iowa Communications Cooperative.

Representing District 3, Schmidt was elected to the board this year. His position, however, is one that's up for re-election again in 2003 due to the board expansion that took place in 2002. Directors filling the five newly created spots drew straws to see who would serve staggered terms of one, two or three years.



Serving an area of the Midwest where the customers are mostly farmers and the largest town has only 400 people, Heart of Iowa has about 2,400 ILEC access lines and 2,900 CLEC lines. "The telephone company is the largest business in the area," said Schmidt, who

admits it's not unusual for a customer with a problem to come knocking on his door Sunday morning.

Schmidt came to Iowa after leaving the Marine Corps when his wife, Kay, a local, wanted to move back home. The two met in Washington, DC, where he was stationed and she was working. He was hired as director of operations at Heart of Iowa and took over the GM position 18 months later.

"I really like the variety of my job. There's something new every day you come to work. Telecommunications is not a dull industry; there are so many opportunities," he said. "You can have a vision of how you want to see the telephone company serve the community, and then make it come true."

Serving in a national organization like RTFC gives Schmidt an opportunity to stay informed about what's happening in both the telecommunications and finance industries. "I serve on a small-town bank board here in Iowa, and that's really been an education. It's widened my horizon and let me look at things a little differently, and that tweaked my interest in running for the RTFC board," he said. "I hope to enjoy those educational opportunities on the RTFC board while serving on behalf of the telcos in my district. I think this opportunity

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### Dandridge Serves Hometown Community

Danny Dandridge hardly needs a phone book. A native of the area where he's general manager of Palmetto Rural Telephone Cooperative, Dandridge impresses both family and friends with his ability to remember local telephone numbers. After all, it's part of his job.



Dandridge joined the telephone co-op as an assistant manager in 1971. He was fresh out of college, having graduated from Clemson University that same year with a degree in Industrial Management.

"I was a local and had a strong desire to do something near home. So, I got into the business, and 18 months later the manager left. The board gave me a shot at being manager, and I said I'd take it if they didn't mind me making a few mistakes along the way. It's worked out well!"

Thirty-one years later, the cooperative has 15,000 access lines in a county with a population of 39,000. With Interstate 95 bisecting Palmetto's service area, there's a good mix of shops, hotels, gas stations and other small businesses, as well as the rural residents.

"We follow the true cooperative philosophy. We're out here to serve our members and give them the best service we can at good prices. We also have an aggressive patronage capital program, and our members appreciate that," Dandridge said. "We take a great deal of pride in being able to offer the latest technological advances to our members."

Dandridge said several of his co-op's joint business ventures with other rural South Carolina telcos have been financed through RTFC for many years, and that's part of what sparked his interest to run for the board. "RTFC is certainly vital to the growth of the telephone industry and rural America, and I was interested in being a part of that," he said.

Today's turmoil in the telecom industry is one of the greatest challenges facing both rural LECs and RTFC, he said. "It's so important to have adequate financing to roll out sound business ventures to rural customers. In the downturn of the economy and the markets' snub of technology, especially telephony, I think we certainly have a challenge in making sure the loans we make are viable. We just have to be very careful."

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## Board Approves Grant Monies

The RTFC board, at its May meeting, voted to contribute \$100,000 and \$75,000, respectively, to NTCA's Foundation for Rural Service and OPASTCO's Foundation for Rural Education and Development. The grant monies will be used to continue funding FRS' co-op advocacy campaign and its "Local Touch, Global Reach" materials. Funding to FRED will support its annual technology grants to teachers and schools.



*RTFC Vice President Hank Buchanan presented a check for \$75,000 to FRED's Mindy Atwood and Melissa Korzuch at OPASTCO's annual summer convention.*

"Each year, RTFC sets aside 1 percent of our margins for cooperative education and development projects. These funds have already made a big difference in rural communities across America by improving local education, touting the cooperative business

model and spreading goodwill on behalf of our member telcos," said Lawrence Zawalick, RTFC senior vice president and FRS board member. "This reinvestment in rural communities is just one of the cooperative principles that differentiate our way of doing business."

## Economic Update on Web

Did you know you can get a quick summary of the latest economic indicators, financial trends and interest rate forecasts for the U.S. economy on the RTFC Web site? Gathered into a monthly, reader-friendly publication called "Capital Connections Economic Supplement," you can only read this newsletter online at the RTFC Web site.

Just go to the RTFC home page at [www.rtfc.coop](http://www.rtfc.coop) and then visit the News & Information section. Select Economic Supplement. You can click open a PDF of the most recent issue to either read it online or print it.

## Borak Joins Staff

John Borak will join RTFC's executive staff as senior vice president, Credit Risk Management. A commercial banking and credit risk management executive with 30 years' experience, Borak will help improve RTFC's credit policies and procedures.

### Inside the Economy

## Inflation Tame; Growth Expected

Federal Reserve policymakers announced in their semi-annual prediction that the economy is recovering faster than they expected five months ago, and growth should intensify in the latter half of this year and into 2003. The Fed also stated at their twice-yearly forecast that inflation was likely to be tame.

The Fed's financial gurus expect the economy to grow at a rate between 3.5 and 3.75 percent this year, after adjustments for inflation. That's up from the 2.5 to 3.0 percent range the Fed predicted in February. In 2001, the economy grew at a sluggish 0.5 percent rate—the smallest year-over-year increase in 11 years.

Meanwhile, the overnight bank lending rate remains steady at 1.75 percent, where it's been since last December. The Fed is expected to keep rates unchanged for the remainder of 2002. By the first quarter of 2003, analysts expect the Fed to adopt a tightening bias when the economy begins to show more robust signs of improvement. The first 25-basis-point increase in the overnight rate is expected in March 2003.

Meanwhile, in the telecom sector of the economy, yet another blow was dealt to the already-reeling industry as giant WorldCom announced a nearly \$4 billion accounting error and subsequently filed for bankruptcy. Currently, WorldCom is under investigation, and the company continues to lay off thousands of employees to cut expenses.

Qwest Communications has also come under scrutiny as the U.S. Attorney's Office has started a criminal investigation into the company. Though no reason was given for the probe, Qwest officials said they would "fully cooperate" with any requests from U.S. officials. Analysts speculate that the investigation is centered on the fact that Global Crossing and Qwest reportedly dealt heavily in "swapping," a term used to describe buying bandwidth from one carrier and selling the same amount back, a legal method that lets both carriers record the transaction as revenue.



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**Schmidt...** *Continued from page 2.*

will give me a chance to meet different people, hear diverse views and understand the industry from a different perspective.”

Schmidt said the biggest challenge facing his constituents and all rural telcos is the future of the Rural Telephone Bank. “No matter what direction the federal government takes, lenders like RTFC remain a viable lending alternative for those members that borrow from the RTB,” he said.

Although Schmidt stays pretty busy with work and keeping current on technology and the industry, he enjoys reading, exercising and entertaining his seven grandchildren in his spare time.

**Dandridge...** *Continued from page 2.*

When he’s not working on behalf of rural telcos, Dandridge is an avid outdoorsman who enjoys hunting and fishing. He also does some farming, raising corn and soybeans on 65 acres. Elected to the RTFC board this year, Dandridge is serving a three-year term.

## Iversen Participates in FRED Workshop

RTFC Vice President of Marketing Ellen Iversen participated in the second annual Leadership Through Learning program this spring in DC. Sponsored by OPASTCO’s Foundation for Rural Education and Development and the National Exchange Carrier Association, the program provides educational opportunities to future leaders.

Ten students spent a week in DC learning about government, civic affairs and telecommunications issues.

The April week of activities concluded with a special telecommunications workshop held at the OPASTCO offices. NECA’s Dave Lauerman and Joe Douglas, as well as John Rose from OPASTCO and Iversen, spoke at the workshop, which gave the students a better understanding of OPASTCO and the telecommunications industry.

## Reed Has New Role

Long-time RTFC Account Manager Robin Reed has been promoted to the new position of director, Portfolio Management. Reed will continue working with several long-time clients while she assumes her new duties overseeing the credit underwriting activities of RTFC.