



CAPITAL CONNECTIONS

A Quarterly News Bulletin

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Membership Hears Good News in Orlando

Stable growth, prudent decisions and internal expansions leave RTFC strongly positioned to meet members' future needs. That was the message at RTFC's 2001 annual meeting held February 7 in Lake Buena Vista, Florida.

RTFC kicked off its annual meeting at the Walt Disney World Dolphin Hotel with welcoming remarks from Board President Paula Eller, who later reviewed how the cooperative is positioned to meet the membership's future needs.

Eller told the membership that RTFC remains diligent in providing low-cost capital and maintaining a high-quality portfolio. Additionally, in the last year, RTFC has strengthened its infrastructure, enhanced its internal technology and expanded staff resources to meet members' future needs.

"Our commitment to the rural telecommunications industry continues," Eller told the audience of more than 300 during her report. "RTFC is your financial cooperative, and we appreciate your patronage during the past year and assure you that we are positioned to meet your future needs."

Solid Growth Continues

During his financial report, Board Secretary-Treasurer Paul Violette told the members that the last few years have seen solid growth for RTFC. During fiscal year 2000, RTFC's balance sheet grew by \$1.1 billion, or 38 percent. Through the first seven months of fiscal year 2001, RTFC's outstanding loans totaled \$5.2 billion — a \$1.5 billion increase over FY00.

"Your financial cooperative is stronger today than ever before," Violette said.

Telecom Markets Tighten

RTFC Vice President of Industry Affairs Hank Buchanan also offered a report at the meeting. Buchanan told the audience that capital markets are tightening for the telecom sector.

"While the tight capital markets have definitely had a sobering effect on much of the telecom industry, it's worth noting that rural telephone companies enjoy a solid niche in the marketplace and will have capital available for core business expenditures," Buchanan said.

Complete Speeches Posted

To read the complete speeches of Eller, Violette and Buchanan, as well as CEO Sheldon Petersen who addressed the NTCA General Session, log on to the RTFC Web site at www.rtfc.net and follow the link on the home page.

"Your financial cooperative is stronger today than ever before."

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Directors Elected

Members also cast ballots during the annual meeting for two contested elections. F. Thomas Rowland, executive vice president and CEO of North Central Telephone Cooperative in Lafayette, Tennessee, and Gene R. South, CEO and general manager of Lakedale Communications in Annandale, Minnesota, were elected to represent the membership in Districts 2 and 3, respectively. This will be Rowland's first term on the board, while South will be serving his second three-year term.

Buchanan Speaks at Seminar



Hank Buchanan

Rumors persist that Qwest and Verizon intend to put as many as 10 million rural access lines on the market in the 2001-2002 timeframe. Rural telcos interested in acquiring those lines were in Dallas March 28 to attend an OPASTCO-sponsored seminar offering tips on purchasing rural exchanges from the RBOCs.

Seminar participants included private equity fund representatives, lenders, consultants and rural telephone company representatives. Attendees were able to learn how deals can be put together and what their chances are of succeeding in an open auction.

RTFC Vice President of Industry Affairs Hank Buchanan participated on a panel where he outlined what lenders will require from telcos seeking to purchase rural exchanges. Bill King of JSI Capital Advisors moderated.

Buchanan's key message was that the sellers are looking for big deals at good prices, and successful purchases will be from those players able to buy large blocks of lines.

"The smaller players will be hard-pressed to compete in an auction. The rural telco's best opportunity may be to seek a privately negotiated purchase of the exchanges it actually wants after the big deal closes," Buchanan said.

While this wasn't a message most audience members would have preferred to hear, it did provide them with a realistic picture of what to expect if Qwest and/or Verizon do put large numbers of lines on the market in the next year or two.

For more highlights from the seminar and other panel discussions, be sure to look for the article in the March/April issue of OPASTCO's Roundtable magazine.

RTFC 2001 Board of Directors

There are several new faces on the RTFC board for the coming year. Joining Tom Rowland as newcomers to the board are Robert Caudle and Brian Schlagel, who are CFC directors representing District 6.

The complete board includes:

DISTRICT 1

Paul Violette
General Manager
MCT Telecom
Contoocook, NH

DISTRICT 2

F. Thomas Rowland
Executive VP and General Manager
North Central Telephone Cooperative
Lafayette, TN

DISTRICT 3

Gene South
CEO and General Manager
Lakedale Telephone Company
Annandale, MN

DISTRICT 4

Paula Eller
President
Yukon Telephone Company
Wasilla, AK

DISTRICT 5

Bill Hegmann
President and CEO
Southwest Arkansas Telephone Cooperative
Texarkana, AR

DISTRICT 6

Robert Caudle
Trustee
Lea County Electric Cooperative
Lovington, NM

DISTRICT 6

Wade Hensel
General Manager
BENCO Electric Cooperative
Mankato, MN

DISTRICT 6

Eugene Meier
Director
Pierce-Pepin Electric Cooperative
Ellsworth, WI

DISTRICT 6

Robert Occhi
Manager
Coast Electric Power Association
Bay St. Louis, MS

DISTRICT 6

Brian Schlagel
President
Morgan County Rural Electric Association
Fort Morgan, CO

DISTRICT 6

R.B. Sloan
Manager
EnergyUnited EMC
Statesville, NC

2001 RTFC BOARD OFFICERS

President
Paula Eller
Vice President
Wade Hensel
Secretary/Treasurer
Paul Violette

RTFC's Newest Director

Meet Tom Rowland



F. Thomas Rowland

Tom Rowland has been working for telephone cooperatives since 1969. That's when he first joined a small cooperative in rural Indiana. Since that time, he's "done it all" — working his way up from technician to general manager.

Rowland, who is the executive vice president and general manager of North Central Telephone Cooperative, brings his strong industry background and national leadership experience to RTFC's Board of Directors as the newest elected representative of District 2.

"I'm looking forward to this being a very interesting and challenging position with all the changes that are happening in the telecommunications industry and financial markets," he said.

With more than 21,000 access lines and 12 exchanges serving residents near the Tennessee-Kentucky border, North Central's other businesses include cellular service, satellite television, paging, long-distance services, Internet services, computer sales and financing, and security services.

"I've been involved in a lot of business lines, and I think that experience will be very helpful when serving on RTFC's board," he said.

Rowland is no stranger to serving rural telcos through elected leadership. He is the current Region 3 director of the National Telephone Cooperative Association (NTCA) and recently stepped down as chairman of the National Rural Telecommunications Cooperative (NRTC) board of directors after completing his second three-year term as an elected representative there.

Rowland's other telco affiliations include chairman of the Tennessee Rural Communications Cooperative Association and board member of the Tennessee Telecommunications Association.

Inside the Economy

Is the Economy Rebounding?

In a surprise announcement, the Federal Open Market Committee cut short-term interest rates by 50 basis points in an intrameeting move. This was the fourth 50-basis point cut since the first of the year, and it sent the overnight bank lending rate to its lowest level in over six years. Many Wall Street analysts see this move as an attempt to boost corporate investment and consumer confidence in an already improving economy. They also believe that the Fed recognized that the recent plunge in bond prices and stabilization of the equity markets is a signal that investors have begun to embrace the notion that the economy will soon rebound.

The excessive weakness in corporate earnings over the past three months was also cited as a reason for the rate cut. That, plus reduced spending as consumers' stock holdings dwindle, "threatens to keep the pace of economic activity unacceptably weak," according to the Fed. Following the announcement, the yield curve from two to ten years saw a huge rally as yields were down between 20 and 30 basis points, although the longer end of the curve saw little movement.

Continuing weakness in certain economic data was also an important contributor to the rate cut. U.S. payrolls shrank by 86,000 in March, the first decline in seven months, and the unemployment rate rose to 4.3 percent, the highest in more than a year and a half. Retail sales also declined 0.2 percent in March after being stagnant the month before. The decline in sales is being largely attributed to decreased sales in automobiles, building supply outlets, and apparel stores. Imports also fell in March by 4.4 percent, which is a further sign that consumers and businesses are spending less.

Most of Wall Street expects the Fed to continue reducing rates at the next meeting on May 20. Currently, the June fed funds futures have an implied yield of 4.22 percent, which suggests a 25-basis point cut at the next meeting.

The bank prime rate was reduced to 7.50 percent.



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Eller Honored with OPASTCO Chairman's Award



Paula Eller

It wasn't only Paula Eller who was surprised when she was recently honored with the OPASTCO Chairman's Award. A pioneer in the rural telecommunications industry, Eller has been involved in national associations like OPASTCO for so long that most folks thought she'd already received the organization's highest award.

But, at OPASTCO's Winter Convention in January, Eller joined the ranks of well-known recipients who have been honored annually with this award.

In describing why she received the award, OPASTCO wrote, "Over the years, Paula has established herself as a force to be reckoned with. Her dedication and commitment to the issues facing rural telecommunications companies is admirable. OPASTCO thanks Paula for her efforts on behalf of the organization and congratulates her on a well-deserved award."

Eller said she was surprised and flattered by the award, but didn't win it by herself. "Of course this is a great

honor, but there have been many people along the way who gave lots of help to me, and I couldn't have been as successful without them. My family, too, has always been there, filling in for me when I was off running around the country."

Unknown to her before the awards banquet, Eller's family made the trip to Puerto Rico to witness the honor and share in her joy. "They were sitting at the table right next to me, and I didn't even know it!"

Eller says, "I've put out a lot of effort over the years, but I've received it doublefold or triplefold. You get so much more than you give."

As her second term on the RTFC board of directors comes to a close in February of 2002, Eller said she'll most likely take some time off from the telecommunications crusade, spending more time with family and pursuing volunteer opportunities in other fields.

"There are so many talented people out there who will come along behind me and make a difference. This has certainly been a learning experience I've really enjoyed."