



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Helps Citizens Telephone Expand, Offer Better Broadband

New York State's Citizens Telephone Company first reached out to RTFC in 1999 to help expand its business and finance the acquisition of Vermont-based Topsham Telephone Company. Eighteen years later, the lending relationship is still strong as RTFC continues to assist Citizens with service and territory expansions.

"We've reached out to RTFC repeatedly over the years because of the high quality of their loan officers," explains Controller Mark DePerrior. "They have always demonstrated they really understand the telecommunication business."

Citizens Telephone is the flagship of the family-owned business based in Hammond, New York, that provides a full suite of telecommunications products across two states. Other enterprises include Topsham Telephone Company and Topsham Communications in the Green Mountain State, and Castle

Cable TV, Citizens Long Distance, Citizens Cablevision and Citizens New York Access in the Empire State.

"RTFC has been critical over the years in helping us finance acquisitions," DePerrior adds. Beyond Topsham, RTFC financed the acquisition of Castle Cable TV in 2001, including later providing funds for upgrades to the company.

RTFC also supplied interim loan funds over the years for Citizens-Vermont Acquisition Corporation (CVAC) and, more recently, financed NTCA pension prefunding payments for Citizens and Topsham telephone companies.

In 2016, RTFC played a key part in helping Citizens Telephone qualify for two New York State broadband grants



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telecommunication business." – Mark DePerrior

that will help the company implement a multi-phase fiber-to-the-home project throughout its rural New York county along the St. Lawrence River on the U.S.-Canadian border. The company's service area of more than 180 square miles will benefit from the buildout that will provide consumers access to high-speed Internet connections.

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RTFC 30th Annual Meeting Takes Place January 31

Shortly after the first of the year, RTFC voting members will receive a packet of information about the 30th Annual Membership Meeting taking place January 31 at 9 a.m. at RTFC headquarters in Dulles, Virginia. RTFC Board President Dave Dunning will preside, and members will vote to fill three

positions on the RTFC Board of Directors.

The call for director candidates was mailed to RTFC voting members in districts with an open board seat on November 7. The RTFC Nominating Committee then selected the slate from those who put forth their names by the November 22 deadline:

- **District 1: Bruce Bohnsack**
President and CEO, Germantown Telephone Company (NY)
- **District 3: Kevin Larson**
CEO and GM, Consolidated Telecommunications Company (MN)

• District 5: Bill Hegmann

President and CEO, Southwest Arkansas Telephone Cooperative (AR)

Additional candidates may be added to the ballot by completing the petition process described in the RTFC bylaws. All positions are for three-year terms.

Members not attending the meeting can vote by mail. Completed ballots must be received at RTFC headquarters by January 24 to be counted. According to RTFC's bylaws, ballots sent via any delivery service other than the U.S. Postal Service cannot be counted.

If you have questions, please contact Director of Member Communications Perry Stambaugh, 703-467-1653 or perry.stambaugh@nrucfc.coop. //



Rural Telephone Finance Cooperative

Market Concerns 'Bubbling' to the Surface

By John Suter, Vice President, Capital Markets Research & Analysis



John Suter

Some cautionary signs regarding the U.S. economy have begun popping up in recent months. But despite possible storm clouds on the horizon, prices on assets—such as stocks, bonds, real estate and even cryptocurrencies such as Bitcoin—continue to rise.

Take the S&P 500 stock index, for example. Since last November 8 when Donald Trump was elected president, the S&P 500 has jumped by 19 percent. In fact, the market has gone almost 350 trading days (since June 28, 2016) without a 5 percent correction.

Historically, that is the fourth-longest period without such a correction dating back to the 1950s.

However, a surging S&P 500 doesn't mean that all of America has benefited. According to the Federal Reserve, only about half of the United States population has invested money in the stock market, whether through brokerage accounts, mutual funds, 401(k) plans, pensions, etc. Most households with incomes below about \$50,000 don't have such holdings.

Many analysts warn the next bubble to burst could be world debt markets. Currently, more than \$8 trillion in global debt is trading at negative interest rates, as investors have bid up the price of government bonds so high that once their low coupons are taken into account (over the life of the bond) the rate of return falls under water. Those buying such bonds are clearly more interested in safety.

Some economists believe that since the Fed has started unwinding its massive \$4.5 trillion balance sheet, interest rates will shoot up faster than what the market anticipates. As interest rates climb, credit spreads will widen as well. The combination could cause the stock market to slump as investors leave risky assets and buy higher-yielding government bonds. (Higher interest rates will take a bite out of the recovering housing market, too.)

Inflation remains the stickler in all of this. Higher inflation will push the Fed to increase interest rates to cool an overheating economy, which will mean higher rates globally, including in Europe and Japan. Right now, this scenario likely won't kick in until the middle of next year, at the earliest.

A Soaring S&P 500 (November 2016 to October 2017)

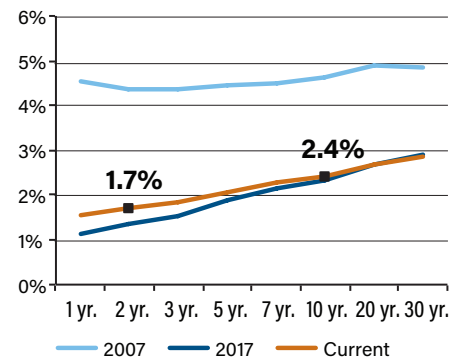


Source: Bloomberg

Yield Curve Continues to Flatten; Where's Inflation?

The U.S. Treasury yield curve measures the spread between short- and long-term debt issued by the U.S. government—the extra “compensation” that investors demand to lock away their money for an extended period. With the front end of the yield curve expected to jump 25 basis points to 1.50 percent, the market's focus lately has shifted to flatness of the current yield curve and how that compares with 2007—right before the Great Recession kicked in.

Yield Curve Comparisons, 2007 vs. 2017 (by U.S. Treasury bond type)



Source: Bloomberg

Using yearly averages, the accompanying chart compares the two trajectories. Many economists believe an inverted yield curve, defined when the two-year Treasury yield exceeds the 10-year, provides an early indicator of an upcoming recession. At the beginning of 2017 the difference between two-year and 10-year Treasuries was 125 basis points. Now, it has fallen to 70 basis points.

Interestingly, the U.S. economy has never gone a full decade without experiencing a recession. But with long-term interest rates remaining low combined with monetary tightening by the Fed, an inverted yield curve may be just around the corner.

Meanwhile, economists believe the Federal Reserve will raise short-term interest rates as planned on December 13, the third hike of 2017. The puzzling trend

Samonte Reviews Lending Options at Fall Conferences

RTFC Vice President of Portfolio Management Don Samonte recently wrapped up a trio of conferences where he spoke about telecom lending.



Don Samonte

Speaking at the NTCA Finance and Accounting Conference on “RTFC Perspectives on Telecom Lending,” Samonte reviewed the loan process, typical credit considerations and financial covenants.

“Early and frequent communication with your

lender leads to financing success,” Samonte shared. “We can develop customized solutions to meet your financing needs for refinancing, capital expenditures, bridge loans and acquisitions.”

For the WTA Fall Conference, he joined a panel discussion with RUS and CoBank to review RTFC’s lending products. Samonte expanded on the options for funding broadband network buildouts and enhancements at NRTC’s TechConnect Conference.

“When it comes to CAF II, fiber-to-the-home and other projects, RTFC is here to support our members from bidding to buildout,” Samonte said. //

RTFC Offers Platinum Support to FRS Grant Program

RTFC is pleased to support the Foundation for Rural Service (FRS) as a Platinum Sponsor. RTFC’s most recent donation will help the group provide annual grants for communities served by NTCA members.

The grants fund local efforts to build and sustain a high quality of life in rural America through business and community development and education.

“RTFC has always had a strong commitment to improving the lives of rural communities through educational funding and awareness campaigns. We’re pleased to support FRS’ efforts to enhance the lives of those served by NTCA members,” said Robin Reed, RTFC senior vice president. //



FOUNDATION FOR
RURAL SERVICE

RTFC Helps Citizens Telephone ...

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“Our biggest challenge is providing our subscribers with great Internet speeds at reasonable prices,” DePerrior comments. “RTFC is helping our employees bring excellent products to our customers by financing this critical project.”

Citizens Telephone received a Phase I grant of \$4.1 million and, later, a Phase II allocation of \$1.7 million for the broadband project, while Castle Cable TV also received a Phase II broadband grant for nearly \$800,000. For all three grants, the company and RTFC financed the 20 percent self-funded portion required by the state.

DePerrior credits Governor Andrew Cuomo and his staff at Empire State Development, along with the Citizens directors, Vantage Point, John Staurulakis and the Ceresoli family who owns the company for the success of the latest venture.

“Also, without the help of our account manager Irina Tumanova, some of these projects never would have happened,” DePerrior compliments. “Irina and RTFC are excellent.” //

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