FEBRUARY 20, 2020 | VOL. 32, NO. 1

Capital Connections

RURAL TELEPHONE FINANCE COOPERATIVE

Two Directors Re-elected at Annual Meeting; New Officers Chosen

Two RTFC board directors were re-elected to three-year terms on February 4 during the 32nd RTFC Annual Meeting, held at RTFC headquarters in Dulles, Virginia.

Returning to the board are J. Frederick Johnson, executive vice president and general manager of Farmers Telecommunications Cooperative in Alabama, and Raymond Henagan, CEO of Rock Port Telephone Company in Missouri.

Johnson presided over the meeting and concluded his tenure as RTFC board president. He shared highlights of RTFC's financial statements for the last fiscal year and most recent fiscal quarter end, as well as its sponsorship and other corporate activities.

RTFC has published its fiscal year 2019 financial results. A digital version of the report is available on the RTFC website in the Member Center (login required).

Kevin Larson

Bruce Bohnsack

Bill Hegmann

During the organizational meeting that followed, the board elected new officers for 2020:

- President: **Kevin Larson**, Director of Public Affairs for Consolidated Telecommunications Company (MN);
- Vice President: **Bruce Bohnsack**, President and CEO of Germantown Telephone Company (NY); and
- Secretary-Treasurer: **Bill Hegmann**, President and CEO of Southwest Arkansas Telephone Cooperative (AR). //

FCC Makes Rural Digital Opportunity Fund Official, Plans for $16 Billion First Phase; Contact RTFC for Letters of Credit, Term Loan Financing

The U.S. Federal Communications Commission (FCC) adopted an order on January 30, 2020, to make more than $20 billion in funding available to facilitate the deployment of high-speed Internet access to rural communities—and RTFC stands ready to support members who may require letters of credit or construction financing for their applications.

Awards from the Rural Digital Opportunity Fund (RDOF) will be granted in what the FCC calls a "two-phase reverse auction" and will be delivered to winning bidders annually over a 10-year period. The FCC noted that the first phase, which will include $16 billion in opportunity, is expected to launch later this year.

The process is expected to be similar to the FCC's Connect America Fund Phase II (CAF II) auction that took place in the summer of 2018. Similar to the CAF II auction, RDOF requires a letter of credit to be posted, although the FCC has reduced the commitment amount required for the letters.

RTFC helped a number of members post letters of credit for the CAF II auction and is prepared to be similarly supportive for members interested in the RDOF program. "RTFC does not require the letter of credit to be supported by a matching cash investment or lock box," notes Vice President of Portfolio Management Drew Coleman. "If we determine feasibility, we can typically do the letter of credit as an unsecured general obligation, which also makes for a quick turnaround time."

RTFC does require the payment of annual fees for letters of credit which, as a cooperative lender, are typically below what other banks assess.

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RTFC Retires $1.9 Million in Pat Cap

Checks totaling $1.9 million were mailed earlier this month, representing patronage capital distributions for fiscal years 2019 and 1994.

"Distributing patronage capital is one of the key tenets of a cooperative, and we're pleased to be back to allocating and retiring patronage capital to our borrowers," remarks CEO Sheldon Petersen.

RTFC offers wire transfers if your organization will be receiving patronage capital retirements in the future and would prefer not to receive a paper check. The notice and details of the patronage capital allocation and distribution would still be mailed, but the funds would be sent directly to your bank.

RTFC Associate Vice President and Account Manager David Carter notes, "Some members who are on the list to receive distributions from previous years are not currently borrowing from RTFC. In some cases their contact information or ownership has changed since their last loan with us. It's important for companies to keep us informed of their current address and contact information so we can make sure they receive those funds."

Submit requests to sign up for electronic payment of patronage capital retirements or make changes to contact information to RTFCContactUs@nrucfc.coop.

Telcos Can Tap CFC Investment Options

For more than 20 years, RTFC members have taken advantage of the opportunity to invest in short- and long-term securities of RTFC's affiliate, the National Rural Utilities Cooperative Finance Corporation (CFC).

Four CFC investment products are available for RTFC members:

- **CFC Daily Liquidity Fund:** Delivers a market-driven return for liquid, overnight investments of at least $50,000.
- **CFC Commercial Paper:** Provides a short-term investment option for excess cash of $5,000 or more at maturities of one to 270 days.
- **CFC Select Notes:** Offers a longer minimum maturity but also a higher rate of return than other CFC short-term investment products. Terms range from 30 to 270 days, with a minimum $100,000 investment.
- **CFC Medium-Term Notes:** Provides a market-driven interest rate on general funds invested for terms of 10 to 24 months. Minimum investment is $100,000.

RTFC members can call the CFC Member Center at 800-424-2955 for more information or to make an investment.

CFC has filed registration statements (including prospectuses) with the U.S. Securities and Exchange Commission (SEC) for the CFC Daily Liquidity Fund, MTN and MCS offerings. Before you invest in any CFC security, you should read the prospectus and other documents, including CFC's most recent Annual Report on Form 10-K as filed with the SEC, for more complete information about the issuer and the issuer's securities' offerings. You can get a free copy of documents by visiting www.nrucfc.coop or www.sec.gov.

RTFC CEO, Sponsored Keynoter Wrap Up RTIME

Sheldon C. Petersen

Jeff Civillico

RTFC CEO Sheldon C. Petersen and RTFC-sponsored speaker Jeff Civillico headlined the closing general session of the 2020 NTCA—The Rural Broadband Association Rural Telecom Industry Meeting & Expo (RTIME), held Feb. 16–19 in Phoenix.

Petersen shared his insights on fiscal and monetary policies that could affect rural telcos and the broader U.S. economy. A key theme was Petersen's view that Federal Reserve monetary policies have created real market volatility, but the U.S. economy is on solid footing, driven by strong consumer spending, a modest inflation outlook and an expectation that short-term rates will remain low for some time.

Civillico, a Las Vegas headliner, TV host and philanthropist, talked about "Work that Matters" as he shared his story that turned hardships into assets. Civillico is the founder and chairman of Win-Win Entertainment, a national nonprofit organization based in Las Vegas that creates opportunities for performers to share their talents with children in need. His personal outlook and humor inspired attendees to a renewed sense of passion and purpose for work and life.

FCC Makes Rural Digital Opportunity . . .

Continued from Page 1

In addition to providing letters of credit, RTFC financing for construction costs is available. "While we are pleased to see the federal funds being made available to help close the gap in high-speed Internet availability, recipients will likely need to supplement those funds to cover the cost of building or upgrading the infrastructure," explains RTFC Senior Vice President Robin Reed.

She adds: "We understand our members' needs and don't have the same hesitancy that some financial institutions do with having unfunded commitments on their books. RTFC members can be confident that funds are in place and available when needed."

RTFC offers the flexibility to have a draw period of up to four years on a term loan with no unfunded commitment or other fees. The nominal fee that is collected at the time a term sheet is issued is fully refunded once the loan is used.

"It's always best to start discussions early with your RTFC account manager to determine the time frame needed to obtain the letter of credit and revolving or term loan financing your organization needs to be a successful participant in RDOF," Coleman suggests.

ECONOMIC ANALYSIS

Personal Spending Slows; Americans Are Saving More

Personal spending remains sufficient for consumers to contribute meaningfully to economic growth. This is fortunate, as manufacturing is in recession and several other sectors are struggling.

Spending accounted for almost two-thirds of growth in the fourth quarter after accounting for all of the economy's growth in the middle two quarters of 2019. Spending growth has been trending below income growth, and savings remain remarkably high despite dipping of late.

Wage growth is also strong and consumer confidence remains near cyclical peaks. Household balance sheets are particularly robust. The household debt-to-income ratio is as low as it has been in a generation, and household debt service—the share of income households need to make their debt payments in a timely manner—hasn't been this low in two generations.

Households have also been diligent at locking in low interest rates through the mortgage refinancing waves of recent years. Delinquency rates on household debt are also at record lows.

Confidence Is Key to Growing Economy

Consumers are upbeat and will hopefully stay that way. Though the relationship between confidence and consumer spending is loose, it remains important, particularly at this late stage of the business cycle.

While a decline in confidence is unlikely by itself to cause a significant drop in consumer spending, a combination of other factors—stock market collapse, heightened trade uncertainty, falloff in world growth and an ugly presidential race—could derail optimism.

Both the Conference Board and the Michigan sentiment indices were up for December.

Real GDP Looks Solid for 2020

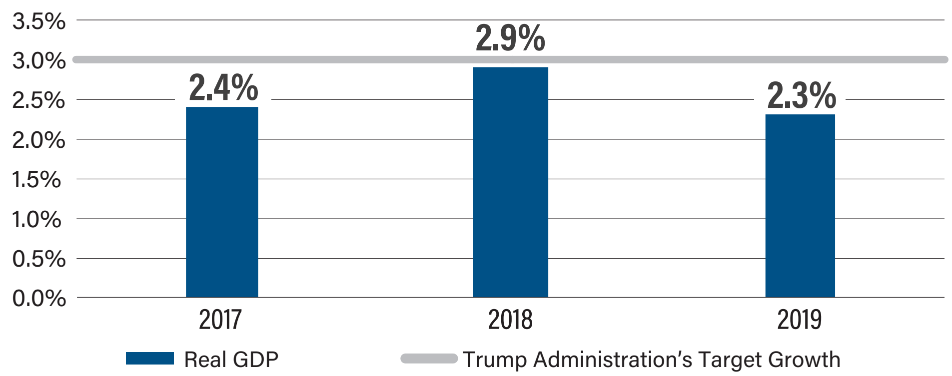
U.S. real gross domestic product (GDP) growth was near potential for most of 2019 and is stacking up similarly for 2020. If the record-long economic expansion can be sustained, the unemployment rate stays near its current 3.5 percent and core inflation hits the Federal Reserve's 2 percent target, then look for real GDP growth to be close to the economy's 2 percent potential.

There are three main pillars of economic growth: consumer, business and government spending. The U.S. government just signed a two-year budget deal, so its spending should be stable. Businesses, however, remain on hold, facing headwinds created by geopolitical threats and trade disputes. The recent agreement with China won't quell concerns about how the conflict will play out after the presidential election. Consumers are the principal support, providing the majority of the economy's growth, and they are optimistic.

Home sales and housing construction also have revived as mortgage rates are firmly below 4 percent. Investors are cheered by the prospects for stable growth and low inflation, and stock prices have rallied to record highs.

— John Suter

U.S. Real Gross Domestic Product



Source: Bloomberg

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Personal Consumption (Dec.) (YoY)	3.2%	2.0%	1.8%
University of Michigan Consumer Sentiment Index (Jan.)	99.3%	99.3%	99.1%
U.S. Real Gross Domestic Product (Q4)	2.1%	2.0%	2.1%
Conference Board Consumer Confidence (Jan.)	126.5	128.0	131.6

Source: Bloomberg

KEY INTEREST RATES				RATE FORECAST—FUTURES MARKET			
	2/2/2020	12/2/2019	CHANGE	Q1-20	Q2-20	Q3-20	Q4-20
Fed Funds	1.75%	1.75%	- - -	1.70%	1.65%	1.65%	1.60%
1-mo. Libor	1.67%	1.69%	-0.02	1.68%	1.62%	1.61%	1.56%
3-mo. Libor	1.74%	1.90%	-0.16	1.84%	1.78%	1.77%	1.72%
2-yr. UST	1.36%	1.61%	-0.25	1.61%	1.61%	1.61%	1.59%
5-yr. UST	1.35%	1.65%	-0.30	1.65%	1.75%	1.90%	2.05%
10-yr. UST	1.54%	1.83%	-0.29	1.87%	1.90%	1.92%	1.94%
30-yr. UST	2.01%	2.28%	-0.27	2.30%	2.30%	2.40%	2.50%

Source: Bloomberg

Source: INO.com

INSIDE THE ECONOMY

U.S. Sits High on a Mountain of Corporate Debt

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

With the U.S. economy expected to run a $1 trillion annual deficit for the foreseeable future, it's no wonder the national debt clock sits at more than $23 trillion—roughly $50,000 per U.S. citizen. But that's not the only mountain of debt out there. Half that size but still daunting is the total U.S. corporate debt outstanding at just under $10 trillion—more than twice what it was in 2000.

This debt surge really took off when interest rates hit record lows at the end of 2008. While slashing interest rates is the standard monetary answer to a troubled economy, the rates have never been this low for this long. Unfortunately, the side effects from too much easy money are now becoming clear as central bankers struggle to return interest rates to traditional levels.

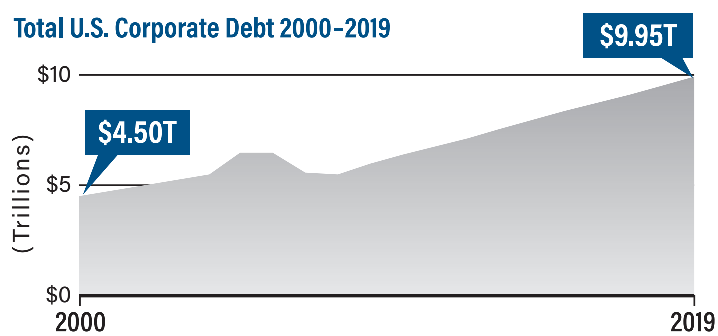
Since the end of the Great Recession in June 2009, the Federal Reserve has increased the overnight lending rate nine times, reaching its peak of 2.50 percent in December 2018. Seven months later, the Fed did an about-face and lowered the overnight rate three times to 1.75 percent. With rates this low, companies have splurged on bond issuances to repurchase their own shares, pay higher dividends and fund acquisitions.

Such cheap money has allowed some companies that would have failed to instead survive. That's why the majority of the spike in bond issuances has come in the BBB-rated category. While these companies are paying their debt service now, what will happen when the next economic downturn hits or the country is blindsided by some black swan event? Credit rating agencies will likely downgrade companies that have issued lower-quality bonds. This is where it gets ugly. Mutual funds, insurance companies and pension officials would be forced to sell off bonds in their portfolios that fall below BBB-.

If this happens, expect a mad rush to unload the bonds. Portfolio managers would flood the markets, causing further stress as bond prices drop precipitously and interest rates rise. Losses from such a fire sale would add up quickly and the markets could tank under duress.

How likely is this development? Well, the economy is still growing and interest rates and inflation are still low. That said, the Armageddon scenario is possible. //

Total U.S. Corporate Debt 2000-2019



Source: Bloomberg

FEBRUARY 20, 2020

Capital Connections

Capital Connections is published quarterly by RTFC.

BETH ANN JOHNSON
Capital Connections Editor
bethann.johnson@nrucfc.coop
800-424-2954, x1645

DANIEL TEDLA
Graphic Designer

For questions on Economic Analysis, contact:
JOHN SUTER
Vice President, Capital Markets Research & Analysis
john.suter@nrucfc.coop
Phone: 800-424-2954, x1633

For subscription questions or changes, RTFCContactUs@nrucfc.coop.

Rural Telephone Finance Cooperative
20701 Cooperative Way
Dulles, Virginia 20166
www.rtfc.coop