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Capital Connections

RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Board Recommends Organization Consolidate To Improve Operations

Over the last year, the RTFC Board of Directors has been reviewing options to ensure the organization will continue to offer competitive financing to meet the capital needs of the rural telecommunications industry.

A proposal was presented to members at the 2023 RTFC Annual Membership Meeting held February 19 in San Diego and will be up for vote at the April 17 Special Membership Meeting in Washington, D.C. Members can also vote by mail. Ballots and meeting information were mailed March 18.

Since its founding 35 years ago, RTFC has operated under a management agreement with its lender, the National Rural Utilities Cooperative Finance Corporation (CFC). In order to take advantage of economies of scale, the RTFC Board of Directors recommends a consolidation with the National Cooperative Services Corporation (NCSC), another affiliate organization managed by CFC that serves the capital needs of the rural utility industry.

RTFC Senior Vice President and Chief Banking Officer Joel Allen told members at the annual meeting February 19 that the organization is projecting net losses in the future and will be unable to pay patronage capital.

A consolidation would create the potential to grow the business and portfolio for the benefit of RTFC's telecom members under a new structure. It would also allow the organization to preserve RTFC members' investment and provide a payout of roughly $48 million in patronage capital at closing—based on current interest rates and subject to change.

"Through a combination of the savings and economic efficiencies that a consolidated organization can capitalize on, NCSC could be able to provide a lower interest rate than RTFC could on future loans," Allen said.

"Our combined strength will allow us to capitalize on the operational efficiencies and economies of scale of a company with $1.5 billion in assets to better serve the rural utility industry." — *Joel Allen*

He continued, "The consolidation will not have any effect on the interest rate, maturity, covenants or payments under any of the loan documents that members currently have with RTFC."

Allen also explained that members can maintain their existing RTFC relationships and continue to work with the same account managers they have now.

If the consolidation is approved, the new organization would have five board seats representing the telco membership, which is the same number of directors RTFC has now.

"On behalf of NCSC, we are excited at the prospect of consolidating our two great organizations. Our combined strength will allow us to capitalize on the operational efficiencies and economies of scale of a company with $1.5 billion in assets to better serve the rural utility industry," Allen said. //

RTFC Plans April 17 Special Membership Meeting in Washington for Members To Vote on Consolidation

RTFC members should be on the lookout for materials arriving in the mail this week regarding a Special Membership Meeting planned for April 17 in conjunction with the NTCA Legislative + Policy Conference taking place in Washington, D.C.

The purpose of the special meeting is to allow members to ask questions about a proposed consolidation of the organization and then cast their ballots for or against the board's recommended action. Members can also vote by mail if they cannot attend the meeting in person. A mail ballot and complete details about the meeting and consolidation were mailed March 18.

For those voting by mail, ballots are due to RTFC headquarters by Monday, April 10, in order to be counted.

RTFC Joins RTIME for 35th Annual Meeting in San Diego; Reelects Fred Johnson

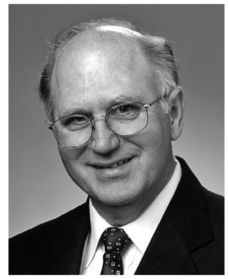
RTFC conducted its 35th Annual Membership Meeting February 19 in San Diego. During the meeting, District 2 Director Fred Johnson, CEO of Farmers Telecommunications Cooperative in Alabama, was reelected to serve another three-year term.

Board President Bruce Bohnsack, president and CEO of Germantown Telephone Company in New York, presided over the event and shared highlights of RTFC's financial statements for the last fiscal year ended May 31, 2022, as well as its sponsorship and other corporate activities.

"I'm happy to report that loans outstanding were $468 million," he remarked. "Based on its fiscal year 2022 operations, the RTFC board approved a patronage capital allocation of $649,000 to members for the fiscal year. Twenty percent, or $130,000, is being distributed now along with the retirement of $2.6 million in outstanding Patronage Capital Certificates issued for fiscal year 1997."

Bohnsack also highlighted some of the ways RTFC supports the industry through various sponsorships, including funding for the Foundation for Rural Service (FRS). "Since the organization's founding in 1994, RTFC has underwritten a host of white papers, grants, studies, educational opportunities and other projects that benefit our industry," Bohnsack said. "In fact, other than NTCA, RTFC is the most significant contributor to FRS programs—with a historical giving total of nearly $2 million."

Johnson was also on the meeting agenda to present a proposal for RTFC to consolidate its operations with another financial organization serving rural utilities, the National Cooperative Service Corporation, also an affiliate of RTFC's lender, National Rural Utilities Cooperative Finance Corporation. He was joined by RTFC Senior Vice President and Chief Banking Officer Joel Allen who detailed the benefits of the consolidation. *(See "RTFC Board of Directors Recommends Organization Consolidate To Improve Operations" in this issue for more information.)*



Seated in 2002, RTFC District 5 Director Raymond Henagan, CEO of Rock Port Telephone Company, concluded his final term on the board. Board President Bruce Bohnsack thanked Henagan for his leadership and contributions.

The meeting concluded with Bohnsack recognizing the leadership of retiring District 5 Director Raymond Henagan. Henagan is the CEO of Rock Port Telephone Company in Rock Port, Missouri.

"After 20 years on the RTFC Board of Directors, we wanted to acknowledge your contribution to the organization and wish you well in your retirement. Thank you for your leadership and efforts on behalf of RTFC members," Bohnsack said.

RTFC Board Elects 2023 Officers

At its March 1 meeting at RTFC headquarters in Dulles, Virginia, the RTFC Board of Directors elected the following officers:

- President: **John Klatt**, president and CEO of Lakeland Communications (WI).
- Vice President: **Fred Johnson**, CEO of Farmers Telecommunications Cooperative (AL).
- Secretary-Treasurer: **Allen Hoopes**, chairman and CEO of Silver Star Communications (WY).

New RTFC Account Manager Laura Kiff Understands Rural Challenges

RTFC recently added a new associate vice president to the team. Laura Kiff joined January 23 and brings several years of highly relevant finance, credit analysis and forecasting experience to her role.

Prior to joining the team, Kiff worked as a senior credit analyst at Farm Credit of the Virginias. She was attracted to a career at RTFC as it would allow her to continue working with cooperatives and helping rural America.

"My work experience at Farm Credit of the Virginias has given me insight into the cooperative model as well as an understanding of the challenges facing rural America," Kiff explained. "I am looking forward to meeting our members and helping them bring high-speed broadband to their communities."

Born in Ottawa, Canada, Kiff moved to the United States as a child and has spent most of her life in Northern Virginia. Living in a rural part of Virginia has given Kiff an awareness of the difficulties RTFC members have.

"I live in a more rural part of Northern Virginia that has faced difficulties in bringing high-speed broadband to all of its residents," Kiff said. "This has given me an understanding of the challenges that RTFC's members and their own members are facing."

Kiff earned her bachelor's in management economics and finance from the University of Guelph. She owns two horses, Chance and Bugsy, who she competes with in eventing and dressage competitions.

Laura Kiff lives in rural Virginia and owns two horses, Chance and Bugsy.

Economic Outlook Still Gloomy But Improved

The Investor's Business Daily/ Technometrica Institute of Public Policy Economic Optimism Index increased to 46.9 in March from 45.1 in February, marking the highest reading since December 2021. Nonetheless, a reading below 50 indicates pessimism. The index is a composite of Americans' six-month outlooks on the economy, personal finances and confidence in federal economic policies.

Interestingly, the majority (53%) of those polled think the economy is in a recession despite the fact it's officially not. The figure—although above 50%—has been declining in recent months. The six-month outlook increased to 41.6 and confidence in federal economic policies rose to 44.2—both well into the pessimism territory. The outlook for personal finances increased to 55, the only subindex to signal optimism. Recall our previous Financial Feature on borrowing and optimism. Americans indeed remain optimistic about their personal finances despite mounting debt.

Manufacturing Contracts Four Consecutive Months

The Institute for Supply Management Manufacturing Purchasing Managers Index ticked up to 47.7 in February from January's 47.4, which was the lowest reading since May 2020. The marginal increase fell below the forecast figure of 48. A reading below 50 indicates a contraction. This marks the fourth consecutive month of contraction for manufacturing.

February's reading reflects improvement but still contraction from the previous month in new orders (47 vs. 42.5) and backlog orders (45.1 vs. 43). Meanwhile, production fell (47.3 vs. 48) and employment moved to the contraction territory at 49.1, down from January's 50.6. Despite this, manufacturing companies indicated they have no plans to substantially reduce headcounts.

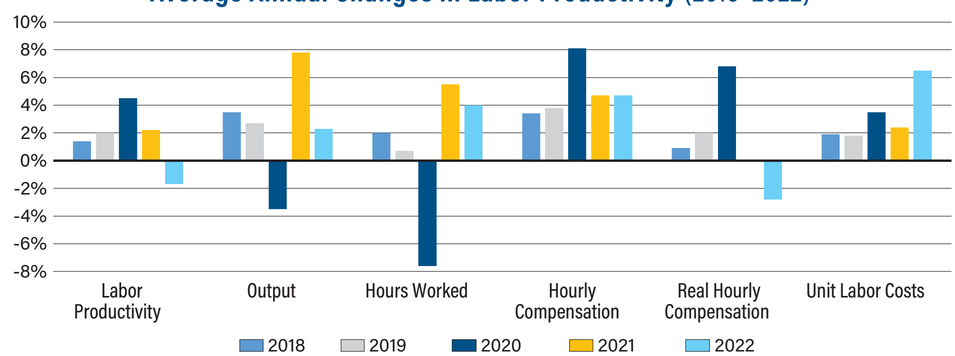
In Real Terms, Inflation Created Worker Pay Cuts in 2022

Quarterly nonfarm business productivity growth in the fourth quarter of 2022 was revised down to 1.7% from the preliminary estimate of 3%. Accounting for the full year of 2022, the annual average nonfarm productivity declined 1.7%, the largest annual decrease since 1974.

Last year was bad news for productivity as decades-high inflation added to unit labor cost—the ratio of hourly compensation to labor productivity—while real hourly compensation—compensation after accounting for inflation—declined. That means inflation effectively led to pay cuts for workers in real terms while also pushing up labor costs for employers, resulting in lower productivity. Both sides of the economy lost because of skyrocketing prices.

The fourth quarter data, however, provided a glimpse of hope as productivity picked up—although much less than anticipated. Unit labor cost decelerated from the previous quarter but remained high compared with a year ago. Many blame monetary tightening for economic declines in 2022. But remember: Monetary policy operates on a lag as its impact manifests many months later. It is this year and next when we will see the full impact of monetary tightening, so buckle up.

Average Annual Changes in Labor Productivity (2018–2022)



Source: Trading Economics

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
IBD/TIPP Economic Optimism Index (Mar.)	45.1	46.0	46.9
ISM Manufacturing PMI (Feb.)	47.4	48.0	47.7
Nonfarm Productivity (Q422)(QoQ)	1.2%	2.6%	1.7%
Unit Labor Cost (Q422)(QoQ)	6.9%	1.6%	3.2%

Source: Bloomberg and U.S. Bureau of Labor Statistics

	KEY INTEREST RATES			RATE FORECAST—FUTURES MARKET			
	3/1/2023	1/17/2023	CHANGE	Q1-23	Q2-23	Q3-23	Q4-23
Fed Funds	4.50%	2.50%	2.00	4.85%	5.25%	5.25%	5.10%
1-mo. Libor	4.68%	4.47%	0.21	4.68%	5.15%	4.45%	4.2200%
3-mo. Libor	4.87%	4.80%	0.07	4.87%	5.20%	4.50%	4.30%
2-yr. UST	4.09%	4.21%	(0.12)	4.45%	4.37%	4.16%	3.88%
5-yr. UST	3.67%	3.62%	0.05	3.89%	3.85%	3.73%	3.56%
10-yr. UST	3.50%	3.55%	(0.05)	3.68%	3.66%	3.60%	3.48%
30-yr. UST	3.62%	3.66%	(0.04)	3.79%	3.82%	3.78%	3.69%

Source: Bloomberg

Source: INO.com

INSIDE THE ECONOMY

MARCH 20, 2023

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An Unexpected Tsunami: How the 16th Largest US Bank Failed

By Sam Kem, Senior Economic Research Analyst

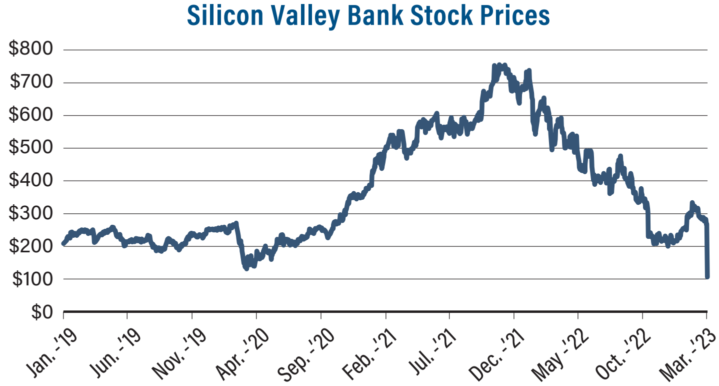
As California was getting slammed by atmospheric river storms, another kind of storm swamped the West Coast state, sending waves of market panic rippling across the country. On March 10, regulators closed Silicon Valley Bank (SVB), which was brought to its knees by a bank run. What happened?

As the saying goes, too much of a good thing isn't always a good thing—and that includes money. When COVID-era stimulus flooded the economy with liquidity, SVB, which provided banking services to nearly half of U.S. venture-backed life science and tech startups, saw its deposits increase from $62 billion at the end of 2019 to $198 billion in March 2022. The surge rate outpaced other banks, amounting to a level far beyond what it could safely lend.

In order for a bank to make profits, it takes the money from deposits, which pay lower interest rates, and lends it at higher rates. But since SVB clients were cash rich—they were startups pumped with massive liquidity—the bank didn't make enough loans. Instead, it invested in U.S. Treasuries and other long-term securities. Many news articles would defend this as "a good idea at the time" since all other banks did the same, neglecting to mention a key difference. SVB's investment portfolio soared to 57% of its total assets while no other major bank invested more than 42%. Many were quick to blame rising interest rates, which caused the value of Treasuries and other bonds held by SVB to drop, leading to an asset-liability mismatch driven by interest rate risk. Some called this event "unexpected." But no bank should ever find interest rate risk unexpected as it is a natural part of the banking business.

The final tsunami, however, was when venture capital figures called for companies to pull money. SVB depositors marched to withdraw their money, ultimately resulting in a run on the bank. This is another factor that SVB risk management failed to account for: concentration risk. Its concentrated client base meant its depositors acted in a similar manner and were influenced by similar factors. And just like that, the 16th largest U.S. bank collapsed.

Silicon Valley Bank Stock Prices



Source: Trading Economics

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