



Capital Connections

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RURAL TELEPHONE FINANCE COOPERATIVE

RTFC Consolidation Moves Forward—Expect Member Service To Remain Unmatched

The consolidation of RTFC with National Cooperative Services Corporation (NCSC) is progressing, with an expected closing date in December. Information about the closing details and timeline was sent to members in early August.

“We are on track to consolidate with NCSC and create a \$1.5 billion organization to continue meeting the financial needs of the rural telecommunications industry,” Senior Vice President and Chief Banking Officer Joel Allen said. “While the RTFC name may be changing, the organization will continue to deliver the same responsive service and hassle-free loan process that

our members have experienced over the last 35 years.”

The consolidation was given the green light earlier this year when it was approved by RTFC members at a special meeting in April and by the NCSC membership in June. Like RTFC, NCSC is an affiliate of the National Rural Utilities Cooperative Finance Corporation. NCSC was started in 1981 to serve the financing needs of rural utilities and their for-profit subsidiaries.

Active RTFC borrowers and investors will be automatically migrated to NCSC membership. RTFC voting members that are not active borrowers or investors



were invited to submit an election form regarding the choice to become members of NCSC.

“If we don’t hear from our non-active borrowers and investors by September 29, we will issue them a full refund of their membership fee and terminate their membership,” Allen said. “Of course, should their needs change, they are always welcome to reach out to their RTFC account manager and apply for NCSC membership.”

RTFC members that hold Subordinated Capital Certificates in connection with a loan will see those certificates redeemed at face value before the closing. This payout is tentatively scheduled to be sent in late December. In January, RTFC will retire previously allocated but unretired patronage capital at a discounted value. Both of those payments will be sent via check or ACH (if the member has previously signed up for ACH deposits). Members who want to sign up for ACH deposits, which deliver payments faster and more securely, should call the Member Center at 800-424-2955.

“While there are quite a few big changes happening for RTFC members, the most important things remain the same. We will still deliver the same level of service members expect from RTFC, and all of our current staff will continue in their roles after the consolidation is complete,” Allen said. “We still have the deep knowledge of the rural telecom industry that makes working with RTFC so easy.” //

Plan Now to Sit Down with RTFC Staff at the NTCA Fall Conference in Boston



NTCA’s upcoming Fall Conference will focus on emerging technology and future issues. Taking place September 24–27 in Boston, the event offers an opportunity to speak in person with RTFC staff about how to fund your broadband future. Staff will have an on-site room for private meetings to discuss financing options for upcoming projects.

“Financial planning today can prepare you to quickly take advantage of unexpected opportunities tomorrow,” said RTFC Vice President of Portfolio Management Drew Coleman. “We are happy to begin financing discussions in the earliest planning stages of a project. The sooner you get your RTFC account manager involved in expansion or acquisition considerations, the easier the process will be.”

Email RTFCContactUs@nrufc.coop or your account manager directly to set up a meeting time during the event.

RTFC is pleased to sponsor speaker Jason Dorsey, the event’s opening session keynote. Dorsey, the president and founder of The Center for Generational Kinetics, will discuss how to separate myth from fact about Gen Z to understand and unlock the potential of this generation he claims is the “key to the future of business.”

RTFC is a Platinum Sponsor of the Fall Conference. We hope to see you in Massachusetts!

Bruce Bohnsack Concludes Decades of Service to Industry, RTFC

RTFC Board President Bruce Bohnsack, the former president and CEO of Germantown Telephone Company in New York, has been an RTFC District 1 director since 2002. Capital Connections had the opportunity to speak with Bruce about his recent retirement and 21-year legacy of service on the RTFC Board of Directors.

CAPITAL CONNECTIONS: Congratulations on your retirement, Bruce. Looking back at your time on the RTFC board, what do you take away most from it?

BRUCE: It was an amazing 21-year learning experience. Every RTFC board meeting was an opportunity to learn something new. I had the pleasure and privilege of working with some very industry-wise people through the years—Steve Richards, Bob Orent, Danny Dandridge, Dave Dunning—as well as the current board: Bill Hegmann, Allen Hoopes, John Klatt and Fred Johnson, to name only a few. The staff at RTFC were also rewarding to work with. A large part of my experience on the board and as a general manager was learning from others and making better decisions as a result. I thoroughly enjoyed my time on the board. I will miss it.

CAPITAL CONNECTIONS: What do you see as RTFC's most significant accomplishments during your tenure?

BRUCE: We saw a lot of changes in the industry over the past 21 years. But no matter what changes the industry faced, RTFC was always there to support rural telephone companies and cooperatives. That, in itself, is a great accomplishment. We helped many companies over the years with their fiber builds and other financing needs. Another accomplishment is RTFC's contributions to the Foundation for Rural Service at NTCA.

Make Sure Your Invoice Payments Go to the Right Account!



Once the consolidation happens, RTFC borrowers should be mindful to ensure the bank accepts their loan payments by changing the company name on their remittance, as noted on their loan invoices.

Check payments should be made out to NCSC rather than RTFC. Electronic payments and wire transfers will be made to the same account numbers, but be sure to change the name of the recipient to NCSC on the wire instructions.

“Banks will accept payments with the old name for a short grace period, but after 60 days, the payments will be rejected,” Controller Pankaj Shah said.

For those RTFC members enrolled in ACH AutoPay, the payment transition will be seamless. NCSC will manage their recurring payments by continuing to withdraw funds directly from their designated bank account on the invoice due date.

“For any members not yet signed up for AutoPay, this is a good time to enroll,” Shah said. “Let us handle your invoice payments for you in a timely, secure fashion.”

Those interested in signing up can contact the Member Center at 800-424-2955 or MemberCenter@nrucfc.coop. //

CAPITAL CONNECTIONS: To what do you credit RTFC's success in meeting member financing needs so effectively over the years?

BRUCE: One of the great strengths of the RTFC board is that we all come from different backgrounds and have different experiences. It's really a melting pot to share ideas and information, learn from one another and make decisions collectively. There was always true collaboration—and camaraderie—among the board members, and that served us well as we worked to fulfill RTFC's mission. From a quality of service standpoint, there was no disparity between how commercial companies and cooperatives were treated. We assisted each member with the same level of care to ensure their business needs were met.

CAPITAL CONNECTIONS: Your tenure on the RTFC board reflects an extraordinary commitment on your part. What do you see as your most meaningful contribution during that time?

BRUCE: I'd like to think I always brought a family-owned, small-company perspective to the RTFC board—the understanding of how a small company operates and their unique challenges. Having a real connection to and understanding of small communities is integral to serving small companies, and it's always been important to me. The backbone of our industry is community. I was reminded of that every time I spoke with RTFC members at an event. Most NTCA members are small companies. I think these companies are flourishing because they know what they need to bring to their own communities, and they turn to RTFC for the financial assistance to do so.

CAPITAL CONNECTIONS: As you think about the future and the forthcoming completion of the RTFC-NCSC consolidation, what thoughts come to mind?

BRUCE: The RTFC staff are still going to be there to make loans and look at what the industry's needs are. Even amidst all the changes in the telecommunications industry over my 21 years on the board, one thing that stayed constant was the importance of having a community focus. I believe the new consolidated organization will retain this focus, and it will continue to serve members and the industry well. //



Bruce Bohnsack

Jason Miller Joins RTFC Board

The RTFC Board of Directors has appointed Jason Miller to fill the vacant District 1 seat previously held by Bruce Bohnsack. Miller is the general manager of Delhi Telephone Company and DTC Cable in Delhi, New York. He joined Delhi in 2008 and was appointed to the helm in 2013. Miller will serve the remainder of Bohnsack's term that ends next year. Open seats in Districts 1, 3 and 5 will be on the ballot at the June 2024 annual meeting.

ECONOMIC ANALYSIS

Nonfarm Labor Productivity Increases in Second Quarter

Labor productivity in the nonfarm business sector increased 3.5% in the second quarter of 2023 from the previous quarter. The second-quarter final estimate fell short of the preliminary estimate of 3.7% but was higher than market forecast of 3.4%. Output increased 1.9%, also falling short of the preliminary estimate of 2.4%. Labor productivity in the current business cycle, which started in the last quarter of 2019, has increased at an annual rate of 1.3%, slightly below the annual rate of 1.4% posted in the previous cycle from the fourth quarter of 2007 to the fourth quarter of 2019.

Hours worked, an important indicator for the labor market, grew at a slow annual pace of 0.6% in this business cycle. For the second quarter of 2023, hours worked declined 1.5%, slightly steeper than the preliminary estimate of a 1.3% decrease, marking the first decline since the second quarter of 2020.

Inflation Picks up in August

The annual Consumer Price Index (CPI) accelerated to 3.6% in August on a year-over-year basis from 3.2% in July, marking the second consecutive month of resurgence from the recent low of 3% in June. We warned that inflation would pick up because June's low was partly driven by the high base from the previous year as June 2022 was when inflation peaked. Additionally, energy prices—which drove the disinflation in recent months—have begun to resurge, pushing the index higher once again.

When excluding food and energy, yearly core CPI decelerated to 4.3% in August from 4.7% in July. However, on a month-over-month basis, it accelerated from 0.2% to 0.3%, which means core prices were rising faster in August than the previous month. With these observed trends in inflation, the Federal Reserve is unlikely to rule out another rate hike this year.

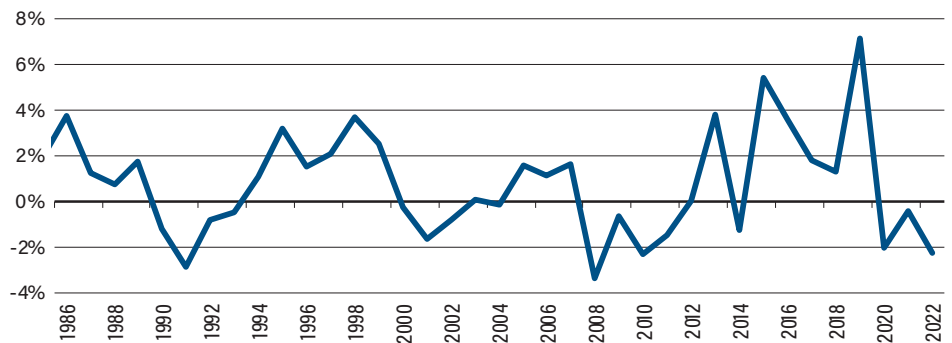
Real Median Household Income Fell by Most Since 2010

U.S. real (inflation-adjusted) annual median household income decreased 2.3% from \$76,330 to \$74,580 in 2022, marking the biggest decline since 2010, according to the latest U.S. Census Bureau's income report. This is the third consecutive year of declines. When calculated post-tax, real median household income declined at an even larger rate of 8.8%.

While so much focus has been placed on nominal wage inflation, real earnings for all workers decreased 2.2% between 2021 and 2022. The reality is Americans became poorer because of rising living costs. Now we have inflation-adjusted data to back that up. The official poverty rate, which excludes taxes and government transfers, edged down slightly. But the supplemental poverty rate, which is calculated post-tax and includes government transfers, rose from 7.8% in 2021 to 12.4% in 2022, the largest one-year increase on record. Child poverty more than doubled from 5.2% in 2021 to 12.4% in 2022.

The U.S. Gini index, which measures income inequality, fell 1.2% when calculated using pretax income between 2021 and 2022. However, post-tax the Gini index increased 3.2%. A decrease in the index indicates a smaller income gap while an increase points to a larger gap. Therefore, the index suggests American income inequality increased after taxes.

Annual Change in Real Median Household Income



Source: U.S. Census Bureau.

RECENT ECONOMIC RELEASES

INDICATOR	PRIOR PERIOD	CURRENT PERIOD (FORECAST)	CURRENT PERIOD (ACTUAL)
Nonfarm Labor Productivity (Q2 23)(QoQ)	(1.2)	3.4%	3.5%
Consumer Price Index (Aug.)(YoY)	3.2%	3.6%	3.7%
Core Consumer Price Index (Aug.)(YoY)	4.7%	4.3%	4.3%
Real Median Household Income (2022)(YoY)	\$76,330	N/A	\$74,580

Source: U.S. Bureau of Labor Statistics; Markit Economics; U.S. Census Bureau.

KEY INTEREST RATES

	9/11/2023	9/5/2023	CHANGE
Fed Funds	5.50%	5.50%	---
2-yr. UST	5.00%	4.97%	0.03
5-yr. UST	4.41%	4.38%	0.03
10-yr. UST	4.29%	4.27%	0.02
30-yr. UST	4.38%	4.38%	---

Source: Trading Economics.

RATE FORECAST—FUTURES MARKET

	Q3-23	Q4-23	Q1-24	Q2-24
Fed Funds	5.50%	5.50%	5.50%	5.25%
2-yr. UST	5.52%	5.63%	5.74%	5.85%
5-yr. UST	4.54%	4.68%	4.82%	4.97%
10-yr. UST	4.38%	4.49%	4.62%	4.74%
30-yr. UST	4.43%	4.52%	4.61%	4.71%

Source: INO.com.

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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, Economic Research
 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.rtfccoop

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INSIDE THE ECONOMY

Credit Card Troubles: Can We Weather the Storm?

By Sam Kem, Senior Economic Research Analyst

It's been six months since a series of bank failures took many by surprise. We were told the banking system was strong and inflation was transitory. Now we are told the U.S. economy may be emerging from this turbulent period without going through a recession, and disaster has been averted for our banking system. Forgive us for not taking this forecast seriously given the recent track record. One potential storm looming on the horizon is credit card loans.

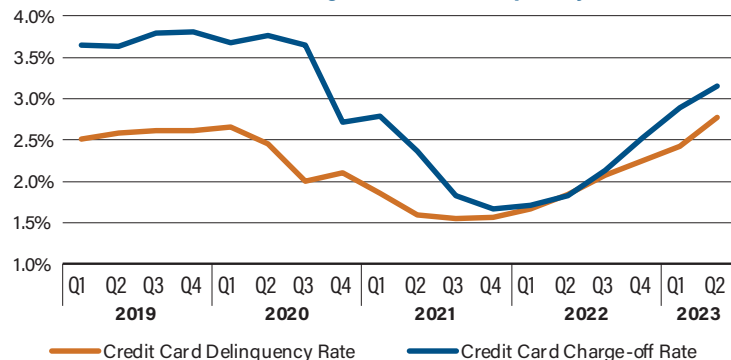
We previously warned of the so-called resilient consumers who are relying heavily on credit cards to cover their increasingly unaffordable living expenses instead of pulling back on consumption. Buying into the optimistic story of economic resilience and a strong labor market—and probably the magic of contactless payment—U.S. consumers have fallen into record-high credit card debt. Many experts have downplayed the issue and repeatedly

claimed that “consumers are in good shape.”

Despite this positive claim, U.S. banks recorded loan losses of \$19 billion in the second quarter, the highest level in more than three years. The Financial Times reported that more than half of the losses came from credit card loans. The rate of credit card charge-offs—losses marked as unrecoverable—has trended up in seven consecutive quarters to 3.15%, though still below the pre-COVID level of 3.81%. However, the rate of delinquencies—defined as at least one missed payment—reached 2.77%, exceeding the pre-COVID level of 2.62%. An increase in delinquencies typically precedes an increase in charge-offs. Thus, we can expect the charge-off rate to exceed its pre-COVID level in the coming quarters. In addition, as interest rates go up, so do credit card interest payments—making it even tougher for struggling consumers to meet their minimums.

This level of losses is far from eye-popping, but remember that this is the beginning; we are warning of the storm before it floods your home. Whether it's a tropical depression or a category 3 hurricane will depend on how prepared banks are. To their credit, many have recently increased cash holdings and allowances for losses. //

U.S. Credit Card Charge-off and Delinquency Rates



Source: Federal Reserve.

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