

Appendix A
Outreach Program

Executive Summary of Findings:

The following insights/highlights into the organization considerations of the privatize RTB:

- All Assets would need to transition to the privatized banks – some concern was express on who owns the assets. It is evident by previous Government RTB financial reporting that the RTB has ownership to the cash on its books (See RTB annual report as of September 30, 2001 website reference <http://www.usda.gov/rus/telecom/rtb/report.htm>). Because of requirements driven by the Federal Credit Reform Act, the RTB is restricted in the use of certain funds. The ownership of the assets and all cash would need to transfer to the privatized bank or privatization is not a true option to consider here. Stakeholders believe RTB should get a written commitment from the Office of Management and Budget (OMB) on the transition of cash to the privatized bank before initiating further privatization. Stakeholders have indicated this is one concern that is driving their request to put limits on the amount of Class A stock that is allowed to retire under annual appropriation proposals and authorities.
- Determining an approach to the current legislation, and how changes would impact the Bank and available capital operations was a key determinant for privatization support. The original legislative history is important to understand for future considerations. The Bank needs to have some results oriented discussions with the key legislative and OBM officials to be able to articulate the legislative approach and expectations.
- Sticking to the core business of rural telephone companies is vital for the banks future. This industry is unique; it has weathered the storms so far, because of less competition in some markets and smaller business line to residential line ratios. The smaller companies and those with the highest per line costs are the most in need of the Bank's programs.
- Most shareholders and other key stakeholders interviewed indicated they would support the privatization plan (cautioning) given there is a workable business plan and business objectives in place to protect the bank's assets, continue to meet the rural communities needs, and meet shareholder investment expectations.
- The Bank must obtain the management expertise for private sector success, which should include areas like understanding competitive markets, sophisticated financial dealings like credit enhancement alternatives, and understanding the rural telecom industries the new business models. This team would have to be able to execute the business plan (mentioned in the bullet above) on time and within the operating parameters. The Bank would need to understand the requirements of the capital markets and rating agencies to determine weather it can meet its low cost provider mission.
- The Bank should expand its product offerings, it should eliminate some of the excessive engineering oversight requirements, and although low cost financing is important if the requirements were lower that could be balanced against slightly

higher rates. As it expands in privatization, the Bank should continue to focus on its high quality portfolio and low loan loss exposure, while considering risk weighted pricing and cautious reserves for loan losses.

Key Stakeholders who were considered in the RTB Outreach program included the following representations:

Key Industry Group Contacts

Telephone Associations were represented by:

- ERTA - Eastern Rural Telephone Association
- NCTA – National Telecommunications Cooperative Association
- NRTA – National Rural Telecom Association
- North Dakota Association of Telephone Cooperatives
- OPASTCO – Organization for the Promotion and Advancement of the Small Telecommunications Companies
- USTA – United States Telephone Association
- WRTA - Western Rural Telephone Association

Members of the Telecommunications Industry Group were directly represented by:

- Alltel Communications, Inc.
- CenturyTel, Inc
- Cimarron Telephone Co
- Citizens Utilities
- Duo County Telephone Cooperative Corp
- FairPoint Communications, Inc.
- Great Plains Communications, Inc.
- Hector Communications Corporation
- Horry Telephone
- Madison River Communications
- Matanuska Alaska Telephone
- Monroe Telephone Company
- North Pittsburgh Systems
- Polar Telecommunications
- Rural Telephone Service Company, Inc.

- TDS Telecom
- West Carolina Rural Telephone Cooperative, Inc.
- Verizon Communications, Inc.

Members of the Industry Group were represented from our Marketing review. These members were asked a more focused series of questions on market conditions captured in the marketing plan; but also considered in these results.

- Accipiter Communications, Inc.
- Agate Mutual Telephone Company
- Arvig Communication Systems
- Blackfoot Telephone Cooperative, Inc.
- Bluffton Telephone and Appliance Co - (Subsidiary of Low Country Telephone, Inc.)
- Border to Border Communications, Inc.
- Churchill Communications – CC
- DuBois Telephone Exchange (Subsidiary of Range Telephone Cooperative)
- Elizabeth Telephone Company
- Inland Telephone
- Miller Telephone Company
- Oneida Telephone Exchange
- Prime Link
- San Carlos Apache
- Santa Rosa Telephone Cooperative, Inc
- Shenandoah Telephone Company
- S & T Telephone Cooperative Association
- The Champlain Telephone Company
- Valley Telephone Cooperative, Inc
- Valor Telecom

Lenders and Investment Analysts to the Rural Telecommunication Marketplace were represented by:

- National Rural Utility Cooperative Finance Corporation – CFC
- Rural Telephone Corporation – RTFC
- Co-Bank

- Legg Mason Wood Walker, Inc.

Approved Outreach Questions:

The following questions were approved by OMB for public consideration and were used to drive the conversations and results of this stakeholder communication initiative.

Questions to lead the Conversations:
1) What is your role with RTB and how do you interact with RTB?
2) From your perspective, what are RTB's critical missions?
3) What are the key drivers for Success?
4) Who are RTB's customers and stakeholders?
5) Are you aware of the privatization Mandate of RTB? <i>We presented or explained an introduction to the Privatization mandate, the Study project, and some of the options and opportunities that may affect the participants or their constituents.</i>
6) Do you expect the RTB mission to change over the next 5 and 10 years? -broaden or narrow?
7) What do you expect the drivers for change to be, how will the customers change and what will the impact be on the stakeholders?
8) What will the RTB organization need to do to respond to the change?
9) From your perspective, how well are RTB's customers and stakeholders currently being served? Is the customer base too narrow or too broad? In your opinion, what factors influence RTB's ability to serve its customers and satisfy its stakeholders - staffing, expertise, focus, funding, etc.?
10) Should any of the factors change, what are the consequences to customers or stakeholders if RTB is unable to provide its current level or mix of products and services? How likely is it that these consequences should arise?
11) How do you perceive RTB's service efforts to stakeholders, customers, and citizens? Should RTB's service efforts be changed -- expanded, refocused, or narrowed, etc.?
12) In your opinion, what would make a successful privatized Rural Telephone Bank?
13) Would you support privatization? Why?

Mission, Key Drivers, Customers & Stakeholders Identified Through the Outreach Program

- Rural Customers
- Reduce Red Tape
- Improve Customer Service
- Real Small Companies
- Useful source of Funding
- Micromanaged on Engineering
- Too Bureaucratic
- Government Forms

- Engineering Excess
- Capital for the Rural Telecommunications Industry
- Rurals are doing better than other telecoms
- Zero in on less than 100,000 access lines – Small and Midsize
- Niches in smaller financing
- RTB does not meet the quick emergent needs of borrowers
- Needed for Small Businesses
- Stick to their business for the Rural telecom Industry
- Small companies would be hurt without this source of funding
- Rural business is very different
- Original RTB for US to sponsor Rural telecommunications, building networks and subsidize
- Now a market based model – only the small are in most need of the Bank services
- Reduce excess paperwork
- Telecommunications financing to the Rural Areas
- Beneficiaries are the Rural areas telephone subscribers
- Government Sponsored program – Farm Credit System & Co-Bank's origins
- Not a Revolving Fund, but a Corporation
- Intent of Legislative History is Important
- As it now is written: Continuity as Federally Chartered Corporation – Continues as an instrumentality of the Government

Changes and Change Requirements Identified Through the Outreach Program

- USF - How will it shake out for Rural Telecoms?
- Rurals have weathered the storm so far
- Lack of interest in RUS issues – Nothing going
- Highest Cost companies are the ones who need the bank the most
- Growth is Over
- Challenges to Telecoms
- Access line growth and minutes are down
- Economics are difficult – Wired vs. Wireless
- Scenarios are changing
- New market for upgrades in near future

- Will change over the next five years more than it has over the last 50 years
- Smaller companies may not be able to absorb the changes expected in the marketplace – Flexibility & adaptability
- Operations of the 4 largest companies are changing – offering full service and opening new networks
- The Rural telecom industry has had some insulation
- Very capital intensive
- Use of technology to meet the needs of the consumers and the customers
- Wire line more competitive & less substitution in some markets – Rural not hit as hard
- Changes in Industry - Consolidation

Success Factors of Bank Identified Through the Outreach Program

- Survival – Do we (the rural telecom marketplace) need another funding source? Is it too small? Are the existing marketplace needs not met?
- What role would the government continue to play?
- Who would manage the Bank?
- Would it be sized to be able to compete effectively in the open market?
- Who will own the Bank and what will the ownership structure be?
- A well thought out privatization plan
- Capital Markets will want a 15% ROE, with large risk 35-40% ROE for quick payback of illiquid investment
- Possible Closed Block – Old Bank New bank for performance
- Heavy Reliance on USF, Access Charges
- Competitive Environment & Responses (How will it be able to capture market share?)
- Borrower orientation
- CO-Bank & RTFC fills a market, Borrower Orientated strong competitors
- Must get out there and be available
- Must be aggressive – competitive to survive
- Competitive orientation towards marketing and change
- Capital needs won't go away – will be filled by commercial markets at higher costs
- Flow of capital upgrade requirements
- Field offices by name only not accessible

- Use the Associations to get your message out
- If interest rates are a bit higher, the paper work must be less
- Changes in the rules & Regulations
- Technology & Rapid change
- Will need to understand the new business models in small communities
- Smaller companies are venturing into new markets they might not understand or have the expertise for
- Credit point of view (evaluation) is more than asset based – it is about the underlying business models
- Understand the next set of telecommunications business models
- Reduce the amount of requirements & controls
- Competitors would contemplate acquisition, merger or subsidiary arrangements
- Continued under a GSE
- Not very effective in meeting customer's needs – Large capital up front 5% stock – Expensive way to borrow
- Can't compete with current CoBank rates of 4% (Variable)
- Most customers can't access the commercial marketplace
- Very aggressive and maintain its good portfolio
- They have a great niche and they are getting stronger
- CoBank uses participation with other institutions
- Great to see someone come in to fill the vacuums in the marketplace
- Lift acquisition restrictions – buy out mom & pops and put in operational expertise & services
- RTB helps in the middle markets
- Lift restrictions on the permitting debt to acquire companies
- Its painful to retire RTB debt, but larger companies are forced to by other credit vehicles
- Continued growth in Class C stock is diluting interest and hurting long term returns
- Must obtain syndication expertise and understand leverage financing & the rural markets
- Could distribute its exposure through participations
- Haven't explored a sale - liquidation and distribution scenario
- Focus on the business model and its mission
- Fills the need – must remain unique

- Market based model (Change in cut over from government) Customers, credit – new way of thinking, management & credit risk & reserve for loans
- Should be hearing more about privatization – offering up a working session at the NTCA February Conference
- Should talk to Mark Weatherly OMB
- Solid business plan
- Adequate source of financing at a reasonable cost, assess the Bank’s ability to raise capital (Considerations – diversification, duration, low spreads/margins)
- More scenarios should be reviewed that increase the spread, shorten the duration and increase the debt expense
- Risks of lose could increase with additional risks in lending products (Planned capital expenditures included more competitive ventures)
- Would the current shareholders subsidize other borrowers?
- Shareholder capital should be deployed as efficiently as possible. Consideration should include the ability of shareholders to recover their capital if they desire to “opt out”
- Government issues resolved

Representative Answers & Comments from Question 13: Would you Support RTB Privatization? Why?

In favor (of Privatization) subject to privatization being done right

- Preserve the Bank’s Value – Asset Transfers
- Remain a funding resource for small Local Exchange Carriers (LECs)
- Privatization should be well planned considering government/agriculture and political needs and requirements
- Ownership will need to be addressed as well as the role of the US Government
- Management must be capable of private endeavors and possess the ability to deal in a competitive market
- There should be a solid market for the private Bank’s funds, little to no risk
- Need to stress quick user friendly service

Yes with Cautions

- Service to rural community could be impeded in private hands
- Borrower friendly environment is needed
- Returns to equity holders
- Specialty lenders

- Might consider buying out those shareholders who want out at a significant discount to make the returns required
- Shareholders who want out could be paid out over time
- May need 3 to 5 years of privatized results – Certified Statements

Yes – Long Overdue

- Need to be competitive and accessible
- Favor more responsiveness in private institution
- Educate constituency

Not prepared to say, but will participate more actively

- Not a continuous user interested in liquidity of the stock

I think so from the policy perspective

- Concerned about the Bank's ability to provide effective products
- Concern about regulatory issues and funding issues
- Could merge with a competitor
- Cautions on the continuation of USF

Yes, would like to be a catalyst

- The more players who understand the marketplace the better, would allow the bank to ease restrictions
- Interested in a dedicated lender in this space, tailoring its lending to the this risk profile and the telecom markets
- Conflict of interest concerns
- Valuation maximization – not concerned today, but worried about dilution in the next few years

Yes, more so from an investors standpoint

- Classes B & C Stock have no real value

Yes, would support privatization with several conditions

- Sound financial Basis and business plan
- Capital Structure adequacy – enough capital
- Could be privatized under the existing law
- Opinion of asset ownership needed – Need to understand the impact of Credit Reform

- Ability to use all bank funds for the purpose of Rural Telephone Bank requirements
- The Bank needs to be self sustaining
- Looking for proportional representation on the Board to reflect the mix of ownership (More commercial representation)
- Expand the Board

Yes, would rely on the members of the RTB Board's opinions

- Needs a good implementation plan and team

Depends on what it looks like

- If its a viable organization
- Concern for congressional changes
- Asset sweep clarification – legal opinion & OMB language
- Solves the control issues
- Scope of their lending
- Sufficient demand for loans – impact on the rest of the program
- Must operate by itself
- Shareholders are protected and some issues clarified
- Should be hearing more from the Board on privatization– open up the dialogue