

Corporate Trust Connection

Spring 2004

Directing Your Trust Account Investments at U.S. Bank

Headlines describing instances of trading irregularities at certain mutual funds have elevated investor concern and highlighted the need for investor vigilance. However, the mutual funds prompting these headlines are principally those invested in equity securities.

The funds in which U.S. Bank Corporate Trust Services customers have chosen to invest are not equity funds. Instead, they



are primarily fixed-income funds invested in assets such as U.S. Treasury and U.S. government-guaranteed

bonds, corporate bonds and money market securities.

“U.S. Bank Corporate Trust Services has no mutual fund investments in trust for our customers where the fund price fluctuates in the open market, potentially creating benefits from overnight trading,” explains Terry McRoberts, executive vice president in the U.S. Bank Corporate Trust Services Los Angeles Office.

As a result, the equity mutual fund situation has had little or no impact on either U.S. Bank Corporate Trust Services or its customers. However, we’d like to take this opportunity to review the responsibilities of each party in respect to the funds held in trust accounts at U.S. Bank:

- 1) The governing documents relating to trust accounts

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Did You Know...

Top Municipal Trustee Banks Jan. 1 through Dec. 31, 2003

	Trustee	Number of Issues	Par Amount (U.S. \$)
1	U.S. Bank	832	34,699,100
2	Bank of New York	810	53,022,700
3	Wells Fargo Bank	509	20,733,600
4	Wachovia Bank	361	15,444,900
5	J.P. Morgan Chase & Co.	319	15,361,600
6	Bank One	233	9,961,300
7	SunTrust Bank, Inc.	144	3,802,000
8	Fifth Third Bank	135	2,874,400
9	UMB Bank, N.A.	125	1,760,000
10	National City Bank	118	2,887,300

Dollar amounts are in thousands. Rankings are preliminary and subject to revision. Short-term notes maturing in under 13 months, private placements, and bonds sold by private nonprofit electric cooperatives are excluded.
Source: Thompson Financial Securities Data (12/31/03).



Offering Insured Bonds in the Secondary Market

Secondary market insurance may allow bond dealers and institutional investors to upgrade qualified bonds in order to meet portfolio requirements or make bond offerings more attractive to investors.

Financial Security Assurance Inc. (FSA) is one of the nation's largest providers of secondary market insurance for asset-backed securities, municipal bonds and other structured obligations in the global markets. It has turned to U.S. Bank Corporate Trust Services as custodian for its insured bond program, which currently has more than 1,700 FSA-insured issues outstanding.

Why Insure Bonds?

FSA's Triple-A financial guaranty assures that FSA will make scheduled principal and interest payments should the issuer of an FSA-insured bond be unable to do so. "FSA's bond insurance policy enhances the bonds and provides greater peace-of-mind to investors," explains Pat Crowley, vice president at the New York office of U.S. Bank Corporate Trust Services.

"FSA offers Triple-A bond insurance to broker/dealers who want to enhance bonds that are already trading on the secondary market," says Adam Berman, assistant vice president, also in Corporate Trust Services in the New York office. "For example, a municipal bond dealer may want \$1 million of an uninsured bond issuance to be insured through FSA to offer to clients. FSA gives U.S. Bank Corporate Trust Services instructions, including the CUSIP (the unique identification number issued by the Committee on Uniform Security Identification Procedures) of the original bond and issues a bond insurance policy."

As custodian, Corporate Trust Services takes in the uninsured bonds from the broker/dealer and the policy from FSA, and issues a new certificate with the exact terms but a different CUSIP number. These are now tradable, insured certificates that broker/dealers can offer their clients. U.S. Bank Corporate Trust Services also provides services to the bondholders through its bondholder communication area.

Focus on the Customer

Alan Steinfeld, director, and Greg Haggerty, director, co-manage the secondary and competitive bid market at FSA. "We chose U.S. Bank as custodian because they're extremely dependable and customer-focused," says Steinfeld. Haggerty agrees. "We have a very close relationship with Corporate Trust Services, and we appreciate their service and accessibility," Haggerty says. "Particularly in quick turnaround situations, our contacts at the bank are always willing to work with our customers to resolve any issues. That saves us a great deal of time, and our customers get the attention they need."

We Provide Solutions

U.S. Bank is one of only a few institutions in the country with the facilities, staff and technology to handle the volume of issuances insured by FSA. "We have a long history with FSA,"



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Berman says. "They appreciate our resources, our relationship with the Depository Trust Company (DTC), and especially the experience and expertise of our people."

"Of course, we want the most cost-effective, efficient and reliable service," Steinfeld says. "We've dealt with other custodians in the past, and in the final analysis, U.S. Bank comes out on top for us."

U.S. Bank Corporate Trust Services can help you find solutions to your financing needs. If you have questions about how secondary market insurance through FSA may enhance a bond issue, please contact your Account Manager.

Trust Account *continued from page 1*

specifically set forth the type of investment vehicles that are authorized or permitted. In addition, if the documents require that the customer direct U.S. Bank with respect to trust fund investment activity, our customers are the ones with the power and authority to choose investments held in trust at U.S. Bank Corporate Trust

Services. U.S. Bank does not provide investment advice to the directing party, nor is it responsible to undertake investment review.

2) The duty of U.S. Bank Corporate Trust Services is to ensure that the investments directed by its customers are qualified investments as defined in the governing documents.

Spotlight on the Chicago Office

Frank Sinatra called it “my kind of town;” Carl Sandberg, the “city of big shoulders.” The third-largest city in the United States, Chicago is a powerhouse of the financial world, and U.S. Bank enjoys a dominant presence.

Serving a Niche Market

The Chicago office focuses on structured finance transactions, according to Nancie Arvin, vice president and structured finance account manager. “The two main product types we administer are auto loans and leases, and credit card securitizations,” Arvin says. “If a new or current customer wants to securitize credit card receivables, auto loans or auto leases, the deals most likely would be closed and administered in the Chicago office.

“We also tend to handle what we call ‘one-off’ kinds of transactions that don’t really fit into any standard



product category,” Arvin continues. “These could include stranded utilities, franchise loans, U.S. government energy savings contracts or certain types of equipment lease securitizations. One example is the ‘football trust.’ Loans to various National Football League franchises have been securitized and we are trustees for the securitizations.”

Three of the five employees in structured finance at the Chicago office have been in corporate trust through a number of acquisitions. “One of our account managers has

been in corporate trust for 25 years, another 20. I’ve been here for 15,” Arvin says. “As a result, we have a depth of understanding of the market that’s hard to equal. Our customers appreciate the service and expertise we provide, and have been very loyal in return.”

U.S. Bank also provides corporate and municipal trusteeships, as well as corporate escrow services to a wide variety of customers throughout the Chicago area.

FSIR Services

The Chicago office provides another unique range of services through First Security Investor Reporting (FSIR). With 30 U.S. Bank Corporate Trust Services employees, FSIR provides calculations for payments of trust indentures, tax and SEC filing, information analysis and distribution for structured finance transactions, as well as financial accounting for collateralized debt obligations (CDOs).

“FSIR has been part of U.S. Bank Corporate Trust Services since 2002,” says David Jackson, senior vice president and president of

FSIR. “This is a highly technical and specialized field, and the resources are hard to develop and retain. By maintaining this type of service in-house, U.S. Bank can provide a continuum of services to its customers without outsourcing to a third party.

“This allows us to deal directly with the end user, which means we can better understand their needs and challenges, and develop a deeper relationship with the customer,” Jackson says.

Securitization is a huge industry, but is only about 20 years old. However, some of the FSIR employees have been involved since its inception. “There aren’t many people in the United States with our level of experience in this area,” Jackson says. “In addition, FSIR is based on an accounting firm model, stressing a high degree of quality control and accuracy through advanced reporting technology, which enables us to provide our customers with outstanding service.”

We Look Forward to Serving You

Early in February, U.S. Bank Corporate Trust Services, along with other U.S. Bank business units in the city, moved to a new location at 209 So. LaSalle St., Ste. 300, Chicago, IL 60604. If you’re in the Windy City, please drop by. If you have questions about how U.S. Bank Corporate Trust Services can provide solutions for structured finance deals, CDOs or security investment reporting, please contact your Account Manager.

Review Investments Regularly

As the party with authority to direct account investments, our customers are responsible for overseeing the initial and ongoing suitability, security and legal condition of particular account investments. U.S. Bank encourages customers to review both their investments and trust account activity regularly.

“U.S. Bank makes it easy for you to monitor trust account activity with a cutting-edge, online reporting system called TrustNow Essentials,” McRoberts says. “This tool allows customers to log in to a secure system, download information and create reports in a number of different formats.”

To learn more about U.S. Bank TrustNow Essentials, please contact your Account Manager.

We Work to Protect Your Interests

In complying with the USA PATRIOT Act and conforming to guidelines established by Uniform Commercial Code (UCC) Article 4A, U.S. Bank Corporate Trust Services has put in place additional procedures to protect its clients and the country.

Adhering to the USA PATRIOT Act

The USA PATRIOT Act's Customer Identification Program requires financial institutions to obtain specific identifying information for any person or business that opens an account in order to reasonably verify identity. Its purpose is to help detect and prevent money laundering and terrorist financing activities.

"Corporate Trust Services' compliance with the USA PATRIOT Act protects our clients by upholding our



reputation," states Jerry Farrell, vice president and risk manager in the Boston office. "Our clients want to do business with a reputable institution like U.S. Bank that screens clients to make sure we don't end up doing business with criminal elements."

Conforming to UCC 4A

UCC Article 4A deals with verifying transactions as directed by clients. "Our procedures help to confirm the authenticity and authority of client instructions,"



says Karen Beard, vice president and trust manager in the Boston office. "This decreases the likelihood of unauthorized instructions and helps prevent fraud."

"Of course, in addition to meeting UCC 4A guidelines, our methods of verifying transactions also adhere to whatever the governing document requires," adds Annette Soderholm, vice president and trust compliance manager in the St. Paul office. "For example, if a governing document requires a signature verification



procedure, we follow that procedure. But depending on the transaction, we may need to take additional verification steps that comply with UCC 4A."

Compliance with both the USA PATRIOT Act and UCC 4A helps Corporate Trust Services get to know clients better. "Ultimately, that means an enhanced standard of care for our clients, because it helps us better protect their assets," explains Soderholm.

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4 Comments and suggestions for the newsletter are welcome and should be forwarded to Kathleen Engesser, Marketing Manager, U.S. Bank Corporate Trust Services, (651) 495-3973 (phone) or kathleen.engesser@usbank.com (e-mail). For more information, visit our Web site at usbank.com/corporatetrust.

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