

# Corporate Trust Connection

Winter 2005

## Look to U.S. Bank Money Center for Fixed-Income Solutions

**M**any U.S. Bank Corporate Trust Services customers face the challenge of leveraging large amounts of cash on hand for varying periods of time. Fortunately, U.S. Bank offers trust customers a wide range of money market fund options as well as another source for creative solutions: U.S. Bank's Money Center.

"The Money Center works with corporate and commercial bank clients and with institutional clients of Trust," says Ken Nelson, senior vice president. "We help provide one-stop

financial shopping by offering a full range of fixed-income investment vehicles, including certificates of deposit (CDs), eurodollar deposits, repurchase agreements, U.S. Treasuries, government agency securities and commercial paper."

### Finding the Right Tool for the Job

The Money Center is geared to accommodate short-term or seasonal needs, and can help when a client is seeking diversification. Four Money Center representatives work closely with U.S. Bank Trust personnel – Deb

Barchus, Justin Dahl, Vicki Kegel and Mike Maginot – and will suggest alternatives based on the indenture's investment requirements.

"For example, an attractive option for a customer who has issued a revenue bond for construction is a paydown CD," Kegel says. "Paydown CDs offer an attractive yield, and they can be structured so the draws closely match project expenditures."

Sometimes, customers are simply looking for a new solution. "We've often worked with Trust to help customers who, for a variety of reasons, are unhappy with their current investment," Barchus says. "We'll explore some of our other short-term products that offer the liquidity and flexibility they need, and present options they may not have considered."

### A Look at the Benefits

One major advantage of the U.S. Bank Money Center over other providers is that it offers both proprietary products – such as U.S. Bank CDs and commercial paper – and open market products, so customers don't need to

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## Did You Know...

### Diane Thormodsgard Is Honored among Top Women in Finance

Diane Thormodsgard, president of U.S. Bank Corporate Trust, Institutional Trust & Custody Services, and Jennie Carlson, executive vice president and director of U.S. Bank Human Resources, were named two of the 16 "Top Women in Finance" by *Finance and Commerce*. This is the first time two people from one company have won a "Top Women in Finance" award the same year.

Congratulations to both women on their achievements and this honor.



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## Debt Transactions

# How a Default Changes the Role of Corporate Trust Services

**W**hen you're putting together a bond issue, the default provisions are rarely the focus of attention. However, bond issues don't always reach maturity without hitting any snags along the way, and when the deal doesn't work as it was intended, an event of default may occur. For instance, a variety of unforeseen factors have affected the air travel industry and resulted in the bankruptcies of major airlines recently, and hurricanes have devastated projects in some municipalities.

When a default occurs, the role of the trustee dramatically changes. "Our role is very different when there are problems than when the deal is performing as intended," says Scott Strodtzoff, senior vice president of U.S. Bank Corporate Trust Services. "When a deal works as it's supposed to, U.S. Bank Corporate Trust Services provides service to both borrowers and bondholders.

"Upon default, our standard of care changes to that of a 'prudent person.' We continue to work with borrowers and issuers, but our duty is to represent the interests of the bondholders in recovering their investment. We don't

guarantee full repayment, but we seek a satisfactory resolution."

### Representing Bondholders' Interests

The trustee attempts to identify bondholders and find out what they would like to see happen. Typically, trading causes bondholders to come and go. In addition, the interests of one segment of bondholders may oppose those of another. "We have to get all the input we can and weigh everyone's interests," Strodtzoff says.

"The indenture does not define how a 'prudent person' should act," explains Keith Marshall, vice president. "Acting as a prudent person requires discretion, judgement and input from experts and the bondholders." Corporate Trust Services acts as a facilitator, consulting with legal, financial and business experts.

### Seeing the Big Picture

"We have to take a long-term outlook on the situation," says Robert Butzier, vice president. "Beyond worrying about one missed interest payment, for instance, we focus on the total return to



bondholders. If it's a secured deal, we might take steps to safeguard the collateral by using reserves to fund operations until a business can be sold, for example. In an unsecured deal, we might try to get on a committee of creditors to represent the interests of the bondholders in negotiations for a solution to the default."

The trustee plays other key roles, too. "During the period of uncertainty, we regularly distribute informational notices to bondholders," Butzier says. "And, as the situation allows, we'll distribute funds from the trust."

### Experience Makes a Difference

Although the outcome of a default situation may not be what all parties to the deal hoped for originally, an experienced trustee such as U.S. Bank Corporate Trust Services, working with note holders and borrowers and supported by knowledgeable experts, can use its resources to help bring about an acceptable result.

## What Is an "Event of Default"?

**T**he governing document (the indenture) for each debt transaction spells out exactly what constitutes an event of default. In general, a default may occur if a borrower:

- > fails to make full payment of principal and interest, taxes, insurance or other payments on time.
- > files for bankruptcy.
- > breaches a covenant. Typical examples of covenants include providing financial statements or officer certificates in a timely manner, or meeting performance ratios outlined in the indenture.

Often, but not always, there is a grace period during which the borrower may take corrective action to prevent an event of default.

# When Disaster Strikes, U.S. Bancorp Is Prepared

**A**fter a record year of hurricanes that disrupted businesses and damaged or destroyed infrastructure in the Gulf Coast, it's not surprising when thoughts turn to disaster preparedness. It's reassuring to know that U.S. Bancorp supports a well-organized, comprehensive business continuity planning and disaster recovery program throughout its business lines, including U.S. Bank Corporate Trust Services.

## The Business Continuity Program

The mission of the U.S. Bancorp Business Continuity Program is to establish and support an ongoing contingency planning program to evaluate the impact of significant events that may adversely affect customers, assets or employees. The program is designed to ensure U.S. Bancorp can recover its mission-critical functions, meet its fiduciary responsibility to stakeholders and comply with the requirements of the Federal Financial Institutions Examination Council (FFIEC), the Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC).

"We have detailed plans designed to quickly restore critical processes and operations, and have resources dedicated to contingency planning and disaster recovery," says Nancy Hofer, vice president, Corporate Contingency Planning. "There is a formal crisis management structure in place at every level that creates and sustains a culture of preparedness."

## Centralized Planning Assists Local Action

Response and crisis management across U.S. Bancorp is coordinated by the Corporate Contingency Planning Department. "We set policies and program initiatives, and

communicate these to the coordinators at the individual business units," Hofer says. "The coordinators then develop local action plans."

Beth Gloppen, manager, Corporate Trust Services Project Management, coordinates the overall business continuity efforts for U.S. Bank Corporate Trust Services.

"Corporate Trust Services takes business continuity planning very seriously," Gloppen says. "and that sense of urgency goes all the way to the top. Our president, Diane Thormodsgard, makes sure it's a priority throughout our group."

## Taking a Proactive Stance

As part of employee training and awareness, recovery team members are required to run quarterly "call-tree exercises," calling each person on their call-tree lists to verify telephone numbers.

"Not only does this exercise help ensure that we have current home and cell phone numbers for the people we need to contact, it helps heighten awareness of the importance of disaster recovery planning," Gloppen says.

In addition, Business Continuity Plan is required to run a functional exercise once a year, going through the actual steps to be taken should a disaster occur.

## Preparation Is Key

Since it is impossible to anticipate every type of potential disaster, there can be no assurance that there will be no interruption of U.S. Bancorp's business functions in all circumstances. However, U.S. Bank Corporate Trust Services has taken and continues to take the appropriate steps to help anticipate and recover from any interruptions in service.

## Fixed-Income Solutions... *continued from page 1*

shop around with multiple brokers. In addition, the Money Center features:

**Financial stability.** U.S. Bank National Association debt is rated Aa1/P-1 from Moody's and AA-/A-1+ from Standard & Poor's. "This is especially important to customers whose investment policy or trust indenture requires a certain rating," Nelson says.

**Objectivity.** "We don't have inventory bias," Kegel says, "because we don't carry a position in a particular security. We're free to make suggestions based on what's best for the customer."

**Experience.** The Money Center sales staff supporting Trust customers averages 15 years of experience.

**Exceptional service.** Each team member is familiar with the others' Trust con-

tacts and their customers, so if one Money Center representative is unavailable, another can provide assistance. "In addition, because we control the settlement of our proprietary products, we can complete trades later in the day," Barchus says. "Many other providers can't accommodate orders after noon for settlement that same day."

"We focus on customers' needs and expand our product line in response," Nelson says. "In fact, we're planning to roll out another trust-oriented product for 2006."

If you would like more information about how the Money Center can help provide fixed-income solutions, please contact your Account Manager.

# Spotlight on the Kentucky Office

**F**amous for bluegrass, bourbon and, of course, the Kentucky Derby, Kentucky also boasts a U.S. Bank Corporate Trust Services office. The office in Louisville, a result of the National City acquisition last year, is strategically located to provide corporate trust services throughout the state, and parts of southern Indiana.

“Our office provides the full range of corporate trust services, including trustee, registrar and paying agent for corporate and municipal bond issues and housing bonds, as well as a wide variety of escrow products,” says Mike Hanks, vice president, account manager and office lead. “Chuck Lush, trust officer and account manager, is particularly well-versed in 1031 like-kind property exchanges. So we’ve got all the bases covered.”

Mark Wheeler, regional president, U.S. Bank, appreciates the experience and expertise of the Corporate Trust Services group. “They’ve brought a whole new aspect of services for our municipalities, state government and corporations,” Wheeler says. “I worked with Mike for a number of years prior to his joining U.S. Bank, and I am thrilled to have his expertise and his reputation on our team.”

## Nurturing Long-Term Relationships

Some of the major accounts handled by the Kentucky office are pooled financings with the state of Kentucky and its agencies. “We work very closely with the Kentucky Association of Counties (KACo) and the Kentucky League of Cities,” Hanks says. “We’ve handled business for KACo since 1999, and I’ve personally worked with them since the 1980s.”

Grant Satterly, director of financial services, Kentucky Association of Counties, appreciates the hands-on service from U.S. Bank. “Because of the unique nature of our program, we require an everyday working relationship with our trustees,” Satterly says. “The fact that Chuck and

Mike are available to help us on that everyday basis allows us to run our program as efficiently and profitably as we do.”

Hanks, who has worked in trust for 28 years (24 of those years in corporate trust), credits experience and personalized service for maintaining long-term relationships. “Kentucky is a unique environment,” he says. “Our customers appreciate that we are in the local market, and we have a level of camaraderie and a small-town flavor that keeps customers coming back. Couple that with the resources behind U.S. Bank, and we’re hard to match,” Hanks says.

## And They’re Off ...

There’s room for growth in the Bluegrass State, and Hanks is eager to pursue it. “Our long-term goal for the office is to be No. 1 in corporate trust services in Kentucky,” Hanks says. “It’s a race I’m confident we can win.”



*Mike Hanks and Chuck Lush of the Kentucky Office.*

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