

# Corporate Trust Connection

Winter 2003

## Bond Market Outlook

### Interest Rates Could Cause Concern

**T**he economy's slow recovery should continue and then pick up speed heading into 2004, according to a mid-year forecast from the Economic Advisory Committee of the Bond Market Association. It expects real growth in gross domestic product (GDP) of 2.3% in 2003 and 3.4% in 2004.\* However, real GDP grew at a blistering 8.2% rate in third quarter 2003.\*\*

The accelerated growth, along with rising interest rates, poses challenges for the bond market, however.

With interest rates at near-record lows, the question isn't if they will rise, but when. The Bond Market



Association anticipates that the Fed will hold the fed funds rate at 1.0% through March 2004, then increase it gradually to 1.75% by September 2004. For its part, the Federal Reserve has indicated that it expects to

keep interest rates low for a "considerable period."

The Bond Market Association also expects inflation to remain low. It forecasts the Consumer Price Index, which was up 2.0% as of October 2003, to inch up to 2.2% by the end of 2003 and then fall back to 1.8% in 2004.

#### Wrapping Up a Good Year

Bond issuers made the most of low interest rates, increased corporate investment and fiscal stimulus during the first three quarters of 2003, with bond issuance totaling \$5.38 trillion. That

*continued on page 4*

## What's inside

- 2 Spotlight on Boston
- 3 Working Together to Build Relationships

## Did You Know...

- The retail sales industry is predicting holiday sales at general merchandise, department and specialty stores to top \$301 billion, up 5% over last year.
- E-tailers are expecting \$17 billion in sales in last quarter 2003, up 25% from last year.
- Thirty-six million Americans are expected to travel 50 or more miles from home this holiday season, up 2.4% from last year.
- Fifty-six percent of 2003 holiday travelers plan to stay with friends or relatives.

U.S. Bank Corporate Trust Services wishes you and your loved ones a happy, healthy and safe holiday season and prosperous new year.

Sources: About Retail Industry, [retailindustry.about.com](http://retailindustry.about.com); American Automobile Association, [aaa.org](http://aaa.org).

**usbank**  
Five Star Service Guaranteed 



*MassHousing client team: Front row from left, Lena Altomare, Gary Dougherty. Back row from left, Jim Coolidge, Andy Milas, Josh Bogle and Arthur MacDonald (missing Susan Calise).*



*Washington Mutual client team: Front row from left, Maryellen Hunter, David Duclos, Kathleen Fitzmeyer. Back row from left, Larry Snell, Karen Beard, Paul Bavis, Clare O'Brien, Jim Byrnes and Winnie Chen (missing Joe Cumiff).*

## Spotlight on the Boston Office

**F**rom Boston Pops to Red Sox, Boston is a city rich in history, tradition, arts and entertainment. It also happens to be the home of one of the largest U.S. Bank Corporate Trust Services offices.

### Spreading the News

“With nearly 200 experienced corporate trust professionals located in the Boston office, we are singularly positioned to provide a full complement of products and services to our customers throughout the Northeast,” says Bryan Calder, executive vice president, structured finance. “Despite the fact that U.S. Bank wasn’t a household word on the East Coast prior to last year’s acquisition of State Street Corporate Trust by U.S. Bank, our employees have worked hard this year to educate our community about our new name and continued quality service. We are very proud to be the No. 1 ranked municipal trustee in the Northeast and in the top five nationally for overall structured products, asset-backed securities (ABS), and collateralized debt obligations (CDOs). The dedication of our staff to their customers,” Calder adds, “and the commitment of U.S. Bank to the corporate trust industry, ensure that U.S. Bank will continue to be recognized as a premier provider of corporate trust products and services in this market.”

### Diversity of Financing Techniques

According to Dennis Calabrese, senior vice president and Northeast regional manager, corporate/municipal, along with his expertise as trustee for corporate and municipal issues in New England, the Boston office offers all of the services that other corporate trust offices provide, plus a few niche products. “Along with the Hartford office, we specialize in lease transactions, either as indentured trustee or owner trustee,” Calabrese says. “We also handle trust-originated preferred securities (TOPRS), which are treated as debt for tax purposes but count as capital for regulatory purposes.”

Jill Olson, vice president, structured finance/CDO group manager, adds that the collateralized debt obligation (CDO)

business is unique to the Boston office. CDOs are a cross between credit derivatives and asset-backed securities, and a popular financing technique. “We also specialize in mortgage-backed and commercial mortgage-backed securities,” Olson says.

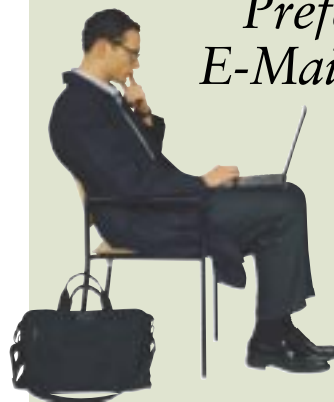
“The Boston office counts some of the state’s largest agencies among its customers for municipal trustee services. We provide leasing services to several major airlines and our structured customers include corporations and other large organizations,” Olson says.

### Continuing the Tradition of Service

With its knowledgeable and experienced staff, depth and breadth of products and exemplary risk management practices, the Boston office is a valued asset in the U.S. Bank Corporate Trust Services family. “Virtually every financing technique available is handled here in Boston,” says Calder. “We are pleased to be able to provide an outstanding level of service and continuity to our customers as part of U.S. Bank Corporate Trust Services.”

If you happen to be in the Boston area, stop by the office at One Federal Street and say hello. If you have questions about corporate or municipal issues or structured finance transactions, please contact your Account Manager.

*Would You  
Prefer  
E-Mail?*



At U.S. Bank, we would like to bring you news and information about Corporate Trust Services in the manner most convenient to you. If you would prefer to have *Corporate Trust Connection* delivered to you by e-mail, please notify Angela Reck at [angela.reck@usbank.com](mailto:angela.reck@usbank.com).

# U.S. Bank – Working Together to Build Relationships

**W**orking with a financial institution that can meet your wide variety of financial needs can often make your corporate finance efforts easier. Developing a strong relationship with each customer to better meet all of the customer's financial needs is a priority at U.S. Bank.

U.S. Bank Corporate Trust Services recently closed deals with two manufacturers, Johnson Controls, Inc., a dominant supplier of parts to the automotive industry, and Rayovac Corp., one of the world's largest battery and flashlight companies. Both companies had relationships with U.S. Bank in other business areas and moved some of their corporate trust business over to U.S. Bank.

## Providing Services As Needs Grow

"Johnson Controls has a long relationship with U.S. Bank," says Lars Anderson, vice president and business development officer for the U.S. Bank Corporate Trust Services Central region.

"Their Relationship Manager, Caroline Krider, referred them to Corporate Trust Services. As a result, they've named U.S. Bank as trustee on their current debt financing, even though competitor banks were the trustees on prior transactions." Johnson Controls is also aware of the capabilities of Corporate Trust Services as Issuing and Paying Agent for commercial paper programs.

## Getting a Charge Out of Rayovac

As a result of a recent acquisition of Remington, Rayovac Corp. hired U.S. Bank Corporate Trust Services as depository on the purchase offer and trustee on the new notes issued, according to Rick Prokosch, vice president. "Rayovac was also a referral," says Anderson. "They were looking for more ways to work with U.S. Bank when Jason Hickey in U.S. Bank Leveraged Finance referred them to us. Our trustee experience and leadership



in the industry were factors in their final decision," Anderson adds.

U.S. Bank Corporate Trust Services will also perform as tender agent for the exchange of their existing bonds.

## Our Tools, Your Needs

"U.S. Bank values the opportunity to start and grow relationships with companies that have multiple financial needs,"

Anderson says. "There's a great advantage to selecting a bank that has a plan to be there as the relationship grows."

If you have questions about any of the products and services U.S. Bank Corporate Trust Services can provide, please contact your Account Manager.

Please put "E-mail delivery" in the subject line and indicate if you would like *only* e-mail delivery or if you would like e-mail delivery *in addition* to standard mail delivery. In the message, include your name, mailing (post office) address and your e-mail address for future deliveries.

If you know of others who would like to receive a copy of our newsletter, please have them e-mail Angela Reck with their request. Thanks for your help, and we hope you enjoy reading *Corporate Trust Connection*.

## U.S. Bank Is Indenture Trustee for Caterpillar

In another notable deal in summer 2003, Caterpillar Financial Services Corporation selected U.S. Bank as indenture trustee and custodian for its asset-backed note financing, which is supported primarily by new and used construction equipment lease and loan contracts. In its role as indenture trustee and custodian for the \$671 million Caterpillar Financial Asset Trust 2003-A, U.S. Bank will be responsible for compliance oversight, file maintenance, noteholder communication and processing of interest and principal payments.

# Interest Rates *continued from page 1*

was a 40.3% increase over issuance in the same period of 2002. So far in 2003, the market is on pace to break the record set in 2002. The bonanza was led by Treasuries and mortgage-backed securities, whose issuance grew 24.9% and 67.9%, respectively.\* Treasury issuance should remain high due to higher budget deficits.

Mortgage-backed securities, which accounted for almost half of total bond issuance through September 2003, were fueled by record levels of mortgage originations and refinancings, which in turn resulted from historically low mortgage rates. Climbing rates will likely slow refinancings. But mortgage originations may not slide as much because

even though mortgage rates have risen somewhat, they remain low from a historical perspective.

Asset-backed securities also saw issuance increases in the first three quarters of 2003, up 18.6% from the same period in 2002.\*

## Deficits: A Boon for Bonds

There was growth in the municipal sector as state and local governments increased their reliance on the capital markets to fund budget deficits and spending. Municipal bond issuers also took advantage of low interest rates to refinance debt, lowering capital costs. Refunding volume slowed slightly, totaling \$92.1 billion in the first three quarters of 2003, up 5% over the same period a year earlier.

## Your Steadfast Partner

As the country has seen in recent years, unpredictable events such as a terrorist attack or corporate scandals can upset the most carefully laid forecasts. But you can be certain that whatever else happens, financing needs will continue. And U.S. Bank Corporate Trust Services stands ready to assist you with trustee, registrar, paying agent, business escrow, document custodian and other corporate trust services. Ask your Account Manager how we can help you find innovative solutions to the challenges you face.

\* Source: The Bond Market Association, [www.bondmarkets.com](http://www.bondmarkets.com).

\*\* Source: Bureau of Economic Analysis, [www.bea.gov](http://www.bea.gov).

Data was current as of press date, Dec. 1, 2003.



The articles and information included in this newsletter are for your information and are not intended as legal, accounting or tax advice. While the information is intended to be accurate, neither U.S. Bank Corporate Trust Services nor the publisher accepts responsibility for relying on the information provided.

©2003 U.S. Bank Corporate Trust Services. Member FDIC.

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](mailto:kathleen.engesser@usbank.com) (e-mail). For more information, visit our Web site at [usbank.com/corporatetrust](http://usbank.com/corporatetrust).

Presorted  
First-Class Mail  
U.S. Postage  
Paid  
Minneapolis, MN  
Permit No. 100

60 Livingston Avenue  
EP-MN-WS3W  
St. Paul, MN 55107  
