

Corporate Trust Connection

Fall 2000

Vehicle Lease Securitization

Titling Trusts Solve a Problem

The securitization of vehicle installment sale contracts has long been commonplace. But vehicle lease securitizations have been slow to develop. That's largely because registering certificates of title to and liens on vehicles is costly. The process is governed by state laws, which vary, and costs increase when each new transfer of the vehicle requires reregistration. The multiple transfers often called for in securitizations magnify this cost and burden. In many states, a violation of these laws is a criminal offense.

In addition, the transaction must be structured so that if the lessor goes bankrupt, the vehicles and their leases are not part of the bankruptcy estate.



Titling trusts make lease securitizations a viable form of financing.

A Solution Arises

In 1994, the first titling trust was created, and the world of vehicle lease securitizations was transformed. Lease securitizations became a viable form of financing because titling trusts made them easier and less costly.

Basically, it works like this: The sponsor of the securitization – such as a bank, auto leasing company

or finance company – establishes a titling trust before undertaking securitization. As leases are underwritten, the vehicles are titled from the very beginning in the name of the titling trust. The titling trust owns the contracts and leased vehicles, and the titling trust grantor has a beneficial interest in the assets, except for any interest paid to investors.

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Did You Know?

U.S. Bank Corporate Trust Services is part of the nation's 11th largest bank holding company, with assets totalling \$82 billion. The organization:

- Is composed of four business lines serving distinct customer segments and committed to satisfying customers and creating shareholder value: Wholesale Banking, Consumer Banking, Payment Systems, and Wealth Management and Capital Markets.
- Has more than 5,300 UBank[®] automated teller machines.
- Offers a comprehensive range of financial solutions to meet the needs of businesses, institutions, government entities and individuals.

Your U.S. Bank Corporate Trust Services representative can be your resourceful partner to satisfy *any* of your financial needs.

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Corporate Trust
Services

Spotlight on Escrow Services

When it comes to transactions involving large amounts of money, you need to trust that you'll get what you pay for. Escrow – having a neutral third party hold funds or documents in a transaction until certain conditions are met – often provides that assurance.

U.S. Bank Corporate Trust Services acts as an escrow agent in a wide range of transactions, nationally and internationally. “Here in San Francisco, we’ve managed our escrow services on a fairly large scale,” says Ann Gadsby, vice president. “Business has grown tremendously over the last 10 years, especially as a result of mergers and acquisitions in Silicon Valley. Our turnaround time has helped establish our name as a leader in this industry.”



U.S. Bank Corporate Trust Services helps the travel industry, among others, meet escrow requirements.

From Dollies to Divas

Many of these transactions require some kind of indemnification, or guarantee against loss. U.S. Bank Corporate Trust Services safeguards the property in escrow for “as long as it takes to complete the transaction and guard against any claims,” says Gadsby. “We’ve served as escrow agent in a number of high-profile deals, including ‘dot-com’ mergers and the sale of major sports franchises. When a bioscience company in California acquired stock in the group that cloned Dolly the sheep,” continues Gadsby, “we escrowed a portion of the stock to provide indemnification in case of tax liabilities and claims. We’ve even done escrows in cases where producers hold back the salaries of temperamental stars to make sure they show up on the set.”

Travel Industry Financial Services

Escrow services are often required in the travel industry as well. David O’Brien, vice president, Money Market Services, explains that United States Department of Transportation regulations require that charter airlines and tour operators – any travel industry that does not operate on a regular schedule – hold customer deposits in escrow. Similar regulations apply to the cruise industry by the Federal Maritime Commission. In addition, California law requires that California land tour operators, such as tour buses, keep their deposit funds in escrow.

“Our biggest chunk of business comes from charter airlines and tour operators,” O’Brien says. “Our largest travel industry clients include Sun Country Airlines, Champion Airlines, TWA Group Sales and Vacation Express.

“Clients appreciate our experience,” says O’Brien. “We provide an excellent record-keeping and reporting system known as Charter, and also offer accounts receivable tracking for hotel companies through the Charter system.”

Internet Safety Net

An emerging area for escrow services is business-to-business escrow involving Internet transactions. “We’ve done some fairly innovative things involving Web transactions,” explains David Pringle, vice president. “For example, one of our customers, WorldCatch.com, runs a Web-based auction site for the wholesale fishing industry. The site allows fishing companies to put up their catch for bid by prospective buyers worldwide.” Once a price is agreed upon, the transaction can be completed, but assurances on both sides are necessary.

“The ‘old economy’ way of handling such a transaction is through a letter of credit,” Pringle explains. “WorldCatch.com allows other options, one of which is an escrow account with U.S. Bank Corporate Trust Services. If the buyer chooses this option online, the WorldCatch.com system automatically advises us by e-mail of the impending transaction, including names and bank account numbers of the parties. Once the buyer goes online to indicate that the goods have been received, the system generates another e-mail to U.S. Bank, authorizing the release of funds to the seller. It’s an extremely smooth way of handling transactions of this type.”

Look to Us for Solutions

At U.S. Bank Corporate Trust Services, we can help you satisfy escrow requirements and put your money to work for you. Escrowed funds held by U.S. Bank Corporate Trust Services can be invested in a variety of instruments or swept into interest-earning accounts.

For more information on escrow services, contact your U.S. Bank Corporate Trust Services representative. Or visit our Web site at usbank.com/corporatetrust.

Titling Trusts... *continued from page 1*

Retitling and reregistration of the leased vehicles is not required because each vehicle is owned continuously by the titling trust until it is sold or otherwise disposed of. Concerns about bankruptcy of the lessor are also satisfied, since the titling trust rather than the lessor owns the vehicles and leases.

Establishing a Trustee

“U.S. Bank Corporate Trust Services enters the picture when it’s time to get the titling trustee up and running,” says Nancie Arvin, vice president. “Usually, for every titling trust that’s established, a separate trustee corporation must be established,” she explains.

Establishing the titling trustee involves selecting a name for the trustee

corporation, drafting the articles of incorporation and the bylaws and getting the trustee qualified to do business in whatever states the issuer chooses.

Recently, due to changes in some state laws, U.S. Bank Corporate Trust Services has been able to act as titling trustee in certain instances, without having to establish a separate corporation. “In the past, laws in some states didn’t allow vehicle titles to be owned in the name of a trust. They had to be owned by an individual or a corporation. But that’s changed now,” she explains.

Nevertheless, some issuers still prefer to have a separate corporation established as titling trustee. “We’ll do it whichever way our clients prefer,” Arvin says. “It’s their call.”

Filling a Niche

“U.S. Bank Corporate Trust Services sets up trustees for a significant portion of U.S. titling trusts,” says Diane Thormodsgard, president. “We’ve established a reputation for understanding the process and for handling all the paperwork efficiently.

“We receive referrals from people we work with, because they know we’ll do whatever it takes to allow our clients to achieve their goals. We’ve developed a reputation for ‘working outside the box,’” she says.

A chief supplier of referrals is Dale Lum of the San Francisco office of Brown & Wood LLP. He was the underwriter’s counsel in the creation of the first titling trust in 1994. He’s worked

with the same corporate trust people – now employees of U.S. Bank Corporate Trust Services – ever since.

“I like working with U.S. Bank Corporate Trust Services because they’re always very cooperative and open,” says Lum. “Understand, I’m recommending them to a client of mine. In many respects, that’s the most terrifying thing that anyone can do because if there’s ever a problem, your client is going to come back and be unhappy.

“I don’t worry about that with U.S. Bank because if there are ever any issues, we get on the phone and talk about them and they’re worked out,” Lum says. “That’s worth its weight in gold.”

GFOA Conference in the Windy City

The Government Finance Officers Association (GFOA), an association of public-sector finance professionals, held its 94th Annual Conference in Chicago from June 11 to 14. Sessions included such topics as accounting, capital finance and debt administration, technology and the Internet.

“The conference and trade show exhibits allow staff and executive directors of city and county agencies to meet with each other, exchange ideas and explore new vendors and services,” explains Diane Reynolds, vice president, Relationship Specialist Manager. “It also gives us the opportunity to meet face-to-face with some of the people we’ve worked with and introduce ourselves to customers from around the country.”

Representatives from several U.S. Bank business groups, including Corporate Trust Services, Government Banking and U.S. Bancorp Piper Jaffray Investment Management, attended. A pre-conference highlight was the evening dinner cruise U.S. Bank sponsored on Saturday night for our



Enjoying the cruise, l. to r.: Terry McRoberts, executive vice president, U.S. Bank Corporate Trust Services; Adrian Wright, guest of Ms. Crumpler; Donita Crumpler, assistant city bond accountant, City of Detroit.

customers. “It was very well attended,” reports Reynolds. “About 175 people joined us on the cruise, which included an architectural tour, cocktails, dinner, dessert and coffee. The evening was capped off with a fireworks display off Navy Pier.”

The GFOA offers a forum for information, training and public policy and is dedicated to the sound management of government financial resources. This year’s GFOA conference was the largest in its 94-year history, with more than 8,300 attendees.

Bondholder Communications Department

Saving You Time and Money

Your bondholders are important to you. Making sure they have access to critical bond information in a timely manner ensures satisfaction with their current investment and can make your next issuance appealing for their future investment. Making sure your trustee has a team of experienced, knowledgeable people who can satisfy your bondholders' needs should be a priority in your trustee selection. A professional bondholder communications group will simplify the workload of bond issuers by fielding inquiries from bondholders.



We're here to help.

The Bondholder Communications Department (BHC) at U.S. Bank Corporate Trust Services is an example of a team of professionals dedicated to meeting the needs of the bond issuer's customers, the bondholders. BHC handles an average of 14,720 phone calls and 2,284 written inquiries each month, resulting in a significant reduction in communication costs to issuers.

As you might expect, BHC answers many routine inquiries concerning security payment or transfer status, agent information, dividends, factors, check photocopies and the like. On average, bondholders receive a response in one to five business days.

In addition to general inquiries, BHC also offers information and support in other key areas. Some examples include:

- **Lost and stolen securities.** U.S. Bank Corporate Trust Services is responsible for reporting the loss to the Securities Information Center in accordance with the Transfer Agent Guidelines mandated by the Securities and Exchange Commission (SEC). BHC facilitates the replacement or payment of these securities for your bondholders. Benefiting from the relationship established with a Surety Bond Corporation, BHC is able to offer the purchase of a Lost Instrument Bond to the bondholder.
 - **Taxes.** During tax season (January 31 through April 15) BHC fields 47,000 phone calls and 5,877 written inquiries, predominantly about taxes. We provide bondholders with a detailed explanation of the documents issued by our Tax Department, process requests for duplicate statements and provide them with supporting details for the information reported under their tax identification numbers.
- Bondholder Communications strives to provide a quality response to each inquiry and exceed SEC guidelines as well as internal standards. So your bondholders are assured of efficient and effective response – and that makes *you* look good.

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Comments and suggestions for the newsletter are welcome and should be forwarded to Kathleen Engesser, Marketing Manager, U.S. Bank Corporate Trust Services, (651) 244-8440 (phone) or kathleen.engesser@usbank.com (e-mail).

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