

Corporate Trust Connection

Fall 2001

Investment-Grade Ratings – A New Trend for the Hospitality Industry

U.S. Bancorp Piper Jaffray has been appointed as sole managing underwriter for a \$245 million bond offering for construction of a full-service convention center in Austin, Texas. A trendsetter for the municipal hospitality industry, "...the Austin deal is the first hotel transaction to earn investment-grade ratings from both Moody's and Standard & Poor's."*

Working with the credit enhancement community, U.S. Bancorp Piper Jaffray was able to structure a multi-tiered plan of finance that included an investment grade senior tranch, an AA/Aa3-

rated mezzanine tranch and an unrated, privately placed third tier tranch. The structure allowed the city of Austin the opportunity to own their own hotel with a minimal equity contribution from the city, at interest rates below 7 percent for a 30-year fixed-rate financing term.

A Growing Market

This type of financing is likely to become more popular as investors seek investment-grade securities and municipalities seek competitive financing rates and terms.

continued on page 2



U.S. Bancorp Piper Jaffray is helping set financing trends for the municipal hospitality industry.

What's inside

- 2 Asset-Backed Securities from A to (Almost) Z
- 3 Enjoy the Ease of Online Investor Information Reporting
- 4 New Financing Opportunities for Mobile Home Parks

Did You Know?

All 50 states and the District of Columbia have adopted major revisions to Uniform Commercial Code (UCC) Article 9. Article 9 is the section of the UCC that governs secured transactions. The effective date was July 1, 2001, for all states except Connecticut, where the effective date will be October 1, 2001, and Alabama, Florida and Mississippi, where the effective date will be January 1, 2002. Changes that most affect the UCC filings related to your corporate trust accounts are:

- State filings must now be filed in the state of organization of the Debtor rather than in the state where the collateral is located.
- The listed name of the Debtor on the filing must be its legal name, not its trade name.
- Changes in name or jurisdiction must be filed within one year of the change or the security interest could be impaired.
- Deposit Accounts are now included under the UCC. Changes in collateral descriptions may be necessary.

These changes require that certain information be verified before UCC continuations are filed. You may receive requests for certification from your U.S. Bank Corporate Trust Services representative.

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Asset-Backed Securities from A to (Almost) Z

Securitization has been around for more than twenty years, dating back to 1968, where the first mortgage-backed securities were issued by the government as a way of creating liquidity within the mortgage market. It started with the Government National Mortgage Association (Ginnie Mae), who issued pass-through securities secured by a pool of mortgages and guaranteed by the federal government (through the Federal Housing Administration).^{*} With the success of mortgage-backed securities, asset securitization has expanded rapidly to include other asset types and a variety of tax structures.

Now the market for asset- and mortgage-backed securities is almost limitless. Auto loans, credit card receivables, equipment leases, mortgages, student loans – almost anything can be pooled into an asset-backed security.

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Securitization simply requires a predictable cash flow and historical information on the performance of the assets in order to structure a transaction which appeals to the

banks, insurance companies and mutual funds who typically invest in these types of securities. In 2000, asset-backed securities raised a record \$298.8 billion of capital.^{**}

Filling a Financing Need

“Corporations choose securitization for several reasons,” says Ed Kachinski, vice president. “Primarily, to raise cash. For example, if capital is tied up in receivables, securitization can provide instant liquidity. It can also help diversify funding sources because the liquidity being tapped is based on the credit quality of the assets rather than the rating of the issuer. It potentially allows some issuers to raise money at more competitive rates.”

Although U.S. Bank Corporate Trust Services serves as trustee for a wide variety of asset-backed transactions, mortgage-backed transactions make up its biggest single market. Mortgage transactions can include conventional first mortgages, home equity loans (or lines of credit), home improvement loans and FHA/VA loans. For

Hospitality Bonds...continued from page 1

“The municipal hospitality market, while still in its infancy, has now developed to a point where convention center and airport hotels can be financed in an efficient manner, secured primarily by net operating revenues of the project, contingent upon

the credit characteristics of the particular project,” says Robert Swerdling, managing director of Fixed Income Capital Markets at U.S. Bancorp Piper Jaffray. “Both the legal and investor communities are becoming more familiar with these transactions.”

U.S. Bank Corporate Trust Services was proud to be appointed as trustee. Our knowledge and experience getting complex financings closed in a timely and accurate manner and our ability to meet the varied needs of the transaction were recog-

nized by the parties involved in this unique deal. If you find that you might be involved in a similar type of transaction, please contact your U.S. Bank Corporate Trust Services Representative.

^{*} Source: *The Bond Buyer*, June 6, 2001.

example, U.S. Bank recently was selected as trustee on a revolving home equity transaction for Fleet Bank, with a principal balance of more than \$747 million.

As trustee, U.S. Bank Corporate Trust Services provides a variety of services on these transactions, including analytics and cash flow processing, information reporting and custodial services. Since most transactions involve monthly distributions to investors, the trustee becomes deeply involved in the monthly cycle, which requires effectively coordinating various activities with issuers, servicers, credit enhancers and investment bankers.

On mortgage transactions, Corporate Trust Services typically acts as custodian as well as trustee. The custodian is responsible for verifying certain information regarding the collateral before securities are sold to investors and safekeeps the legal documents during the term of the transaction. Our Document Custody Services (DCS) area can also prepare and forward assignments of each mortgage loan to the trustee, if required under the terms of the agreement.

Leveraging Loans and Leases

U.S. Bank Corporate Trust Services has also

developed a growing niche in auto loan, auto lease and credit card securitizations, according to Nancie Arvin, vice president. "With an auto transaction, once the assets are transferred to a trust, notes are issued that are secured by the assets owned by the trust." Payment streams to investors are based on amounts received on the

Our expertise allows our customers to tap into new ideas and creative solutions.

underlying assets. Typically there are multiple classes of notes issued with different maturities, interest rates and credit quality, which appeals to a variety of investors.

"With auto loans and leases, each transaction is typically stand-alone," Arvin explains. "Credit card receivables are different and typically issued through a master trust with revolving assets and principal paid at maturity. Once the master trust is created, periodic series are issued as the receivables in the trust grow."

Corporate Trust Services recently closed a deal with Household

Finance Corporation for its \$660 million notes secured by non-prime loans for automobiles, light-duty trucks and vans. One of our most active issuers, Discover Card, averages about one issuance a month, typically between \$750 million and \$1 billion, Arvin says.

We Can Make It Work for You

For everything from Delaware or Cayman trusteeships to document custody services to commercial paper issuing and paying agent functions, U.S. Bank Corporate Trust Services can provide one-stop shopping. Our expertise allows our customers to tap into new ideas and creative solutions. "Our customers like working with us because we're client-focused," Kachinski says. "We're flexible and have an experienced staff that understands the transactions and sees them through to completion in a timely manner."

For more information about how we can help you on your mortgage- or asset-backed transactions, contact your U.S. Bank Corporate Trust Services Representative, or visit usbank.com/corporatetrust.

* Source: *Best's Review*, February 2000.

** Source: *American Banker*, January 8, 2001.



Enjoy the Ease of Online Investor Information Reporting

Asset-backed issuers who select U.S. Bank Corporate Trust Services as trustee on their structured deals can offer their investors convenient, online access to certificate information through usbank.com/abs. Investors simply search for the Issuer and Series, and then select the payment month. The Certificate Statements will be downloaded to the investors' computers as PDF files, so they can view an entire month's statement at any time – no need to wait for mail or a fax. Try it today.

New Financing Opportunities for Mobile Home Parks

A new trend may be developing in the financing of mobile home parks. U.S. Bank Corporate Trust Services recently became housing trustee for several mobile home park bond issues guaranteed by the U.S. Department of Housing and Urban Development (HUD). HUD's Section 207(m) mobile home park program could make financing or refinancing the purchase of a mobile home park easier.

Section 207(m) is a Federal Housing Administration (FHA) mortgage insurance program that allows issuers to use tax-exempt bond financing. The

bonds are rated "Aaa" by Moody's, which means interest rates are lower. In addition, they can be financed over 40 years.

Better Rating, Better Rates

In the past, cities and counties have purchased mobile home parks by issuing certificates of participation and/or lease revenue bonds, but not by issuing bonds secured by a GNMA (Government National Mortgage Association, or Ginnie Mae) security. The "Aaa" rating that results from the GNMA backing makes the bonds easier to sell

to institutional and individual buyers. It means the issuer can pay lower interest rates, too.

Recently, the San Bernardino Mobilehome Park Corporation, a California 501(c)(3) nonprofit corporation affiliated with the City of San Bernardino, refinanced the acquisition of two mobile home parks by issuing multi-family housing revenue bonds secured by a GNMA security. U.S. Bank Corporate Trust Services believes this was the first bond issuance for mobile home parks in California secured by a GNMA security.



Our Experience Works for You

Additional information about financing through Section 207(m) is available by contacting HUD, www.hud.gov. Your U.S. Bank Corporate Trust Services representative is happy to help you with any bond issue, whether it's routine or the first of its kind. You can rely on innovative ideas and professional expertise with U.S. Bank Corporate Trust Services.

4

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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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