

Corporate Trust Connection

Summer 2000

At Home and Abroad...

Expanding to Meet Customer Needs



Meeting financial needs around the world.

Taxes. Legal advantages. Privacy issues. Our customers come to us with a wide range of financial services needs, some of which may be met more favorably in different jurisdictions. To meet those needs, U.S. Bank Corporate Trust Services has recently expanded to include operations in Delaware, the Cayman Islands and Argentina. Here's a look at how and why you may benefit.

The Delaware Advantage

Because of its unique legal and tax structure, Delaware is one of the most advantageous places in the world for businesses to incorporate. In fact, more than half of the companies listed on the New York Stock Exchange are incorporated in Delaware.*

"As part of the favorable business environment, for example, Delaware Business Trusts have unique tax advantages," says Mark

Hartzell, Senior Vice President, U.S. Bank Corporate Trust Services. "But in order to reap them for our customers, we needed a physical presence in the state. By setting up operations in Delaware, we can now offer our customers one-stop shopping with our structured finance products. They win because we can be more cost-effective in pricing for our services."

Credit in the Caymans

Farther afield, the Cayman Islands also offer

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Did You Know?

U.S. Bank Corporate Trust Services is an experienced international corporate trust provider. Our team of international specialists can help your business anywhere in the world. U.S. Bank Corporate Trust Services:

- Supports transactions for customers in 31 countries.
- Serves as Trustee and/or agent for the sovereign debt of the Republic of Brazil, Costa Rica, Croatia, the Philippines, Bolivia, and Italy.
- Has a 25% market share as Trustee on transactions listed on the Buenos Aires Stock Exchange (the BOLSA).
- Was voted the "Best Trustee for Latin America" for 1998 and 1999 by active issuers and awarded by International Securitization Report.
- Acted as Collateral Agent for Dabhol Power Company, the largest single foreign investment in Indian history.

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What's New in Commercial Paper?

By David O'Brien, Vice President, Money Market Services, U.S. Bank Corporate Trust Services

Constantly exploring ways to provide more efficient and cost-effective services for issuers of short-term debt instruments is a sign of a market leader. It is also standard operating procedure for the team at U.S. Bank Corporate Trust Services. An example of our efforts was our participation last year in the first extendible commercial paper note issuance for the municipal market. This type of creative, flexible financing is of growing interest in the corporate world as well.

Here are a few other new developments.

- **Pre-Issuance Messaging System.** Recently we went “live” with “PIMS” – the Pre-Issuance Messaging System – to help expedite the settlement of commercial paper trades. With PIMS, trades are sent from dealers to The Depository Trust Corporation (DTC) and then on to an Issuing and Paying Agent (IPA), such as U.S. Bank Corporate Trust Services. Prior to PIMS, a trade settlement was transacted over dedicated phone lines from the broker-dealer to the IPA. The issuing agent then used a computer link with DTC to send the issuance instructions. This required separate phone lines from each major dealer to each of the major IPAs at considerable expense.

PIMS came about as a result of discussions by the Money Market Operations Committee of the Bond Market Association. It was determined that, since all parties to the trades have DTC access, routing the trades to DTC via queuing



messaging software would be considerably faster and more efficient. Now, the vast majority of dealer-placed commercial paper trades are transmitted utilizing the highly reliable DTC communications infrastructure.

- **Administrator Services.** Recently we've added the capability to act as Administrator in asset-backed commercial paper deals through a partnership with Global Securitization

Services. In many of these types of transactions, a special-purpose corporation will buy assets at a discount, expecting to make a profit when the asset matures. In these instances, the corporation issues commercial paper to finance these purchases.

However, although the assets may not mature for many years, the commercial paper comes due in short order. The Administrator handles the paperwork associated with the assets and works with the dealers on an ongoing basis to find investors for the new commercial paper.

- **Directly Placed (Direct Issuance) CP.** Very active issuers with billions of dollars in outstanding commercial paper often find

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tax and legal advantages, particularly for companies seeking to raise capital off the balance sheet.

“The truly unique and gratifying aspect of the Cayman expansion was that it was customer-driven,” says Bob Radich, Vice President and Relationship Specialist Manager, U.S. Bank Corporate Trust Services. “We had a long-standing relationship with an investment bank in New York seeking to do Cayman trusts. We were not licensed in the Caymans, but our customer chose us as their preferred provider and played a vital

role in working with us to get the Cayman license.

“That kind of customer loyalty and investment is a testament to our outstanding service and flexibility in meeting our customers’ financial needs,” Radich adds. The new license, which is nonexclusive, allows Corporate Trust Services to serve other customers who would like to explore Cayman trusts.

Opening Doors in Argentina

Finally, U.S. Bank Corporate Trust Services recently opened a full-service

office in Buenos Aires. “The Buenos Aires office is in response to the outstanding growth we’ve experienced in Argentina,” says Radich. “Of the listed transactions in Argentina, we have about 20% of the market share as Trustee, including a mortgage securitization done for Banco Hipotecario, the Argentine equivalent of Fannie Mae. In fact, our efforts in Argentina just earned us an award. We were named ‘Best Trustee for Latin America’ for the second year in a row by the International Securitization Report.”

The Buenos Aires office can also handle business from U.S. companies and

investment banks seeking to close deals in Argentina.

Finding Creative Solutions

Our expansion of operations is just one way that U.S. Bank Corporate Trust Services goes the extra mile (figuratively *and* literally) to provide solutions for your financing, trust and administrative needs. For more information, contact your U.S. Bank Corporate Trust Services representative.

* Source: State of Delaware, Delaware Division of Corporations Web site, www.state.de.us/corpl/index.htm.

Will Aging Boomers Strengthen the Bond Market?

Within 10 years, the first wave of baby boomers (Americans born between 1946 and 1964) will begin to retire. Boomers have largely snubbed bonds in favor of the stock market. (A survey by the National Association of Securities Dealers found that the percentage of Americans who own stocks doubled from 1990 to 1997.)* But what will happen when they need to depend on their investments for income?

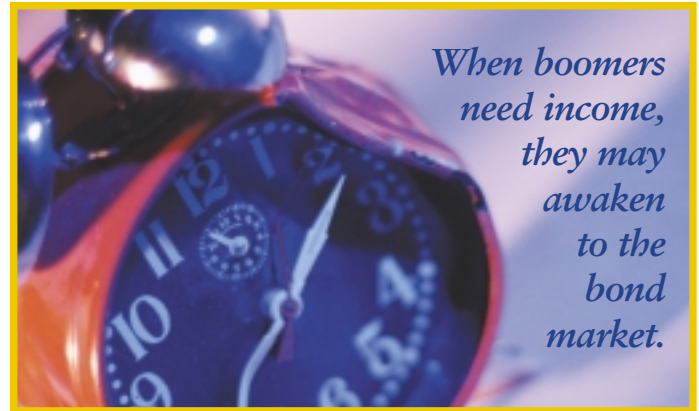
Corporate Trust Connection asked Michael P. McMahon, Managing Director, Municipal Trading and Underwriting, and Frank Fairman, Manager of Public Finance, both of U.S. Bancorp Piper Jaffray, how the retirement of the largest – and wealthiest – generation in U.S. history could potentially affect the bond market. **CTC:** Do you see baby boomers moving into the

bond market in large numbers within the next decade?

McMahon: Conventional portfolio management strategy suggests that, as individuals approach retirement, they move a portion of their investments out of the growth, or equity, mode and into the wealth preservation and income mode provided by bonds. Of course, no one can tell with any certainty whether baby boomers will do this in large numbers. But they should certainly start thinking about protecting what they have accumulated and rebalancing their portfolios to help reduce risk.

Fairman: It also makes sense for individuals who have accumulated large retirement nest eggs to consider muni bonds because of their tax advantages.

CTC: If boomers do start moving large amounts of money into bonds, what would be the impact on the bond market?



When boomers need income, they may awaken to the bond market.

Fairman: Demand is unlikely to affect decisions on whether to do a bond issuance versus other types of financing. Issuers of municipal bonds will continue to use bonds regardless of what boomers do because it's a cost-effective way to raise money.

However, if there are more individual investors in the market and more demand, there will clearly be an impact. Right now a lot of new issues are sold to institutions, such as bond mutual funds, rather than directly to individuals. But if more individual investors demand bonds, it may ultimately affect interest rates.

McMahon: Increased demand would probably push down interest rates. That would be a positive for issuers, since it costs less to take on debt when rates are lower.

CTC: Would greater demand result in lower underwriting fees?

Fairman: Underwriting fees have already come down over the past 10 years and are at pretty aggressive levels; in some cases they probably couldn't go much lower.

The important thing for issuers to remember is not to choose an underwriter based solely on fees. They need to consider the ability of the underwriter to efficiently distribute the bonds to all available markets.

CTC: Do you anticipate other factors affecting the bond market?

Fairman: Within a few years, the Internet may have a considerable impact – possibly greater and certainly sooner than baby boomer retirements. Right now, for the individual investor, the bond market is far more complicated than the stock market. There are thousands of issues, and the bonds themselves have different maturities and coupon rates. That's why many individuals choose bond mutual funds rather than individual bonds. However, if the Internet were able to provide user-friendly information and bond-buying capabilities for individuals, we could see a real increase in the number of individuals buying bonds and a significant change in investment habits.

* Source: *The Wall Street Journal*, February 25, 1997.

Upcoming Conferences

You can visit with us this summer at any of the following conferences:

Government Finance Officer's Association Annual Conference
June 11-14
McCormick Place Plaza
Chicago, Illinois

Western State Treasurer's Conference
June 17-21
Westmark Baranof Hotel
Juneau, Alaska

Colorado Municipal League
June 22-26
Vail, Colorado

Florida ALHFA Annual Conference
July 12-15
Hilton Resort
Key West, Florida

National Association of State Treasurers 25th Annual Conference
August 6-9
Westin Hotel
Chicago, Illinois

We look forward to seeing you!

Document Custody Services

Putting Experience to Work for You

When an asset-backed security is formed, regulatory agencies require that a third-party custodian hold the collateral documents. The Document Custody Services (DCS) group at U.S. Bank Corporate Trust Services has extensive experience certifying and safekeeping collateral loan files for asset-backed securities. As an agency-approved custodian with a proven performance record, U.S. Bank is a leader in the document custody business.

“As a third-party custodian, U.S. Bank tailors our DCS services to the needs of our clients,” says Cynthia Rose, U.S. Bank Corporate Trust Services Vice President. “We also offer our customers a wide variety of services related to securitization and document safekeeping. It’s a well-rounded package.”



When your clients call, we listen.

DCS structures turnaround times on document review, retrieval and filing to fit customers’ requirements. “It varies depending on the situation, but in general, we may review documents the same day, return files within 72 hours

and file new documents within 15 days,” Rose says.

DCS serves roughly 300 customers and stores about 1.5 million documents in a vault in St. Paul, Minnesota. A vault in Florence, South Carolina, holds another 1.5 million documents. “Our South Carolina facility primarily supports one major client,” Rose says. “This is a good example of how we respond to clients’ needs. The client is headquartered in South Carolina and they wanted us there, too. So we

operate a facility in

Florence to meet their needs. At U.S. Bank, it really is ‘your needs, our tools.’”

Visit our
Web site at
[www.usbank.com/
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Commercial Paper

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it more cost-effective to market their paper directly to investors, rather than using the traditional broker-dealer route. U.S. Bank Corporate Trust Services is equipped to handle large volumes of these transactions. Direct Issuers can have their trading systems interface directly with our mainframe CP system and receive real-time updates of the DTC trade status.

• Technology Upgrades.

Finally, we’re making significant investments in technology to upgrade our processing system for money market instruments. Our goal is to provide our clients with full-featured Internet access to their account information for reports and analysis of their money market instrument portfolios.

For more information contact your U.S. Bank Corporate Trust Services representative.

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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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