

# Corporate Trust Connection

Spring 2000

## What's in Store for the Bond Market?

The economic expansion that began more than eight years ago will continue through 2000, predicts the Economic Advisory Board of The Bond Market Association. But for bond issuers, what will happen in the year 2000 is anyone's guess.

According to the Association, Gross Domestic Product is expected to peg in at 3.9% for 1999, then slow to 2.0% in 2000.\* Inflation is forecast to remain low. The National Association for Business Economics (NABE) predicts the Consumer Price Index will end 1999 at 2.2%, inching up to 2.5% in



2000. Slower growth and low inflation sound like a recipe for the status quo.

### Rate Increases Ahead?

However, there are those who argue that the current rate of growth is unsustainable, citing the shrinking

pool of available workers to support their argument. Unemployment is at a 29-year low of 4.1%.\*\* The pool of available workers – a statistic the Federal Reserve sees as an important early warning sign of inflationary pressure – shrank from 11.7 million in November 1996 to 9.7 million in November 1999. (Oddly, the data suggest no inflation threat from the shrinking pool of workers. Wage growth has been flat for the past two years.\*\*\*) However, the potential for inflationary pressure is there, which

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## Did You Know...

### Top Trustee Banks (by Number of Issues): All of 1999

Rank	Firm	Issues	Amount
1	U.S. Bank	655	\$14,099,900
2	Bank of New York	494	16,400,700
3	Banc One Investment Management Group	377	11,728,400
4	Norwest Bank	309	8,902,400
5	Chase Bank	297	13,638,500
6	First Union National Bank	248	5,942,900
7	State Street Bank & Trust Co.	221	7,222,400
8	United States Trust Co.	182	10,500,300
9	SunTrust Bank	176	4,678,500
10	National City Bank	121	2,629,200

Dollar amounts are in thousands of dollars. Rankings are preliminary and subject to revision. Short-term notes maturing in under 13 months, private placements, and bonds sold by private nonprofit electric cooperatives are excluded. Source: Securities Data Co. (12/30/99). Reported in *The Bond Buyer*, Jan. 3, 2000.

- U.S. Bank Corporate Trust Services is the top municipal trustee for 1999.
- U.S. Bank Corporate Trust Services has been ranked the number one municipal trustee for four consecutive years.
- U.S. Bank consistently ranks in the top five for asset-backed trustees.
- U.S. Bancorp Piper Jaffray was ranked the top small-issue Senior Manager for 1999, as well as ranking in the top ten in the following areas: Senior Managers, Competitive Senior Managers, Financial Advisors and small-issue Co-Managers.

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# Revised Article 9 and Perfection of Security Interests

**P**erfection of security interests – it may sound arcane, but it is a critical element for any issuer of a debt obligation. *Security interest* is a creditor's interest in a debtor's personal property – collateral that may be repossessed and sold by the creditor should the debtor default. *Perfection* is the means to establish priority of a particular creditor's interest in the collateral when there are other creditors involved – in other words, who gets first dibs on the collateral. Article 9 of the Uniform Commercial Code (UCC) includes the rules governing security interests, and if you deal with asset securitization, be aware that changes are in store.

## Expanded Scope, Increased Flexibility

The National Conference of Commissioners on Uniform State Laws has



**Revised Article 9 will cover a broader range of assets.**

approved revisions to Article 9, and state legislatures have already begun enacting them into law. Proponents feel the revisions will bring greater certainty to financial transactions and reduce transaction costs and the cost of credit. Although the changes aren't radical, they do expand the scope of Article 9 by:

- covering a broader range of assets
- introducing the concept of electronic chattel paper (chattel paper consisting of records stored in an electronic medium)
- giving secured creditors additional rights to supporting obligations such as letters of credit.

Revised Article 9 also introduces more flexible methods of perfecting security interests.

## Your Next Step

The proposed effective date of the changes is July 1, 2001. However, despite this long lead time, you may want to learn the new rules and review your current obligations now to ensure you are ready for the deadline and to protect your security interests. For more details, visit the Web site of the National Conference of Commissioners on Uniform State Laws at [www.nccusl.org](http://www.nccusl.org).

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prompted a .25% rate hike by the Fed on February 2.

### Will Bonds Rally?

The rosy economy has been a force behind the continued bull market in stocks. The Dow Jones Industrial Average was up 25.2% and the S&P 500 up 19.5% at the end of 1999. It's been a different story for the bond market, though. Bonds suffered their second-worst year since 1973, down 0.58% through the year ending December 31, 1999.<sup>†</sup>

At the same time, domestic bond issues totaled \$7.9 trillion in the first nine

months of 1999 – up 3.5% over the same period the previous year. The increase can be partially attributed to corporations that wanted to get their borrowing requirements completed well before year-end, due to concerns about potential Y2K glitches. As expected, volume dropped off in the fourth quarter.

The effect of bond issues being front-loaded into the first half of the year was predictable. Prices slumped as the supply of bond issues soared. With the Y2K date change behind us, the timing of bond issues should level

off. And with stock prices at record levels, interest in bonds as a portfolio balancing strategy may increase.

### No Crystal Ball Available

President Clinton recently nominated Alan Greenspan to another term as chairman of the Fed. That move greatly reassured the financial markets. Yet any number of other factors – rising inflation, the global economy, political crises – could have an impact on the bond market.

Whatever the economy does, bond financing needs

will continue. Whether you're interested in trustee, registrar, paying agent, business escrow, document custodial or other corporate trust services, U.S. Bank Corporate Trust Services can help. Contact one of our representatives whenever we can be of service.

\* Source: The Bond Market Association press release, December 15, 1999.

\*\* Source: *The Wall Street Journal*, December 6, 1999.

\*\*\* Source: Briefing.com Stock and Bond analysis services.

† Source: *The Wall Street Journal*, January 3, 2000; as measured by the Lehman Bros. aggregate bond index.

# The Repeal of Glass-Steagall:

## New Legislation for a New Millennium

The walls separating financial service institutions since the passage of the Glass-Steagall Act early in the 1930s have finally come tumbling down. The Gramm-Leach-Bliley Act (the "Act"), signed into law in November 1999, repealed Glass-Steagall and opened the door to affiliations among banks, securities firms and insurance companies.

In reality, the barriers were crumbling prior to passage of the Act. Banks were already permitted to purchase securities firms (although with restrictions, including a 25% cap on revenue a firm could earn from securities underwriting and dealing). However, the Act removes the restrictions and brings legislation more in touch

with the realities of financial services today. The potential benefits to consumers include greater competition for their business, increased convenience and lower prices due to economies of scale.

### How Does It Affect You?

"The new Act will not have a noticeable impact on the ability of U.S. Bank to serve you and to act as both trustee and underwriter in any number of transactions," says Terry McRoberts, executive vice president, Corporate Trust Services. "What the Act will do is expand the areas where the Bank is allowed to act as underwriter in the future. We can provide one-stop

shopping in situations where we act as trustee and underwriter. U.S. Bank Corporate Trust Services will, of course, maintain what are well-established, long-term relationships with other

underwriters with the goal of providing the best possible service to our customers."

If you have questions about the range of services we can provide, contact your U.S. Bank Corporate Trust Services representative.



## Key Banking Laws of the 20th Century

**Federal Reserve Act of 1913** – established Federal Reserve System

**McFadden Act of 1927** – prohibited interstate banking

**Banking Act of 1933** (Glass-Steagall Act) – separated commercial banking from investment banking

**Trust Indenture Act of 1939** – required the use of an independent trustee in connection with public offering of debt securities

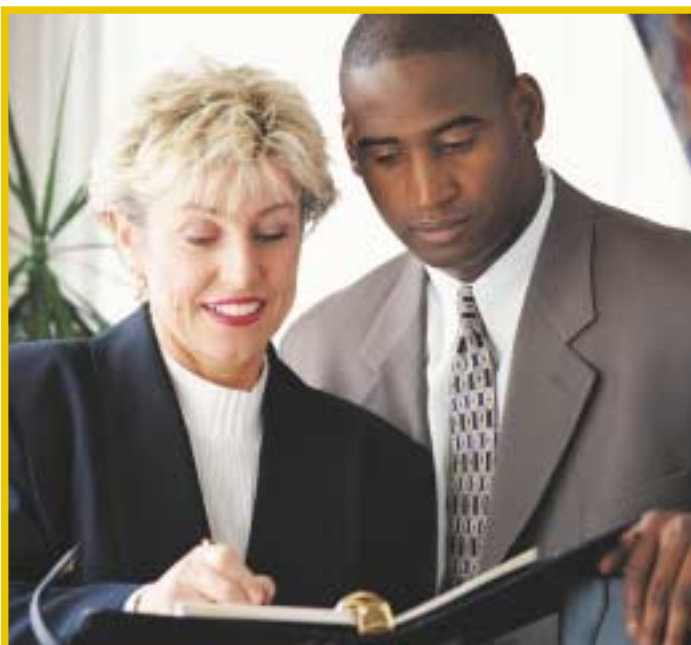
**Federal Deposit Insurance Act of 1950** – consolidated earlier FDIC legislation into one Act

**Depository Institutions Deregulation and Monetary Control Act of 1980** – began phase-out of interest rate ceilings on deposits

**Trust Indenture Reform Act of 1990** – eliminated the automatic exclusion of banks as indenture trustee when the bank serves as underwriter for the issuer

**Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994** – permits bank holding companies to acquire banks in any state, and provides for branching of banks located in different states

**Gramm-Leach-Bliley Act of 1999 (Financial Services Modernization Act)** – repeals Glass-Steagall Act and establishes new framework for financial holding companies that may conduct a broad range of financial activities, including insurance and securities underwriting



# Multi-Family Housing Issues May Benefit From 4% Tax Credit

The following article is provided for information only and not intended to be tax advice. If you are interested in more details, please consult your tax advisor.

**A**ffordable housing is an issue that is slowly reaching crisis proportions in many communities around the U.S. In fact, a recent study shows that one out of every three renters earning minimum wage in most U.S. counties can't afford their area's Fair Market Rent.\* With affordable housing becoming scarce, local and state housing authorities may be looking to issue more tax-exempt multi-family housing bonds, a type of private activity bond. And, these issues might be made more feasible if they're able to take advantage of 4% tax credits available to qualifying multi-family housing issues.

## When Can It Be Used?

Four-percent tax credits are generally used in conjunction with tax-exempt multi-family housing bonds. In addition to the required private activity allocation, other tests must be met, which include rent restrictions and tenant set-asides.

In addition to an interest rate cost savings by using tax-exempt Private Activity Bonds, the addition of 4% tax credits can make the bond issue even more economically attractive to multi-family housing developers. Mike Marra, U.S. Bank Corporate Trust Services, explains, "Four-



**Housing authorities may be looking to issue more tax-exempt multi-family housing bonds.**

percent tax credits can be a significant benefit to developers because they can either apply the annual tax credits or sell them up-front to a tax credit investor for a portion of the present value on the 4% tax credit. The developer can use this equity to make a

project more economically feasible or to minimize the amount of equity the developer must contribute of its own funds."

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

\* Source: Low Income Housing Information Service press release, September 9, 1999.

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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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