

# Corporate Trust Connection

Spring 2001

## Working Together to Benefit You

**A**t U.S. Bank Corporate Trust Services, we strive to simplify our customers' lives by delivering convenient access to a comprehensive range of financial solutions. Our goal is to be a resource for and partner with our customers.

As a resource, we can tap into the expertise of a variety of areas within Corporate Trust Services, as well as the entire U.S. Bank corporation, in order to develop the best plans for your needs. A few of these areas are investment banking, structured financing, escrow services and government banking.

### Investment Banking

The investment banking area provides experienced professionals as well as market-making and distribution

capabilities. The result is that we can creatively structure financing at competitive rates for our customers. With more than 70 investment banking professionals in 16 locations throughout the country, our investment banking team is among the largest in the nation.

### Structured Finance

The structured finance group of U.S. Bank Corporate Trust Services has built an impressive record for providing high-quality trust and document custody services for all types of structured transactions. Included in our full range of support services are trustee, registrar and paying agent, bond administrator/calculation agent and tax reporting agent. Our staff of specialists manages relation-



*We can tap into the expertise of the entire U.S. Bank corporation.*

ships with many different issuers and servicers who have varying types of collateral. This may encompass a variety of receivables and most recently included tobacco litigation settlement proceeds.

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INVESTMENT PRODUCTS: • NOT FDIC-INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

## A Message About Our Merger

**Keeping** you well informed about the Firststar acquisition of U.S. Bancorp and changes that may affect your business is a priority for us. As of the printing of this newsletter, the closing date is scheduled to occur during the first quarter of this year, pending shareholder and regulatory approvals. Shareholder meetings for both organizations were held on February 13, 2001.

The dedicated employees of both organizations are striving to make the integration seamless for you. Because of this careful planning and working to develop a smooth process, you should not notice any changes on the closing date. If changes are made that may affect your business, you will be contacted well in advance.

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# Tobacco Settlement Securitization

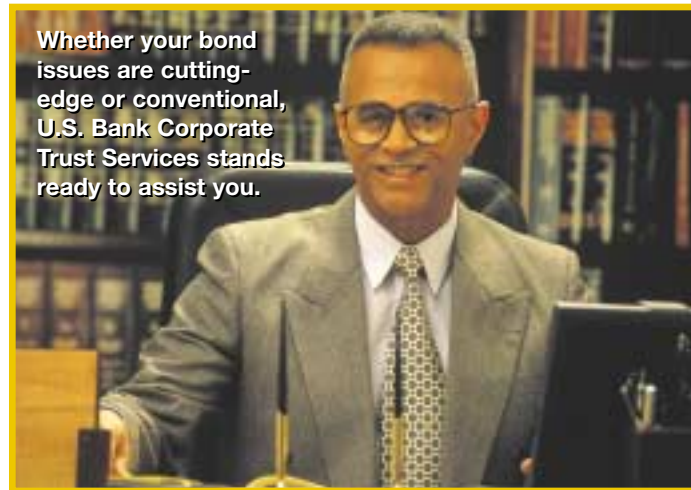
## A New Twist in Bond Issues

Last fall, U.S. Bank Corporate Trust Services had the distinction of being involved in a “totally new type of bond issue,” according to Tom Zrust, vice president of U.S. Bank Corporate Trust Services. “We were chosen to handle the bond trusteeship for Tobacco Settlement Asset-Backed Bonds issued by Alaska’s Northern Tobacco Securitization Corporation (NTSC),” he explains.

The bonds are secured by 40% of the expected revenue stream from Alaska’s portion of the Master Settlement Agreement, signed in 1998 by the four largest U.S. cigarette manufacturers. The revenues that Alaska will receive under the settlement are based on a number of variables, including inflation and domestic cigarette shipments in future years. To the extent that people smoke fewer cigarettes, the revenues will decline.

### An Unprecedented Action

Alaska is one of the first states in the nation to sell bonds secured by revenues from the tobacco settlements. Alaska Governor Tony Knowles proposed the securitization to finance construction and repair of rural schools and ports. The Alaska legislature endorsed his proposal by passing a law that authorized the NTSC to issue bonds to finance \$93 million worth of projects.



The benefit to Alaska of securitizing a portion of its settlement proceeds is that it receives a sizable sum of money to use immediately, rather than having to wait for the smaller and variable payments to come in over a number of years. There are risks, however.

If the stream of tobacco settlement payments is reduced, stalled or halted, the NTSC could have difficulty paying the debt service on the bonds. Many factors have the potential to affect future payments. The possibilities include:

- one or more of the tobacco manufacturers filing for bankruptcy
- a potential federal lawsuit against tobacco companies to recover Medicare and other federal health care costs
- a possible increase in the federal cigarette tax
- possible Food and Drug Administration regulation of tobacco products

- the impact of the national smoking prevention and public education campaign

### Insulating the State of Alaska

The NTSC was set up as a subsidiary of Alaska Housing Finance Corporation (AHFC) solely for the purpose of issuing the bonds on behalf of the State of Alaska. The tobacco revenue bonds are an obligation of the NTSC only. Neither the state nor

AHFC will be obligated to make up any deficiencies in revenues necessary to meet debt-service requirements on the bonds. Since the state is legally separate from the NTSC, its credit rating is not at risk through the tobacco bond issuance.

### Put Innovation and Expertise to Work for You

U.S. Bank Corporate Trust Services is proud to have provided the expertise necessary to put together this unprecedented bond issue. U.S. Bank Corporate Trust Services serves as trustee for all the AHFC bond issues, so it was a natural choice for the NTSC. We look forward to serving your needs, too. Whether your bond issues are cutting-edge or conventional, U.S. Bank Corporate Trust Services stands ready to assist you.

### At a Glance

## The Tobacco Master Settlement

Attorneys general representing 46 states, the District of Columbia and the five U.S. territories signed an agreement in November 1998 with five major cigarette companies (representing 97.5% of the tobacco industry). The Master Settlement Agreement requires the manufacturers to make annual payments to the states totaling about \$206 billion from 2000 through 2025.

The funds are allocated to the states based on a formula developed by the attorneys general. It makes estimates of tobacco-related Medicaid expenditures and the number of smokers in each state.



# Outlook for the Economy 2001

**W**hether the U.S. has achieved – and can sustain – an economic soft landing, few argue that 2001 will exhibit the kind of superheated economy that resulted in 5.6% growth in gross domestic product in the first half of 2000. On the other hand, a full-scale recession is unlikely this year, according to a substantial number of economists.

Many believe that the economy will continue its unprecedented advance, although at a considerably slower pace.\* Conservative estimates are for 2% growth in the first half of 2001, perhaps increasing to 3% in the second half.\*\* Whatever happens, the factors that affect the economy will no doubt have considerable impact on the debt markets.

## Political Inertia?

The protracted presidential election resulted in no clear

mandate for President George W. Bush. In addition, the U.S. Senate is evenly divided and the House has a razor-thin Republican majority. Many analysts believe that this may be a good sign. Since it is unlikely that any major spending or tax-cut bills can be pushed through, the economy could continue to move forward under its own steam.

## A Look at the Markets

In contrast to the disappointing performance of the Standard & Poor's 500 index of stocks (down 10.14% for the year) and the precipitous drop of the Nasdaq (down 39.29%),\*\* many areas of the bond market fared well in 2000. The Lipper Indexes showed a positive 11.89% return on U.S. Government Bonds, 10.31% on Corporate A-Rated Debt and 11.10% in General Muni Debt.\*\*

Since nervous investors tend to flee to the relative stability of bonds when the stock market is down, a depressed equities market could continue to help the bond market. However, with the Fed's two rate cuts in January, it is possible that the stock market could revive and the bond market suffer the consequences.

Asset-backed lending may increase as a result of heavier debt loads. As the economy slows, loan structures supported by assets may seem more attractive and receive more covenant flexibility or reduced lending costs. In addition, the market for asset-backed loans may continue to be stimulated by a more flexible definition of assets. Although traditional assets include receivables, inventory, equipment, real estate, etc., nontraditional assets could include intangibles such as trade names and goodwill.

## Inflation and Interest Rates

As of December 2000, the Consumer Price Index increased at an annual rate of 3.4%.\*\*\* The consensus among economists surveyed by *The Wall Street Journal* calls for milder inflation in 2001, and lower inflation generally bodes well for the bond market. However, the nation's inventory of natural gas is at a record low,\*\* and rising energy prices could stimulate inflation.



*The Fed continues to monitor monetary policy in pursuit of an economic soft landing.*

As for interest rates, the Fed took the unusual step of taking action *before* the January 30-31 board meeting, dropping short-term rates by .5% in early January, and dropped them another .5% on January 31. *Bondtalk.com*, an online economy and bond market site, is predicting that lower rates will help the bond market in the short term, but may have a negative impact later in the year if the decrease stimulates the stock market.

## Financing Solutions

At U.S. Bank Corporate Trust Services, we've got the expertise and experience to help you through your financing issues in any economic and market conditions. Contact your U.S. Bank Corporate Trust Services Representative or visit our Web site at [usbank.com/corporatetrust](http://usbank.com/corporatetrust) for information on the products and services we offer.

\* Source: *Time*, December 18, 2000.

\*\* Source: *The Wall Street Journal*, January 2, 2001.

\*\*\* Source: Bureau of Labor Statistics, [www.bls.gov](http://www.bls.gov).

## Agreement



Four states – Mississippi, Florida, Texas and Minnesota – signed separate agreements with the tobacco companies prior to the Master Settlement Agreement. Those settlements total more than \$40 billion over 25 years.

The Master Settlement Agreement also imposes restrictions on tobacco advertising and marketing and creates a trust fund, which the cigarette companies pay into, to compensate tobacco farmers and quota holders for anticipated financial losses resulting from the settlement.

# Benefiting You... *continued from page 1*

## Escrow Services

When you need a neutral third party to act as a temporary agent in financial transactions, choose our escrow services group. Escrow is an easy and accepted means for assuring the safe, fair and efficient completion of a variety of transactions. Our agents can hold assets, invest funds, oversee distribution of funds and handle tax reporting in order to meet the conditions of an escrow agreement. We specialize in several types of escrow, including class action, litigation or structured settlements, government or environmental protection and other business escrow needs. These services can include document review, wire transfer and deposit and detailed activity and asset reporting for all parties.



## Government Banking

Our relationship team offers a range of deposit, treasury management and account services specially designed for our government agency customers' needs. We can act as an investment bank or a commercial bank, offering a full product line of financial services. We are a leader in electronic payment alternatives.

Also, U.S. Bank offers comprehensive credit for our government customers, specializing in cash flow

and capital financing needs. We work closely with bond counsel to develop borrowing structures that assure our clients the lowest costs.

Another area we use to help our government clients is our tax-exempt investment banking services. We led the nation in the number of senior-managed municipal bond issues in 1999. This underwriting prominence allows us to offer our clients many securities not available at other firms.

## We Can Meet Your Needs

Visit with your U.S. Bank Corporate Trust Services representative to discuss any of your banking needs. Our network allows our areas to work together for your organization's benefit and growth.

## Merger...

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U.S. Bank remains dedicated to the corporate trust business as demonstrated through our continued growth in traditional products and services and our expansion into new offerings.

Most importantly, the employees of Firststar and U.S. Bank remain strongly committed to providing you with the financial solutions and service to meet your needs. If you have any questions at all, please feel free to contact your Relationship Specialist or other Corporate Trust Services representative.

Highlights of the combined organization:

- 27 offices nationwide, one in Argentina
- Stock transfer services and escrow services available to all U.S. Bank customers
- Providing services to more than 1 million bondholders and 550,000 shareholders
- Ranked the number one municipal trustee in the nation

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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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