

Corporate Trust Connection

Summer 2002

Your Guide to Understanding Account Compliance Procedures



As trustee for your bond issues, the role of U.S. Bank Corporate Trust Services entails many jobs: acting as custodian of the funds, serving as a liaison between bondholders and issuers and monitoring compliance with the bond documents. The compliance area requires us to request a variety of documents from you. A clear explanation of what we're doing and why may help you more fully understand our requests.

Why Compliance Is Important

"Obligors work closely with their underwriters to structure the transaction to attract buyers for the securities being offered," explains Esther Cervantes, Western Region trust review manager for U.S. Bank Corporate Trust Services. "Borrowers may agree to provide ongoing information to the trustee as part of the structure of the transaction. This can help attract buyers; it may also help the securities earn a higher rating and thus lower the borrower's costs."

Each case is different, but underwriters may look for assurances that the properties involved are always insured, and that certain cash-flow levels or debt service coverage ratios are met, for instance.

"The governing documents – the indenture or trust agreement or loan agreement, for example – spell out what the issuer or obligor will provide to the trustee and when," Cervantes explains. "It also specifies what we [the trustee] should do if we don't receive the required documents. In some cases, we may just need to remind customers of their obligations. Other times, we

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Did You Know...

U.S. Bank Corporate Trust Services ranked as the top municipal trustee bank in first quarter 2002.

Top Municipal Trustee Banks (by Number of Issues) First Quarter 2002

Rank	Firm	Issues	Amount
1	U.S. Bank	125	\$2,917,200
2	Bank of New York	121	\$6,041,200
3	Wells Fargo Bank	89	\$2,789,100
4	Bank One	59	\$2,323,600
5	First Union National Bank	47	\$1,924,300
6	J.P. Morgan Chase & Co.	41	\$1,338,800
7	State Street Bank & Trust Co.	36	\$1,300,100
8	SunTrust Bank Inc.	33	\$1,170,800
9*	Allfirst Bank	19	\$ 659,500
9*	United Missouri Bank of Kansas City	19	\$ 204,900

* Tie. Dollar amounts are in thousands. Rankings are preliminary and subject to revision. Short-term notes maturing in under 13 months, private placements and bonds sold by private nonprofit electronic cooperatives are excluded. Source: Thomson Financial Securities Data (3/28/02).



The Role of the Guardians

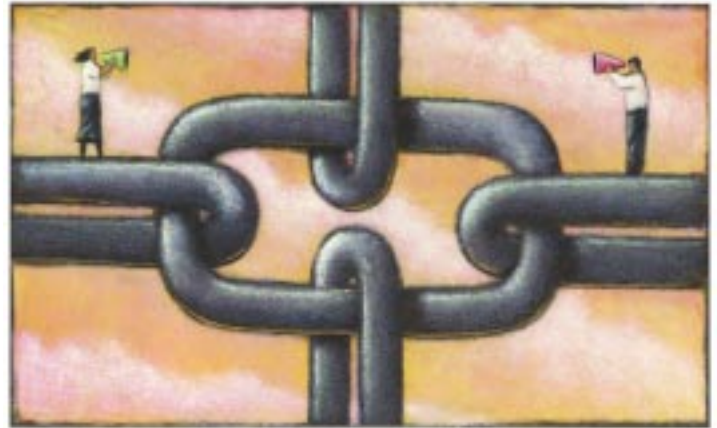
As a U.S. Bank Corporate Trust Services customer you can be confident that we follow strict guidelines to safeguard your accounts. You are protected by regulatory agencies responsible for enforcing banking legislation to oversee banking and corporate trust administration. Among them:

FDIC. The Federal Deposit Insurance Corporation was one of the regulatory bodies created as a result of the financial chaos of the 1920s and '30s. The FDIC provides insurance protection to account holders for deposits of money up to \$100,000. It also monitors the performance of the banking industry to prevent bank failures and enforces regulations intended to make

sure financial institutions operate in a safe and sound manner.

Federal Reserve System. The nation's central bank has a Board of Governors that primarily determines monetary policy. The seven-member board is another regulatory body that supervises state-chartered banks, bank holding companies, international banking facilities in the United States and more.

OCC. The Office of the Comptroller of the Currency has primary oversight of all national banks and trust companies, and has implemented regulations applicable to national banks' trust policies and practices. REG9 establishes the need for policies, account pre-



acceptance, post-acceptance reviews and states the requirements for audits, record keeping and control of assets, as well as establishing the need for fiduciary audit committee.

SEC. The Securities Exchange Act of 1934 brought about the creation of the Securities and Exchange

Commission (SEC), which regulates securities markets and protects investors by setting regulatory standards for processing, record keeping, lost or stolen securities and the safeguarding of funds and securities.

The Trust Indenture Act (TIA) of 1939 and Trust Indenture Reform Act (TIRA) of 1990. Generally, this legislation requires that every public issuance of debt security issued by a corporation to be sold interstate must be registered by filing with the SEC a registration statement when an indenture is qualified under TIRA. Amendments made to TIA through the Trust Indenture Reform Act of 1990 revised and streamlined the TIA, continuing to shape and set standards for all types of bond financings.

There are other federal and state safeguards in place, as well as proposed legislation intended to protect the financial industry and its customers. Contact your Account Manager if you have questions about regulatory practices as they apply to your account.

Compliance Procedures

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may be required to notify other parties or take another action.”

The Trustee's Role

“Our job is to facilitate compliance with the agreement between our customers and their bondholders,” says Barb Quall, Central Region trust review manager.

“When we send a letter to customers asking for certain documents, we refer them back to the specific area in their agreement that requires them to provide this information,” says Joe Jahn, Northeast Region trust review manager. “Our role is to collect the items that they've agreed to provide.”

Meeting Legal Requirements

The Trust Indenture Reform Act, which pertains to publicly held securities issued by corporations, requires that certain compliance items be submitted to the trustee. The

Act requires that the securities issuer provide a no-default certificate and financial statements to the trustee every year.

It also requires that the trustee remain eligible under the law. “The Act requires us to perform an annual review to confirm that we remain eligible to act as trustee,” says Quall. “If we discover a potential conflict of interest, it must be disclosed to the holders. For example, if we have a lending relationship with our customer, or there have been any other changes in our status relative to that customer, we have to inform the holders.”

We're Here to Help

If you have any questions about compliance issues, please contact your Account Manager. He or she will be happy to assist you.

Spotlight on the Cincinnati Office



The U.S. Bank Corporate Trust Services staff in Cincinnati can help meet your financing needs.

When you hear “Cincinnati,” you may think “Reds” or “Bengals” if you’re a baseball or football fan. But U.S. Bank Corporate Trust Services has its own team of professionals in Cincinnati, carrying the ball with a wide range of corporate trust duties.

The Cincinnati office successfully completed its full integration with U.S. Bancorp in January. Cincinnati’s integration has allowed us to enhance our line-up of products and services while retaining the experience and expertise of its staff. For you, our customers, that means access to even more services and a continued relationship with the Account Manager you’ve come to know.

Covering More Bases

“The main responsibility of the Cincinnati office is bond administration,” explains department manager Robert Jones, vice president and trust officer. “Account managers Dan Bley, Lisa Peterson, William Sicking and I, along with the rest of the staff, provide the usual corporate trust services, including municipal and corporate debt issues. We also administer some fairly intricate escrow deals.

“But we have one niche that’s particularly unique,” says Jones. “That’s the student loan area. These are structured bond issues, typically created for nonprofit organizations, that provide liquidity to the student loan market.

“The student loan product started in the 1980s with an issuer in Cincinnati. In July 2000, they were sold to Sallie Mae, the largest holder of student loans in the United States. In the process, we hired two of their people. They have continued that business through our office with other student loan issuers, both locally and nationally. In fact, our largest student loan customers are in Texas, Ohio, Delaware, Maryland and Minnesota. It’s

probably our biggest niche, providing a vital service to the student loan market.”

Stock transfer administration and sales are also administered from the Cincinnati office, managed by Keith Maurmeier, vice president and trust officer. Services include stock transfer, registrar, dividend disbursement and employee stock purchase services for more than 100 customers and about 400,000 registered owners. U.S. Bank Corporate Trust Services can also provide proxy tabulation and annual meeting coordination and planning.

This increases convenience for our customers, since they can get bond trusteeship and processing, as well as stock transfer services, from the same group.

Trust Financial Management

The Trust Financial Management (TFM) group supports the account managers and provides much of the day-to-day processing and administration of cash- and asset-management functions.

The people in TFM have “done a wonderful job administering reports and daily processing for our customers,” says Virginia (Ginnie) Hinzman, manager, trust financial management. “Their skills and expertise support the account managers and help them give our customers the best possible service.”

Scoring Points for Our Customers

“Our account managers have a wealth of experience to offer our customers,” says Jones. “I’ve been in corporate trust since 1990. Another of our account managers has been in corporate trust about 10 years, seven with this organization. Yet another has been in trust with the bank for 18 years, and in corporate trust for seven.”

“There is no substitute for that kind of experience,” agrees Dennis Egan, senior vice president and regional manager. “Our account managers know the business inside and out and can help our customers see the big picture. With expanded resources in Cincinnati, they can now work even more closely with their customers.”

For More Information

The staff at the Cincinnati office and all of our U.S. Bank Corporate Trust Services offices stand ready to assist you and find solutions to your financing needs. To learn more about any of our services, visit usbank.com/corporatetrust or talk with your Account Manager. For stock transfer services information, please call 1-800-637-7549.

Bondholder and Shareholder Services

Bondholders and shareholders may have questions about the status of their investments. U.S. Bank Corporate Trust Services has dedicated teams ready to answer your questions.

For bondholder questions (for example, principal and dividend payments, bond maturity dates, bond registration, etc.), call 1-800-934-6802.

For stock transfer issues (for example, dividend payments and address changes), call 1-800-637-7549.

We are also accessible by e-mail through our Web site at usbank.com/corporatetrust.

Securitization Corner: *Creative Financial Solutions*

At U.S. Bank Corporate Trust Services, we help investment bankers implement creative solutions to financing needs. Here are just two of the many types of structured derivative transactions that we deal with every day.

Asset repackaging is a tool for changing the characteristics of a security deposited into a trust to make it marketable to a different group of investors. This can be accomplished in a number of ways depending on the aspect of the security you wish to change and the potential group of investors being targeted. For example, a bond with a low credit rating may be placed into a trust with a Treasury Strip of

equal principal amount. The trust will then sell certificates in the principal amount of the Treasury Strip. The trust certificate is more marketable than the underlying bond because it has a guaranteed principal payment and the potential for enhanced return if all payments are made on the underlying bond (double principal).

In another financing, a longer-term asset might be repackaged together with an option to put it after one year, which makes it eligible for purchase by a money market fund with duration limits on its portfolio. One of the most common transactions is a repackaging of a long-term bond targeted to be sold to institutional



investors in \$5 million blocks. The trust issues \$25 units and the investment bankers structuring the transaction have a product to meet the demand of their retail customers for high-yielding, fixed-income investment, while they are able to profit because of arbitraging the spread between the retail and institutional markets.

Reverse convertible bonds have become popular recently. A conventional convertible bond incorporates an option to purchase stock at a pre-agreed price at a future date. Investors accept a lower

interest rate in exchange for this option, which they will exercise only if the stock price rises. Reverse convertible bonds pay investors a high coupon, but contain an embedded put option requiring the investors to purchase the designated stock at a pre-agreed price, which option will become effective only if the market price of the stock falls below the pre-agreed price.

For more information about financing solutions, contact your U.S. Bank Corporate Trust Services Account Manager.

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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). For more information, visit our Web site at usbank.com/corporatetrust.

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First-Class Mail
U.S. Postage
Paid
Minneapolis, MN
Permit No. 100



180 East Fifth Street
EP-MN-73CT
St. Paul, MN 55101