

Corporate Trust Connection

Winter 2000

A Message about Our Acquisition

As you have probably heard, Firststar and U.S. Bancorp are joining forces to create a stronger company, dedicated to providing even better service and greater resources to our customers. The merged Firststar and U.S. Bancorp organization will become the eighth largest bank holding company in the United States with assets of more than \$160 billion.

You may be wondering how this change will affect you. Our goal at U.S. Bank Corporate Trust Services is to create a smooth integration that is nearly transparent to our customers. Plus, because Firststar shares the U.S. Bancorp commitment to satisfying customers, you can be confident that we will continue providing you with the high level of quality customer service you've come to expect.

The transaction is expected to be completed in the first quarter of 2001. The combined companies will

continue to operate under the U.S. Bancorp name with headquarters located in Minneapolis. John "Jack" Grundhofer, chairman, president and chief executive officer of U.S. Bancorp, will serve as chairman of the board. Jerry Grundhofer, president and chief executive officer of Firststar, will hold those offices in the combined company. The board of directors will be drawn from both Firststar and U.S. Bancorp. Although the transaction has been approved by the boards of both companies, it is still subject to normal shareholder and regulatory approvals.

Be assured that we will keep you informed of any changes that affect you as a result of this merger. In the meantime, you'll be working with the same dedicated, knowledgeable employees as you have in the past. Our commitment to being your resourceful partner in finding financial solutions has not changed. We strive to be the



Diane Thormodsgard

standard by which other corporate trust organizations are judged.

Everyone at U.S. Bank Corporate Trust Services looks forward to helping you with your financial needs, now and in the future. If you have any questions at all, please feel free to contact your Relationship Specialist, Regional Manager or me at (651) 244-5000.

Sincerely,



Diane Thormodsgard
President, U.S. Bank
Corporate Trust Services

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Did You Know?

The Trust Finance Management (TFM) Department of U.S. Bank Corporate Trust Services manages cash and assets for all of our corporate trust customers throughout the United States. This central location of specialists:

- Can pay more than 4,500 Corporate Trust Accounts on a single payment day.
- Processes an average of 480 redemptions per month.
- Is staffed with over 140 people, all working together to serve our customers.

usbank
Corporate Trust
Services

When a Default Occurs

U.S. Bank Corporate Trust Services' Role as a Fiduciary

The default provisions of a debt transaction are rarely the focus of attention when the deal is negotiated. However, bond issues don't always reach maturity without hitting any snags along the way. When the deal doesn't work as it was intended, an event of default may occur. Many problems can lead to a default – perhaps the deal structure doesn't match current reality, the revenue flow that's the source of repayment for bondholders has been interrupted or fraud enters the picture.

When a default occurs, the role of the trustee changes dramatically. "Our role is very different when there are problems than when the deal is performing as intended," says Scott Strodthoff, senior vice president of U.S. Bank Corporate Trust Services. "When a deal works as it's supposed to, our role is clearly defined and limited to exactly what's spelled out in the indenture. In this role, U.S. Bank Corporate Trust Services provides service to both borrowers and bondholders.

"When a default occurs, our role and the standard of care changes to that of a 'prudent person.' At that point, we continue to work with borrowers, but our duty is to represent the interests of the bondholders in recovering their investment."



Protecting Bondholders' Interests

The trustee has to find out whom the bondholders are and what they would like to see happen. Typically, trading causes bondholders to come and go. In addition, the interests of one segment of bondholders may oppose those of another segment. "We have to get all the input we can and weigh everyone's interests," Strodthoff says.

When the role of U.S. Bank Corporate Trust Services is transformed by a default, it becomes less well-defined. "The indenture does not define how a prudent person should act," Strodthoff explains. "Acting as a prudent person requires discretion, judgement and input from experts and the bondholders."

Each situation of default is different from all others. "Usually, a default creates a

high-stress environment, filled with complexities and uncertainties," says Strodthoff. "The bondholders are upset, and often, there's litigation involved." U.S. Bank acts as a facilitator, consulting with legal, financial and business experts to find a remedy for the situation.

Focusing on Total Recovery

"We have to take a long-term outlook on the situation," Strodthoff says. "Beyond worrying about one missed interest payment, for instance, we must focus on the total return to bondholders. If it's a secured deal, we might have to take steps to safeguard the collateral by funding operations until a business can be sold, for example. In an unsecured deal, we might try to get on a committee of creditors to represent the interests of the bondholders in negotiations for a solution to the default."

The trustee plays other key roles, too. "During the period of uncertainty, we regularly distribute informational notices to bondholders," Strodthoff says. "And,

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What Is an "Event of Default"?

For each debt transaction, the governing document (the indenture) spells out exactly what constitutes an event of default. In general, a default may occur if a borrower:

- files for bankruptcy.
- fails to make full payment of principal and interest, taxes, insurance or other payments on time.
- breaches a covenant. Typical examples of covenants include timely providing of financial statements or officer certificates, or meeting performance ratios outlined in the indenture.

Often, there is a grace period during which time the borrower can take corrective action to prevent a default. But some actions lead to immediate default.

Housing Compliance Administration

Issuers Benefit from Experienced Partners

As a national leader in public finance indenture administration, U.S. Bank Corporate Trust Services serves a wide variety of municipal customers, from school districts to housing authorities. In addition to a trustee, issuers of multi-family and single-family bonds also need a compliance administrator to monitor the compliance of the housing projects. Previously, in selected markets, U.S. Bank was one of the providers that could fulfill both roles. Now, thanks to an alliance with Urban Futures, developers and issuers in western and northwestern markets can benefit from a more timely and cost-effective compliance process.

“We looked for a partner who had a very good reputation in the business and who we felt confident would provide a good product,” said Teresa Caspary, senior vice president of U.S. Bank Corporate Trust Services. Urban Futures has specialized in compliance administration for multi-family and single-family bond programs, tax credits, MCC and second trust deed programs for more than 25 years.

The Ins and Outs of Housing Project Compliance Monitoring

“Tax-exempt multi-family housing bond issues require a specific number of units to be set aside for tenants with low to moderate incomes,” explained Anita McCarty, vice president of Urban Futures. “We act as a third party to monitor and make sure that those rent and income limits are in accordance with the guidelines.” Urban Futures also is responsible for calculating annual income and rent limits, training owners and property managers (as required) and preparing custom reports, including Initial and Annual Housing Issuance (CDIAC) reports.



Tax-exempt multi-family housing issues require compliance monitoring.

Compliance monitoring duties for single-family homes involve reviewing loan packages including income analysis, property location, first-time buyer status and other issuer requirements. Urban Futures also offers training for participating lenders, tracks availability of funds and allocation for program participants and provides online access to compliance approval of loans in process.

In addition to new business ventures, Urban Futures has assumed housing project compliance monitoring for many of the existing housing bond accounts in the western market for U.S. Bank Corporate Trust Services. For more information about housing bond issues and when the benefits of this partnership will be available in your area, contact your U.S. Bank Corporate Trust Services representative or visit our Web site at usbank.com/corporatetrust.

Working for the Future of Our Communities



The people of U.S. Bank believe that when our communities succeed, we all succeed. That’s why investing in the communities in our 16-state banking region is integral to the way we do business. As a committed corporate citizen, we pledge to work to improve the quality of life for people across

our banking region. Some of the programs we use to demonstrate our commitment are outlined below.

Corporate Giving and Volunteerism. With corporate grants and donations of money, time and expertise from senior managers, employees and retirees, U.S. Bank supports a variety

of nonprofit organizations throughout our banking region. In 1999, we provided more than \$45 million in support, including \$22 million in cash grants.

Community Investments. U.S. Bank works in partnership with hundreds of organizations to help develop

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Fiduciary... *continued from page 2*

as the situation allows, we'll make distributions of funds from the trust."

Experience Counts

By serving as trustee and paying agent for hundreds of defaulted bond transactions, including municipal, corpo-

rate and structured debt, U.S. Bank has developed the expertise and business judgment to help address any type of workout situation.

Although the outcome of a default situation may not be what all parties to the deal hoped for originally, an

experienced trustee such as U.S. Bank Corporate Trust Services, working with note holders and borrowers and supported by knowledgeable experts, can use its powers to help bring about an acceptable result.



Communities... *continued from page 3*

affordable housing, foster economic revitalization and provide training and education to small businesses, consumers and first-time homebuyers. During 1999, we made more than \$415 million in loans and investments to expand economic opportunities.

Sponsorships and Events. We enrich our communities by supporting music, art, sports and educational organizations. U.S. Bank's sponsorship of high school activity associations affects more than a half million students involved in extracurricular activities. Our support helps give students a chance to develop

important skills that they'll need to succeed later in life.

Helping People Realize Their Dreams

By providing products and services that meet the diverse needs of our communities, U.S. Bank is helping to provide a social and economic foundation for achieving vibrant communities. To learn more about our programs, visit our Community Relations Web site at usbank.com/comm_relations/.

Upcoming Conferences

Colorado Government Finance Officers Association
Silver Creek, Colorado
November 14 – 17

Northwest Public Finance Conference
Seattle, Washington
November 16 – 17

California State Association of Counties
San Bernardino County, California
November 28 – December 1

New York Public Finance Conference
New York City
December 4 – 5

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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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