



PUBLIC DISCLOSURE

September 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HSBC Trust Company (Delaware), N.A.
Charter Number: 24601

300 Delaware Avenue, Suite 1400
Wilmington, Delaware 19801

Office of the Comptroller of the Currency

Large Bank Supervision
400 7th Street, SW
Washington, DC 20219-0001

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING:

This institution is rated Outstanding.

The conclusions for the three rating criteria are:

- The Bank generated a high level of qualified investments and an adequate level of community development (CD) services.
- The Bank rarely uses innovative or complex qualified investments or community development services mainly due to its limited staff size.
- The Bank demonstrates excellent responsiveness to community economic development needs in its assessment area (AA).

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of HSBC Trust Company (Delaware), N.A. (HTCD) issued by the Office of the Comptroller of the Currency ("OCC"), the institution's supervisory agency, for the evaluation period ending September 30, 2012. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Scope of the Examination

To evaluate HTCD's performance, we reviewed community development activities from October 6, 2009 through September 30, 2012. We reviewed the level and nature of qualified investments, CD lending, and CD services.

If a bank has adequately addressed the needs of its AA, the OCC considers CD activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. Because HTCD has adequately addressed the needs of its AA, we considered qualified investments and CD loans and services outside of the AA in evaluating its performance.

This evaluation relies upon records and reports provided by HTCD, publicly available financial information, demographic data, and information gathered as part of the evaluation process, including recent community contacts. The OCC evaluated HTCD's CD performance in the context of the following:

- The current economic environment,
- Demographic characteristics of its AA,
- Institution financial resources and constraints,
- Institution product offerings and business strategy,
- Information derived from community contacts, and
- Performance of any similarly situated institutions.

There are no known legal constraints that impact HTCD's ability to meet the CD needs of its AA.

At the prior examination, dated October 5, 2009 and covering an evaluation period of November 24, 2006 through October 5, 2009, the OCC rated HTCD "Outstanding."

Description of Institution

HTCD is a subsidiary of HSBC USA Inc., an indirectly-held, wholly-owned subsidiary of HSBC North America Holdings Inc., the holding company for all of HSBC's U.S. and Canadian businesses. The ultimate parent, HSBC Holdings Plc (HSBC) based in London, is ranked as one of the world's largest banking and financial service organizations, with \$2.5 trillion in assets.

HTCD, located in Wilmington, Delaware, was originally chartered as a limited purpose national bank in 2005 to engage only in trust activities. In November 2006, the institution converted to a full-service, FDIC insured, institution and became subject to the CRA and also received a limited purpose designation for CRA purposes. Although HTCD can legally conduct all traditional banking activities, it currently only offers trust and securities clearing/custodian services. HTCD does not engage in mortgage, small business, commercial, or consumer lending, and does not accept traditional deposit accounts. HTCD has no branches, a staff of three employees, and its only office is located in Wilmington, DE.

As of September 30, 2012, HTCD had \$1.9 billion in assets consisting primarily of short-term interest bearing bank balances offset by inter-company short-term borrowings.

Table 1 provides a high-level summary of financial information for HTCD and is intended to provide a perspective on HTCD's capacity to help meet the needs of the AA.

Table 1: Financial Information (000s)

	Year-end 2009*	Year-end 2010*	Year-end 2011*	Year-end 2012*	Most Recent Quarter-end 9/30/2012**	Average for Evaluation Period***
Tier 1 Capital	\$52,408	\$52,130	\$52,667	\$52,927	\$53,299	\$52,686
Total Income	\$11,594	\$24,795	\$5,126	\$5,017	\$4,751**	\$10,527
Net Operating Income	\$5,243	\$4,722	\$536	\$266	\$405**	\$2,214
Total Assets	\$70,286	\$57,694	\$1,355,318	\$55,948	\$1,901,704	\$688,298

Source: Consolidated Report of Condition and Income (Call Report) and Bank reported data.

* Actual data reported.

** Annualized data reported.

*** The average for the Evaluation Period is the average of the numbers in a row.

Description of Assessment Area

HTCD’s AA consists of New Castle County, Delaware (NCC). The county is part of the Wilmington DE-MD-NJ Metropolitan Division. The AA complies with CRA guidelines and does not arbitrarily exclude any low- or moderate-income geographies. Based on 2010 U.S. Census Data, NCC is the most densely populated county in Delaware containing 538,479 persons or 60% of the state’s population. The City of Wilmington, with a population of 70,851, is the largest concentration of population within NCC.

Table 2 represents the distribution of the AA’s 131 census tracts for families and businesses by income level.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts***	131	8.40%	26.72%	35.11%	28.24%
Families	132,830	5.03%*	24.61%*	34.95%*	35.42%*
Businesses****	49,983	3.97%**	20.19%**	34.29%**	41.53%**

Source: Demographic Data – 2010 U.S. Census, Dun & Bradstreet Data-2012.

* Represents families by income level.

** Represents businesses by income level of census tract.

*** Two census tracts not income categorized.

**** 0.03% of businesses are located in no income designated tract.

According to the 2010 Census, there are 11 low-, 35 moderate-, 46 middle-, and 37 upper-income census tracts in the AA. The biggest change in the AA since the 2000 Census was the movement of 12 census tracts outside the City of Wilmington from middle- to moderate-income designations, reflecting the general economic decline in the area. Further evidence of this decline is an increase in the poverty level to 9.46% of households in the 2010 Census from 7.95% in 2000. However, there was an increase in the median family income for the AA from \$78,900 in 2009 to \$81,900 in 2012. This indicates a further widening of the economic gap between low- and moderate-income families and those classified as middle- or upper-income.

Home values in NCC are beginning to rebound slowly and are still considerably lower than the peak in April of 2007 when the median sales price was estimated at \$258,000. In September 2009, the median sales price approximated \$206,000. This increased slightly to approximately \$213,000 at the end of the evaluation period. The national average in 2010 was \$222,000.

The seasonally adjusted unemployment rate in the AA peaked at 8.9% in late 2009/early 2010, the highest unemployment rate in 20 years. Although slightly lower than the U.S. unemployment rate, the local rate continues to mirror national trends. Since that peak, the local rate has declined to 7.6% in August 2012. This is slightly higher than the state rate of 7.3%, but below the national rate of 8.1%. Industries impacted the greatest by the economic downturn include construction, retail trade, professional, and business services. The largest employment sector in the AA in 2012 is services with 47% of the jobs, followed by retail trade at 11%. Major employers in the AA include Christiana Care Health System, E I DuPont de Nemours Co., and Bank of America (formerly MBNA).

The market for CD opportunities in Delaware is very challenging. Although there are multiple CD investment, loan, and service opportunities throughout NCC and the state of Delaware, the large number of financial institutions subject to CRA, including numerous limited purpose credit card banks, results in significant competition to participate in these opportunities. Over thirty financial institutions in HTCD's AA actively seek out and compete for community reinvestment opportunities, making it a very competitive environment for funding organizations and projects. As a result of current local economic conditions and limited funding, local governments are unable to sponsor substantial community development programs that encourage housing development.

Community contacts conducted during the evaluation period identified a paramount need for affordable housing. This includes quality affordable homeownership and rental opportunities, funding to mitigate neighborhood blight, rehab assistance for older homes, emergency property repair assistance, associated education and counseling services, and supportive services to assist in financial self-sufficiency.

Conclusions about Performance

Summary

- HTCD provided a high level of qualified investments in relation to its capacity and the opportunities available considering strong competition in the AA. Investments originated during the evaluation period within the AA total \$14.1 million, comprised almost entirely of a \$13 million investment in a Mutual Fund and \$1.1 million in mortgage-backed securities. Because HTCD adequately addressed the CD needs in the AA, we considered qualifying investments that benefit the broader geographic area. The level of CD services is adequate when considering staff size.
- HTCD demonstrates excellent responsiveness to community economic development needs in its AA. The vast majority of the qualified investments originated during the evaluation period are targeted towards the development of affordable housing for low- or moderate-

income individuals, including multi-family rental housing, which is an identified need of the AA.

- We did not consider any of HTCD’s community development activities innovative or complex. However, we considered HTCD’s very limited staff, which limited its ability for involvement in complex CD investments and the offering of CD services.

Qualified Investments

During the evaluation period, HTCD originated three investments totaling \$14.1 million and made 33 grants to 11 organizations (3 grants to each) totaling \$150,000 in its AA. All of the investments, and a majority of the grants, are responsive and address the pressing need for affordable housing within the AA. Table 3 displays the level of total qualified investment activity within and outside the AA.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$14,124	\$5,000	\$19,124
Originated Grants	\$150	\$0	\$150
Prior-Period Investments that Remain Outstanding	\$286	\$0	\$286
Total Qualified Investments	\$14,560	\$5,000	\$19,560
Unfunded Commitments*	\$0	\$0	\$0

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

The following is a brief description of HTCD’s investment activity:

- The largest investment is a \$13 million investment in a Mutual Fund whose objective is to invest proceeds in investment instruments that ultimately benefit low-to-moderate individuals and/or census tracts. The Fund purchases loans in the secondary market, and directly from banks, that are securitized and typically guaranteed by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA). The associated securities consist of single-family mortgages made to borrowers with income levels below 80 percent of the median family income and investments in multi-family developments that use low-income housing tax credits. Currently, there are 71 loans in HTCD’s AA associated with this Fund.
- Two investments are mortgage-backed securities comprised of home mortgage loans to low- and moderate-income individuals within HTCD’s AA. These MBS provided funding for seven mortgage loans to low- and moderate-income borrowers.
- The investment outside HTCD’s AA utilizes Low Income Housing Tax Credits associated with a project in Illinois designed to generate 36 affordable housing units. Although outside of HTCD’s AA, it is within the AA of the affiliated HSBC Bank USA, N.A.
- The outstanding prior period investment represents a Delaware State Housing Authority bond backed by single-family mortgages made to qualifying borrowers, or in targeted census tracts, in the bank’s AA. This benefitted 20 low- and moderate-income borrowers in the AA.

- The 11 organizations HTCD provided grants to focus on affordable housing, small business and micro-enterprises, equal access to capital for under-served populations and communities, strengthening the economies of low- and moderate-income communities, providing technical assistance to nonprofits focused on affordable housing and homeownership counseling, providing financial education, and providing economic empowerment programs.

We do not consider any of HTCD’s investments particularly innovative or complex. This is mainly a result of HTCD’s limited staff size that impacts its ability for involvement in complex CD investments. However, we noted a unique feature associated with the Mutual Fund discussed previously in that HTCD reinvests all payments it receives back into the Fund, thereby providing ongoing benefits to the AA. All of the investments are focused on the critical need for affordable housing which demonstrates responsiveness to identified needs.

Table 4 provides a breakdown of HTCD’s investment activity in relationship to its financial capacity in terms of average Tier 1 Capital and average total income over the evaluation period.

Table 4: Qualified Investment Percentages

	Benefit AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	27.64%	9.49%	37.13%
Total Investments/Average Total Income	138.31%	47.50%	185.81%

Community Development Lending

HTCD did not originate any CD Loans during the evaluation period. HTCD’s affiliate, HSBC Bank USA, N.A. (HBUS), originated \$4 million in CD loans in this AA. This demonstrates a positive commitment by the greater company to meet credit needs in this AA. Please refer to the September 30, 2012, Public Evaluation of HBUS for details regarding that bank’s Outstanding performance in its Wilmington, DE AA.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	0%	0%	0%
Total CD Lending/Average Total Income	0%	0%	0%

Community Development Services

As previously noted, HTCD only has three employees, which impacts HTCD’s ability to provide CD services. During the evaluation period, members of HTCD’s staff served on the board of directors of two local agencies; one of which promotes economic development and the other

on the provision of community services. This participation level is adequate in light of the limited staffing.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

The OCC did not identify evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs with respect to this institution.

Further, section 1025 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) assigns to the Consumer Financial Protection Bureau (CFPB) exclusive examination authority, and primary enforcement authority, to ensure compliance by banks and FSAs with federal consumer financial laws, if the bank or FSA has more than \$10 billion in assets. The CFPB has not provided the OCC with any information about, or other evidence of, discriminatory or other illegal credit practices relative to this institution with respect to the federal consumer financial laws.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA): A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area: A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Census Tract (CT): Small, relatively permanent statistical subdivisions of a county delineated by local participants as part of the U.S. Census Bureau's Participant Statistical Areas Program. The primary purpose of CTs is to provide a stable set of geographic units for the presentation of decennial census data. CTs generally have between 1,500 and 8,000 people, with an optimum size of 4,000 people.

Community Development (CD): Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and

dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

Median Family Income (MFI): The median income derived from the United States Census Bureau's American Community Survey data every 5 years and used to determine the income level category of geographies. Also, it is the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level of individuals within a geography. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]