



Comptroller of the Currency
Administrator of National Banks

Wholesale Institution

PUBLIC DISCLOSURE

July 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**U.S. Trust Company, N.A.
Charter Number 22413**

**515 South Flower Street, Suite 2700
Los Angeles, California 90071**

**Office of the Comptroller of the Currency
Southern California-North Field Office
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<p>NOTE: 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.</p>

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 neighborhoods, consistent with 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 **U.S. Trust Company, N.A. (UST)**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 19, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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 by 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 - A geographic area which 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, (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area, or (iii) the supervisory office may give positive consideration to CD activities outside the assessment area as benefitting the assessment area.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

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.

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 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.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income - As defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

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.

Total Assets - Total bank assets as defined by the Consolidated Report of Condition and Income.

Wholesale Institution - An institution that is not in the business of extending home mortgage, small-business, small-farm, or consumer loans to retail customers. An institution will not be considered in the business of extending loans to retail customers if it does not hold itself out to the retail public as providing such loans and the institution's revenues from extending such loans are insignificant when compared with its overall lending operations. Wholesale institutions may engage in very limited retail lending, if this activity is incidental and is done on an accommodation basis.

SCOPE OF THE EXAMINATION

We evaluated UST's CRA performance for the period of May 1997 to July 1999, using CRA examination procedures for Wholesale Purpose Institutions. We evaluated the bank's performance in its assessment areas within the state of California and the Oregon/Washington multi-state MSA. We considered the number and dollar amount of qualifying community development loan originations and purchases, community development investments, as well as community development services rendered since the last CRA examination dated May 2, 1997. Additionally, we made community contacts to ascertain the credit needs within the institution's assessment areas and to assess the institution's participation in meeting those needs. The institution did not request that we consider community development investments and services of its affiliate companies during this review.

INSTITUTION'S CRA RATING:

This institution is rated "Satisfactory."

The major characteristics that support this rating are:

- < The institution demonstrates an adequate level of community development lending, community development services, and/or qualified investment activity, particularly investments that are not routinely provided by private investors.
- < The institution demonstrates adequate responsiveness to credit and community development needs in its assessment area.
- < The institution does not use innovative or complex qualified investments, community development loans, or community development services.

The institutions's rating is based on its performance in the Los Angeles, Orange County, Northern California, and Oregon/Washington assessment areas, which constitute the institution's primary trade areas. UST has reasonably met its CRA responsibilities, consistent with its designation as a wholesale institution. The institution's efforts to meet the credit needs of its community are through funding or purchasing loans from intermediaries that extend loans to low- and moderate-income individuals and small businesses within the institution's assessment areas. UST also provides grants to or purchases stock in qualified community development lending organizations. In addition, institution officers are active in community development organizations.

DESCRIPTION OF INSTITUTION

UST is a wholly owned subsidiary of U.S. Trust Corporation, New York. It operates as a trust company and commercial bank in California through three California branch offices and one branch office in Oregon. UST specializes in providing asset management and fiduciary/securities services to high net worth individuals. For these clients, the institution offers banking services and residential mortgage lending as an accommodation. The Los Angeles office operates out of an office building in the downtown Los Angeles financial district. The Orange County office, opened in 1994, is in the business district in the city of Costa Mesa, approximately 50 miles south of Los Angeles.

During 1998, the institution opened branch offices in San Francisco, CA and Portland, OR. These offices are in the initial stages of contacting and evaluating potential community partners which serve their relative assessment areas. However, management has identified some community development organizations and has participated in their programs through investments and direct lending.

As of June 30, 1999, UST had total banking assets of \$311 million and trust assets under discretionary management exceeding \$8.8 billion. The majority of the institution's income is derived from its fiduciary services business. There are no financial or legal impediments which affect the institution's ability to meet the credit needs of its assessment areas. The market for financial services is very competitive in the institution's assessment areas. UST competes with branches of large regional and multinational banks, local independent banks, thrifts, credit unions, and other specialty institutions.

Financial Information (000's)		
	December 31, 1998	June 30, 1999
Tier 1 Capital	\$16,541	\$19,772
Total Assets	\$348,363	\$311,295
Net Operating Income	\$13,814	\$12,016

UST received the designation as a wholesale institution from the OCC on June 6, 1996. UST is limited in its ability to engage in the origination of loans for affordable housing or to small businesses because of its small staff size and fiduciary focus.

DESCRIPTION OF ASSESSMENT AREAS

UST has identified four assessment areas that it serves. Three areas are located in California. One area is a multi-state MSA located in Oregon and Washington states. These areas do not arbitrarily exclude low- and moderate-income geographies. Assessment areas are as follows:

Los Angeles County

Los Angeles County has 1,652 census tracts, including 534 (32 percent) tracts designated low- and moderate-income. The 1990 census data shows Los Angeles County population is 8,863,164, with 3,164,987 (36 percent) living in low- and moderate-income areas. The 1998 HUD data shows median family income is \$49,800. The assessment area is served by the Los Angeles office.

Orange County

Orange County consists of 484 census tracts, including 132 (27 percent) tracts designated as low-and moderate-income. The total Orange County population is 2,410,556, with 731,538 (30 percent) living in low- and moderate-income census tracts. Based on 1998 HUD data, the median family income is \$65,800. This assessment area is served by the office in Costa Mesa.

There is a great need for affordable housing in the Los Angeles County and Orange County assessment areas. Home prices in Los Angeles and Orange counties are expensive relative to the rest of the country. The average price of a home is higher than the national average by 42 percent and 79 percent for each county, respectively. Median incomes in both counties are also above the national average. However, in Los Angeles County, the affordability index of 40 percent is well below the national average of 53 percent. Orange County is similar.

Contacts with local community organizations indicate that, in Los Angeles and Orange counties, loans are needed to finance affordable housing, small, medium and start-up businesses, and to provide funding to create jobs, job training, job placement, and entrepreneurial skills for low- and moderate-income youth and individuals. The institution has determined that the greatest needs are for affordable housing and small business finance. These needs were confirmed in interviews with officers of prominent Los Angeles and Orange County Community Development groups. They were also emphasized in a 1996 study by the U.S. Department of Housing and Urban Development (HUD) entitled Los Angeles City/County, California Supplemental Empowerment Zone and the 1997 final report issued by Rebuild Los Angeles (RLA).

Within these assessment areas, there are many community development opportunities. For example, there are projects seeking construction financing for housing, commercial, industrial, and retail development. Additionally, opportunities exist for micro-business lending through a variety of consortium groups that provide partnership opportunities for financial institutions. There are also many community development investment and service opportunities.

**Alameda, Contra Costa, Marin, San Francisco, Santa Clara, and San Mateo
(Northern California)**

This assessment area consists of six contiguous counties in Northern California, with a total of 1,228 census tracts. The assessment area includes the San Francisco, Oakland, and San Jose MSAs. This area includes 307 (25 percent) tracts designated as low- and moderate-income. Total population in this assessment area is 5,184,169, with 1,407,653 (27 percent) living in low- and moderate-income census tracts. Based on 1998 HUD data, the median family income for the respective counties are as follows: Alameda and Contra Costa - \$63,300; Marin, San Francisco, and San Mateo - \$68,600; Santa Clara - \$77,200. This assessment area is served by the San Francisco office.

In the Northern California assessment area, local community contacts indicated that there are needs for small business finance, affordable housing, deposit, and basic banking services. They also identified a need for small business training/consulting, instruction on how to apply for business credit, job training, and job placement. Due to the limited supply and high demand for housing, housing costs are very high and beyond the means of most low-income residents.

Participation opportunities for local financial institutions include the origination of small business loans under \$50,000, micro-business loans under \$5,000, outreach efforts to minority and Latino groups, technical language assistance to the Latino groups, and contributions to Community Development Corporations. Many opportunities are available within this assessment area.

**Clackamas, Columbia, Multnomah, Washington, Yamhill, and Clark
(Oregon/Washington)**

This assessment area is within a multi-state MSA and consists of six contiguous counties in Oregon and Washington states with a total of 350 census tracts. Clark County consists of 55 census tracts in the state of Washington. The remaining 295 census tracts are distributed among the remaining five counties located in Oregon. This area includes 80 (23 percent) tracts designated as low- and moderate-income. Total population in this assessment area is 1,515,452, with 284,656 (19 percent) living in low- and moderate-income census tracts. Based on 1998 HUD data, the median family income is \$49,600. This assessment area is served by the Portland office.

Community contacts in the Oregon/Washington assessment area indicate that the primary credit needs are for affordable housing and farm credit. The rapid growth in the population has caused a very serious housing shortage. The Housing Authority estimates vacancy rates at only 1 percent of the housing stock. The resulting “renter’s market” has created a dearth of affordable housing for low-income individuals and senior citizens. Lending opportunities appear limited. However, various community development investment and service opportunities are available.

CONCLUSIONS ABOUT PERFORMANCE

Community Development Test (combined assessment areas)

The institution's overall record of community development lending, investment activities, and community services is satisfactory. This rating is based on UST's record of meeting community needs and their direct community involvement, balanced against the institution's available resources. We reviewed loans originated since the last CRA examination and only considered qualifying small business loans and other loans or investments qualifying under the Community Development Test. All of the institution's community development activities identified during this review period were within its assessment areas.

Although the institution is limited by its narrow focus on private banking, management has found alternative ways to serve the needs of low- and moderate-income individuals residing in the counties in their service areas.

CRA Rating for California

The lending test is rated: Satisfactory

The investment test is rated: Satisfactory

The service test is rated: Satisfactory

Within the state of California the institution demonstrates:

- < An adequate level of community development loans, community development services and qualified investments. The investments are not routinely provided by private investors.
- < Adequate responsiveness to credit and community economic development needs in its assessment areas.
- < No use of innovative or complex qualified investments, community development loans, or community development services.

Los Angeles Assessment Area

The Los Angeles office has achieved an adequate level of community development lending, investment, and service activities given its limited resources. The lending staff consists of three full-time lending officers and three loan administrators, who are responsible for developing and servicing UST's \$87 million loan portfolio. The lending staff at this office handles most of the loan related activities for the organization. Community development loan activities encompass purchasing or participating in loans originated by third party lenders and indirect lending through community development organizations.

Management actively seeks community investment opportunities and maintains a good level of community involvement.

Community Development Loans

During the assessment period, UST made 13 community development loans totaling \$1.4 million in the Los Angeles assessment area. The loans provided low- and moderate-income multi-unit housing, Small Business Administration (SBA) loans, and participations in loan pools to fund small business loans in low- and moderate-income areas. The loans were distributed as follows:

- < Four SBA loans totaling \$711,473 to small businesses,
- < Four loans totaling \$303,745 to a group that provides apartments for low-income individuals diagnosed with HIV/AIDS,
- < Two loans totaling \$100,000 to a group that develops multi-family affordable housing,
- < One \$150,000 loan to a group that provides services and emergency housing to the poor and needy,
- < One \$100,000 loan to a group that participates in a consortium that makes small business loans in South Central Los Angeles, and
- < One \$50,000 loan to finance a program that grants micro-business loans in low-income areas.

Community Development Investments

UST made qualifying investments in the Los Angeles assessment area totaling \$195,950. The investments include grants and donations to organizations that provide a wide range of services to low- and moderate-income neighborhoods and individuals. Examples of services that are provided by these organizations include: health care, housing, temporary housing, youth education, and employment. UST's donations also include in-kind contributions of computer equipment to these organizations. The investments include:

- < \$50,000 donation that was distributed among four organizations that provide emergency food distribution to low-income families,
- < \$100,000 deposit to provide insurance to an organization that provides low cost mortgage insurance to low- and moderate-income borrowers,
- < \$10,500 contribution to Operation Hope, and
- < \$10,000 grant to an organization that builds and provides multi-unit housing for low- and moderate-income individuals with HIV/AIDS.

Community Development Services

UST's community development services are appropriate given the institution's resources and technical capacity. During the review period UST's CRA officer:

- < Served on the Program Steering/Credit Committee of a Los Angeles small business lending program. The officer's role encompassed attending monthly meetings to discuss the program and evaluate potential borrowers.
- < Provided advisory services and fund raising assistance to an organization that provides health, mental health, and social services to women in low-income areas.
- < Participated as a member of an organization comprised of CRA officers from community and trust institutions in Los Angeles. The group functions as a institution consortium which contributes to community organizations. Participation in this group resulted in the institution's \$5,000 contribution to sponsor the construction of a home in East Los Angeles.
- < Assisted in organizing a consortium of institutions to lend to community development organizations in Los Angeles County. The officer has spent approximately 20 hours with this organization.
- < Assisted a local organization in developing a syndication of institutions to make small business loans to borrowers in low- and moderate-income areas of Los Angeles County. The officer also attends regular meetings.

In addition, a vice president serves on the Program Steering/Credit Committee and another officer provided technical assistance and reviewed loan packages for an organization that targets small business lending in low- and moderate-income areas.

Orange County Assessment Area

The Orange County office has achieved a reasonable level of community development lending, investment, and service activities consistent with their resources. This office has one loan officer, who is also responsible for managing the office, and one person to process loan proposals. Loan requests are processed and forwarded to the Los Angeles office for review and approval.

Community Development Loans

UST made six community development loans totaling \$689,790 in the Orange County assessment area. The loans provided low- and moderate-income multi-unit housing, SBA loans, and participations in loan pools to small businesses in low- and moderate-income areas. The loans were distributed as follows:

- < Four SBA loans totaling \$642,990 to small businesses and

- < Two loans totaling \$46,800 to a local community development corporation (CDC) that provides small business loans to businesses located in the low- and moderate-income areas of Orange County.

Community Development Investments

In the Orange County assessment area, UST made qualifying investments totaling \$22,650. The investments include:

- < \$7,500 donation to a group that provides housing assistance and social services to low-income families,
- < \$5,000 contribution to a group that provides housing to low- income and/or homeless families, and
- < \$8,500 in equity investments and grants to a local CDC.

Community Development Services

An officer served on the credit committee and the marketing task force for a local CDC. The latter group meets every two weeks and discusses ways to effectively serve the financing needs of micro and small businesses in the county. The institution has also purchased stock in the organization, allowing for direct lending opportunities.

Northern California Assessment Area

This office has an overall low level of community development lending, investment, and service activities due to its limited resources, focus, and relatively short period of operation. The branch currently employs two lending officers. Loan requests are forwarded to the Los Angeles office.

Community Development Loans

The San Francisco office's community lending activity is low, but the dollar amount is adequate. The low level of activity is due to limited lending resources and short period of operation for this office. In the Northern California assessment area, UST made the following community development loans:

- < One SBA loan for \$224,294 to a small business and
- < Two loans totaling \$150,000 and a loan participation commitment totaling \$85,236 to an organization to finance low-income housing developments.

Community Development Investments

In the Northern California assessment area, UST made qualifying investments totaling \$233,200. The investments include:

- < \$228,700 in contributions to a mortgage pool that finances low-and moderate-income housing, and
- < \$4,500 in donations to organizations providing educational services to low-income youth.

Community Development Services

None.

CRA Rating for the State of Oregon

The lending test is rated: Satisfactory

The investment test is rated: Satisfactory

The service test is rated: Satisfactory

Within the state of Oregon, which consists of the Portland-Vancouver multi-state MSA, the institution demonstrates:

- < An adequate level of community development loans, community development services, and qualified investments. The investments are not routinely provided by private investors.
- < Adequate responsiveness to credit and community economic development needs in its assessment areas.
- < No use of innovative or complex qualified investments, community development loans, or community development services.

Oregon/Washington Assessment Area

This area is served by the Portland, OR office which opened in July 1998. Despite the recent opening, the office's performance has been satisfactory due to the dollar amount of community investments. The office employs only one loan officer. As a result, community development lending activity is low. Loan requests are processed in the same manner as with the San Francisco office. However, the branch has been active in community investment efforts.

Community Development Loans:

The institution made one SBA loan for \$208,940.

Community Development Investments:

UST made qualifying investments totaling \$1.9 million in the Oregon/Washington assessment area. The investments comprise two separate contributions to mortgage pools financing low- and moderate-income housing developments.

Community Development Services:

None.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

We found no evidence of any prohibited or discriminatory practices during our fair lending examination. We found the bank to be in compliance with provisions of anti-discrimination laws and regulations. Our loan sample consisted of consumer and mortgage loan products. The prohibited basis was sex of the borrower, with males as the control group.