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Comptroller of the Currency  
Administrator of National Banks

Wholesale Institution

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## **Public Disclosure**

October 15, 2002

# **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  
550 North Brand Boulevard, Suite 500  
Glendale, California 91203**

**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:

- U.S. Trust Company, N.A. (UST or the bank) demonstrates a high level of community development lending, community development services, and qualified investment activity.
- The bank occasionally demonstrates complex community development loans and community development services.
- UST demonstrates excellent responsiveness to credit and community development needs in its assessment area.

## **Scope of the Examination**

In evaluating the bank's performance under the Community Reinvestment Act (CRA), we reviewed community development activities from July 20, 1999, through October 15, 2002. We reviewed the level and nature of qualified investments, community development lending, and community development services. All of these community development activities were within the bank's assessment areas. At the bank's request, we also considered community development loans from the prior period, with balances outstanding as of October 15, 2002. At the prior examination dated July 19, 1999, we rated the bank "Satisfactory."

### Allocation of Capital, Income, and Receivables

This evaluation rates the overall CRA performance of UST as well as the bank's performance in the states of California and Oregon. The overall rating is based on the CRA performance of the bank in each state. The ratios in the family of financial measures contained in this public evaluation were derived by allocating bank capital and income to the states and assessment areas where feasible and reasonable. The allocation is based on the amount of banking deposits contained in each of the states and assessment areas.

We allocated 97 percent of the bank's capital and income to California based on the distribution of the bank's deposits. The remaining 3 percent is allocated to Oregon. Total deposits are \$455 million, based on the June 30, 2001, reporting. Within California, examiners allocated capital and income among assessment areas based on the respective percentages of the state's deposits. The income and capital allocation for the Los Angeles-Long Beach MSA is 80 percent; Orange County MSA is 10 percent; and, San Francisco Consolidated MSA (CMSA) is 10 percent. The single assessment area in Oregon, Portland/Vancouver Multistate MSA, is allocated 100 percent of the state's capital and income.

## **Selection of Areas for Full-Scope Review**

UST has delineated four assessment areas. The California assessment areas include the Los Angeles-Long Beach MSA, Orange County MSA, and the San Francisco Consolidated MSA (CMSA). The Oregon assessment area is a multi-state MSA (Portland/Vancouver) located in Oregon and Washington states. UST's Oregon branch is in Portland. The bank's assessment areas meet the requirements of the CRA regulation and do not arbitrarily exclude low- and moderate-income geographies.

We selected the Los Angeles-Long Beach MSA, the San Francisco MSA, and the Portland-Vancouver Multi-state MSA for full-scope review. In selecting the assessment areas for full-scope review, we considered the relative percentage of deposits (discussed previously), community development lending, qualified investments, and branch distribution. Community development lending activity in the Los Angeles MSA represents 64 percent of the California total, and lending in the San Francisco MSA represents 17 percent. Qualified investments in the

Los Angeles-Long Beach MSA and the San Francisco MSA represent 39 percent and 51 percent of the California total, respectively. Three of the four California offices and 88 percent of the California deposits are also located within the Los Angeles-Long Beach and San Francisco MSAs. We selected the Portland-Vancouver Multi-state MSA for full-scope review because it is the bank's only assessment area in Oregon. Please refer to the *Description of the Assessment Areas* comment for additional detail.

## **Ratings**

UST operates five branches and has defined four assessment areas located in two states, one being a multi-state MSA. The interstate branches make it necessary to weight the performance in each state in arriving at the bank's overall CRA rating. We considered the distribution of the bank's community development activities, the distribution of deposits, the branch distribution, and the managed asset distribution between the states. California's community development volume is 75 percent of the total; the state also has 97 percent of the total deposits, 80 percent of the branch offices, and 83 percent of the managed assets. As a result, we weighted performance in California more heavily in arriving at the combined institution rating.

The combined performance of the two full-scope assessment areas in California is weighted more heavily by performance in the Los Angeles-Long Beach MSA. This is due to the relatively higher percentage of community development activity, deposits, and managed assets.

## **Description of Institution**

UST is a wholly owned subsidiary of U.S. Trust Corporation, New York, which is a subsidiary of The Charles Schwab Corporation (CSC). UST is headquartered in Los Angeles, California, and operates four banking offices in California and one in Oregon. Designated a wholesale bank in June 1996, UST operates as a trust company and commercial bank and has achieved a reputation as a specialist in providing fiduciary and agency services to high net worth individuals. The bank also provides traditional banking services such as mortgage loans as an accommodation for trust clients and other individuals.

At present, UST operates five branches, four of which are in California and one in Oregon. The Los Angeles office operates 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, California and Portland, Oregon. Since the last performance evaluation, branches were opened in Palo Alto and Beverly Hills, California, but the Beverly Hills branch was subsequently closed in June 2002.

In May 2000, U.S. Trust Corporation was acquired by CSC, becoming a wholly owned subsidiary. Total assets of CSC at year-end 2001 were \$40.4 billion with shareholder equity of \$4 billion. According to the 1999 shareholder report, U.S. Trust Corporation had banking assets

of over \$5 billion, shareholder equity of \$301.8 million, and assets under management of \$61 billion. Historically, U.S. Trust Corporation's focus has been serving as financial advisor to affluent individuals and their families, with an increasing share in the wealth management business. Specific services include investment management and consulting; trust services; financial, tax, and estate planning; and private banking. At year-end 1999, U.S. Trust Corporation offices were located in Oregon, California, Texas, Florida, North Carolina, Washington D.C., New Jersey, New York, Connecticut, and Pennsylvania.

*Table 1* provides an overview of UST's financial information. There are no legal constraints impeding the bank's ability to meet the communities' credit needs. However, UST is limited in its ability to offer conventional mortgage and small business loans due to the small staff, limited retail product expertise, and strategic focus on fiduciary services. Mortgage loans are offered only as an accommodation to existing clients. Small business loans within the assessment areas are purchased through third parties.

The market for financial services is very competitive in the institution's assessment areas. UST competes with branches of large regional and multi-national banks, local independent banks, thrifts, credit unions, and other specialty institutions.

**Table 1: UST Financial Information (000s)**

|                              | <b>Year-end<br/>1999</b> | <b>Year-end<br/>2000</b> | <b>Year-end<br/>2001</b> | <b>Most Recent<br/>Quarter<br/>6/30/02</b> | <b>Average for<br/>Evaluation<br/>Period</b> |
|------------------------------|--------------------------|--------------------------|--------------------------|--|--|
| <b>Tier 1 Capital</b>        | \$25,335                 | \$29,857                 | \$40,308                 | \$47,919                                   | \$35,855                                     |
| <b>Total Income*</b>         | \$96,188                 | \$117,502                | \$102,661                | \$50,703                                   | \$104,439                                    |
| <b>Net Operating Income*</b> | \$13,445                 | \$7,048                  | \$(6,236)                | \$(2,388)                                  | \$2,370                                      |
| <b>Total Assets</b>          | \$452,200                | \$543,831                | \$594,581                | \$692,074                                  | \$570,672                                    |
| <b>Managed Assets</b>        | \$23,935,190             | \$31,951,076             | \$26,295,107             | \$26,294,896                               | \$27,119,067                                 |

Source: Consolidated Report of Condition and Income and bank reported data. \*Annualized data reported.

# State Rating

## State of California

### CRA Rating for California: Outstanding

The conclusions for the three rating criteria are:

- UST demonstrates a high level of community development lending, community development services, and qualified investment activity.
- The bank occasionally demonstrates complex community development loans and community development services.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

### Description of the Assessment Areas

UST has identified three assessment areas in the state of California which includes the Los Angeles-Long Beach MSA, San Francisco MSA, and the Orange County MSA. These assessment areas meet the legal requirements of the regulation and do not arbitrarily exclude any low- and moderate-income areas. Below, we have provided additional information to describe the characteristics of the two full-scope assessment areas.

#### Los Angeles-Long Beach MSA Assessment Area

This is UST's most highly populated urban assessment area, with a projected population (2000 U.S. Census) of 9.4 million. The Department of Housing and Urban Development (HUD) data for 2000 shows median family income of \$55.1 thousand. Owner-occupied housing units comprise 46 percent of the total housing units, but owner-occupied housing in low- and moderate-income geographies is just 13 percent and 28 percent, respectively. As noted in *Table 2a*, 28 percent of the small businesses are located in low- and moderate-income geographies.

UST operates one office in this assessment area, with a combined staff of 147 and a commercial bank staff of 31. Managed assets of this office are approximately 69 percent of the California total. Although this is the largest office for UST in terms of staff and managed assets, the bank is limited in its ability to originate loans for affordable housing or small businesses because of relatively small commercial bank staff and fiduciary focus.

Within the Los Angeles-Long Beach MSA there are many community development opportunities. For example, there are projects seeking construction financing for housing, commercial, industrial, and retail development. Opportunities also exist for micro-business

lending through consortium groups that provide partnership opportunities for financial institutions. There are also many community development investment and service opportunities. Individuals in the community knowledgeable about community credit needs identified the area's major credit needs as affordable housing and small business lending.

During the assessment period, economic conditions in the Los Angeles-Long Beach MSA have generally been favorable. Competition is strong with 224 institutions in Los Angeles County competing for customer deposits. Major banking institutions include Bank of America, Home Savings of America, Washington Mutual Bank, Wells Fargo Bank, and Union Bank of California.

The MSAs largest industries in order of importance are services, retail trade, wholesale trade, finance and real estate, manufacturing, and construction. According to recent Dun & Bradstreet statistics, 84 percent of businesses and farms located within the MSA have annual revenues of less than \$1 million.

**Table 2a: Los Angeles County Assessment Area Description**

|                      | <b>Number</b> | <b>Low</b> | <b>Moderate</b> | <b>Middle</b> | <b>Upper</b> |
|----------------------|---------------|------------|-----------------|---------------|--------------|
| <b>Tracts</b>        | 1,652         | 9%         | 23%             | 33%           | 34%          |
| <b>Families *</b>    | 2,036,104     | 23%        | 17%             | 20%           | 40%          |
| <b>Businesses **</b> | 392,182       | 9%         | 19%             | 34%           | 39%          |

Source: Demographic Data - 1990 U.S. Census, 2001 Dun & Bradstreet Data. \*Represents the percentage of families by income level. \*\*Represents the percentage of businesses by income level of census tract. Percentages may not add to 100% due to rounding or "NA" tracts.

To determine the community's needs, we reviewed recent community contacts with nine different community development organizations in the assessment area. These contacts included one community development financial institution, five organizations supporting small business development, and three organizations that assist in providing essential services and/or affordable housing to low- and moderate-income families.

### **San Francisco CMSA Assessment Area**

The San Francisco CMSA is an urban area comprised of the San Francisco MSA, Oakland MSA, and San Jose MSA. According to 2000 census projections, the population of the counties comprising this CMSA is 5.8 million. The 2001 HUD data shows median family income for San Francisco MSA is \$86.1 thousand, San Jose is \$96 thousand, and Oakland is \$74.5 thousand. Owner-occupied housing units comprise 53 percent of the total housing units, but owner-occupied housing in low-income and moderate-income geographies is just 19 percent and 34 percent, respectively. Population growth and prosperity of the CMSA have affected residential real estate, making the CMSA one of the least affordable housing markets in the country. The average sales price for existing single-family homes reached \$400 thousand in January 2000, according to the National Board of Realtors.

UST operates two offices in this assessment area, with a combined staff of 64 and commercial bank staff of 11. Managed assets in these offices are approximately 12 percent of the total. The small commercial banking staff and fiduciary focus again limit the bank’s ability to originate affordable housing and small business loans.

The CMSA economy is growing, diverse, and strong. The largest business sectors are services, retail trade, finance-insurance-real estate, wholesale trade, and construction. High-tech firms play an increasingly important role in the economy of the CMSA.

There are a number of private and government organizations that have special programs to meet the needs of the San Francisco CMSA. Information obtained from the bank and two community contacts on file shows that the predominant credit needs are financing of affordable housing and micro-loans and other types of credit for small businesses. Affordable housing needs include first-time homebuyer subsidies, purchase/rehabilitation loans, and refinance loans, as well as support for homebuyer counseling programs. Small businesses are in need of start-up financing and micro-loans, technical assistance, and entrepreneurial training programs.

The three community organizations reviewed represented affordable housing (rental and ownership), a non-profit agency providing services to low- and moderate-income families as well as housing assistance, and an organization supporting small business development.

**Table 2b: San Francisco CMSA Assessment Area Description**

|                      | <b>Number</b> | <b>Low</b> | <b>Moderate</b> | <b>Middle</b> | <b>Upper</b> |
|----------------------|---------------|------------|-----------------|---------------|--------------|
| <b>Tracts</b>        | 1,228         | 7%         | 18%             | 40%           | 25%          |
| <b>Families *</b>    | 1,257,815     | 20%        | 18%             | 23%           | 39%          |
| <b>Businesses **</b> | 276,292       | 11%        | 19%             | 44%           | 26%          |

Source: Demographic Data - 1990 U.S. Census, 2001 Dun & Bradstreet Data. \*Represents the percentage of families by income level. \*\*Represents the percentage of businesses by income level of census tract. Percentages may not add to 100% due to rounding or “NA” tracts.

## Conclusions About Performance

### Summary

The bank's combined level of qualified investment activity, community development lending, and community development services is high. The level of qualified investments in the primary assessment area, Los Angeles-Long Beach MSA, is adequate, but performance in the San Francisco CMSA is excellent. Community development lending in both full-scope areas is excellent, as are the volume and types of community development services.

UST occasionally demonstrates complex community development loans and community development services. Examples of these include the bank's \$1.5 million line of credit to the limited-liability realty corporation described under *Community Development Lending*. An example of complex community development services involves the bank's active support of a non-profit organization providing affordable housing for those living with HIV/AIDS in the Los Angeles area. For additional detail, refer to the comment in the *Community Development Services* section of this evaluation.

The bank demonstrates excellent responsiveness to credit and community development needs in its assessment areas. Pervasive community needs include affordable housing, loans for smaller businesses, and support for community development organizations providing services to low- and moderate-income families. The qualified investments in both full-scope areas are mortgage-backed securities comprised of mortgage loans to low- and moderate-income families in the full-scope assessment areas. UST also originated twenty-one small business loans in the Los Angeles-Long Beach MSA and seven small business loans in the San Francisco CMSA, along with other community development loans. Community development services address affordable housing needs, financial education, and other services to low- and moderate- income families.

UST received the Department of Treasury Bank Enterprise Award for 2002 based on their involvement with community development organizations. The award recognizes the key role played by depository institutions in promoting community revitalization.

### Qualified Investments

#### Los Angeles-Long Beach MSA Assessment Area

UST made an adequate level of investments in this assessment area. The investments are responsive to the need for affordable housing, but are not considered innovative or complex. The single mortgage-backed security is secured by a pool of nine mortgage loans to low- and moderate-income families residing in this assessment area. Grants supported fifteen different community development organizations, with the largest grants benefiting an organization providing services to low- and moderate-income families (\$14 thousand) and affordable housing for low-income persons living with HIV/AIDS (\$32 thousand).

**Table 3a: Assessment Area Investment Activity (000s)**

|   | <b>*Los Angeles-Long Beach MSA</b> | <b>*San Francisco CMSA</b> |
|---|------------------------------------|----------------------------|
| <b>Originated Investments</b>                           | \$1,039,032                        | \$1,324,749                |
| <b>Originated Grants</b>                                | \$81,564                           | \$10,250                   |
| <b>Prior-Period Investments that Remain Outstanding</b> | \$0                                | \$146,740                  |
| <b>Total Qualified Investments</b>                      | \$1,120,596                        | \$1,481,739                |

\* All investment activity is within the bank's two assessment areas.

**Table 4a: Assessment Areas Investment Percentages**

|  | <b>*Los Angeles-Long Beach MSA</b> | <b>*San Francisco CMSA</b> |
|--|------------------------------------|----------------------------|
| <b>Total Investments/Average Allocated* Tier 1 Capital</b> | 4%                                 | 43%                        |
| <b>Total Investments/Average Allocated Total Income</b>    | 1%                                 | 15%                        |

\* Tier 1 Capital and Total Income are allocated between each of the assessment areas based on the percentage of total state deposits. Deposits in the Los Angeles-Long Beach MSA are 80% of the state total, and 10% for the San Francisco CMSA.

### San Francisco CMSA Assessment Area

UST made a very high level of investments in this assessment area. The investments are responsive to the need for affordable housing, but are not considered innovative or complex. The current period investment is a mortgage-backed security secured by a pool of mortgages to low-and moderate-income families residing in the assessment area. The prior period investment represents the book value of a similar mortgage-backed security. Grants benefit five different community development organizations providing services to low- and moderate-income families.

### **Community Development Lending**

#### Los Angeles-Long Beach MSA Assessment Area

The level of community development lending activity within this assessment area is high. The loans are responsive to the small business needs of the assessment area and organizations providing services to low-and moderate-income families. The loans are not considered innovative, but are occasionally complex in nature.

UST made twenty-one loans in the current period, fourteen of which are Small Business Administration (SBA) loans to businesses located in low- and moderate-income geographies within the assessment area. These loans promote economic development within the community, and the majority of loans also revitalize and stabilize the community by providing jobs or services to low- and moderate-income families.

During this period, UST originated a \$1.5 million line of credit to a limited-liability realty corporation. The corporation assembles real estate partnerships to build government-assisted affordable housing within the assessment area. The purpose of this line of credit is to provide bridge financing for the housing projects until the investors have committed in full. UST also originated a \$25 thousand letter of credit to this corporation. This facility is complex based on the bank’s limited commercial expertise and fiduciary focus.

The bank also made a \$250 thousand loan to a neighborhood-housing fund that provides counseling services and loans for the purchase or remodel of homes for low- and moderate-income families.

Community development loans made in the prior period have current outstanding balances of over \$1 million. These loans are not included in Table 5a, and represent an additional 7 percent of allocated Tier 1 capital and 2 percent of allocated total income.

**Table 5a: Assessment Area Community Development Lending Percentages**

|   | <b>*Los Angeles-Long Beach MSA</b> | <b>*San Francisco CMSA</b> |
|---|------------------------------------|----------------------------|
| <b>Total CD Lending/Average Allocated* Tier 1 Capital</b> | 15%                                | 38%                        |
| <b>Total CD Lending/Average Allocated Total Income</b>    | 5%                                 | 13%                        |

\* Tier 1 Capital and Total Income are allocated between each of the assessment areas based on the percentage of total state deposits. Deposits in the Los Angeles-Long Beach MSA are 80% of the total, and 8% for San Francisco CMSA.

*San Francisco CMSA Assessment Area*

The level of community development lending activity within this assessment area is very high. The loans are responsive to the small business needs of the assessment area and organizations providing affordable housing (primarily) to low-and moderate-income families. The loans are not considered innovative or complex.

The bank made seven SBA loans totaling \$1,058 thousand during the period. All of these loans are located in low- or moderate-income geographies within the assessment area. These loans promote economic development, and a majority of the loans also revitalize and stabilize the communities by providing jobs or services (primarily) to low-and moderate-income families.

One SBA loans originated in a prior period has an outstanding balance of \$203 thousand. This loan is not included in Table 5b, and represents an additional 3 percent of allocated Tier 1 capital and 1 percent of allocated total income.

## Community Development Services

### Los Angeles-Long Beach MSA Assessment Area

UST provided a high level of community development services in this assessment area. Each activity is responsive to identified needs within the assessment area, and in some cases, the activities were complex for the bank. The Los Angeles office is the largest of the five offices with a total staff of 147 and banking staff of 31. Managed assets are also the highest percentage of all the offices at 69 percent.

UST actively supported a local non-profit organization which provides affordable housing for those living with HIV/AIDS. During the period currently under review, the Los Angeles branch provided 154 hours of officers' time, and acted as a conduit for loans to the affordable housing projects. Each of the five affordable housing projects involves an application process (Federal Home Loan Bank, Affordable Housing Program) that takes about ten hours to complete. The bank is also responsible for monitoring compliance with the provisions of the program for all grant recipients. A senior vice president of the bank serves as the organization's treasurer, and is a member of the Executive Committee and Finance Committee. The bank also provided a working capital line of credit in the amount of \$50 thousand and donated \$34 thousand to this community development organization. These activities are included in the lending and investment tables. This service activity is considered complex based on the resource demands in both the application and monitoring process. Each of the affordable housing projects has also been very responsive to the affordable housing needs of an underserved population.

Members of the UST staff participated with a non-profit community development organization in providing financial education to inner-city children. Three Los Angeles branch employees taught a total of ten classes on banking to elementary school children in inner city schools in Los Angeles (predominately low- and moderate-income). UST also contributed \$14 thousand to this community development organization.

**Table 6a: Los Angeles-Long Beach MSA  
Community Development Service Activities**

| CD Service  | Benefits AA |
|---|-------------|
| Conduit for grants benefiting organization creating affordable housing.           | X           |
| Committee(s) and treasurer positions at local community development organization. | X           |
| Taught finance-related courses to schoolchildren from inner-city schools.         | X           |
| Banker's Task Force supporting SBA micro-loans                                    | X           |

San Francisco CMSA Assessment Area

UST provided a high level of community development services in this assessment area, considering the limited staff size. Each activity is responsive to identified needs within the assessment area. UST’s San Francisco offices have a total staff of 64 and commercial banking staff of 11. Managed assets represent 11 percent of the total managed assets for the company.

Two officers are involved in a scholarship fund designed to enable low-income children to attend local private schools chosen by their parents or guardians. The fund also helps send disadvantaged youth to camp. The officers’ roles with this organization are as board members and fundraising efforts, spending an average total of 15 hours per month.

**Table 6a: San Francisco CMSA  
Community Development Service Activities**

| CD Service   | Benefits AA |
|--|-------------|
| Board membership and a fundraising organization providing services to children of low- and moderate-income families.                               | X           |
| Treasurer of organization providing medical services to indigent persons.  | X           |
| Board member and fundraising for an organization teaching business principles to unemployed and those starting small businesses.                   | X           |
| Board member and fundraising for an organization providing economic opportunities and training for children of low- and moderate- income families. | X           |

**Conclusions for Area Receiving Limited Scope Review**

Based on our limited-scope review of the Orange County MSA assessment area, CRA performance is not inconsistent with the bank’s overall performance in California. Community development loans represent 40 percent of the allocated Tier 1 capital and 14 percent of allocated total income. Community development investments represent 9 percent of allocated Tier 1 capital and 3 percent of allocated total income. Community development services in this market are at a high level.

# State Rating

## State of Oregon

### CRA Rating for Oregon: Outstanding

The conclusions for the three rating criteria are:

- UST demonstrates a high level of qualified investments, community development services, and community development lending activity.
- The bank did not demonstrate the use of innovative or complex community development loans, qualified investments, or community development services.
- The bank demonstrates good responsiveness to credit and community development needs in its assessment area.

## Description of the Assessment Area

### Portland-Vancouver Multi-State MSA

The Portland-Vancouver MSA is an urban area made up of five contiguous Oregon counties (Clackamas, Columbia, Multnomah, Washington, and Yamhill) and one Washington county (Clark). Census projections for 2000 show a total population of the six counties comprising the MSA as 1.96 million. The 2001 HUD data shows median family income is \$67.2 thousand. Owner-occupied housing units comprise 59 percent of the total housing units, and owner-occupied housing in low- and moderate-income geographies is 32 percent and 42 percent, respectively. As noted in the table below, 20 percent of the small businesses are located in low- and moderate-income geographies.

UST operates one office in this assessment area with a combined staff of 51 and a commercial bank staff of 3. Managed assets of this office are approximately 17 percent of the total. As in the other assessment areas, the small commercial banking staff and fiduciary focus inhibit the bank's origination of affordable housing and small business loans.

There are several community development organizations in the area that focus on affordable housing issues. The Vancouver Housing Authority issues and sells affordable housing revenue bonds and low-income housing tax credits through intermediary financial institutions outside of Clark County. Portland has an Enterprise Zone that offers financial incentives for qualified businesses expanding or relocating to the targeted areas. There are also several state sponsored programs available for businesses locating in this zone. A portion of Portland has received designation as a Brownsfields Showcase Community. This enables the area to receive technical

and financial support for specific economic development efforts that clean up contaminated properties and the environment and help build economic vitality and job opportunities.

Affordable housing is a key issue in the community. Increased needs for affordable housing units result from the population growth and a lack of affordable development land. The city has implemented controls designed to preserve natural areas and prevent urban sprawl. With the supply limited, the cost of undeveloped land as well as existing developed properties increases. The city is trying to increase the number of residential units in the central city and provide incentives that will foster job creation.

We reviewed four contacts with community organizations completed during the last two years. These organizations focused on affordable housing issues and the creation of small business opportunities. Three contacts thought that the most critical need was for housing. One of these contacts said that sections of north and northeast Portland are undergoing gentrification and lower income people are becoming unable to keep their homes. Two contacts said that there is a need for more small business start-up loans.

**Table 2d: Portland/Vancouver Multi-State MSA Assessment Area Description**

|                      | <b>Number</b> | <b>Low</b> | <b>Moderate</b> | <b>Middle</b> | <b>Upper</b> |
|----------------------|---------------|------------|-----------------|---------------|--------------|
| <b>Tracts</b>        | 353           | 2%         | 20%             | 58%           | 18%          |
| <b>Families *</b>    | 397,676       | 18%        | 19%             | 26%           | 38%          |
| <b>Businesses **</b> | 95,764        | 1%         | 19%             | 63%           | 17%          |

Source: Demographic Data - 1990 U.S. Census, 2001 Dun & Bradstreet Data. \*Represents the percentage of families by income level. \*\*Represents the percentage of businesses by income level of census tract. Percentages may not add to 100% due to rounding or "NA" tracts.

# Conclusions About Performance

## Summary

In the state of Oregon, UST demonstrates an overall high level of qualified investments, community development services, and community development lending activity. The volume of qualified investments and community development loans in the single assessment area are excellent. And the level of community development services is satisfactory, considering the limited staff size and expertise. The bank did not demonstrate the use of innovative or complex community development loans, qualified investments, or community development services.

UST demonstrates good responsiveness to credit and community development needs in its assessment area. Affordable housing and start-up funding for small businesses are identified as primary needs. Current and prior period investments include over \$2.8 million in mortgage-backed securities, which are secured by pools of low- and moderate-income family mortgages.

## Qualified Investments

UST made a very high level of investments in this assessment area. The investments are responsive to the need for affordable housing in the assessment area, but are not considered innovative or complex. The current period investment includes portions of three mortgage-backed securities secured by pools of mortgages to low- and moderate-income families residing in the assessment area. The prior period investment represents the book value of a mortgage-backed security secured entirely by mortgages to low- and moderate-income families in the assessment area. Grants benefit five different community development organizations providing services or affordable housing to low- and moderate-income families.

**Table 3c: Portland-Vancouver Multi-state MSA Investment Activity (000s)**

|   | <b>Benefits AA</b> |
|---|--------------------|
| <b>Originated Investments</b>                           | \$1,810,730        |
| <b>Originated Grants</b>                                | \$10,500           |
| <b>Prior-Period Investments that Remain Outstanding</b> | \$1,052,856        |
| <b>Total Qualified Investments</b>                      | \$2,874,086        |

**Table 4c: Portland-Vancouver Multi-state MSA Qualified Investment Percentages**

|  | <b>Benefit AA (%)</b> |
|--|-----------------------|
| <b>Total Investments/Average Allocated* Tier 1 Capital</b> | 267%                  |
| <b>Total Investments/Average Allocated Total Income</b>    | 92%                   |

\* Tier 1 Capital and Total Income are allocated between each of the assessment areas based on the percentage of total deposits. Just 2.8% of the bank’s total deposits are located in the state of Oregon, and in this MSA.

## Community Development Lending

The level of community development lending activity within this assessment area is also very high. The loans are responsive to the community's needs, including services and housing to low- and moderate-income families and small businesses. The loans are not considered innovative or complex.

UST provided a \$750 thousand secured line of credit to a non-profit community development group providing health services to financially challenged families. The organization serves seven counties of Oregon. Eighty-six percent of their funding is from contract fees and program income from the state and various counties.

One SBA loan made in the prior period has a remaining outstanding balance of \$163 thousand. This represents an additional 2 percent of allocated Tier 1 capital, and 1 percent of allocated total income.

**Table 5c: Portland-Vancouver Multi-State MSA Community Development Lending Percentages**

|   | <b>Benefits AA (%)</b> |
|---|------------------------|
| <b>Total CD Lending/Average Allocated* Tier 1 Capital</b> | 91%                    |
| <b>Total CD Lending/Average Allocated Total Income</b>    | 31%                    |

\* Tier 1 Capital and Total Income are allocated between each of the assessment areas based on the percentage of total deposits. Just 2.8% of the bank's total deposits are located in the state of Oregon, and in this MSA.

## Community Development Services

The level of community development services in this assessment area is satisfactory, considering the bank's limited staff size and fiduciary expertise. UST's Portland office has a total staff of 51 and commercial banking staff of 3. Managed assets represent 17 percent of the total managed assets for the company. One officer serves on the board of directors of a community development organization supporting affordable housing. This activity is responsive to the needs of the community.

## Fair Lending Review

An analysis of the most recent public comments and consumer complaint information, Home Mortgage Disclosure Act Data, and small-business data was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted with the CRA evaluation this year.

## 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 benefits a 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, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-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 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 or a block numbering area 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 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development

annually that is used to determine the income level category of families. 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 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 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”*]

**Wholesale Institution** – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.