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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**May 2, 1997**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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

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

**Office of the Comptroller of the Currency  
Western District  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

<b>NOTE:</b> 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.
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## 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 Community Reinvestment Act (CRA) performance of U.S. Trust Company of California, N.A. (USTCAL) prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 2, 1997**. 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:**

We evaluated the bank's CRA performance for the period of August 1994 to May 1997 using CRA examination procedures for Wholesale Purpose Institutions. We considered the number and dollar amount of qualifying community development loan originations, community development investments, as well as community development services rendered since the last CRA examination on August 15, 1994. Additionally, we made community contacts to ascertain the credit needs within the bank's assessment areas and to assess the bank's participation in meeting those needs. We did not consider community development investments and services of the bank's affiliate companies during this review.

**INSTITUTION'S CRA RATING:** This institution is rated "**Satisfactory.**"

USTCAL has reasonably met its CRA responsibilities, consistent with its designation as a wholesale institution. The bank'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 bank's assessment areas. USTCAL also provides grants to, or purchases stock in qualified community development lending organizations. In addition, bank officers are active in community development organizations.

## **DESCRIPTION OF INSTITUTION:**

USTCAL is a wholly owned subsidiary of U.S. Trust Corporation, New York. It operates as a trust company and commercial bank in California through two California banking offices. 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 of Costa Mesa, approximately 50 miles south of Los Angeles. USTCAL specializes in providing asset management and fiduciary/securities services to high net worth individuals. For these clients, the bank offers banking services and residential mortgage lending as an accommodation.

As of December 31, 1996, USTCAL had total banking assets of \$369 million and trust assets under discretionary management exceeding \$3.4 billion. The majority of the bank's income is derived from its fiduciary services business. The bank's overall condition is satisfactory and no financial or legal impediments exist which affect the bank's ability to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods and individuals. The market for financial services is very competitive in Los Angeles and Orange counties. USTCAL competes with branches of large regional and multinational banks, local independent banks, thrifts, credit unions, and other specialty institutions.

On January 1, 1997 USTCAL purchased an investment management firm in San Francisco, California. This unit provides only investment management services. USTCAL also owns one subsidiary in Washington, D.C., U.S. Trust Fiduciary Services. They provide consulting for employee stock ownership plans and other corporate services on a national scale.

### **Performance Context:**

USTCAL received the designation as a wholesale bank from the OCC on June 6, 1996. A wholesale institution does not extend home mortgage, small business, small farm or consumer loans to retail customers unless it is incidental and is done on an accommodation basis. USTCAL is limited in its ability to engage in the origination of loans for affordable housing or to small businesses because of their small staff size and fiduciary focus.

#### *Los Angeles office:*

The more established Los Angeles office has achieved a reasonable level of community lending, consistent with their resources. There are only two full time lending officers in

Los Angeles responsible for developing and servicing the bank's \$226 million loan portfolio. There are two other officers in Los Angeles who support the lending function. In addition to their normal duties, they have responsibility for booking and servicing all CRA related small business and real estate credits for both branches. Because USTCAL's policy does not encourage the solicitation of commercial loans, they have not developed the expertise to pursue small business, small farm or any other types of commercial lending activity. For this reason, community development loan activities are mostly limited to acquiring prepackaged loans or participating in loans originated by reliable third party lenders.

*Orange County office (Costa Mesa):*

Because of the newness of the Costa Mesa office and its limited resources, they have not yet achieved the same level of community development lending as attained in Los Angeles County. This office has the same business priorities as the Los Angeles branch; therefore, they are similarly limited in the scope of their lending. They are further constrained by a small staff. The branch has only one lending officer who is responsible for 25 percent of the total California loan portfolio. Additionally, as described later in this report, the branch's effort toward funding community development loans in partnership with a micro enterprise organization was not successful. Subsequently, the bank has assisted in establishing and funding a new micro enterprise Community Development Corporation (CDC) in the county.

Management has determined that lending to small businesses is a high priority in Orange County. Additionally, because of the high cost of housing in the county, there is a scarcity of affordable housing. We confirmed these needs in recent community contacts with two Orange County CDC's. USTCAL management recognizes the need to increase their Orange County community lending activity. Until that activity can be expanded, they have increased the level of community development investments and services.

The last CRA examination was August 15, 1994, at which time the bank was rated Satisfactory.

**DESCRIPTION OF ASSESSMENT AREAS:**

USTCAL has designated Los Angeles and Orange counties as its two assessment areas. These assessment areas do not arbitrarily exclude low- and moderate-income geographies. These two counties consist of 2,136 census tracts, with a combined population of

11,274,000, based on 1990 U.S. Census data. The economy of these assessment areas is centered in services, trade, manufacturing, real estate development and government.

*Los Angeles County* has 1,652 census tracts, with 534 (or 32%) designated as low- and moderate-income. The total Los Angeles County population is 8,863,000, with 3,165,000 (36%) living in low- and moderate-income census tracts. Based on 1996 data from the L.A. Economic Development Association, the median family income is \$39,095 and the median sales price of existing homes is \$172,000.

*Orange County* has 484 census tracts, with 132 (or 27%) designated as low- and moderate-income. The total Orange County population is 2,411,000, with 732,000 (30%) living in low- and moderate-income census tracts. Based on 1996 data from the publication Focus: Orange County, the median family income is \$50,017 and the median sales price of existing homes is \$213,000.

Both Los Angeles and Orange county economies are experiencing only modest growth following a gradual recovery from the recent recession. Recovery has been slow in Southern California as a result of spending cutbacks in defense and related industries and the downsizing of many companies.

There is a strong need for affordable housing in both assessment areas as emphasized by the one third of the population that lives in low- and moderate-income census tracts. Los Angeles and Orange Counties' home prices are expensive relative to the rest of the country. The average home price is higher than the national average by 42% and 79% for each county, respectively. The median income in Los Angeles and Orange Counties is above the national average. However, in Los Angeles County the affordability index of 40% (the percent of households that can afford to buy a median-priced home at prevailing mortgage interest rates) is well below the national average of 53%. Orange County is similar.

Los Angeles and Orange Counties have areas in need of community revitalization of infrastructure, and commercial and industrial buildings. In addition, each county needs to reverse the unemployment trend and promote business and job growth. Since 1990 structural changes in the southern California economy resulted in large reductions in aerospace and defense manufacturing jobs. Overall, including losses from business downsizings and failures, Los Angeles lost 530,000 jobs in the period between 1990 and the beginning of 1994. The Los Angeles civil disturbances in 1992 and the January 1994 Northridge earthquake also negatively impacted the economy. Orange County did not experience as severe a level of job losses, but many government programs were impacted

by the bankruptcy filing of the County in December 1994. Despite these setbacks, both counties have shown increased population and job growth since 1995. The population of Orange County is now growing faster than the available housing stock. Due to lower growth rates in recent years, the Los Angeles housing stock is in better balance. However, growth is accelerating again due to the revitalized economy.

Despite the improved economic environment, unemployment is still above national levels. Several organizations have been established to deal with the unemployment issue. Orange County has also piloted an economic effort aimed at creating job opportunities and encouraging local ownership of businesses.

Our contacts with local community economic organizations disclosed that in both Los Angeles and Orange Counties, there is a need for affordable housing, loans to small and medium size businesses, and funding to create job opportunities, job training, placement and entrepreneurial skills for low- and moderate-income youth and individuals. The bank has determined that affordable housing for low-income families is the area of greatest need in the Los Angeles area. These needs were confirmed in our interview with an officer of a prominent Los Angeles County Community Development group. The need for affordable housing and jobs is further 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.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS :**

### ***Community development test (combined assessment areas).***

The bank's overall record of community development lending, investment activities and community services is satisfactory. This rating is based on USTCAL's record of meeting community needs and their direct community involvement, balanced against the bank's available resources. We reviewed loans originated since the last CRA examination and only considered qualifying small business loans and other loans qualifying under the Community Development Test. The majority of the bank's community development activities have been within their two assessment areas.

Although the bank is limited by the narrow focus of its private banking lending function, management has found alternative ways to serve the needs of low- and moderate-income

individuals residing in the counties. The following chart reflects the bank's overall CRA performance within their assessment areas during the time span of our review.

**The Number and Amount of Qualified Community Development Loans, Investments and type of Community Development (CD) Services made between August 15, 1994 and April 30, 1997**

	<b>Community Development Lending</b>	<b>Qualified Investments and Grants</b>	<b>Community Development Services</b>
<b>Los Angeles County</b>	\$1,576,221 (16 loans)	\$49,862 (5 community investments & grants)	Four officer's time commitments to three CD projects. (See narrative)
<b>Orange County</b>	\$42,904 (1 loan)	\$15,000 (5 community investments and grants)	One officer's time commitment for two CD projects. (See narrative)
<b>Outside Assessment Area</b>	\$50,093 (1 loan)	N/A	N/A
<b>Total</b>	\$1,669,218 (18 loans)	\$64,862 (10 community investments)	(Five officers involved in CD services)

The bank is not in the business of making traditional commercial or consumer loans. However, their CRA Plan includes a realistic target for providing loans to appropriate community development projects. In 1996 the bank funded \$711,152 in qualifying loans within Los Angeles County. Through April 1997, they have funded (or committed to fund) another \$150,000 in loans to Savings Association Mortgage Company (SAMCO) for three multi-family low-income housing projects. The SAMCO loans will assist in financing affordable apartment units in south-central Los Angeles.

## ***Los Angeles County assessment area.***

### **I . Community Development Loans:**

USTCAL's volume of community development lending is reasonable given the bank's size and strategic focus. The bank has engaged in community development lending over the past several years, with most of these loans generated through the purchase of SBA loans and the acquisition of multi-family housing loans from SAMCO.

#### *1996-1997*

During the ten month period since USTCAL received its wholesale designation, they exceeded their 1996 CRA Plan goals in Los Angeles County alone, by funding seven loans totaling \$711,152 for various community development purposes. These loans were well diversified, with two mortgage loans for single family homes, totaling \$127,842; three SBA loans for \$113,310 to small businesses; and one \$95,000 loan for Project New Hope which provides apartments for low-income individuals diagnosed with AIDS. The bank has developed a relationship with Los Angeles Neighborhood Housing Services (LANHS) to provide direct mortgage loans allowing home ownership for low- and moderate-income families. The two single family mortgage loans described above were funded for LANHS in 1996.

Management worked with a non-profit parochial school in a central city Los Angeles low income neighborhood to overcome the negative influence of an adjacent blighted commercial property. In 1996 the bank provided a \$375,000 loan to purchase and raze the building, allowing the school to improve and expand their playground areas.

The bank has also developed a good relationship with SAMCO, a developer of multi-family affordable housing projects. Through April 1997, they funded (or committed to fund) another \$150,000 in loans to SAMCO for three multi-family low-income housing projects. The SAMCO loans will assist in financing apartment units in the south-central area of Los Angeles. This is one of the areas of greatest need for affordable housing in the county. The developer has tied in an educational incentive program with the University of Southern California to encourage children of working families to achieve higher academic standards.

### 1994-1995

Between the last CRA examination and the date USTCAL received its wholesale bank designation, they also made three qualifying SBA loans in Los Angeles County totaling \$217,968. They also funded two multi-family mortgage loans in December 1994 for affordable housing units through SAMCO, aggregating \$495,000. Lastly, the bank provided a Letter of Credit for Operation HOPE for \$2,101. Operation HOPE is a non-profit organization facilitating banking services and loans to low- and moderate-income families residing in south-central Los Angeles.

### **II. Community Development Investments:**

During our review period, the bank made qualified community development investments totaling \$49,862. This includes \$38,362 in sponsorship contributions to support the operations of Operation HOPE. They also made a \$2,500 grant to support training for Operation HOPE's Down Payment Assistance Program and \$4,500 in grants for the Los Angeles Neighborhood Housing Services (LANHS) Small Business Loan Program. Additionally, they have committed another \$4,500 to be paid to LANHS over the three remaining quarters in 1997.

### **III. Community Development Services:**

USTCAL's community development services are appropriate given the bank's resources and technical capacity.

### 1995-1996

- Vice President Thomas Spratt provided assistance to Project New Hope, which provides affordable rental housing to AIDS patients. He provided technical assistance for their application to the Federal Home Loan Bank (FHLB) for a program loan of \$140,000. The loan was approved and U.S. Trust administers the loan through the FHLB.
- Vice President Teresa McCann served as advisor to Operation HOPE for development of the organization's home mortgage down payment assistance program. In 1995 she assisted LANHS in the development of a micro-enterprise lending program, and in 1996 she served as advisor to LAHNS to develop the SBA Loan Program offered by the organization.

- Vice President Sandee Parks served on the Board of Directors of Operation HOPE. (Quarterly meetings)

## 1997

- Vice President Sandee Parks served on the Board of Directors of Operation HOPE through February 1997.
- Vice President Teresa McCann serves on the Advisory Committee for the LANHS Small Business Loan Program. (Quarterly meetings)
- Vice President and CRA Officer Karen Yamamoto serves on the Advisory Committee for the LANHS Small Business Loan Program. (Monthly meetings)

### ***Orange County Assessment Area.***

#### **I. Community Development Loans:**

The Costa Mesa branch's community lending activity is low. They granted one SBA loan in Orange County for \$47,904 during the period we reviewed. Some of the reasons for this shortcoming are outlined in the above discussion of the institutions Performance Context. The Costa Mesa branch also experienced some setbacks in getting its CRA program underway. In 1994, the branch began supporting a Micro-Enterprise Loan Program (MELPOC) by providing an initial \$2,500 grant. This was to be a matching lending program with the bank expecting to make additional grants; however, the program did not progress as expected. USTCAL subsequently helped establish the Bankers' Small Business Community Development Corporation (BSBCDC). The branch expects the BSBCDC to provide better opportunities which will add to their community lending totals. (See Community Development Services for the bank's involvement with this organization).

#### **II. Community Development Investments:**

For the period August 1994 to May 1997, the bank made a total of \$15,000 in qualified community development investments. In 1994, a \$2,500 grant was made to MELPOC (discussed in the Community Development Loans section above). In 1995 they contributed \$2,000 to Human Options, a group that provides shelter to battered women and children.

In 1995 and 1996 they contributed \$3,000 to Serving People In Need (SPIN), which provides emergency shelter to assist homeless families. In 1996 they purchased \$2,500 of stock in BSBCDC, which enables the bank to fund prorata shares of small business loans originated by the organization. The first loans will be funded in mid-1997. Thus far in 1997, the branch made one \$5,000 grant. These funds went to Saddleback Community Outreach to assist in the purchase of a condominium in Lakeforest for transitional housing. The organization has several similar units which specifically target the housing needs of low- or moderate-income individuals in south Orange County.

### **III. Community Development Services:**

In 1995 Vice President J. Chris Walsh served as treasurer of MELPOC, a Micro-Enterprise Loan Program in Orange County. In 1997 he is serving on the Marketing Task Force for Bankers' Small Business CDC of Orange County. This group meets every two weeks and discusses ways to effectively serve the financing needs of micro and small-businesses in the county. The bank has also purchased stock in the organization, which will permit direct lending opportunities in the future. The monetary amounts are described in the investments discussion above.

### **COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS:**

We found no evidence of disparate treatment of customers during this CRA examination or during our September 30, 1996 examination of fair lending. Based on these examinations we did not disclose any violations of antidiscrimination laws and regulations.