



WHOLESALE BANK

PUBLIC DISCLOSURE

January 30, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Morgan Stanley Bank, National Association
Charter Number 24908
201 South Main Street, 5th Floor
Salt Lake City, UT 84111

Office of the Comptroller of the Currency
Large Bank Supervision
400 7th Street SW
Washington, DC 20219

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.

Table of Contents

Overall CRA Rating..... 2
Definitions and Common Abbreviations..... 3
Scope of the Examination..... 6
Description of Institution..... 6
Description of Assessment Area..... 8
Conclusions..... 11
Discriminatory or Other Illegal Credit Practices Review..... 19

INSTITUTION'S CRA RATING:

This institution is rated Outstanding.

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of community development lending and qualified investment activity, particularly investments not routinely provided by private investors. The bank demonstrates an adequate level of community development services.
- The bank demonstrates extensive use of innovative or complex community development loans and qualified investments.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

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: The OCC considers all qualified investments, community development loans, and community development services that benefit areas within the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Benefit Outside Assessment Area: The OCC considers the qualified investments, community development loans, and community development services that benefit areas outside the bank's assessment area(s), if the bank has adequately addressed the needs of its assessment area(s).

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and

sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) 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.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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

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

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

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

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

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

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.

Scope of the Examination

In evaluating the bank's performance under the CRA, the Office of the Comptroller of the Currency (OCC) reviewed community development (CD) activities from July 1, 2013, through December 31, 2016. The OCC reviewed the level and nature of qualified investments, CD lending, and CD services. At the bank's request, the OCC considered qualified investments, CD lending, and CD services provided by its affiliates. At the prior examination, dated July 29, 2013, the bank's assigned rating was Outstanding.

For a wholesale institution that adequately responds to the needs of its assessment area(s), the OCC considers qualified investments, as well as CD loans and services, originated by the institution at a nationwide level. In determining whether an institution is adequately responsive to the needs of its assessment area(s), examiners will consider qualified investments that benefit a broader statewide or regional area that includes the institution's assessment area(s).

Description of Institution

Morgan Stanley Bank, National Association (MSBNA) is a nationally chartered bank, with its headquarters and main office located in Salt Lake City, Utah. MSBNA is an indirect, wholly-owned operating subsidiary of Morgan Stanley & Company (Morgan Stanley). MSBNA is a wholesale institution primarily focused on providing commercial loans to large institutional borrowers, and securities-based loans to institutions and individual borrowers. The bank has no branches or ATMs, and does not engage in retail deposit activities. The bank's deposit products include brokered savings and time deposits and brokered sweep deposits from broker-dealer client accounts of an affiliate, Morgan Stanley Smith Barney (MSSB). A loan production office and administrative offices are located in New York, NY. As of December 31, 2016, MSBNA had assets of approximately \$129.3 billion, deposits of \$113 billion, and Tier 1 Capital of \$13.4 billion. Total income for the year ending December 31, 2016, was nearly \$4 billion.

Morgan Stanley is a global financial services firm providing a wide range of securities, investment banking, investment management, and wealth management services primarily to corporations, governments, and high-net worth individuals. It is based in New York, NY, and serves its clients from offices in more than 42 countries. Morgan Stanley had just over 55,000 employees as of December 31, 2016. Morgan Stanley's assets totaled over \$811 billion as of December 31, 2016, while net income for the year totaled just under \$6 billion.¹ Morgan Stanley also owns a separate national bank: Morgan Stanley Private Bank, National Association.

In 2008, Morgan Stanley received approval from the Federal Reserve to become a financial holding company (FHC), and Morgan Stanley Bank converted from a Utah state-chartered industrial loan corporation to a national bank. The OCC approved MSBNA's wholesale designation for CRA purposes on March 10, 2009.

¹ Morgan Stanley Earnings Release 4Q 2016 as of December 31, 2016, <http://www.morganstanley.com/about-us-ir/finsup4q2016/finsup4q2016.pdf>

Following the creation of the FHC and the conversion to a national bank charter, MSBNA experienced a rapid increase in its asset base, a trend that continued over this evaluation period. Over the evaluation period, MSBNA's total assets increased by 54 percent, from \$83.7 billion to \$129.3 billion, while total income increased by 65 percent from \$2.4 billion annualized income as of July 1, 2013 to \$3.98 billion at December 31, 2016. Tier I capital increased 35 percent during the evaluation period to \$13.4 billion as of December 31, 2016.

During the evaluation period, MSBNA faced no legal, financial, or other factors impeding its ability to help meet the CD needs in its AA. There were no mergers or acquisitions during the evaluation period. MSBNA has no subsidiaries.

The following table provides a perspective regarding MSBNA's financial history.

Table 1: Financial Information (000s)

	Year-end 2013	Year-end 2014	Year-end 2015	Year-end 2016	Average for Evaluation Period
Tier 1 Capital	\$11,086,000	\$12,355,000	\$13,333,000	\$13,398,000	\$12,543,000
Total Income	\$2,443,000	\$2,872,000	\$3,769,000	\$3,982,000	\$3,266,500
Net Operating Income	\$955,000	\$1,172,000	\$1,784,000	\$2,084,000	\$1,498,750
Total Assets	\$103,074,000	\$125,528,000	\$136,028,000	\$129,288,000	\$123,479,500

Source: Consolidated Report of Condition and Income, and bank reported data.

Morgan Stanley originates qualified investments and CD loans on the books of MSBNA, Morgan Stanley Private Bank, N.A. (MSPBNA), and non-bank affiliates. All CD activities originated by non-bank affiliates count toward MSBNA's record of meeting the credit needs of its community, except for certain CD loans and investments that address the credit needs of the greater New York City Metropolitan Area. CD activities originated by MSPBNA, but are not in the MSPBNA assessment area, typically count towards MSBNA's record of meeting the credit needs of its communities.

The following is a partial list of non-bank affiliates that originate CD activities.

- **Qualified Investments and Grants**
 - Morgan Stanley & Co.: provides equity financing and philanthropic contributions to support low- and moderate-income (LMI) communities and neighborhood revitalization efforts;
 - Morgan Stanley Foundation: provides contributions and other philanthropic assistance to nonprofit organizations as a means of helping to strengthen its local communities;
 - Morgan Stanley Municipal Funding, Inc.: makes investments such as purchasing housing bonds that provide support for affordable housing; and,
 - Morgan Stanley Impact SBIC LP (also provides CD Loans): licensed under the Small Business Administration's (SBAs) Impact Investment Initiative, with the objective to promote economic development by providing capital to later stage companies in the lower middle market sector.

- Community Development Loans
 - Morgan Stanley Senior Funding, Inc.: provides debt financing to support LMI communities and individuals; and,
 - Morgan Stanley Community Investments LLC: Morgan Stanley’s CD Corporation provides debt and equity financing to meet the needs of LMI geographies and individuals.

In addition to the non-bank affiliates listed above, numerous subsidiaries of Morgan Stanley including Morgan Stanley Mortgage International Holdings Inc., Morgan Stanley Mortgage Capital Holdings LLC, MS Affordable Housing LLC, and Pinol II LLC provided grants and services noted in this PE.

Description of Assessment Area

MSBNA has designated Salt Lake County (SLC) as its AA. It is one of two counties that comprise the Salt Lake City, Utah Metropolitan Statistical Area (“MSA”) #41620. The MSA is part of the Salt Lake City-Provo-Orem Combined Statistical Area (“CSA”) #482. According to the 2010 U.S. Census, the population in SLC was 1.029 million, making it the most populous county in Utah, with total population of 2.8 million in the state. SLC contains two of the most populous cities in the state: Salt Lake City with a population of 186,440, the largest city in the state, and West Valley City with a population of 129,480. Salt Lake City is also the state capital and county seat, headquarters for many of the state’s largest corporations, and the center of the state’s economic activity. The AA is predominately a mix of urban and suburban areas. The bank’s AA does not arbitrarily exclude LMI geographies.

The SLC AA is comprised of 212 contiguous census tracts (CTs) that include 11 low-income CTs, 41 moderate-income CTs, 98 middle-income CTs, 60 upper-income CTs, and 2 CTs not designated because of low populations.

The following table provides a statistical summary of the AA:

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	212	5.19%	19.34%	46.23%	28.30%
Families	236,504	3.66%*	17.12%*	50.40%*	28.82%*
Businesses	80,239	5.02%**	19.40%**	43.07%**	31.96%**

Source: Demographic Data – 2010 U.S. Census, 2016 Dun & Bradstreet Data.

*Represents families by income level.

**Represents businesses by income level of census tract. Percentage may not add to 100% due to rounding, and exclusion of the two census tracts with no income categorized.

The estimated annual median family income in the Salt Lake City MSA for 2016 was \$72,800², while the 2016 median family income for the SLC AA was \$67,016³. Approximately 9.8 percent

² FFIEC Estimated MSA Median Family Income 2016 – Note: the FFIEC provides this information at the MSA/MD level, but not at the county level

³ Demographic Data – 2010 U.S. Census

of the population in the AA was below the poverty level compared to the national average of 13.5 percent in 2015⁴.

The AA has experienced considerable growth since the previous evaluation period. The strong economy is led by a highly educated workforce, a stable base of state employment, high-tech jobs, below average business costs and a business-friendly climate. The AA has strong population growth and immigration. The Bureau of Labor Statistics reported a civilian labor force of 587,026 in SLC at year-end 2015 with an annual average unemployment rate of 3.3 percent for 2015, down from 5.5 percent for 2012⁵. This is lower than the 2015 average annual unemployment rate of 3.5 percent for the state of Utah, and nationwide annual average 5.3 percent for 2015.

Salt Lake City remains one of the healthiest economies in the country. Healthcare and the finance industry, particularly banking and insurance, are essential parts of the economy, with two-fifths of the job gains. Major employers include Intermountain Healthcare, State of Utah, University of Utah, World Financial Capital Bank, Comenity Capital Bank, Smith's Food and Drug, and the Church of Jesus Christ of Latter-Day Saints. These institutions and businesses each employ more than 6,000 people.

As of June 30, 2017, the Federal Deposit Insurance Corporation (FDIC) reported that MSBNA had over \$100 billion in deposits from SLC and the highest SLC deposit market share at 22.8%. However, these deposits are, in fact, from MSSB client accounts located throughout the United States. Deposits from MSSB client accounts located in SLC totaled \$280 million as of year-end 2016.

Salt Lake City has higher living costs compared to other metropolitan areas in Utah. Home sales are rising faster than the rest of the state and home prices are rapidly rising as well. Housing affordability remains a challenge for LMI families.

In an October 2016 report, the Salt Lake Board of Realtors reported that limited housing inventory coupled with high demand continues to push home prices higher. Although housing is affordable for middle-income residents, LMI residents are struggling. Single-family home prices in the third quarter of 2016 climbed to a median price of \$301,000. This represents a 7 percent increase compared to the median home price of \$279,000 in 2015.⁶ Affordable housing continues to become more strained as the gap between housing prices and income widens. According to the 2010 U.S. Census Data, the SLC housing market had approximately 357,000 housing units, including 64 percent that were owner-occupied and 32 percent renter-occupied. Only 6 percent of the housing units were vacant compared to 10 percent for the entire state of Utah. Local and federal programs provide housing assistance to low- and extremely low-income households through programs administered by the Utah Housing Corporation. These programs provide over 17,000 rent-assisted units to very low-income households in SLC. However, the supply of rent-assisted units falls short of the need. The HUD CHAS for SLC estimates almost 20,000 low-income renter households have no rental assistance and face severe housing cost burden, with more than 50 percent of their income

⁴ U.S. Census Bureau, Income and Poverty in the United States: 2015, report dated September 13, 2016

⁵ 2015 Labor Force Data by County, Annual Averages, Bureau of Labor Statistics, April 2016

⁶ Salt Lake Board of Realtors Report, October 31, 2016

devoted to housing.⁷ As a result, needs exist for CD efforts related to affordable housing within the AA.

The OCC's Community Affairs Officers conducted outreach and learned that activities to address homelessness are a critical need, as social service programs dwindle and the resources available to assist the homeless continue to disappear. Alleviating homelessness, providing resources for affordable housing, both rental and ownership, for the LMI population is critical. In order to address the needs of the homeless, government, both local and state, have developed a plan, future CD opportunities, to focus on housing the homeless. According to the 2016 SLC Consortium Consolidated Plan, over a five-year period, 300 homeless households, or households at risk of becoming homeless, will receive short-term rental assistance. In addition, 400 units of rental housing units are pending construction for the chronic homeless, seniors, and those with special needs. During 2015, SLC's Mayor developed a Collective Impact Steering Committee on Homelessness. The Steering Committee focuses on improving housing for the homeless and improving service delivery systems in SLC to meet the needs of the homeless, and persons at risk for homelessness. In addition, the SLC 10-Year Plan to End Chronic Homelessness includes the objective to prevent persons discharged from institutions such as prisons, hospitals, and treatment facilities from being homeless.

Housing for LMI and the homeless includes creating affordable housing within a half-mile to a mile of the transportation hubs, especially as transit hubs develop. CD needs include providing grants to CD-focused organizations to help fund operations, a lower loan rate, and access to additional lines of credit.

Other CD needs outside of housing include the following: 1) job creation and retention; 2) small business financing, including small dollar loans for small businesses, start-ups, workforce development and training; 3) support for housing counseling agencies; 4) financial education; 5) refugee settlement programs; 6) early childhood education; 7) help for children aging out of foster care; 8) help for those recently released from prison; and, 9) Individual Development Accounts (IDA) programs.

There are active nonprofit organizations with projects that will provide future CD opportunities. The creation of new homeless shelters, and mixed use and multifamily projects are potential opportunities in progress.

Performance Context

MSBNA operates in a highly competitive banking environment with 40 FDIC-insured institutions located in SLC. The county has a disproportionately high number of limited purpose or wholesale banks based on favorable state laws, and all compete for the same qualified investment and CD loans and services in response to the needs of its AA, which includes SLC. SLC also has numerous large commercial banks, including JPMorgan Chase, Wells Fargo, Zions Bank, US Bank, and Key Bank, as well as many state chartered banks, who again compete for the same CD opportunities as MSBNA in SLC. Based on the competition, the opportunity for any one of these institutions to obtain a sizable portion of qualified investments or CD loans benefiting SLC is limited.

⁷ Salt Lake County Consortium Plan 2016

An illustration of the high level of competition for CD products is the low rate of return for Low Income Housing Tax Credits (LIHTC) in SLC, which is typically 200 basis points below that of other markets. MSBNA bid and successfully purchased a LIHTC, but was outbid on three similar projects during the evaluation period. Competition for bankable transactions, including CD, has led to more aggressive underwriting by competitors. Competition in the construction market has resulted in a decrease of up to 100 basis points in the AA compared to outside the AA.

Conclusions about Performance

Summary

- MSBNA and affiliates provided a high level of qualified investments and CD loans, and an adequate level of CD services in relation to opportunities. Qualified investments and CD loans totaling \$227 million were in the SLC AA, representing 1.8 percent of average Tier 1 Capital and 7.0 percent of average total income. Employees of the bank and its affiliates provided services to 20 CD organizations in the AA.
- Additionally, the bank provided \$4.2 billion in qualified investments and CD loans in areas outside of the AA, representing 33.5 percent of average Tier 1 Capital and 128 percent of average total income. While these investments and loans benefit the nationwide area, some of the qualified investments impact the bank's AA directly. For example, MSBNA purchased eight mortgage-backed securities totaling \$788.5 million. The original underlying mortgages provided funding for 7,043 LMI borrowers nationwide, including 59 in the AA. Another example is a purchase of GNMA investments that included mortgages to LMI individuals, including \$119 million in the AA. While neither investment are innovative or complex, the investments display responsiveness to meet the needs for permanent single-family affordable housing for LMI individuals. MSBNA and its affiliates provided services to 81 CD organizations outside the AA.
- MSBNA and affiliates demonstrated extensive use of innovative or complex qualified investments and CD loans over the evaluation period. Eighty-three percent, or \$1 billion, of the total CD lending is innovative or complex, while 12.6 percent, or \$378 million, of the total qualified investments, excluding unfunded commitments, is innovative or complex.

The bank and its affiliates maintain partnerships with local and national nonprofit organizations in order to help the bank identify CD needs and create opportunities, including qualified investments not routinely provided by private investors. MSBNA and affiliates routinely leverage the firm's expertise and resources to initiate and provide leadership for innovative or complex qualified investment and CD loans. Morgan Stanley established and/or provided funding to multiple loan funds and programs managed by Community Development Financial Institutions (CDFIs). Morgan Stanley also provided funding to non-CDFI development-focused nonprofit organizations, which provides flexible financing for CD activities including affordable housing, economic development, and revitalization and stabilization of distressed and underserved communities. These innovative funds are structured to provide financing to organizations and small businesses by utilizing multiple

government programs (e.g. New Market Tax Credits (NMTCs), LITHCs, and SBA loan programs) combined with philanthropic support from the private sector. As such, they are particularly complex and require significant effort and expertise from the bank.

Examples

Morgan Stanley launched the Healthy Futures Fund in partnership with Local Initiatives Support Corporation (LISC) and the Kresge Foundation. The Healthy Futures Fund aims to expand access to healthcare for LMI families through a co-location model linking health centers to affordable housing projects. The Fund uses a combination of LIHTCs and NMTCs.

During the evaluation period, Morgan Stanley designed and formed an Impact Small Business Investment Company (SBIC) under the SBA's Impact Investment program that targets the education and clean-tech sectors, and LMI individuals and geographies across the nation. There are only nine Impact SBICs in the country and the Morgan Stanley Impact SBIC is the only bank-sponsored Impact SBIC.

- MSBNA and affiliates' qualified investments and grants, and CD loans and services exhibit excellent responsiveness to credit and CD needs within the SLC AA, specifically affordable housing, and economic development. MSBNA is a leader and a partner in organizations that developed funds and new legislation to meet CD needs in the AA.

Examples

MSBNA participated and took a leadership position in the Equitable Transit Oriented Development Fund (ETOD Fund). Forming the Fund required approximately, three years of regular meetings hosted by MSBNA and included other community partners and stakeholders. The fund pooled the resources of several local banks and community partners to provide capital for the acquisition and development of LMI housing within a half mile of public transportation. The fund commenced in November 2015.

MSBNA demonstrated leadership in economic growth by developing the Greater Salt Lake Development Corporation, resulting in a \$10 million fund that promotes job growth and economic development. The fund provides alternative lending to developers seeking to improve blighted areas.

Finally, in recognition of MSBNA leadership roles, the state of Utah asked MSBNA to participate in the Refugee Advisory Housing Committee and Pioneer Park Coalition Committee. Both committees provided input into the 2016 state of Utah legislation that passed a \$27 million bill to help combat homelessness.

Qualified Investments

Originated investments, grants, and prior period investments in the AA total \$40.0 million, including \$3.2 million in grants. MSBNA and its affiliates originated three investments in the AA totaling \$18.7 million. One of the investments, an affordable housing project, was particularly responsive to a significant need within the AA. The other was a project to revitalize a

downtown Salt Lake City neighborhood through the renovation of a landmark theater. The third supports affordable housing in the broader statewide regional area.

MSBNA provided 150 grants totaling \$3.2 million to CD organizations with programs benefitting the AA. Seventy-three percent of the number of grants were to community service organizations for programs that benefit LMI individuals. Another 15 percent of the grants supported affordable housing, and 7 percent supported economic development. Five percent of the grants supported affordable housing and community service programs benefiting LMI individuals, which included supporting homeless individuals and families, and refugee settlement assistance. Grants, while not comparable in dollar volume to qualified investments, provide needed support and demonstrate responsiveness to CD groups and/or activities that may not get funding via other qualified investments or CD loans.

Prior period investments in the AA totaling \$18.1 million consisted of participation in eight SBIC funds, and two investments in funds that provide equity financing to small businesses. Unfunded commitments in place for the benefit of the AA totaled \$10 million.

Based on the level of competition for CD opportunities (refer to Description of Assessment Area), the OCC determined MSBNA was adequately responsive to the needs of its AA during this Evaluation Period. Therefore, the OCC considered nationwide investments, totaling an additional \$3.0 billion (\$75 million prior period), including \$31 million in grants, when evaluating the bank's performance. The majority of these investments focused on affordable housing and economic development. The majority of the grants supported community service organizations for programs that benefit LMI individuals by providing a variety of social services such as homeownership counseling, financial education, job training and placement, and services targeting homeless individuals and families. Prior period investments outside the AA totaling \$75 million included 16 investments in LIHTCs, one investment in a fund that provides equity financing to companies providing financing services to the underbanked and non-banked population, and one fund that supports affordable housing for seniors and veterans, and disaster areas. Unfunded commitments outside the AA totaled \$115.7 million.

The following table summarizes the bank's investments, grants, and unfunded commitments inside and outside the AA:

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	18,763	2,857,345	2,876,108
Originated Grants	3,243	31,021	34,264
Prior-Period Investments that Remain Outstanding	18,054	74,878	92,932
Total Qualified Investments	40,060	2,964,244	3,003,304
Unfunded Commitments*	10,087	115,764	125,851

* "Unfunded Commitments" means legally binding investment commitments that are tracked and recorded by the Bank's financial reporting system.

The following table measures the level of total qualified investment activity in terms of average Tier 1 Capital and average total income over the evaluation period:

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.32	23.62	23.94
Total Investments/Average Total Income	1.23	90.72	91.95

The bank’s dollar volume of investment in the AA increased nearly \$12 million compared to the previous CRA evaluation. Total investments in the AA compared to Tier 1 capital was similar when compared to the previous evaluations period, while investments outside the AA increased from 18.4 percent at the last evaluation to its current 23.6%. MSBNA has demonstrated its’ willingness to invest in CD as the bank continues to expand its volume of qualified investments both inside the AA and nationwide.

MSBNA extensively used innovative or complex qualified investments. MSBNA routinely leveraged its expertise and provided leadership by working with community partners to provide investments not routinely available by private investors and to meet identified needs both within the bank’s AA, as well as across the country.

Examples

- MSBNA committed \$10.4 million and funded \$1.71 million in a LIHTC development that will create 134 affordable housing units in the AA. Occupancy will be restricted to households with annual incomes below 60 percent of the area median income. The project is also notable for its proximity to public transportation, neighborhood conveniences, and services. Transit-oriented affordable housing, a key theme in the bank’s CD activities, reduces commuting costs and allows LMI families to better integrate into the community.
- In 2016, MSBNA and affiliates, working closely with the University of Utah, established the Morgan Stanley Salt Lake City Fellowship program. This innovative new program within the AA cultivates and nurtures the next generation of community leaders and provides additional capacity to local nonprofit organizations. The bank fully funded the program with four grants totaling \$80 thousand to four local nonprofit community organizations. The local organizations each hired a graduate student from the University of Utah to undertake critical community projects that the nonprofit organization would otherwise have been unable to complete. This is an example of an investment serving needs not routinely provided by other private investors.
- MSBNA provided three grants totaling \$55 thousand to a Salt Lake City based nonprofit organization whose primary focus is to facilitate sustainable eye care for underprivileged and LMI individuals within the AA. The organization provides free glasses and vision care to children in the Title One/Free and Reduced Lunch schools program, as well as the homeless population in the Salt Lake City area. The organization reported that a total of 2,588 children and 960 adults benefitted from their services, including providing 1,061 free pairs of glasses during 2016.

- The bank invested \$2.6 million in NMTCs to restore the Capitol Theater in downtown Salt Lake City. MSBNA collaborated with National Development Council to complete the project, which helped to revitalize and stabilize a downtown neighborhood. The renovated theater is a landmark within the AA and helps attract new businesses to the area.
- In 2015, MSBNA and affiliates established the National Equity Fund Preservation Fund, in partnership with LISC, to focus on the preservation of affordable housing. Nationwide, affordable housing projects are at risk of converting to market rate properties as they near the expiration of the compliance period for the LIHTCs that provide a 15-year guarantee period. The Fund acquires property and holds it until a nonprofit organization can arrange long-term financing that assures the preservation of the property's long-term affordability. Additionally, the Fund includes an innovative carve-out from management fees to fund value added services to the residents. During the evaluation period, MSBNA invested nearly \$94 million of its \$98 million commitment in the Fund, which has supported nine affordable housing projects to date.
- MSBNA and affiliates invested \$4 million in the Job Creation and Community Revitalization Fund. It is a flexible, complex, and innovative new fund that expanded on the LISC NMTC Small Business Fund, which uses SBA 504 loan financing to augment tax credits while meeting the higher job creation requirements under the NMTC program. This fund was the first of its kind to combine the benefits of the SBA 504 program with NMTCs. The fund enables loans to small businesses with cash flow constraints in distressed markets.
- The bank brought several community partners together to establish an innovative and complex collaborative fund for the financing of underserved small businesses in Cleveland. The fund is a unique application of NMTCs to benefit borrowers in need of micro- and very small loans. During the evaluation period, Morgan Stanley also designed and formed an Impact SBIC under the SBA's Impact Investment program that targets the education and clean-tech sectors, and LMI individuals and geographies across the nation.

Community Development Lending

During the evaluation period, MSBNA and affiliates extended 35 CD loans totaling \$187 million in or benefitting the AA, an increase of \$13 million, or 7.5 percent, compared to the previous evaluation period. The majority of CD lending supported affordable housing and economic development, 43 percent and 34 percent, respectively, both addressing significant needs within the AA. Twenty-three percent focused on affordable housing and economic development, combined, which were more complex due to its dual focus.

The bank was adequately responsive to the needs within the AA based on limited opportunities, as outlined in the *Description of the Assessment Area*. Therefore, we considered an additional 172 loans totaling \$1.2 billion made outside of the AA, approximately 13 percent increase compared to the previous evaluation period.

The following table quantifies the level of CD lending in terms of average Tier 1 Capital and average total income over the evaluation period:

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	1.49%	9.95%	11.44%
Total CD Lending/Average Total Income	5.72%	38.20%	43.93%

Note: Total CD lending equals the current period CD lending activity (excluding binding CD loan commitments); average capital, income, and receivables are found in Table 1.

Overall, MSBNA and its affiliates made 207 CD loans totaling \$1.4 billion, both in the AA and nationwide. The total includes 109 originations totaling \$924 million and 98 purchases totaling \$511 million. The majority of the bank's CD lending focused on affordable housing and economic development, both significant needs within the AA, and across the country. The bank provided 58 affordable housing loans totaling \$591 million. Economic development loans (74 loans) totaled \$181 million. An additional 57 loans totaling \$507 million are complex projects consisting of both affordable housing and economic development activities. The loans originated were for CD purposes outside housing and economic development.

MSBNA and affiliates extensively used innovative or complex lending practices to address the credit needs of LMI individuals or geographies. MSBNA routinely leveraged its expertise and provided leadership, both within the AA and nationwide, by initiating and/or structuring CD loans designed to meet CD needs.

AA Examples

- MSBNA provided \$11 million as three revolving lines of credit to a local CD entity. The lines of credit are for acquisition and rehabilitation of poorly conditioned residential properties, and subsequently sold as affordable housing units by the CD entity. One of the lines was unsecured, allowing the entity more flexibility for rehabilitation of condemned housing projects, which illustrates MSBNA's responsiveness to affordable housing needs within the AA. The bank also works with this entity in other ways, including providing grants.
- MSBNA provided a \$10 million non-revolving facility to a local CD entity to finance a loan program. The program provides technical assistance, as well as CD loans for economic development, affordable housing and community facilities in Utah. Examples of some of the projects financed by facility include, a healthy food market, the expansion of small LMI and minority owned businesses, and the acquisition of property in LMI census tracts for the use of affordable housing. LIHTCs augmented the loan facility, which increases the complexity of the deals, and allows Morgan Stanley to support the entity using their knowledge and expertise of housing tax credits.
- MSBNA provided \$2 million as a participation to a statewide CDFI that provides affordable housing and small business loans throughout Utah. One hundred percent of the housing units financed by the overall fund will be designated for residents with income less than or equal to 80 percent of the area median income. Morgan Stanley played a significant role in the development of the fund.

- The bank provided a \$1.5 million loan to a nonprofit organization for a mixed-use project that included affordable housing and small business space. The project was the nonprofit's sixth completed project and included the rehabilitation of an old factory building into 13 affordable residential units and 8 street-level workspaces for artists, small businesses owners, and nonprofit organizations. The project contains sustainable design practices, including a rooftop solar panel installation. This complex project illustrates the bank's responsiveness and is a complex loan, as the project relied on the coordination of multiple financing parties to ensure its success. This facility was the final piece needed to complete the project and filled a gap in the timing of financing sources, including historic tax credits. MSBNA has had a long-term, ongoing relationship with this organization and provided additional support through \$80,000 in grants over the evaluation period.

Outside the AA Examples

- MSBNA originated \$38 million to a NMTC lending fund. Morgan Stanley, along with LISC, and the Kresge Foundation formed this Fund in 2012. The fund's purpose is to improve access to health care in low-income communities through Federally Qualified Health Centers (FQHCs). Morgan Stanley created the fund by bringing together a leading non-profit CD organization, pairing multiple government programs and philanthropic support with private sector capital. As of 2016, the Fund has \$225 million in committed capital. Leading the fund and coordinating the partners for this fund illustrates both MSBNA's responsiveness to community needs, as well as the bank's willingness to participate in complex CD lending practices.
- MSBNA purchased a \$17.7 million loan in a \$21.6 million construction project to fund the redevelopment of the former Hahnes Department Store building into a mixed-use project. This construction loan supported the NMTCs and Historic Tax Credits for the redevelopment of the store building in downtown Newark, New Jersey. The development is public transit accessible, which addresses an identified need, and includes access to healthy foods. MSBNA continues their innovative practice of focusing on transit oriented development projects, which provides significant benefits to LMI communities.
- MSBNA purchased a \$25 million loan in a \$58.6 million construction project to fund the acquisition and rehabilitation for affordable housing in Chicago. The funds were part of a "back-to-back" loan structure, with a tax-exempt loan by the City of Chicago, combining LIHTCs and Historic Tax Credits. The rehabilitated building will include 239 residential units, 73,000 square feet of retail office and community facility space, and 159 parking spaces. Of the 239 units, 225 units target LMI households. The combination of loans adds a layer of complexity and serves needs not routinely provided by other private investors.

Community Development Services

MSBNA and affiliate employees provided qualified CD service activities that were responsive to needs in the AA. The bank and its affiliates provided CD services nationwide, developing and maintaining strong relationships with organizations across the country. Bank employees' involvement with the organizations include leadership roles, such as: serving as board and committee members of affordable housing and community service organizations; assisting in

the creation of loan funds; supporting programs offered to low- and moderate-income individuals; partnering to perform research on various topics; and, offering capital markets and financial expertise. Bank employees also utilized their expertise to deliver financial literacy seminars, as well as provide other financial services, including credit counseling that benefit LMI individuals.

During the evaluation period, bank and affiliate employees provided qualified services to 101 various community service organizations, including 20 organizations serving the AA. Of the 20, 70 percent of the organizations support affordable housing and economic development activities. The remaining 30 percent were organizations that provide community services to LMI individuals within the AA.

In addition to services provided within the AA, bank and affiliate employees provided qualified services to 81 community service organizations outside the AA. The majority of these services, or 86 percent, involved organizations that provide services to LMI individuals. The remaining 11 organizations, or 14 percent, have missions that focus on either affordable housing, economic development, and/or the revitalization and stabilization of LMI geographies.

Examples

The following are three examples of CD services provided over the evaluation period that were responsive to identified needs of the AA. A fourth example details a service outside the AA.

- Qualified services were provided by two bank employees to an organization whose mission is to stabilize neighborhoods through its subsidiary organizations by providing single and multi-family affordable housing, small business lending and investing, and by supporting neighborhood revitalization. The two employees provided technical expertise to the organization's subsidiary that aims to provide flexible financing through a loan fund available to developers to purchase and/or develop affordable housing properties near public transportation throughout the Wasatch Front Region. Morgan Stanley led this effort, which entailed nearly three years of regular meetings, and involved community partners and stakeholders who helped define its structure. Morgan Stanley is a senior lender in the fund, and provided \$125,000 in grants to the organization during the evaluation period. A bank Vice President served as a member of the credit committee for the fund, while a bank associate was a member of the organization's advisory board.
- Throughout the evaluation period, a Vice President served on the Board of Directors and Loan Review Committee of an organization that works to revitalize, stabilize, and strengthen LMI neighborhoods in the Salt Lake City area by creating opportunities through affordable housing, resident leadership, youth workforce development, and economic development. The employee provided technical assistance to the organization by performing treasurer duties, assisting with donor development, fundraising, budgeting, and oversight of finances, such as the use of funds for programming or other activities. MSBNA has had a long-term, ongoing relationship with this organization and provided additional support including an \$850,000 land acquisition loan in Salt Lake City for a project that will include the development of 30 townhome units, a portion of which will be affordable housing units. This facility was renewed and extended in 2016, bringing the total committed to \$1.7 million. The bank also provided grants totaling \$136,500 over the evaluation period,

including a \$20,000 grant as part of the Salt Lake City Fellowship program, designed to cultivate and nurture the next generation of community leaders.

- A Vice President served on the Refugee Housing Advisory Committee for the State of Utah. The committee is designed to help resolve issues related to refugee housing and homelessness.
- As part of a 2014 Morgan Stanley internal program, three affiliate employees, including a Managing Director, provided financial and technical assistance to a community service organization whose mission is to end family homelessness in the San Francisco Bay Area. The program partnered the Morgan Stanley employees with an organization for a ten-week pro bono consulting project designed to help the organization amplify their meaningful impact on the communities that they serve.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) and 195.28(c), in determining a national bank's or federal savings association's (collectively, bank) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development (HUD), and the Consumer Financial Protection Bureau (CFPB), as applicable.

The OCC has not identified that this institution or any affiliate whose loans have been considered as part of the institution's lending performance has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC does not have additional public information regarding non-compliance with statutes and regulations prohibiting discriminatory or other illegal credit practices with respect to this institution. In determining the institution's overall CRA rating, the OCC has considered information that was made available to the OCC on a confidential basis during its consultations.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by, or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.