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Comptroller of the Currency  
Administrator of National Banks

Wholesale

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Washington, DC 20219

## **Public Disclosure**

August 7, 2000

# **Community Reinvestment Act Performance Evaluation**

**Wells Fargo HSBC Trade Bank, N.A.  
Charter Number: 22897**

**525 Market Street  
San Francisco, CA 94105**

**Office of the Comptroller of the Currency  
Large Bank Supervision  
250 E Street SW  
Washington, D.C. 20219-0001**

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

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## **Institution's CRA rating:**

**This institution is rated "Satisfactory."**

The major characteristics that support this rating are:

- The bank demonstrates an adequate level of qualified investments and community development services.
- The bank demonstrates no use of innovative or complex qualified investments and community development services.
- The bank demonstrates adequate responsiveness to community development needs in its assessment areas.

## **Scope of the Examination**

In evaluating the bank's performance under the CRA, we reviewed community development activities from December 1, 1996, through August 7, 2000. We reviewed the level and nature of qualified investments and community development services.

For this evaluation, the bank submitted qualified investments and community development services for consideration. All of these benefited the bank's assessment areas, or areas larger than the assessment areas that included the assessment areas.

At the previous CRA examination dated November 30, 1996, we rated the bank's performance Satisfactory.

## **Description of Institution**

Wells Fargo HSBC Trade Bank, N.A. (Trade Bank) was established in 1995 as a joint venture between Wells Fargo & Company (WFC) and Hong Kong Shanghai Banking Corporation Group (HSBC). Wells Fargo & Company owns 60% of Trade Bank and HSBC owns 40%. Trade Bank is headquartered in San Francisco, California, with branch offices in Los Angeles and San Francisco. The bank also has loan production offices in Phoenix, Arizona; El Monte and Fresno, California; Denver, Colorado; Minneapolis, Minnesota; Portland, Oregon; Dallas, Fort Worth, Houston, and San Antonio, Texas; and Seattle, Washington. The bank does not accept traditional retail or commercial deposits.

The WFC and HSBC rank among the largest institutions in their respective arenas. WFC is the seventh largest bank holding company in the United States, with consolidated total assets of \$222 billion as of March 31, 2000. WFC conducts business through nearly 3,000 offices and 6,000 ATM's located in 21 states. HSBC is one of the world's largest international banking and financial service organizations, with major commercial and investment banking operations in more than 79 countries.

On January 1, 1996, Trade Bank received approval from the Office of the Comptroller of the Currency for designation as a wholesale bank under the CRA. The bank is devoted to international trade finance and international banking services. Its primary customers are middle-market companies that import, export or have overseas operations. Trade Bank offers letters of credit, collection services, various loan products of the Export-Import Bank of the United States, California Export Finance Office loans, loans against imports, and other commercial loan products tied to international trade finance.

Funding is provided by borrowings and the deposits of affiliated financial institutions. Trade Bank reported total assets of \$673 million, total loans of \$645 million, and net tier one capital of \$75 million as of March 31, 2000. There do not appear to be any legal, financial, or other factors impeding the bank's ability to meet the needs of its assessment areas.

#### Financial Information for Trade Bank (000s)

	Year-end 1997	Year-end 1998	Year-end 1999	Quarter- end 03/31/00	Average for Evaluation Period
<b>Tier 1 Capital</b>	\$57,595	\$63,099	\$72,182	\$74,612	\$66,872
<b>Total Income</b>	\$57,157	\$62,185	\$61,590	\$77,108*	\$64,510
<b>Net Operating Income</b>	\$5,030	\$5,504	\$9,083	\$9,720*	\$7,334
<b>Total Assets</b>	\$506,526	\$572,770	\$589,763	\$672,850	\$585,477

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

\*Annualized data reported.

## Description of Assessment Areas

Trade Bank has delineated its assessment areas as the San Francisco, Oakland, and Los Angeles MSAs. The assessment areas meet the requirements of the CRA regulation and do not arbitrarily exclude low- or moderate-income census tracts. The following discussion and tables present general demographic and economic information on these MSAs.

## San Francisco MSA

	Number	Low	Moderate	Middle	Upper
<b>Tract*</b>	361	6%	18%	40%	32%
<b>Families</b>	366,943	20%	18%	23%	39%
<b>Small Business**</b>	70,422	14%	19%	38%	29%

Source: Demographic Data - 1990 U.S. Census and 1999 Dun & Bradstreet data.

\* 13 census tracts, or 4%, are undesignated.

\*\* 15% of businesses did not report revenues.

This MSA is urban in nature and consists of Marin, San Francisco, and San Mateo Counties. The economy is growing, diverse, and strong. The largest business sectors are services, retail trade, finance-insurance-real estate, wholesale trade, and construction according to 1999 Dun & Bradstreet data. High-tech firms play an increasingly important role in the economy of the MSA. San Francisco is the city headquarters for many large corporations, including three of the largest banks in the United States. The current unemployment rate is 2% according to the U.S. Bureau of Labor Statistics. The ten largest employers are United Airlines, University of California at San Francisco, Oracle Corporation, Bank of America Corporation, Pacific Gas & Electric Company, Kaiser Permanente, UCSF Stanford Health Care, Wells Fargo & Company, Charles Schwab Corporation, and Pacific Bell according to the San Francisco Business Times. The 2000 HUD updated median family income is \$74,900. The population is growing and is currently estimated at 1.69 million persons by the U.S. Census Bureau. The population growth and prosperity of the MSA have affected residential real estate, making the MSA one of the least affordable housing markets in the country. The average sales price for existing single family homes reached \$400,000 in January 2000 according to the National Board of Realtors.

We obtained information from the bank as well as community contacts prepared by bank regulatory agencies. This information showed that the predominant needs are for financing of affordable housing and micro-loans and other types of credit for small businesses. There are a number of private and government organizations that have special programs to meet the needs of the San Francisco MSA. Barriers for these programs are the high cost of real estate, the number of entities competing to participate in programs, the 'not in my back yard' (NIMBY) syndrome, and the need for special expertise. Generally, the larger and more profitable a full service financial institution is, the more likely it will possess the resources and expertise to participate in programs. Exceptions are institutions that have a narrow business focus, such as Trade Bank.

## Oakland MSA

	Number	Low	Moderate	Middle	Upper
<b>Tract*</b>	482	11%	20%	39%	25%
<b>Families</b>	526,565	20%	17%	24%	39%
<b>Small Business**</b>	63,904	11%	17%	44%	27%

Source: Demographic Data - 1990 U.S. Census and 1999 Dun & Bradstreet data.

\* 27 census tracts, or 5%, are undesignated.

\*\* 17% of businesses did not report revenues.

This MSA is urban in nature and consists of Alameda and Contra Costa Counties. The economy of this MSA is also strong, growing, and diverse. The largest business sectors are services, retail trade, finance-insurance-real estate, wholesale trade, construction, and manufacturing. The Port of Oakland is the fifth largest container port in the United States. High-tech industries are expanding, as are basic financial services and back-office operations. To some extent, Oakland is benefiting from the high costs in San Francisco as some firms move across the bay to the Oakland area. The current unemployment rate is 2.7%. The ten largest employers are University of California at Berkeley, Pacific Bell, Lawrence Livermore National Laboratory, Kaiser Permanente, Bank of America Corporation, Chevron Corporation, Pacific Gas & Electric Company, The Clorox Company, New United Motor Manufacturing, Inc., and Lucky Stores & Sav-on Drug. The 2000 HUD updated median family income is \$67,600. The population is growing and is currently estimated at 2.38 million persons. The population growth and prosperity have driven up residential real estate prices. The average sales price for existing single family homes is \$343,900.

We obtained information from the bank as well as community contacts prepared by bank regulatory agencies. This information showed that there are needs for small loans and start-up loans for small businesses, credit counseling, home buying workshops, job training, and affordable housing. There are a number of private and government organizations that offer special programs to meet the needs of the Oakland MSA. Barriers encountered by these programs are obstacles created by city government for some projects, the need for venture capital, NIMBY, and the high cost of real estate.

## Los Angeles MSA

	Number	Low	Moderate	Middle	Upper
<b>Tract*</b>	1,652	9%	23%	33%	34%
<b>Families</b>	2,036,104	23%	17%	20%	41%
<b>Small Business**</b>	260,895	9%	19%	33%	38%

Source: Demographic Data - 1990 U.S. Census and 1999 Dun & Bradstreet data.

\* 19 census tracts, or 1%, are undesignated.

\*\* 15% of businesses did not report revenues.

The Los Angeles MSA is a complex, highly diverse urban area that includes eighty cities and a number of unincorporated areas. The economy is expanding and diverse, but is still recovering from the recession of the early 1990s. The largest business sectors are services, retail trade, wholesale trade, finance-insurance-real estate, manufacturing, and construction. Los Angeles is the entertainment capital of the world, with many jobs dependent upon the television and film industries. The MSA also depends heavily on domestic and international trade, with the ports in Los Angeles and Long Beach and the airport playing key roles in this sector. Construction activity is accelerating, apparel manufacturing is holding steady, and aircraft manufacturing is declining. The defense industry is important in the MSA, but has been volatile. The current unemployment rate is 5.5%, well above the national rate. The ten largest employers are The Boeing Company, Kaiser Permanente, Ralph's Grocery Company, Tenet Healthcare Corporation, Walt Disney Company, Universal Studios, Hughes Electronics Corporation, Pacific Bell, Northrop Grumman Corporation, and ABM Industries, Inc. The 2000 HUD updated median family income is \$52,100. The population is growing and is currently estimated at 9.43 million persons. This makes Los Angeles the most populous MSA in the state, accounting for 28% of California's population. Population growth has helped drive up housing prices, with the average sales price of existing single family homes now at \$209,700.

We obtained information from the bank as well as community contacts prepared by bank regulatory agencies. This information showed that reduced public funding and an influx of low-income people create the need for affordable housing. There are also needs for loans to small businesses, technical assistance for expansion and start-up of small businesses, and facilities for small business development centers. There are a number of public and private organizations that have special programs to meet the needs of the Los Angeles MSA. Barriers to participation in these programs are the negative images created by crime, riots, and natural disasters. Recent reductions in public funding for affordable housing have curtailed some programs, thereby reducing opportunities for outside participation.

## Conclusions About Performance

### Summary

Due to its narrow business focus and relatively small size, Trade Bank's performance under the CRA was limited to qualified investments and community development services. As a wholesale bank engaged primarily in financing and facilitating international trade, this institution does not develop and maintain in-house expertise in community development activities in the normal course of business. Therefore, Trade Bank partners with its affiliate Wells Fargo Bank, N.A., in all of its investment activities.

Trade Bank has an adequate level of qualified investments. The investments are reasonably divided between the bank's three assessment areas. The investments are responsive to community needs, but are not complex or innovative. Total qualified investments are \$7.1 million, which equals 10.64% of the bank's average net tier one capital for the evaluation period and 11.03% of the bank's average total income. That represents a significant allocation of resources to meet community development needs. That level of investment is commensurate with the capacity of the bank.

Trade Bank engaged in an adequate level of community development services. The services are reasonably divided between the bank's three assessment areas. Bank officers provided their technical expertise to a small business seminar sponsored by a government agency and to two nonprofit organizations during the evaluation period. These services benefited all the bank's assessment areas and met identified needs in the communities where Trade Bank has its major offices. In addition, bank personnel participated in three other community development services that benefited a larger regional area that includes the assessment areas.

## Qualified Investments

### San Francisco MSA

<b>Qualified Investment Activity (000s)</b>	
	<b>Benefits AA</b>
<b>Originated Investments</b>	\$1,650
<b>Originated Grants</b>	0
<b>Prior Period Investments</b>	0
<b>Totals</b>	\$1,650



**Qualified Investment Percentages**

	<b>Benefits AA</b>
<b>Total Investments/Average Tier 1 Capital</b>	2.47%
<b>Total Investments/Average Total Income</b>	2.56%

Trade Bank made a satisfactory level of investments in this assessment area. The bank made four qualifying investments during the evaluation period. Two of the investments were targeted at this assessment area, and two benefited areas larger than the assessment area, but which included this assessment area. Two of the investments benefited corporations that acquire, finance, and develop affordable housing by using low-income housing tax credits and funds from other sources. The other two investments benefited organizations that make loans and equity investments in small businesses owned by women and minorities and/or located in low- and moderate-income areas. These investments are responsive to important community development needs in the San Francisco MSA. None of these investments are innovative or complex.

**Oakland MSA****Qualified Investment Activity (000s)**

	<b>Benefits AA</b>
<b>Originated Investments</b>	\$ 460
<b>Originated Grants</b>	0
<b>Prior Period Investments</b>	1,000
<b>Totals</b>	\$1,460

**Qualified Investment Percentages**

	<b>Benefits AA</b>
<b>Total Investments/Average Tier 1 Capital</b>	2.18%
<b>Total Investments/Average Total Income</b>	2.26%

Trade Bank also made a satisfactory level of investments in this assessment area. The bank has four qualifying investments. The largest of the four consists of bonds issued by a city-sponsored redevelopment corporation to help finance a mixed-use redevelopment project in downtown Oakland. The bonds were acquired during the prior CRA evaluation period and benefited an inner city retail and residential project that will revitalize a deteriorated area. The residential part of the project consists of apartments and townhouses. The prices of the townhouses range between \$99,500 and \$184,500. Seventy-five percent (75%) of the townhouses are priced at less than \$147,000 making

them affordable for moderate-income persons. Two investments benefit areas larger than the assessment that include this assessment area. One is in an equity fund that finances the creation of affordable housing through the use of low income housing tax credits. The other is in an equity fund that provides venture capital for minority owned small businesses. The smallest of the four investments consists of that part of a mortgage backed security which financed affordable home loans in the Oakland MSA. All of the investments are responsive to important needs of the assessment area. These investments are not innovative or complex.

## Los Angeles MSA

### Qualified Investment Activity (000s)

	Benefits AA
<b>Originated Investments</b>	\$4,007
<b>Originated Grants</b>	0
<b>Prior Period Investments</b>	0
<b>Totals</b>	\$4,007

### Qualified Investment Percentages

	Benefits AA
<b>Total Investments/Average Tier 1 Capital</b>	5.99%
<b>Total Investments/Average Total Income</b>	6.21%

The bank made a satisfactory level of investments in this assessment area. Trade Bank has six qualifying investments. The largest consists of that part of a mortgage-backed security, which financed affordable home loans in the Los Angeles MSA. A second sizeable investment was in an equity fund, which will help finance the development of 15 underutilized or blighted industrial/retail sites in the center of the City of Los Angeles. The goal is to create 5,000 quality jobs and revitalize and stabilize targeted areas in Los Angeles which primarily contain low- and moderate-income census tracts. Wells Fargo Bank is a charter member of the fund and played a leadership role in the establishment of the fund. One investment is in an equity fund that finances the creation of affordable housing through the use of low income housing tax credits. Another is in an equity fund that provides venture capital for minority owned small businesses. Two small investments benefited entities that provide technical assistance and capital to small businesses owned by women and minorities. All of these investments are responsive to identified needs in this assessment area. None of the investments are innovative or complex.

## **Community Development Services**

Trade Bank provided an adequate level of community development services during the evaluation period. Bank officers and other personnel provided five services that were responsive to identified community needs during this evaluation period. In the San Francisco MSA management provided CD services to one local entity and one entity that serves a broader regional area that includes the MSA. In the Oakland MSA management provided CD a service to one local entity. In the Los Angeles MSA management provided CD services to three entities that serve a broader regional area that includes the MSA. Of particular note, one officer, through his membership in a nonprofit affordable housing association, gives ongoing managerial guidance and financial expertise. The organization provides home ownership counseling and affordable housing in Alameda County, primarily targeted at low- and moderate-income persons and neighborhoods. Another bank officer made a presentation at a seminar sponsored by SCORE and SBA in San Francisco. The officer gave specialized information about international payment and collection methods to a group interested in promoting small businesses development in the area of foreign trade. A third officer is Chairman of a nonprofit organization that provides community services to low- and moderate-income immigrants. In this capacity, he gives ongoing organizational guidance and financial expertise. This organization serves a broader regional area that includes both the San Francisco and Los Angeles MSAs. None of these services were innovative or complex.

## **Compliance with Anti-Discrimination Laws and Regulations**

Trade Bank is not in the business of making home mortgage, consumer installment, credit card, or home equity loans. Therefore, the bank does not have a retail product line to test for compliance with anti-discrimination laws.

Trade Bank implements policies and procedures that encourage fair lending. Employee training is an ongoing component of the bank's efforts to ensure that all potential loan applicants are given equal consideration. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified.

## Definitions and Common Abbreviations

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

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

**Assessment Area (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, (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area, or (iii) the supervisory office may give positive consideration to CD activities outside the AA as benefiting the assessment area.

**Block Numbering Area (BNA)** - Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

**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 ten-year census and an average population of 4,000.

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

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

**Geography** - A census tract or a block numbering area delineated by the United States Census Bureau in the most recent decennial census.

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

- **Low-Income** - 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 defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

**Tier 1 Capital** - The total of common shareholders equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

**Total Income** - From the Consolidated Report of Condition and Income -- Interest income plus noninterest income.

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