

PUBLIC DISCLOSURE

January 11, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Morgan Guaranty Trust Company
Of New York
161415**

**60 Wall Street
New York, New York 10260**

Federal Reserve Bank of New York

**33 Liberty Street
New York, New York 10045**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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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 CRA performance of **Morgan Guaranty Trust Company of New York** prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of **January 11, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: Morgan Guaranty Trust Company of New York is rated “OUTSTANDING.”

The level of performance of Morgan Guaranty Trust Company of New York (“Morgan”) is based on an evaluation of the performance criteria for wholesale banks specified under the CRA with respect to the community development test.

The bank’s performance under the community development test is based on the following findings:

- Morgan exhibited a high level of community development loans, qualified investments and community development services.
- Morgan made extensive use of innovative or complex community development lending, investments, and community development services in order to help meet community development needs.
- Morgan exhibited excellent responsiveness to credit and community development needs in its assessment areas.

DESCRIPTION OF INSTITUTION

Morgan is a New York State-chartered corporation and member of the Federal Reserve System. Headquartered in New York City, it is a subsidiary of J.P. Morgan & Co. Incorporated ("J.P. Morgan"). As of December 31, 1998, Morgan's assets totaled \$175.8 billion; loans and leases net of unearned income, allowance, and reserve totaled approximately \$27.3 billion; and total deposits were \$56.2 billion. There are no financial or legal factors that would impede the bank in fulfilling its responsibilities under the CRA.

This is the first CRA examination conducted by the Federal Reserve Bank of New York since Morgan received its designation as a wholesale bank effective February 14, 1997. A review of 1997 financial data at this examination reaffirmed this designation. Since the previous examination, Morgan has sold its mortgage business and no longer extends home mortgages.

Morgan provides a variety of financial services to large domestic and international corporations, governments and other financial institutions as well as high net worth individuals. Institutional services include secured and unsecured loans, lease financing and letters of credit while private banking services consist of investment advice, self-directed investments and fiduciary services. Occasionally, Morgan provides large personal loans to their high net worth clients, excluding home mortgages, small business loans and small farm loans.

Morgan conducts the majority of its community development lending and qualified investment activities through its affiliate, Morgan Community Development Corporation ("MCDC"). Another Morgan affiliate, J.P. Morgan Capital Corporation ("Morgan Capital") made a qualified investment for which the bank received recognition.

Branch Closings and Operations

During the examination period, the bank had a total of seven branches located in New York State and Delaware. Morgan has a written branch closing policy, which conforms to the Joint Interagency Policy Statement Regarding Branch Closings. Further details on branches and bank operations are contained in the discussions on state ratings for New York and Delaware.

Morgan's previous examination for compliance with CRA was conducted as of June 24, 1996, at which time the bank received an overall rating of "satisfactory."

DESCRIPTION OF ASSESSMENT AREAS

Morgan's assessment areas are comprised of the portion of PMSA 5600 (New York, NY) that defines New York City (Bronx, Kings, New York, Queens and Richmond Counties) and the portion of PMSA 9160 (Wilmington-Newark, DE-MD) known as New Castle County, Delaware. Both assessment areas have remained the same since the previous examination and are in compliance with the requirements of Section 228.41 of Regulation BB.

Performance Context

According to the 1990 Census, total population in the Morgan assessment areas is 7.8 million, 94 percent of which resides in New York State. While the demographic characteristics of the assessment areas vary greatly, credit and community development needs are similar. There is a strong need for affordable housing and loans to rehabilitate existing housing units. Other credit needs include small business loans to encourage the creation or expansion of small businesses. Specific demographic data and information about credit needs are contained in the descriptions of each Morgan assessment area.

Primary health care is a critical need in New York City's low- and moderate-income ("LMI") communities. A 1993 study by the Health Systems Agency of New York City identified 25 neighborhoods in the city that were in need of improved preventive primary care facilities because of a high incidence of disease. The study found that neighborhoods such as East Harlem, Mott Haven/Hunts Point and East New York experience much higher rates of disease than does New York City as a whole. Other city neighborhoods such as Crown Heights, Bedford Stuyvesant, Central/West Harlem and Bushwick are also considered underserved by primary care facilities.

Morgan's work with the Primary Care Development Corporation ("PCDC"), a community development financial institution ("CDFI") specializing in funding primary care facilities, revealed that this shortage of primary care facilities resulted from:

- a highly uncertain reimbursement system characterized by rapidly declining Medicaid reimbursement rates and a citywide moratorium on Medicaid managed care enrollment;
- and lack of access to capital for small primary care providers given their lack of borrowing experience, a long record of operation and a strong balance sheet.

Given this level of risk, many banks have been unwilling to finance the construction or rehabilitation of primary care facilities.

The following map illustrates Morgan's assessment areas:

INSERT ASSESSMENT AREA MAP HERE

INSERT ASSESSMENT AREA MAP HERE

CONCLUSIONS WITH RESPECT TO THE COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated: “OUTSTANDING.”

VOLUME OF ACTIVITY

The bank provided a high level of community development loans, qualified investments, particularly investments not routinely provided by private investors, and community development services, in order to help meet credit and community development needs of its assessment areas.

Community Development Lending

The level of Morgan’s community development lending was high, totaling \$268.2 million for the examination period (May 31, 1996, through January 11, 1999). Of that total, \$193.7 million or 72 percent were new commitments originated since the previous examination. Total commitments at this examination represent a 112 percent increase since the previous examination when community development loans totaled \$126.6 million.

Of total commitments, \$235.7 million or 88 percent were for projects inside the bank’s assessment areas. Since this activity was deemed to adequately address community development needs in the bank’s assessment areas, consideration was given to \$32.5 million in community development loan commitments that benefited communities outside the bank’s assessment areas.

Consistent with its wholesale bank operations, most lending activity was indirect, primarily supporting housing and community service intermediaries that support community development within the bank’s assessment areas. Of the total 23 community development loan commitments extended during the examination period, 19 were indirect loans totaling \$186.3 million or 70 percent of the total value of commitments. For details, see Exhibit 1.

Qualified Investments

Morgan had a high level of qualified investments, totaling \$196.9 million at this examination which represents a 106 percent increase since the previous examination. Of total investments, net of grants, 58 percent or \$107.3 million were new investments since the previous examination. Qualified investments related to indirect investments in affordable housing initiatives were \$168.5 million or 86 percent of all qualified investments.

Morgan’s investments included \$11.6 million of grants and contributions from Morgan and the J.P. Morgan Charitable Trust in support of over 200 nonprofit community development organizations and programs.

Of total investments, \$149.4 million or 76 percent were for projects inside the bank’s assessment area. This activity was deemed to adequately address community development needs in the bank’s assessment areas; therefore, consideration was given to \$47.4 million in investments benefiting areas outside the bank's assessment areas. Of total investments outside Morgan's assessment areas, approximately \$40.3 million or 85 percent were investments in affordable housing initiatives.

All of the remaining \$7.1 million in out of assessment area investments were in several cities in California. In Los Angeles, Morgan Capital made a \$6.2 million investment in a chain of retail outlets targeted to serve LMI neighborhoods. Following a concept called combined retailing, these outlets offers the convenience of several essential services within one location to residents of LMI neighborhoods. Essential services include a coin-operated laundry, banking or check cashing services, and a small grocery market. A brand name fast food restaurant or coffeehouse is also situated at each location.

The remaining \$943 thousand in out of assessment area investments represented grants to community development intermediaries and an equity investment and deposit in a community development bank serving LMI neighborhoods in Oakland, San Francisco, and adjacent neighborhoods. For details, see Exhibit 2.

Community Development Services

Morgan provided a high level of community development services in its assessment areas, including advisory services, technical assistance, in-kind donations, and a graduate student internship program.

Community development services are provided by officers and employees of J.P. Morgan, MCDC and Morgan's Community Relations and Philanthropic Services (“CRPS”) Department. Of Morgan's total community development service activities, the majority of its efforts focused on organizations that support affordable housing for LMI individuals and economic development.

The following table details the volume of community development services by category:

Community Development Services	Number of Activities	
	Total	% of Total
Affordable Housing for LMI individuals	32	47%
Community Services targeted to LMI individuals	12	18%
Activities that promote Economic Development	22	32%
Activities that Revitalize or Stabilize LMI geographies	2	3%
TOTAL	68	100%

Advisory Services

Morgan conducted much of its advisory work for community development intermediaries on a pro bono basis. Pro bono advisory services involved the waiving of costs associated with the syndication of loan transactions supporting affordable housing initiatives. Transaction, account maintenance, legal, structuring, administrative and other fees were often waived or paid by MCDC.

Technical Assistance

Several officers of J.P. Morgan, MCDC and CRPS, in their roles as directors and advisors, provided financial and technical assistance to various organizations that provide community development services to LMI communities in Morgan's assessment areas.

In-kind Donations

CRPS donated office furniture, used computers and other items to nonprofit and public institutions. Priority was given to those organizations that received grant money from Morgan and that have CRA-relevant missions. Since the previous examination, 87 organizations received donations of equipment and other materials, and 38 organizations were admitted to J.P. Morgan & Co. facilities for 43 meetings and events.

Graduate Student Internship Program

Under this annual program, Morgan pays students from various graduate programs to generate research, perform studies and provide assistance to community-based organizations focused on LMI housing, economic development and community issues. Morgan sponsored eight internships in New York City during the examination period.

INNOVATIVE OR COMPLEX ACTIVITY

The bank extensively used innovative and complex qualified investments, community development loans and community development services.

Community Development Loans

Morgan's extensive use of innovative and complex lending practices include: (1) its innovative financing of primary care facilities in New York City in conjunction with PCDC; and (2) affordable housing initiatives through structuring syndicated bridge loans for several New York Equity Funds, the National Equity Fund, and the Delaware Equity Fund LP II. MCDC also structured a revolving line of credit to the New York Community Investment Company to accommodate its fund's frequent borrowing needs for financing small businesses.

Qualified Investments

Approximately 81 percent or \$158.5 million of total qualified investments are low-income housing tax credits (“LIHTCs”), which are considered complex since they require a substantial commitment of time and expertise related to accounting issues and recapture risk. The tax credits are related to investments in housing fund initiatives such as the National Equity Fund, the New York Equity Fund and the Delaware Equity Fund LP II. These initiatives have produced affordable housing for LMI individuals in New York City and other cities nationwide.

Community Development Services

Through its advisory services, leadership in syndication finance, coalition building, and internship program, the bank worked to identify and finance creative solutions to community development issues and to expand community resources.

RESPONSIVENESS TO CREDIT AND COMMUNITY DEVELOPMENT NEEDS

Morgan exhibited excellent responsiveness to credit and community development needs in its assessment areas through community development lending and investments. Morgan’s community development services and practices exhibited adequate responsiveness to the credit and community development needs of organizations in its assessment areas.

Community Development Loans

Overall, most of the bank's community development lending focused on affordable housing and community services for LMI individuals. Affordable housing activity totaled \$180.6 million or 67 percent of total community development lending. Community development lending for community services for LMI individuals totaled \$62.1 million or 23 percent of total community development lending. Morgan met other community development needs through lending to revitalize and stabilize communities, which totaled \$23.4 million or 9 percent of total lending, and economic development lending totaling \$2.1 million or 1 percent of total lending.

Morgan also provided financing to the National Community Development Initiative, a national partnership providing financial and technical support to nonprofit CDCs working to revitalize and stabilize inner city neighborhoods. The aim of the partnership is to help CDCs enlarge their portfolio of projects, operational capabilities, and the scope of their strategies.

Qualified Investments

Overall, the majority of the bank's qualified investments focused on affordable housing for LMI individuals. Qualified investments in affordable housing totaled \$178.5 million or 91 percent of total qualified investments. Qualified investments supporting community services for LMI individuals and revitalization and stabilization activities totaled \$6.5 million and \$6.7 million,

respectively, or approximately 3 percent each of total investments. Qualified investments supporting economic development totaled \$5.1 million or 3 percent of total investments.

Morgan's investments in LIHTCs are in various housing initiatives which are responsible for the creation or rehabilitation of over 16 thousand affordable housing units. These housing initiatives focus their efforts both within Morgan's assessment areas and within cities throughout the country.

Community Development Services

The bank's advisory services, technical assistance, in-kind donations, internship program and other practices helped to meet the credit, technical assistance and human resource needs of various CDCs. In addition, Morgan made efforts to build and sustain long-term relationships with its clients and other community partners as well as build coalitions among interested and invested parties. Both efforts speak directly to the need for comprehensive and long-term community development problem solving.

COMPLIANCE WITH FAIR LENDING LAWS

No credit practices were identified that violated the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act and the Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

NEW YORK STATE

CRA RATING FOR NEW YORK STATE: “OUTSTANDING.”

Morgan’s overall performance in New York State was outstanding. The level of community development lending was high with most community development lending and qualified investments (particularly those that are not routinely provided by private investors) related to affordable housing for LMI individuals. The bank conducts most of its lending and investment activities within New York State. Morgan also made extensive use of innovative or complex community development loans and qualified investments, and the bank demonstrated excellent responsiveness to credit and community development needs.

PRIMARY METROPOLITAN STATISTICAL AREA ANALYSIS

PMSA 5600 (NEW YORK, NY)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEW YORK STATE

During the examination period, the bank had five branches in New York City and had teller areas open to the public at the bank’s branches at 522 Fifth Avenue, 23 Wall Street and 535 Madison Avenue in Manhattan.

DESCRIPTION OF ASSESSMENT AREA

In New York State, the bank has designated as its assessment area the portion of PMSA 5600 (New York, NY) generally referred to as New York City. The designation consists of all of Bronx, Kings (Brooklyn), New York (Manhattan), Queens and Richmond (Staten Island) Counties. The assessment area has not changed since the previous examination and is in technical compliance with the requirements of Section 228.41 of Regulation BB.

Performance Context

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce’s Bureau of the Census, 1990, the U.S. Department of Labor, and the U.S. Department of Housing and Urban Development (“HUD”).

Demographic Characteristics

Total population in the assessment area is approximately 7.3 million, representing 86 percent of the total population of PMSA 5600 (New York, NY) and 41 percent of the total population of New York State. Of the 2,159 populated census tracts in the assessment area, 742 or 34 percent are low- and moderate-income ("LMI"). The majority of LMI tracts are located in Bronx and Kings Counties. Of the 1.8 million families in the assessment area, 666,929 or 37 percent reside in LMI census tracts.

Income Characteristics

According to the 1990 Census, the median family income in the assessment area is \$34,360, somewhat lower than the PMSA median family income of \$37,515. Median income levels vary considerably among the counties in the assessment area. Richmond County has the highest median income at \$50,734, while Bronx County has the lowest median income level at \$25,479. Of the families residing in the assessment area, 772,172 or 45 percent are considered LMI. The 1998 HUD adjusted median family income for PMSA 5600 (New York, NY) is \$49,800.

Housing Characteristics

The assessment area contains approximately 3 million housing units, but only 27 percent or 808,901 units are owner-occupied. Rental units account for 67 percent of housing units overall, but the percentage of rental units in Bronx and New York Counties is 79 percent and 75 percent, respectively. In Richmond County, 34 percent of housing units are rentals. Of all housing units in the assessment area, approximately 63 percent or 1.9 million units are multifamily structures consisting of five or more units. This is most pronounced in New York and Bronx Counties, where 96 percent and 75 percent, respectively, of housing units are multifamily.

According to the 1990 Census, the median housing value in the assessment area was \$187,876, while median gross rent was \$496. In New York County, the median housing value of \$471,074 far exceeds the assessment area median. A comparison of housing costs to median income, particularly in New York County, shows that affordable owner-occupied housing is generally beyond the reach of LMI families in the assessment area, indicating a demand for affordable rental housing units. Community contacts made in connection with the CRA examination confirmed this need.

Other assessment area credit needs identified by community contacts were loans for the rehabilitation of existing housing stock, small business loans to encourage the formation and expansion of small businesses, economic development lending to strengthen communities and funding to support nonprofit community development organizations.

Labor, Employment and Economic Characteristics

The local economy is rebounding from a steep economic downturn that occurred between 1989 and 1992. Job growth in the service and retail sectors has more than compensated for job losses in the manufacturing and government sectors. A resurgence of tourism in New York City and a strong financial services industry have contributed to the retail and service sector growth.

Despite the increase in job opportunities, however, New York City continues to have a comparatively high unemployment rate. In January 1999, the seasonally adjusted unemployment rate in New York City was 7.6 percent, compared to 5.2 percent for New York State.

CONCLUSIONS WITH RESPECT TO THE COMMUNITY DEVELOPMENT TEST IN NEW YORK STATE

As previously stated, most of the bank's lending and investment activity occurs in New York State. As such, any out of assessment area community development activity is attributable to the New York State rating. Morgan provided a high level of community development loans, qualified investments and community development services in PMSA 5600 (New York, NY).

Community Development Lending

Morgan's community development lending activity totaled \$248.8 million, of which \$183.3 million or 74 percent were new commitments originated since the previous examination.

Within PMSA 5600 (New York, NY), community development lending activity totaled \$216.3 million or 87 percent of total commitments. This activity adequately addressed community development needs in the bank's New York City assessment area; therefore, consideration was also given to \$32.5 million in community development loan commitments that benefited communities outside the New York City assessment area. These commitments represent national affordable housing initiatives and national initiatives to revitalize and stabilize LMI communities. For details, see Exhibit 1.

Qualified Investments

Morgan's qualified investments totaled \$194.9 million, of which \$118.2 million or 61 percent were new investments originated since the previous examination.

Within PMSA 5600 (New York, NY), qualified investments totaled \$147.5 million or 76 percent of total investments. Since this activity adequately addressed community development needs within the bank's New York City assessment area, consideration was also given to \$47.4 million in qualified investments that benefited communities outside the New York City assessment area. The majority of these investments, approximately \$40.3 million, represent affordable housing initiatives while the balance represents investments supporting other community development purposes. For details, see Exhibit 2.

Community Development Services

Morgan’s high level of community development services included advisory services, technical assistance, in-kind donations and a student internship program. The following table details the volume of community development services within the PMSA by category:

Community Development Services	Number of Activities	
	Total	% of Total
Affordable Housing for LMI individuals	23	43%
Community Services targeted to LMI individuals	10	18%
Activities that promote Economic Development	19	35%
Activities that Revitalize or Stabilize LMI geographies	2	4%
TOTAL	54	100%

Advisory Services

The contributions of personnel from MCDC and Morgan Capital to a six-month project called the Venture Initiative were of particular note. This project's purpose was to assess the strengths and needs of six small businesses owned and operated by nonprofit entities in New York City. Participating nonprofit organizations included Binding Together, Common Ground Community, Fifth Avenue Committee, Housing Works, WHEDCO, and the Greyston Foundation. The businesses assessed included a large print shop and a dry cleaning business, both of which employ low-income individuals. Other businesses included several thrift stores, a used bookstore, a gourmet catering business and a wholesale bakery which employs local residents. These advisory services were done in conjunction with a \$40 thousand grant from the J.P. Morgan Charitable Trust to support a portion of the study's cost.

Technical Assistance

Two MCDC officers served on the board of Sylvia Woods Enterprises, a Harlem, New York-based food products company, and provided advice on strategic planning and new sources of capital.

Two staff members from J.P. Morgan's Human Resources Department also worked with the Community Resource Exchange to develop a human resources consulting practice. This practice would provide management advice to community organizations serving low-income individuals in New York City.

In-kind Donations

Since the previous examination, approximately 72 organizations received donations of equipment and other materials, and 37 organizations were afforded use of J.P. Morgan & Co. facilities to conduct 42 meetings and events.

Graduate Student Internship Program

Each year, Morgan sponsors students from various graduate programs, paying them to do research, perform studies and provide assistance to community-based organizations focused on LMI housing, economic development, and community issues. Morgan sponsored eight internships which qualified as community development services.

Examples of work performed under the internships include:

- a project for the BRC Human Services Corporation to develop a business plan and survey on the feasibility of creating a business staffed by formerly homeless individuals and local residents in the Bowery area of New York City;
- a project for the National Federation of Community Development Credit Unions (“CDCU”) to develop a database containing the financial history of current and past member CDCU's;
- a project for Neighborhood Housing Services (“NHS”) of New York City researching potential collaborations with for-profit and nonprofit organizations that might be interested in NHS' Homeownership and Rehabilitation Lending programs.

INNOVATIVE OR COMPLEX ACTIVITY

Morgan made extensive use of innovative or complex community development loans, qualified investments and community development services in PMSA 5600 (New York, NY).

Community Development Loans

Loan Fund to Finance Primary Care Facilities

Noting the need for primary care facilities throughout many LMI neighborhoods in NYC, Morgan and Primary Care Development Corporation (“PCDC”) have worked together since 1993 to address this critical community service need. Since 1993, Morgan, through both MCDC and the CRPS, has worked to meet this community service need through grants, fundraising efforts, service on the PCDC's board, meetings with government officials, direct lending, and finally serving in the lead role in developing and implementing a loan fund to finance primary care facilities. This loan fund, financed by a consortium of banks led by Morgan and administered by PCDC, was designed to reduce the risks inherent in lending to primary care providers. This was

accomplished by pooling risk across projects and ensuring capital for all types of providers. This pooling of risks has the effect of expanding each participating bank's underwriting capacity. The loan fund finances primary care providers with up to \$3 million for the expansion/renovation of primary care facilities in LMI neighborhoods. PCDC also provides pre- and post-construction technical assistance in the development of the new facilities.

Morgan recently received one of three Social Compact Awards for its lead in developing this innovative model of financing primary care facilities. The Social Compact's purpose is to promote business investment in, and leadership for, the nation's lower-income neighborhoods.

Financing Affordable Housing Initiatives

Acting as agent, Morgan has structured five syndicated bridge loans totaling \$72.1 million for several New York Equity Funds and the National Equity Fund. These syndications have reduced each fund's credit risk, improved management of their interest rate risk, and reduced overall capital costs. This new financing structure, developed in 1996, involves an 18-month revolving line of credit that has increased each fund's borrowing capacity and allowed for greater flexibility in funding housing projects by permitting weekly borrowings. At the end of the 18-month period, each loan is syndicated at a fixed rate among other lenders. Morgan's abilities as a lead bank in syndications attracted other banks to participate in these syndications.

In 1998, Morgan utilized an Internet-based deal management system to reduce the New York Equity Fund's costs in syndicating its bridge loan.

Acting as agent, the bank developed a syndicated revolving credit facility with a multi-draw system for the Low-Income Housing Fund which finances three affordable housing loan programs. This facility was tailored to meet the complex, staged borrowing needs of the housing fund so that the fund's projects may be funded efficiently with a minimum of delay.

Working with the National Equity Fund, Morgan's Capital Markets Group helped this housing organization reduce the interest rate risk exposure of its various housing funds through the use of hedging techniques. Since 1995, the Morgan Capital Markets Group has entered into 15 swaps with various National Equity Fund partnerships, as a counterparty, with a notional value of \$401 million.

Financing an Economic Development Intermediary

Acting as agent, the bank structured a \$4 million revolving line of credit to the New York Community Investment Company ("NYCIC"), an economic development intermediary whose goal is to provide equity, loans and investments directly to small businesses and indirectly through community based financial institutions or funds. This intermediary was founded in 1995 by Morgan and nine New York area banks. The loan was structured to accommodate the intermediary's frequent funding needs. Serving as agent for this loan, MCDC provides any necessary interim financing under this line for the intermediary's loan closings and transaction

investments. At the end of each quarter, any unpaid balance on the line is syndicated out to the intermediary's ten founding banks based on each bank's ownership share in the intermediary.

Qualified Investments

Approximately 81 percent or \$156.9 million of total qualified investments are LIHTCs, which are considered complex given the substantial commitment of time and expertise required to address associated accounting issues and recapture risk.

Community Development Services

Advisory Services

MCDC worked to create financing solutions for what might be considered unbankable deals by looking past a myriad of credit problems to find the underlying strength of a client's credit history. While the possibility of a resulting transaction may have been remote, the bank invested time and resources to identify solutions. For example, MCDC's consortium approach to address the risks involved in lending to primary care facilities reflects the bank's successful efforts to create an innovative solution to a complex problem.

The bank's work with the National Equity Fund and New York Equity Fund partnerships is also notable. MCDC's advisory work for the various housing fund initiatives improved the way transactions were structured which gave the funds access to more flexible terms as well as lower interest and transaction costs. The Morgan Capital Markets Group's work with National Equity Fund partnerships is also a complex activity given the group's use of hedging techniques to manage the funds' interest rate risk.

Leadership in Syndication Finance

MCDC serves as the primary agent for many of the largest intermediaries in New York City. The bank's advocacy as a major player, its presence in a transaction, and its willingness to take a lead role often attracted other banks to various projects and facilitated relationships between the client and the financing group. MCDC success as a leader in this field is evidenced by the bank's numerous lead roles in syndications including:

- syndicated bridge financing for National Equity Fund and New York Equity Fund partnerships;
- its consortium approach to financing primary care facilities for LMI neighborhoods;
- and its role as agent for the syndicated, revolving line of credit to NYCIC.

Coalition Building

MCDC worked to create partnerships between groups and individuals with mutual goals and similar geographic focus. The bank has a number of strong community relationships with CDCs, social service providers, government agencies and charitable organizations as well as access to a network of experts and professionals. As a result, the bank was able to draw on these contacts to attract other financial institutions and community partners to new deals and to the creation of new entities. Two notable MCDC projects which evidence Morgan's coalition building are:

- its work with a PCDC to finance primary care facilities for LMI neighborhoods;
- and its work with several New York area banks and the Staten Island Economic Development Corporation to create a new economic development-based, New York State tax credit equity investment opportunity on Staten Island. The newly formed corporation is called the Commercial Industrial Capital Corporation. This new corporation, of which Morgan is an investor, is part of the North Shore, Staten Island Economic Development Zone program. Under this program, New York State has allocated \$1.5 million in tax credits to the corporation for the benefit of the corporation's investors. Investments in the corporation will be used to finance small businesses within Staten Island's Economic Development Zone.

Graduate Student Internship Program

The bank's internship program is an innovative approach to supplying community-based organizations with much-needed research, planning and other technical assistance. Considering the limited financial resources of many community based organizations. Morgan's program creates an opportunity for individuals in professional degree programs to dedicate their skills to addressing community development issues for several months. In return, students gain an understanding of the challenges facing such organizations as well as valuable community development experience.

RESPONSIVENESS TO CREDIT AND COMMUNITY DEVELOPMENT NEEDS

Morgan exhibited excellent responsiveness to credit and community development needs in its New York assessment area including affordable housing, primary health care and economic development.

Community Development Loans

Sixty-seven percent or \$167.4 million of community development lending activity was for affordable housing, 25 percent or \$62.1 million was for community services, 7 percent or \$17.1 million was directed to the revitalization and stabilization of LMI neighborhoods, and 1 percent or \$2.1 million was for economic development.

The bank's lead role in bridge financing for various affordable housing initiatives helped enable these initiatives to create or rehabilitate over 7,800 units of affordable housing for LMI individuals in New York City.

Morgan's long-term efforts with a PCDC have improved LMI neighborhoods' access to primary health care, a critical community service, through the financing of nonprofit hospitals and small primary care projects. The benefits of Morgan's efforts include:

- the financing of ten primary care facilities which serve over 73 thousand low-income individuals in New York City;
- the standardizing of credit terms and documents for much more rapid completion of credit transactions that results in transferring much needed funds into the community;
- offering primary care providers greatly improved terms on credit facilities such as lower interest rates and longer terms; and
- the creation of over 300 permanent jobs.

At least five of the ten financed primary care facilities are located in neighborhoods identified by the Health Systems Agency of NYC as neighborhoods with the most severe health-related problems.

Qualified Investments

Ninety-one percent or \$176.7 million of qualified investments were for affordable housing, 3 percent or \$6.3 million was for community services, 3 percent or \$6.7 million was directed to the revitalization and stabilization of LMI neighborhoods, and 3 percent or \$5.1 million was for economic development.

The bank's investments in LIHTCs in its New York assessment area support housing initiatives responsible for the creation or rehabilitation of at least 5,000 units of affordable housing for LMI individuals.

An economic development corporation's survey of businesses within Staten Island's Economic Development Zone indicated a need for small business loans in the range of \$100 thousand for working capital, fixed asset purchases, and construction or renovation. Morgan's investment in a for profit intermediary will result in the financing of certified businesses located in the Economic Development Zone.

Morgan Capital's investment in a chain of retail outlets in Los Angeles has resulted in the opening of six stores, the creation of approximately 200 jobs, and plans for an additional 25 store openings over the next year. These stores offer essential services including banking or check cashing, grocery shopping, and laundry services. As previously mentioned, the out of assessment area activity was attributed to the New York State rating.

DELAWARE

CRA RATING FOR DELAWARE: "OUTSTANDING."

Morgan's overall performance in New Castle County in PMSA 9160 (Wilmington-Newark, DE-MD) was outstanding. The level of community development lending was high with the majority of community development lending and qualified investments related to affordable housing for LMI individuals. Morgan also made extensive use of innovative and complex community development loans and qualified investments, and demonstrated excellent responsiveness to the assessment area's credit and community development needs.

PRIMARY METROPOLITAN STATISTICAL AREA ANALYSIS

PMSA 9160 (WILMINGTON-NEWARK, DE-MD)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DELAWARE

The bank has two branches in New Castle County, Delaware, but only one, at 500 Stanton Christiana Road, was operable at the time of this examination. Morgan's other Delaware branch, located at 902 Market Street in Wilmington, was inoperable due to fire damage.

Morgan's Delaware operations have changed since the previous CRA examination. After the June 1, 1996 merger of J.P. Morgan Delaware into Morgan Guaranty Trust Company of New York, Morgan changed Delaware into an operations area. Morgan Delaware now serves as the bank's primary operations center, handling loan processing and trust operations. The Delaware branch has neither lending authority nor a risk management facility. Only letters of credit are booked at the Delaware branch for legal and tax purposes. The Delaware branch occasionally serves private clients and has no regular deposit taking facility.

DESCRIPTION OF ASSESSMENT AREA

The bank has designated as its Delaware assessment area all of New Castle County in PMSA 9160 (Wilmington-Newark, DE-MD). The bank's Delaware assessment area has not changed since the previous examination. The assessment area is in compliance with the requirements of Section 228.41 of Regulation BB.

Performance Context

The following demographic and economic information was obtained from the U.S. Department of Commerce's Bureau of the Census, 1990 and the U.S. Department of Labor, and HUD.

Demographic Characteristics

Total population in the assessment area is 441,946, representing about 86 percent of the total population of PMSA 9160 (Wilmington-Newark, DE-MD) and 66 percent of Delaware's total population. Of the 120 assessment area census tracts used for analysis, 34 or 28 percent are LMI census tracts.

Income Characteristics

The 1990 median family income for the Delaware assessment area is \$45,216, which is slightly higher than the MSA median family income of \$44,332.

According to the 1990 Census, there are 115,305 families in the assessment area of which 17 percent or 19,105 are low-income families, 18 percent or 21,215 are moderate-income families, 26 percent or 30,501 are middle-income families, and 39 percent or 44,484 are upper-income families. The number of below-poverty income families is 5 percent or 5,783.

The 1998 HUD adjusted median family income for PMSA 9160 (Wilmington-Newark, DE-MD) is \$60 thousand.

Housing Characteristics

There are 173,560 housing units in the Delaware assessment area; 112,040 or 65 percent are owner-occupied units. Of this number, 17,872 or 16 percent are in LMI census tracts. Most of the housing units are single-family units. There are 52,121 rental units in the assessment area which constitutes 89 percent of all rental units in the PMSA and 71 percent of all rental units in the state. Of total rental units in the assessment area, 16,045 or 31 percent are located in LMI tracts. The assessment area's median housing value of \$110,104 and median gross rent of \$524 are higher than comparable figures for the state.

According to community contacts conducted during this examination, the need exists for affordable housing loans for the population earning below 50 percent of family income as well as grants to make these projects affordable. Other needs include affordable rental housing, housing credit counseling and operating funds for nonprofits providing this service, nonprofit capacity building, neighborhood rehabilitation.

Also cited as needs were more involvement in Small Business Administration guaranteed lending programs, and financial education for low-income persons, focusing on investment information, the workings of the banking system, and mentoring programs.

Labor, Employment and Economic Characteristics

New Castle County has experienced an increase in total employment from 1991-1995 of 5.5 percent. Job losses in the farm, manufacturing and mining sectors were offset by growth in the construction industry and in the government, service and retail sectors. In December 1998, the seasonally adjusted unemployment rate for the state was 3.1 percent.

CONCLUSIONS WITH RESPECT TO THE COMMUNITY DEVELOPMENT TEST IN DELAWARE

Morgan provided a high level of community development loans, qualified investments and community development services in order to help meet credit and community development needs in PMSA 9160 (Wilmington-Newark, DE-MD).

Community Development Lending

Morgan's community development lending activity in PMSA 9160 (Wilmington-Newark, DE-MD) totaled \$19.4 million, of which \$10.4 million or 54 percent were new commitments originated since the previous examination. Most of the lending activity, \$13.2 million, provided affordable housing to LMI individuals. For details, see Exhibit 1.

Qualified Investments

Morgan's qualified investments in PMSA 9160 (Wilmington-Newark, DE-MD) totaled approximately \$2 million, of which \$718 thousand or 36 percent were new investments made since the previous examination. The majority of new investments, \$418 thousand, were grants for affordable housing, community services and economic development. For details, see Exhibit 2.

Community Development Services

The following table details the volume of community development services by category:

Community Development Service Category	Number of Activities
Affordable Housing for LMI individuals	9
Community Services targeted to LMI individuals	2
Activities that promote Economic Development	3
Activities that Revitalize or Stabilize LMI geographies	0
TOTAL	14

Advisory Services

Morgan's community development services in Delaware centers on its work with the Delaware Community Investment Corporation ("DCIC") and the First State Community Loan Fund. Morgan personnel provided financial expertise to DCIC's initiatives in affordable housing, economic development, and community services. Two of Morgan's personnel also serve on First State Community Loan Fund's investment committee. This fund provides loans and technical assistance to small businesses, including start-up businesses which do not qualify for traditional bank loans, affordable housing, and various community development initiatives.

In-kind Donations

Since the previous examination, approximately 15 organizations received donations of computers and other equipment and 1 nonprofit group was allowed to use J.P. Morgan & Company Inc.'s conference room facilities.

INNOVATIVE OR COMPLEX ACTIVITY

Morgan made extensive use of community development loans and qualified investments in this assessment area.

Community Development Loans

Acting as agent, Morgan structured a syndicated bridge loan of \$4 million for the Delaware Equity Fund LP II which reduced the fund's credit risk, improved management of its interest rate risk, and reduced overall capital costs. This financing structure is similar to the bridge loan syndications Morgan completed for the New York and National Equity Funds.

Qualified Investments

Approximately 80 percent or \$1.6 million of total qualified investments are LIHTCs, which are considered complex since they require a substantial commitment of time and expertise related to accounting issues and recapture risk associated with such facilities.

RESPONSIVENESS TO CREDIT AND COMMUNITY DEVELOPMENT NEEDS

Morgan demonstrated excellent responsiveness to credit and community development needs including affordable housing and economic development.

Community Development Loans

Sixty-eight percent or \$13.2 million of community development lending activity was for affordable housing while the balance of community development lending, \$6.2 million, represented a letter of credit to the Riverfront Development Corporation to support the revitalization and stabilization of an LMI area within a Community/Enterprise Zone.

Qualified Investments

Of total qualified investments, 86 percent or \$1.7 million were for affordable housing, 9 percent or \$176 thousand were for community services, and 2 percent or \$47 thousand were for economic development. Morgan's investment in the Delaware Equity Fund LP II supports the Fund's efforts to produce approximately 230 affordable housing units in Morgan's Delaware assessment area.

EXHIBITS

EXHIBIT 1

Summary of Community Development Lending

Assessment Area	Commitment ('000s)	%	Outstanding ('000s)	%	New Money ('000s)	%	Housing Units
PMSA 5600 (New York, NY) *	\$216,311	81%	\$108,455	89%	\$150,865	78%	7,884
PMSA 9160 (Wilmington-Newark, DE-MD) **	\$19,426	7%	\$9,093	7%	\$10,399	5%	1,319
Outside Assessment Area Activity	\$32,450	12%	\$5,070	4%	\$32,450	17%	3,271
TOTALS	\$268,187	100%	\$122,618	100%	\$193,714	100%	12,474
Subtotal Direct Activity	\$15,500	6%	\$8,874	7%	\$7,410	4%	0
Subtotal Indirect Activity	\$252,687	94%	\$113,744	93%	\$186,304	96%	12,474
TOTAL ACTIVITY	\$268,187	100%	\$122,618	100%	\$193,714	100%	12,474
Affordable Housing	\$180,629	67%	\$103,715	85%	\$117,595	61%	12,474
Community Services	\$62,069	23%	\$7,666	6%	\$55,867	29%	N/A
Economic Development	\$2,101	1%	\$1,481	1%	\$620	***	N/A
Revitalization & Stabilization	\$23,388	9%	\$9,756	8%	\$19,632	10%	0

* Partially delineated assessment area -- New York City

** Partially delineated assessment area -- New Castle County

*** Less than one percent.

EXHIBIT 2

Summary of Qualified Investment Activity

Assessment Area	Commitment ('000s)	%	Outstanding ('000s)	%	Housing Units
PMSA 5600 (New York, NY)	\$147,459	75%	\$147,459	75%	15,789*
PMSA 9160 (Wilmington-Newark, DE-MD)	\$1,968	1%	\$1,968	1%	230
Outside Assessment Area Activity	\$47,426	24%	\$47,426	24%	437
TOTALS	\$196,853	100%	\$196,853	100%	16,456
Affordable Housing	\$178,460	91%	\$178,460	91%	16,456
Community Service	\$6,513	3%	\$6,513	3%	N/A
Economic Development	\$5,146	3%	\$5,146	3%	N/A
Revitalization & Stabilization	\$6,734	3%	\$6,734	3%	0
TOTAL ACTIVITY	\$196,853	100%	\$196,853	100%	16,456

* Includes housing units produced by national initiatives which have produced affordable housing in New York City.

CRA APPENDICES

CRA APPENDIX A

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED			
		5/31/96 TO 1/11/99	
FINANCIAL INSTITUTION			
Morgan Guaranty Trust Company 60 Wall Street New York, New York			PRODUCTS REVIEWED
AFFILIATE(S)			
J.P. Morgan Community Development Corporation J.P. Morgan Capital Corporation	AFFILIATE RELATIONSHIP Bank Affiliate Bank Affiliate		PRODUCTS REVIEWED <ul style="list-style-type: none"> • Community Development Loans • Qualified Investments
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
PMSA 5600 (New York, NY) PMSA 9160 (Wilmington-Newark, DE-MD)	On-site Off-site		

CRA APPENDIX B

GLOSSARY

AREA MEDIAN INCOME: (1) The median family income for the MSA, if a person or geography (block numbering area or census tract) is located in an MSA; or(2), if a person or geography is located outside an MSA, the statewide non-metropolitan median family income.

CDC: A corporate entity that specializes in development and rehabilitation of real estate, investment in business ventures, and related activities specifically designed to address the housing, commercial redevelopment, employment and community facilities needs of low- and moderate-income persons and areas.

CDFI: A private sector, financial intermediary with community development as its primary mission.

COMMUNITY DEVELOPMENT: (1) Affordable housing including multifamily rental housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing business or farms that meet the size eligibility standards of 13 CFR121.802 (a)(2) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

LIHTC: Low-Income Housing Tax Credits.

LMI: Low- and moderate-income, as in LMI census tracts.

LOW INCOME: An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a BNA or census tract median family income that is less than 50 percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

MIDDLE INCOME: An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

MODERATE INCOME: An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

MSA: A metropolitan statistical area or a primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

PMSA: A primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

QUALIFIED INVESTMENT: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

UPPER INCOME: An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.

WHOLESALE BANK: A bank 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, in accordance with the CRA regulation.