WHOLESALE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 25, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Morgan Stanley Bank, N.A.
Charter Number: 24908

One Utah Center
201 South Main Street, 5th Floor
Salt Lake City, UT 84111

Office of the Comptroller of the Currency

Large Bank Supervision
250 E Street, S.W., Mail Stop 6-1
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.

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, community development services, and qualified investment activity, particularly investments that are not routinely provided by private investors.

- The bank demonstrates occasional use of innovative or complex qualified investments and community development loans.

- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

Scope of the Examination

In evaluating Morgan Stanley Bank, N.A. (MSBNA) performance under the CRA, we reviewed community development (CD) activities from January 31, 2006 through January 25, 2010. We reviewed the level and nature of qualified investments, CD lending, and CD services. At the bank's request, we also considered qualified investments, CD lending and CD services provided by its affiliates, namely the parent company, Morgan Stanley. At the prior examination dated January 30, 2006 conducted by the Federal Deposit Insurance Corporation (FDIC), the bank was rated Outstanding. This is the first CRA evaluation conducted by the OCC following the bank's conversion to a national banking association. It should be noted that although the bank converted in 2008, the OCC considered CRA activity prior to the conversion in this evaluation at the bank's request.

If a bank has adequately addressed its assessment area (AA) needs, the OCC considers CD activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. The bank has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments, CD loans and CD services were considered in evaluating its performance.

Description of Institution

During the 3rd quarter of 2008, Morgan Stanley, a global financial services firm based in New York City, received the approval of the Federal Reserve to become a financial holding company (FHC). On September 23, 2008, Morgan Stanley Bank converted from a Utah state-chartered industrial bank to a national bank. Prior to the conversion, the bank was designated a wholesale bank for CRA purposes by the FDIC in 2002. The business model and credit portfolio of the bank did not materially change following the conversion and the OCC approved a wholesale designation on March 10, 2009. MSBNA is a wholly owned operating subsidiary of Morgan Stanley. Morgan Stanley serves its clients from more than 1,200 offices in 36 countries.

The bank's main office is located in Salt Lake City, Utah. There are no branches and the bank does not engage in retail deposit operations. A loan production office and administrative offices are located in New York City, New York. Following the conversion to a national bank and the creation of the FHC in 2008, MSBNA experienced a rapid increase in its asset base. This growth was considered in the evaluation of the bank's CRA performance.

There are no known legal constraints that may impact the bank's ability to meet the CD needs of its AA.

Table 1: Financial Information ($000s)

	Year-end 2006	Year-end 2007	Year-end 2008	Year-end 2009	Average for Evaluation Period
Tier 1 Capital	2,810,983	3,149,000	5,776,000	7,360,000	4,773,996
Total Income	928,961	1,083,000	101,000	1,752,000	966,240
Net Operating Income	442,749	(38,000)	(857,000)	657,000	51,187
Total Assets	21,032,312	35,064,000	58,054,000	66,159,000	45,077,328

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

Description of Assessment Area

MSBNA has defined its AA as Salt Lake County which is part of the Salt Lake City, Utah MSA #41620. This area is comprised of 193 contiguous census tracts and is the largest county in the state with slightly more than 1 million persons. Salt Lake City is the largest city in the county and state and is also the state capital. Salt Lake County is located in north central Utah along the Wasatch Front. This 75 mile strip running north/south with Salt Lake City in the middle comprises only 4% of the state's landmass, but 76% of the state's population resides here. The 2000 census median family income is $54,586 and the 2009 HUD updated median family income is $67,800.

Salt Lake County is in the midst of a demographic shift, in which it is becoming more diverse. Racial and ethnic minorities are estimated to be 24% of the county's population and expected to grow substantially over the next several decades. In general, Utah has experienced significant population growth over the last few years. Utah also has the nation's youngest population.

In Salt Lake County, nearly 70% of all housing is owner-occupied and the median home value is $206,400. The market has traditionally focused on single-family homes, which has increased constraints on land and driven up land prices. The emphasis on single family development results in few rental and/or multifamily units, thereby limiting affordable housing opportunities for low- and moderate-income people. According to recent census bureau data approximately 38% of households pay in excess of 30% of their income towards rent.

The economic conditions that affected the U.S. in 2008 and 2009 impacted the AA, but not as severely as the rest of the country. Unemployment rose to 6.5% in 2009 versus 10% nationwide. Construction employment led the decline in jobs. Service businesses are the principal industry and include healthcare, government, financial, and food service/restaurant.

MSBNA operates in a highly competitive environment with 58 FDIC insured institutions located in the AA. All of these financial institutions compete for a limited supply of qualified CD opportunities in Salt Lake County and Utah as a whole to satisfy their CRA obligation. The opportunity for anyone of these institutions to get any sizeable portion of qualified loans or investments benefiting the AA is limited.

Identified needs by both the bank and through community contacts within Salt Lake County include affordable housing (including rental housing and revitalizing targeted areas), financial literacy programs, foreclosure prevention programs, and economic development activities, including creating permanent jobs for low- and moderate-income individuals.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	193	3%	22%	47%	28%
Families	215,864	17%*	20%*	25%*	38%*
Businesses	109,522	8%**	22%**	41%**	29%**

Source: Demographic Data – 2000 U.S. Census, 2009 Dun & Bradstreet Data. *Represents families by income level. **Represents businesses by income level of census tract.

Conclusions about Performance

Summary

- MSBNA provided a high level of qualified investments, CD loans, and CD services in relation to its capacity and opportunities. During the evaluation period, $178.3 million in qualified investments and CD loans were provided to the AA. Employees of the bank and its affiliates provided nearly 7,000 hours of service to 61 CD organizations in the AA. An additional $1.9 billion in CD loans and qualified investments were made in areas outside of the AA.

- The bank demonstrates occasional use of innovative or complex qualified investments and CD loans. Many of the bank's investment transactions utilized Low Income Housing Tax

Credits (LIHTCs), New Market Tax Credits (NMTCs), and Historic Tax Credits (HTCs) coupled with project debt financing. These transactions generally require substantial time and expertise to finalize the deals.

- The bank's qualified investments and grants and CD loans and services exhibited excellent responsiveness to the credit and CD needs within the AA. Qualified investments and CD loans have primarily focused on affordable housing and revitalization or stabilization of low- and moderate-income geographies. The bank increased its position in a statewide (Utah) CDC loan pool targeting affordable housing as other banks reduced or eliminated their participation. Additionally, MSBNA took a leading role to provide project construction financing for 102 affordable apartment units in a designated redevelopment area (Brownfields) of Salt Lake City when the primary lender retracted its commitment near the scheduled closing. Many of the transactions supported projects across the United States, focusing on underserved areas, GO Zones, and government approved redevelopment zones.

Qualified Investments

Qualified investments totaled $110.7 million in the AA during the evaluation period. Additionally, nearly $4.5 million in long term investment commitments are in place. Because the bank adequately addressed the needs of its AA, we considered an additional $1.6 billion in qualified investments made outside of its AA.

Qualified grants by the bank totaling $3.7 million were made to 274 community development organizations and programs. Nearly 93% of these grants were made in the AA. The major grants went to organizations focused on affordable housing development and preservation and homeownership education. Additionally, grants went to organizations focusing on financial education, job training and placement targeting low- and moderate-income individuals, and economic self-sufficiency. An additional 1,510 grants totaling $32 million were provided by MSBNA affiliates. The majority of these grants were to organizations outside of the bank's AA.

The following tables quantify the level of investments in terms of average tier 1 capital and average total income over the evaluation period:

Table 3a: Qualified Investment Activity ($000s)

	Benefits AA	Outside AA	Totals
Originated Investments	90,619	1,578,825	1,669,444
Originated Grants	12,737	23,104	35,841
Prior-Period Investments that Remain Outstanding	7,387	0	7,387
Total Qualified Investments	110,743	1,601,929	1,712,672
Unfunded Commitments*	4,453	9,941	14,394

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

Table 4a: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	2.32	33.56	35.88
Total Investments/Average Total Income	11.46	165.79	177.25

Described below are the most significant qualified investments and grants:

- During the evaluation period, the bank purchased mortgage backed securities totaling $59 million. The original underlying mortgages provided funding for over 500 low- and moderate-income borrowers in the AA.

- The bank invested $50 million in a single investor fund (SIF) to buy LIHTCs generated by affordable housing projects across the country. The SIF will leverage the Tax Credit Assistance Program and provide much needed tax credit equity for the development of several stalled projects.

- The bank innovatively structured a transaction involving $15.9 million in NMTCs coupled with $31.8 in loans to a community development fund. The pooling structure allowed the fund to finance several smaller projects more cost efficiently.

- The bank committed $5 million and funded $2.25 million in a SBIC venture fund that provides financing to eligible size businesses. To date, the fund has created or retained 475 jobs targeting low- and moderate-income individuals.

- The bank invested $4.4 million in an SBA loan fund that purchases the federally guaranteed portion of SBA 7(a) loans. MSBNA's investment has financed 10 businesses creating over 100 permanent jobs for low- and moderate-income individuals.

- The local community development corporation (CDC) received grants totaling $285 thousand for their homeownership programs, including the Area Control Asset Program (ACAP). The CDC is primarily dedicated to the development of affordable housing opportunities through various services including down payment assistance, low-interest loans, homebuyer education, foreclosure counseling, and their administration of ACAP. Through ACAP, the CDC has partnered with the Department of Housing and Urban Development (HUD) to purchase HUD foreclosed homes for half their "as-is" value, rehabilitates them, and sells them to low- and moderate-income persons.

- Salt Lake CAP Head Start (Head Start) received grants totaling $255 thousand. Head Start provides social services to low- and moderate-income children and their families ranging from literacy programs, medical, dental and nutritional services, and childcare. The bank was a lead partner in the development of a new Head Start center in a transitional/permanent housing complex.

Community Development Lending

During the evaluation period, MSBNA extended 21 CD loans in the AA totaling $67.6 million. Because the bank adequately addressed the needs of the AA, we considered an additional $334 million in CD loans made outside of the AA throughout the United States and Puerto Rico. The majority of the loans focused on affordable housing and the revitalization or stabilization of low- and moderate-income neighborhoods. The loans were responsive to the identified credit needs of the AA.

Table 5a: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	1.42	7.00	8.42
Total CD Lending/Average Total Income	7.00	34.56	41.56

Described below are the most significant community development loans:

- A $10 million revolving loan, subsequently renewed and increased to $12.6 million to a nonprofit, multi-financial consortium, comprised of member banks. The consortium offers flexible financing for multifamily affordable housing development projects receiving LIHTCs. Since 2006, 27 properties including 1,116 units of affordable housing for low- and moderate-income individuals have been created. Additionally, it should be noted that MSBNA increased its commitment to this consortium as other banks reduced or eliminated their commitment.

- A $5 million revolving loan (and renewal) to the CDC to fund costs associated with the purchase and rehabilitation of foreclosed homes through the ACAP. Through this program, the CDC was able to purchase, rehabilitate, and sell 42 homes between 2007 and 2009.

- A $3 million revolving loan, subsequently renewed and increased to $5 million to the CDC to fund costs associated with the acquisition and rehabilitation of blighted homes within the bank's AA. The properties are sold to first time homebuyers earning less than 80% of the area median income. Between 2007 and 2009, 18 homes were acquired, rehabilitated, and sold. In addition to providing affordable housing, the loan has helped to revitalize various neighborhoods within the AA.

- A $50 million revolving loan (total of $150 million) to a national affordable housing fund for LIHTC projects that are "shovel ready" to begin construction. The fund anticipates making numerous investments that will create affordable rental housing across the U.S.

- A $400 thousand loan to a CDFI microlender. Although the size of the loan is relatively small, the structure of the loan was innovative, taking into consideration the CDFI's highly leveraged balance sheet. Repayments by the CDFI's client flow directly into an account at Morgan Stanley. Over 300 hours of employees' time were utilized to structure and execute the transaction.

Community Development Services

Through their involvement on the boards and committees of affordable housing and community service organizations, delivery of financial literacy seminars and credit counseling, and provision of other financial services, bank and affiliate employees are highly responsive to CD needs. During the evaluation period, 100% of MSBNA employees participated in qualified service activities, providing over 3,800 hours of service to 45 organizations, while affiliate employees provided an additional 3,050 hours to 16 organizations. In addition to being responsive to the needs of their AA, MSBNA employees and its affiliates provided nearly 18,500 hours of service to over 100 qualified organizations outside of the AA.

The bank and its affiliates strive to develop and maintain partnerships with the organizations. The majority of the service activities are provided in conjunction with grants and/or CD loans. These organizations work to meet the needs of the community through their focus on providing affordable housing, conducting consumer education for financial management and homebuyer counseling, creating and expanding small businesses, and providing CD services to low- and moderate-income families and individuals. The following are examples of significant community development services:

- A first vice president served on the board of directors of a nonprofit organization based in Salt Lake City. The organization provides support and shelter for individuals and families overcoming homelessness through a variety of programs and services. The employee provided over 300 hours of service and assisted with evaluating the organization's needs assessment including grant funding.

- A vice president of the bank served on the board of directors of a nonprofit organization that provides technical assistance in developing affordable housing and promoting economic development within Salt Lake County and the state of Utah. The employee provided over 300 hours of service during the evaluation period.

- Two employees served on the fundraising committee and board of directors of a nonprofit organization that provides a comprehensive early childhood development program to low-income children and their families. In its first year of operation, the organization operated without federal funding. The employees provided 240 hours of service.

At the corporate level, Morgan Stanley has been able to advance an innovative approach to its community development service activities, examples of which are described below:

- In 2009, Morgan Stanley began the Morgan Stanley Social Enterprise Strategy Challenge (the Challenge). During the Challenge, nine teams of Morgan Stanley employees are each paired with an organization and over an eight week period work with them to provide financial advice and assistance. The majority of these organizations are focused on providing affordable housing, community services and educational opportunities to the low and moderate-income communities within New York City. These organizations serve approximately 480,000 low- and moderate-income individuals each year. Although not begun until the final year of the evaluation period, Morgan Stanley employees contributed over 2,500 hours of service to community development organizations through this effort.

- Annually, through the Morgan Stanley Ambassadors Program, the firm provides a financial analyst to the Morgan Stanley Children's Hospital of New York Presbyterian (MSCH) to assist in various projects that would benefit from the analyst's financial expertise. The analyst works for the hospital for the entire year, while Morgan Stanley pays the salary. Approximately 8,000 hours of community development service were provided during the evaluation period. MSCH is a pediatric hospital located in Washington Heights, New York that serves over 65 thousand children annually, the majority of which are from low-, moderate- or no-income families.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Definitions and Common Abbreviations

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

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

Assessment Area (AA): A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area: A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Census Tract (CT): Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

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

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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 United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

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

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