WHOLESALE BANK

PUBLIC DISCLOSURE

July 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Morgan Stanley Bank, National Association
Charter Number: 24908

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

Office of the Comptroller of the Currency

Large Bank Supervision
400 7th Street, SW
Washington, DC 20219

Evaluation Period: January 26, 2010 – June 30, 2013

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 ("CD") lending, community development services, and qualified investment activity, including investments that are not routinely provided by other private investors.

- The Bank demonstrates occasional use of innovative or complex qualified investments, community development loans, or community development services.

- The Bank exhibits excellent responsiveness to credit and community development needs in its assessment area.

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 ("LMI") neighborhoods, consistent with the 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 Stanley Bank, National Association ("MSBNA" or the "Bank") issued by the Office of the Comptroller of the Currency ("OCC"), the institution's supervisory agency, for the evaluation period ending June 30, 2013. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Scope of the Examination

In evaluating the performance of the Bank under the CRA, we reviewed community development activities from January 26, 2010 through June 30, 2013. We reviewed the level and nature of qualified investments, community development lending, and community development services**.** At the Bank's request, we also considered qualified investments, community development lending, and community development services provided by its affiliates.

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, qualified investments, community development loans and services outside of the AA were considered in evaluating its performance.

This evaluation relies upon records and reports provided by MSBNA, publicly available financial information, demographic data, and information gathered as part of the evaluation process, including recent community contacts. The OCC evaluated the Bank's and affiliates' CD performance in the context of the following:

- The current economic environment
- Demographic characteristics of its AA
- Institution financial resources and constraints
- Institution product offerings and business strategy
- Information derived from community contacts
- Performance of any similarly situated institutions.

In the prior evaluation, dated January 25, 2010, covering the evaluation period January 31, 2006 through January 25, 2010, the OCC rated the Bank "Outstanding."

Description of Institution

Morgan Stanley Bank, National Association is a nationally chartered bank, with its headquarters and main office located in Salt Lake City, Utah. MSBNA is an indirect, wholly-owned operating subsidiary of Morgan Stanley & Company ("Morgan Stanley" or "MS"). The Bank is a wholesale institution primarily focused on providing financing to large commercial borrowers headquartered throughout the world. Its lending portfolio includes short-term secured and unsecured lines of credit, revolving credits, and term loans. There are no branches or ATMs and the Bank does not engage in retail deposit activities. A loan production office and administrative offices are located in New York City, NY. MSBNA is regulated by the OCC while the Federal Deposit Insurance Corporation ("FDIC") insures the majority of its deposits. As of June 30, 2013, MSBNA had assets of approximately $83.7 billion, deposits of $66.1 billion (of which $16.9 billion were uninsured), Tier 1 Capital of $10.4 billion, and total income of over $1 billion for the six months ending June 30, 2013.[1]

Morgan Stanley, the parent company, is a global financial services firm providing a wide range of securities, investment banking, investment management, and wealth management services. Morgan Stanley's over 57 thousand employees serve clients worldwide including corporations, governments, institutions and individuals.[2] It is based in New York, NY and serves its clients from more than 1,200 offices in 43 countries. Morgan Stanley's assets were over $802 billion as of June 30, 2013 while net income for the six months ending June 30, 2013 was $2.4 billion.[3] Morgan Stanley ranked as the 16th largest bank holding company in the U.S.A. by domestic deposits in 2013, up from 17th in 2012. Morgan Stanley also owns a separate national bank: Morgan Stanley Private Bank, National Association.

During the third quarter of 2008, Morgan Stanley received approval from the Federal Reserve to become a financial holding company ("FHC"). On September 23, 2008, Morgan Stanley Bank converted from a Utah state-chartered industrial loan corporation to a national bank. Prior to the conversion, the FDIC designated the Bank as a wholesale bank for CRA purposes in 2002. The business model and credit portfolio of the Bank did not materially change

[1] "Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only – FFIEC 041" as of June 30, 2013; www.ffiec.gov.
[2] Morgan Stanley Second Quarter 2013 financial results, http://www.morganstanley.com/about/ir/shareholder/2q2013.pdf.
[3] Morgan Stanley Form 10-Q as of June 30, 2013, http://www.morganstanley.com/about/ir/shareholder/10q0613/10q0613.pdf.

following the conversion; as a result, the OCC approved a wholesale designation on March 10, 2009.

Following the creation of the FHC and the conversion to a national bank, MSBNA experienced a rapid increase in its asset base. During the evaluation period, Bank assets increased from $66.2 billion as of December 31, 2009 to $83.7 billion as of June 30, 2013. This growth of over 26 percent was considered in the evaluation of the Bank's CRA performance.

There were no mergers or acquisitions by the Bank during the evaluation period. The Bank has no subsidiaries. There are no known legal constraints that may impact the Bank's ability to meet the credit and CD needs of its AA.

Based on its wholesale bank designation, MSBNA strives to meet performance goals set forth under the Community Development test, which assesses the Bank's record of helping to meet community credit needs through its community development lending, qualified investments or community development services.

Morgan Stanley and the Bank have put in place a program to meet the credit needs of the AA through direct CD lending and qualified investments in the AA, the broader statewide and regional area, and nationally. Bank and affiliate employees partner with nonprofit organizations in the AA to provide CD services, including board memberships, financial technical assistance, financial education, etc. The program relies on CD activities delivered by Bank affiliates for the benefit of its AA.

Community development activities are booked on the financial statements of MSBNA and Bank affiliates. The following legal vehicles primarily provide affiliate CD activities:

- Morgan Stanley & Co. provides equity financing and philanthropic contributions to support LMI communities and neighborhood revitalization efforts,
- Morgan Stanley Municipal Funding makes investments (for example, purchase of housing bonds) that provide much needed support for affordable housing,
- Morgan Stanley Community Investments LLC, Morgan Stanley's community development corporation, provides debt and equity financing to meet the needs of LMI geographies and individuals,
- Morgan Stanley Senior Funding provides debt financing to support LMI communities and individuals,
- Morgan Stanley Private Bank, National Association provides debt financing that supports affordable housing and LMI communities, and
- Morgan Stanley Foundation provides contributions and other philanthropic assistance to nonprofit organizations as a means of helping to strengthen its local communities.

All CD loan and qualified investment originations are made by either the Bank or affiliates of MSBNA for the benefit of the Bank and its affiliates. In addition to the primary legal vehicles listed above, CD loans and investments are also booked on Morgan Stanley Mortgage Capital Holdings LLC, Morgan Stanley Capital Group Inc., and Morgan Stanley Tower, LLC. CD grants are primarily made by the Morgan Stanley Foundation and Morgan Stanley & Co.

The following table provides a high-level summary of financial information for the Bank and is intended to provide a perspective on the Bank's capacity to help meet the needs of the AA.

Table 1: Financial Information ($000s)

	Year-end 2010*	Year-end 2011*	Year-end 2012*	Most Recent Quarter-end 6/30/2013**	Average for Evaluation Period***
Tier 1 Capital	8,064,000	8,702,000	9,918,000	10,386,000	9,267,500
Total Income	1,426,000	1,455,000	2,577,000	2,082,000	1,885,000
Net Operating Income	745,000	891,000	1,743,000	1,306,000	1,171,250
Total Assets	67,534,000	67,047,000	80,536,000	83,680,000	74,669,250

Sources: Consolidated Report of Condition and Income (a.k.a. Call Report) and bank reported data.
* Actual data reported.
** Annualized data reported for Total Income and Net Operating Income.
*** The Average for Evaluation Period is the average of the numbers in the row.

Description of Assessment Area

The CRA requires financial institutions to delineate one or more AAs. The regulatory agencies will evaluate the institution's record of helping to meet the credit needs of the institution's AAs and surrounding areas. Generally, an AA must consist of one or more metropolitan areas or contiguous political subdivisions, such as counties, cities, or towns, in which a bank has its main office, branches, and deposit-taking remote service facilities (e.g., ATMs).

MSBNA has designated Salt Lake County as its AA, which is part of the Salt Lake City, Utah Metropolitan Statistical Area ("MSA"), # 41620. The MSA is part of the Salt Lake City-Provo-Orem Combined Statistical Area ("CSA"), # 482. The Bank's AA meets legal requirements. The AA is comprised of 212 contiguous census tracts. The number of tracts changed slightly from the previous performance evaluation, primarily due to county boundary changes. Salt Lake County includes 212 census tracts ("CTs"), including 12 low-income CTs, 41 moderate-income CTs, 97 middle-income CTs, 60 upper-income CTs and 2 CTs not designated due to minimal population (e.g., an airport).

The following table provides a summary of statistics for the AA.

Table 2: Assessment Area Description

	Number	Low-Income (%)	Moderate-Income (%)	Middle-Income (%)	Upper-Income (%)
Tracts	212	5.66	19.34	45.75	28.30
Families	236,504	18.75*	18.99*	22.88*	39.38*
Businesses	117,286	4.61**	18.60**	43.34**	33.00**

Source: Demographic Data – 2010 U.S. Census, 2012 Dun & Bradstreet Data.
* Represents families in the AA by income level.
** Represents businesses by income level of census tract. Percentage may not add to 100% due to rounding and two (2) Census Tracts are not income categorized.

Salt Lake County is located in north central Utah in the Wasatch Front metropolitan region, which lies parallel to the west side of the Wasatch Mountain Range. This area is considered the western edge of the Rocky Mountains and the eastern edge of the Great Basin region. This long and narrow strip, running north/south with Salt Lake City in the middle, comprises only 4% of the state's landmass; however, approximately 80% of the state's population resides in this region. The Wasatch Front region is anchored by Salt Lake City. The AA is predominately a mix of urban and suburban areas.

Salt Lake County is the most populous county in the state, with a population of 1,029,655, which represents 37% of the state population.[4] Salt Lake County contains two of the largest cities in the state: Salt Lake City with 186,440 people and West Valley City with 129,480 people.[5] Salt Lake City is the largest city in the state, the county seat, headquarters for many of the state's largest corporations, the center of the state's economic activity, and the state capital.

For the Salt Lake MSA, the census median family income for 2010 was $68,010 and the estimated annual median family income for 2013 determined by the Federal Financial Institutions Examination Council ("FFIEC") is $70,300.[6] About 11% of the population in the AA was below the poverty level as compared to the national average of 15%.[7]

The Salt Lake MSA economy is comprised of a highly skilled workforce, a stable base of state employment, and below-average business costs. Salt Lake County's major employers include Intermountain Healthcare, the State of Utah, the University of Utah, and Smith's Groceries.[8] Service businesses are the principal industry and include healthcare, government, financial, and educational employers.

The Bureau of Labor Statistics reported a civilian labor force of 551,992 in Salt Lake County at year-end 2012 with an annual average unemployment rate for 2012 of 5.5%, down from 7.9% for 2010. The Salt Lake County AA unemployment rate did not significantly deviate from the 2012 average annual unemployment rate of 5.7% for the state of Utah. However, the AA experienced lower unemployment than the nationwide annual average for 2012 of 8.1%.

Utah suffered during the "Great Recession" of recent years (2007-2009). Similar to many other states, it witnessed an increase in foreclosures and job layoffs and a decrease in government revenue. Cuts in local, state, and federal budgets have greatly affected low- and moderate-income persons and the nonprofit organizations who serve them. In addition, the number of nonprofit organizations in the AA has decreased during the evaluation period (2010 to 2013). Nonetheless, Utah, and more specifically, the Salt Lake City MSA maintains a large nonprofit sector. As a result, opportunities exist for community development efforts.

As of June 30, 2013, MSBNA had the highest deposit market share in the Salt Lake County AA at 18.2%.[9] Despite that fact, MSBNA operates in a highly competitive banking environment with 45 FDIC-insured institutions located in the AA. The highly competitive environment is also due, in part, to a favorable business climate. The area has a disproportionately high number of

[4] Source: 2010 U.S. Census Bureau numbers.
[5] Source: 2010 U.S. Census Bureau numbers.
[6] The FFIEC provides estimated annual median family income at the MSA and MD level, but not at the county level.
[7] Source: American Community Survey 2007-2011 5-Year estimate.
[8] Source: Economic Development Corporation of Utah, Salt Lake County Profile, 2013.
[9] Federal Deposit Insurance Corporation Deposit Market Share Report for Salt Lake County as of June 30, 2013.

limited purpose or wholesale banks based, in part, on favorable state laws attracting these types of entities to Utah. In addition, the AA also has a large number of commercial banks, including large national banks such as JPMorgan Chase, Wells Fargo, and Zions Bank, as well as some large credit unions who also vie for meaningful community development opportunities. These financial institutions compete for a limited supply of qualified CD opportunities in Salt Lake County and in Utah as a whole to satisfy their CRA obligations. The opportunity for any one of these institutions to obtain any sizable portion of qualified investments or loans benefiting the AA is limited. Because of this highly competitive community development environment, institutions with CRA obligations often look outside their AA for meaningful community development opportunities.

Housing affordability in this area remains a challenge, particularly for low- and moderate-income families. During the evaluation period, the Federal Housing Finance Agency has considered the Salt Lake County AA as a high-cost area for housing. In addition, the AA has been experiencing some upward momentum in the residential real estate market since 2010. According to the Salt Lake Board of Realtors, the median home sales price in Salt Lake County increased from over $182 thousand during the first quarter of 2010 to over $212 thousand during the second quarter of 2013. This increase in home prices has strained the affordable housing market. Further, per 2010 U.S. Census data, the Salt Lake County housing market consisted of over 364 thousand housing units; 63 percent of which were owner occupied and 31 percent of which were occupied rental units. Only 6 percent of the housing units in the AA were vacant as compared to 10 percent for the state of Utah overall.

The lack of inventory and constraints on developable land has begun to drive the increase in home values, putting further strain on affordable housing in the AA. Constraints on developable land include both regulatory and cost impediments. Local zoning ordinances make it difficult to meet the affordable housing needs in parts of the AA. For example, several municipalities within the county are zoned largely for high-end single-family residential homes. Moreover, the high cost of land and the corresponding absence of incentives for the development of affordable housing serve as additional barriers.[10] According to the Housing Authority of the County of Salt Lake, there continues to be a high demand for housing assistance programs. Typically, low-income households need subsidies to make housing affordable. Developments focused on providing owner-occupied, as well as rental, affordable housing are needed, too. Community contacts with nonprofit groups focused on housing have noted that affordable housing projects typically have waiting lists.

The OCC's Community Affairs officers completed or updated community contact information regarding community needs in the AA during the evaluation period. We also reviewed and discussed with Bank management community needs identified through Morgan Stanley's Community Development Advisory Board ("CDAB"). CDAB members include leaders from nonprofit and community development-focused organizations. The identified community development needs in the AA, based on community contact information and information obtained from Bank management, include the following:

[10] Salt Lake County Consortium Consolidated Plan, 2012; James Woods, et.al., Salt Lake County: Fair Housing Equity Assessment and Regional Analysis of Impediments (Utah: Bureau of Economic and Business Research, David Eccles School of Business, University of Utah, 2013).

- Affordable housing (rental and homeownership)
- Foreclosure prevention
- Home ownership counseling
- Neighborhood stability
- Economic development
- Financial literacy and education
- Small business lending
- Job creation and retention benefiting low- and moderate-income persons

Conclusions about Performance

Summary

- MSBNA provided a high level of qualified investments, CD loans, and CD services in relation to its capacity and opportunities, given the highly competitive community development environment in the AA. During the evaluation period, $203 million of the Bank's qualified investments, grants, and CD loans benefited the AA. Employees of the Bank and its affiliates provided nearly 2,300 hours of service to nearly 60 CD organizations benefiting the AA. An additional $2.9 billion in qualified investments and CD loans were made in areas outside of the AA. This represents an increase of $1 billion (or approximately 50 percent) as compared to the previous evaluation period, which covered a period seven months longer than the current evaluation period. Employees of the Bank and its affiliates provided over 17 thousand hours of service to over 140 CD organizations outside of the AA. Qualified investment activity included those serving needs not routinely provided by other private investors.

- The Bank demonstrates occasional use of innovative or complex qualified investments and CD loans. A notable example is a $10 million investment in a New Markets Tax Credit ("NMTC") Small Business Investment Fund, which uses U.S. Small Business Administration ("SBA") financing to augment tax credits. This investment demonstrated responsiveness, innovation, and complexity as it required the knowledge and ability to manage the technical aspects of two distinct government programs.

- The Bank's qualified investments, grants, CD loans, and CD services exhibited excellent responsiveness to the credit and CD needs of the AA, specifically affordable housing, economic development, and job creation and retention. Many transactions supported projects in the AA and across the United States focusing on underserved or distressed areas. CD activities benefiting the AA helped create or retain over nine thousand jobs and create or preserve over three thousand affordable housing units.

Qualified Investments

Qualified investments and grants made in or benefiting the AA totaled $28.7 million during the evaluation period. Additionally, $25.5 million in binding, unfunded investment commitments are in place for the benefit of the AA. The majority of the qualified investments and grants focused on providing affordable housing and, to a lesser extent, community services to low- and moderate-income individuals. As such, the loans were responsive to the identified credit needs of the AA. Because the Bank adequately addressed the needs of the AA, we also considered $1.7 billion in qualified investments and grants as well as $135.2 million in binding, unfunded commitments made outside of the AA. The Bank and its affiliates occasionally used innovative or complex qualified investments. Of the overall volume of investments, approximately $131 million are considered as serving needs not routinely provided by other private investors. An example of this is a $33 million investment for the construction of a community center in a low-income tract focusing on providing social services to low-income residents.

Table 3a, below, quantifies the level of total qualified investment activity benefiting the AA as well as outside of the AA.

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

	Benefits AA	Outside AA	Totals
Originated Investments	16,870	1,672,341	1,689,210
Originated Grants	2,604	34,748	37,352
Prior-Period Investments that Remain Outstanding	9,214	-	9,214
Total Qualified Investments	28,687	1,707,089	1,735,776
Unfunded Commitments*	25,475	135,244	160,719

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

Table 4a, below, provides a breakdown of the Bank's investment activity in relationship to its financial capacity in terms of average Tier 1 Capital and average total income over the evaluation period.

Table 4a: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.31	18.42	18.73
Total Investments/Average Total Income	1.52	90.56	92.08

The Total Investments amount is found in Table 3a. The amounts for Average capital and income are found in Table 1.

Described below are some of the most significant qualified investments and grants:

- An apartment construction project will provide 136 affordable housing units for youth aging out of foster care, formerly homeless, and refugee families. All units are for families making 50 percent or less of the area median income. Morgan Stanley led the design of the transaction in which it provided both the construction loan (through its participation with a local bank) and the Low-Income Housing Tax Credit ("LIHTC") equity investment (with a national partner), all while preserving competitive LIHTC pricing. MSBNA and Morgan Stanley provided over $22 million in LIHTC investments and $17.4 million in loans. Morgan Stanley's participation in financing this affordable housing project was flexible, complex and allowed MSBNA to demonstrate leadership. The project development budget employs four sources of revenue, which added layers of complexity to the deal as each source of revenue had to be fully underwritten, documented, subordinated, and approved by the construction and term lenders.

- The Bank and affiliates made several grants totaling $175 thousand to a community action organization in the AA. The mission of the organization is to provide community services targeted to low- or moderate-income individuals and families, such as health, educational, childcare, and self-sufficiency services. A particularly impactful aspect of this program is the kitchen job / chef training program. In addition, a Morgan Stanley employee serves on the organization's board; this service activity was considered in the evaluation of the Bank's community development services.

- Working with national and state community development organizations, MSBNA took on a leadership role and made grants totaling $110 thousand (part of a three-year commitment of at least $300 thousand) to help address the AA's need for a full-service community development financial institution ("CDFI"). Morgan Stanley is assisting a national organization in attracting funds from other Salt Lake area entities. The mission of the CDFI is to provide financing, particularly for small businesses. Morgan Stanley also offered to provide deeply discounted office space in its Salt Lake City building. MSBNA is currently negotiating and structuring a $10 million loan fund to support the overall initiative. This activity promotes economic development by financing qualifying small businesses and other AA needs. It also demonstrates responsiveness, leadership, and complexity as it involved working with several different public and private entities and community groups.

- MSBNA invested $15 million in a CRA advisor fund to support affordable housing projects for LMI individuals in Utah. All of the funds were invested in Utah. Two-thirds of the projects are in MSBNA's assessment area, and the balance is in the broader statewide area. This is an example of an investment serving needs not routinely provided by other private investors because, typically, only companies with CRA obligations invest in this type of fund.

- Nationally, Morgan Stanley led an effort to help communities devastated by natural disasters recover when it launched the Rebuilding Local Economies Fund along with the National Equity Fund. The $200 million fund has helped rebuild housing developments and provide economic recovery in FEMA-designated disaster areas impacted by floods, hurricanes and tornadoes. The fund uses LIHTC to finance new construction or rehabilitation. Originally developed as a $100 million fund to respond to the natural disasters affecting the Midwest in spring 2011, the program was expanded to $125 million to respond to areas affected by Hurricane Irene in the fall of 2011 and to $200 million after Super Storm Sandy in 2012. The innovative program seeks to accelerate affordable housing construction and job creation. During the exam, ten projects benefited from $33.3 million in funding with another $51.4 million in funds committed. In addition to supporting affordable housing, this activity helps to revitalize designated disaster areas. This is an example of an investment serving needs not routinely provided by other private investors.

- Nationally, using a combination of investments and loans, the Bank provided $10 million to a Local Initiatives Support Corporation ("LISC")/NMTC Small Business Investment Fund, which uses U.S. SBA 504 financing to augment tax credits, while meeting the job creation requirements under the NMTC program. Under the program, a small business owner can receive loans with preferential terms, which include longer maturities and lower interest rates. This activity promotes economic development by financing qualifying small businesses. This investment demonstrated responsiveness, innovation, and complexity as it required the knowledge and ability to manage the technical aspects of two distinct government programs. This is also an example of an investment serving needs not routinely provided by other private investors.

- MSBNA created the Healthy Futures Fund, a first-of-its kind $100 million replicable tax credit model that will help create opportunities to co-locate Federally Qualified Health Centers ("FQHC") linked with affordable housing projects in LISC program areas throughout the country. Morgan Stanley committed to invest $10.5 million in Low-Income Housing Tax Credits as a part of the Fund, $1.8 million of which was invested during the evaluation period. Morgan Stanley also provided $63 million in NMTC and LIHTC commitments and $24 million in debt capital. Lloyd House is also the first affordable LIHTC housing project in the targeted city. As this Fund is the first fund structured around a combination of NMTC and LIHTC, it is highly innovative and has been recognized as such by the national media. This innovation required significant time and effort by MS and its partners. The underwriting is flexible, including a long-term structure and a low interest rate in order to meet the development needs. A critical piece of the deal required Morgan Stanley to commit to providing take-out financing at the end of the seven-year NMTC loan if there was no other commercially feasible financing available. This is an example of an investment serving needs not routinely provided by other private investors.

Community Development Lending

During the evaluation period, MSBNA extended community development loans in or benefiting the AA totaling over $174 million. This amount is over two-and-a-half times the level of similar loans provided during the previous evaluation period. The majority of the loans focused on affordable housing and economic development. As such, the loans were responsive to the identified credit needs of the AA. Because the Bank adequately addressed the needs of the AA, we also considered $1.1 billion in community development loans made outside the AA. This amount is over three times the level of similar loans provided during the previous evaluation period. The Bank and its affiliates occasionally used innovative or complex loans.

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

Table 5a: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	1.88	12.93	14.81
Total CD Lending/Average Total Income	9.25	63.59	72.84

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

Described below are the most significant community development loans:

- In the AA, MSBNA provided $400 thousand in loans to a local community development entity for a loan program. The entity rehabilitates and provides affordable housing. This program provides loans and grants to qualifying low- and moderate-income AA residents seeking to rehabilitate their homes. Morgan Stanley took a leadership role in this innovative transaction, structuring the deal in collaboration with Salt Lake County officials and a local bank. The program is complex because it has multiple financing sources, including bank loans, Community Development Block Grants, HOME and Energy Efficiency and Conservation Block Grants. Approximately 75 homeowners have benefitted so far.

- In the AA, MSBNA purchased a participation totaling $4.5 million in a $10.6 million construction loan to fund the construction of 137 affordable housing units of the Birkhill town center, targeting the community's low-income families. This is an example of transit-oriented development built near mass-transit stations; this one is located at a light rail stop in the heart of the AA.

- MSBNA renewed revolving loans totaling $15 million to a community development corporation in the state of Utah to fund the purchase and rehabilitation of foreclosed single-family residences in the AA and surrounding areas, which the CD entity purchases from the U.S. Department of Housing and Urban Development ("HUD") via the HUD Asset Control Agreement ("ACA") contract. Upon completion, the homes are sold to first-time, LMI buyers. Morgan Stanley's partnership with the entity continues to play an essential role in creating affordable housing and stabilizing LMI neighborhoods throughout the AA. MSBNA offers flexible terms, such as reduced interest rates. MSBNA is the primary lender to the entity and the Bank's financing makes the program possible. In addition, a MS employee serves on the board of the entity; this service activity was considered in the evaluation of the Bank's community development services.

- During the evaluation period, MSBNA provided another $15 million in loan renewals to support the CD corporation mentioned in the previous bullet point. The purpose of the loan is to fund all costs associated with the acquisition and subsequent rehabilitation of blighted single-family residences located in the AA and neighboring counties and for working capital requirements for the CD entity. After rehabilitation, the properties are sold to qualified buyers, who must have incomes at 80% or below the Area Median Income ("AMI"). These loans help to provide affordable housing to LMI individuals.

- MSBNA renewed and increased its share of a loan pool for an additional two-year commitment period for a community reinvestment corporation in the state. The entity's mission is to provide capital to serve low- and moderate-income individuals and underserved communities through enhanced financial services and innovation. MSBNA demonstrated its commitment to expanding lending to support additional project development as the Bank's assets grew. MSBNA increased its commitment from $10 million to $12.6 million for the 2009-2011 period, and again to $19 million in 2011, taking a larger (and leading) position as other institutions reduced or eliminated their participation in the pool. MSBNA's participation is responsive to the community's need for flexible financing to support affordable housing and commercial projects, particularly addressing needs not typically served by other private market participants. The Bank's loan supports the organization's ability to finance projects in underserved geographies, such as rural areas; for underserved populations, such as the elderly and large families; and to provide specialized loans for commercial construction and community facilities.

- The Bank provided $65 million in term and revolving loans to the Utah Fund of Funds, which is a State of Utah economic development program aimed at providing access to alternative or non-traditional capital to Utah entrepreneurs. The underlying investments are in start-up companies with a focus on those located in Utah. The Utah State Legislature recognized that changes in the national and Utah's financial markets had caused a critical shortage of seed and venture capital that impaired commerce in Utah. The increased supply of venture equity capital will create new jobs, diversify the state's economic base and support a well-trained workforce to help maintain and develop Utah's economy. The term loan provided a more favorable interest rate and more flexibility to the Fund of Funds. These loans helped create approximately seven thousand jobs by promoting economic development for qualifying small businesses.

- During the evaluation period, MS purchased $57.9 million of SBA 504 loans, helping 53 small businesses and 24 community banks. Morgan Stanley continues to fulfill its $500 million commitment to small business financing, particularly through the purchase of SBA 504 loans, which focus on job creation and economic development. SBA 504 loans offer long-term financing to small businesses for real estate or equipment purchases. SBA 504 loans also require the small business owner to create and/or retain jobs based on the loan size. A particularly noteworthy loan involves the creation of the LISC NMTC Small Business Investment Fund, LLC, an innovative program, which uses SBA 504 loan financing to augment tax credits, while using the higher job creation requirements under the NMTC program. Under the program, a small business owner can receive loans with preferential terms, which include longer maturities and lower interest rates. These loans are intended to promote economic development by providing financing to qualifying small businesses.

- During the evaluation period, MSBNA provided $60 million in revolving loan funds for the financing needs of a national CDFI, which provides both interim real estate development loans and permanent multifamily affordable housing loans with favorable interest rates and terms. Loans are underwritten with the flexibility required to finance complex transactions with multiple layers of subsidies. This loan was highly responsive given that it rescued the CDFI from likely financial collapse due to the closure of its previous primary funding source. The CDFI cited Morgan Stanley's leadership as the stimulus that turned the tide of fleeing lenders and influenced others to provide capital. MS also helped the CDFI to recognize the need to increase its equity to a level comparable to the norms for the CDFI industry and to support the lending growth on its balance sheet. Additional grant funds into the CDFI enabled it to exceed its net asset target ratio much sooner than expected, which in turn, attracted other investors.

- MSBNA provided $6.6 million in loans for several projects of a philanthropic partnership whose mission is to improve the lives of low-income people and cities where they live. These projects are part of a national program to test and build successful models for urban policy, investment and improvement to revitalize urban core communities facing abandonment and decay. The focus is on affordable housing, economic development, and sustainability strategies that can be replicated in communities across the nation. The program provides nonprofit intermediaries with access to capital for community and economic development and affordable housing. These transactions are typically complex as they bring together a consortium of lenders under a national initiative involving multiple sources of financing: public, private, and philanthropic. Morgan Stanley's underwriting was flexible, as the transaction supports a structured fund within a national initiative. Alliance with public entities is essential in terms of expediting permits as well as providing access to public funds and tax credit allocations. A Morgan Stanley employee provided 86 hours of service by serving on the Board of the partnership. In addition, other employees provided 65 hours of community development service by participating in a committee. Moreover, MS provided $300 thousand in grants over three years. These services and grants were also considered in the evaluation of the Bank's CD services and qualified investments.

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, MSBNA and affiliate employees participated in qualified service activities, providing nearly 2,300 hours of service to nearly 60 organizations benefiting the AA. In addition to being responsive to the needs of the AA, MSBNA employees and its affiliates provided over 17 thousand hours of service to over 140 qualified organizations outside of the AA.

The Bank and its affiliates strive to develop and maintain partnerships with the organizations. The Bank provided many of the service activities in conjunction with investments, grants and/or CD loans. These investments and CD loans were considered in the evaluation of the Bank's qualified investments and CD lending. 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.

Described below are some of the most significant community development services:

- Throughout the evaluation period, several Morgan Stanley employees served on the board of directors of an organization, whose mission is to revitalize neighborhoods and create affordable housing through partnerships with residents, youth, businesses, and government entities. This organization is part of a national network. In addition, a Morgan Stanley employee donated 40 hours of CD service on the board, as well as the credit and audit committees of a national CDFI affiliated with the network. As a board and committee member, the Morgan Stanley employee uses his expertise to help the organization manage risk and provides oversight and insights on governance and lending best practices.

- Throughout the evaluation period, several Morgan Stanley employees served on the board of directors of a nonprofit corporation, which develops mixed-use projects that incorporate affordable housing and commercial spaces, such as for offices for nonprofits and shops for small businesses. The nonprofit's projects are catalysts for revitalizing the neighborhood and spurring further positive development. In addition, MSBNA provided a $325 thousand predevelopment loan to the entity for the acquisition of a parcel, which sits adjacent to an existing affordable housing/mixed-use project. Loan proceeds will be used to pay for the project development costs for the entity's sixth affordable housing and commercial space project. This development will include approximately 33 residential units affordable for LMI individuals and approximately 1,400 square feet of street level commercial spaces for nonprofits and local small businesses. The loan demonstrates Morgan Stanley's flexibility and leadership.

- Throughout the evaluation period, several Morgan Stanley employees assisted in a needs assessment and strategic planning for a business center, which provides assistance to existing and potential minority entrepreneurs, who are predominately low- or moderate-income individuals seeking to establish or maintain businesses typically in low- or moderate-income areas. This activity helps to promote economic development by providing assistance to small businesses. During the evaluation period, Morgan Stanley also provided $85 thousand in grants to this organization operating in the AA.

- Several Morgan Stanley staff members devoted over 400 hours of CD service to a nonprofit organization to lead an innovative initiative to establish a Transit-Oriented Development ("TOD") Fund for developing affordable housing near transit centers. Morgan Stanley volunteers produced the Business Plan outline, connected the entity with two of the nation's leading TOD-focused CDFIs, and helped establish connections with local municipalities. A Morgan Stanley employee chairs the Task Force working on building the fund structure. During the evaluation period, Morgan Stanley also provided $20 thousand in grants.

- Morgan Stanley staff provided 200 hours working closely with a national CDFI to co-author a white paper, "How Transit Oriented Development Can Help America Get to Work." The paper provides innovative leadership around this critical emerging issue in community development. In addition, a Morgan Stanley employee provided 160 hours of service on the loan committee. Moreover, during the evaluation period, Morgan Stanley provided grants of over $1.7 million. The CDFI was founded in 1984 and is dedicated to serving low-income people and communities.

- A Morgan Stanley employee served on the board of directors and the advisory board for the Salt Lake City Housing Trust Fund, which assists with affordable and special needs housing in Salt Lake City for low-income individuals. Another employee served on the board of the Salt Lake County Housing Trust Fund.

- A Morgan Stanley employee provided significant investment banking and market risk expertise to help a community development trust understand investors' potential concerns regarding interest rate sensitivity in its proposed real estate investment trust ("REIT") structure. Morgan Stanley staff advised the CD trust on ways to manage interest rate risk, which will help the trust attract more capital into its REIT. The CD trust's mission is to preserve or add to the nation's affordable housing stock.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

With respect to this institution, the OCC did not identify evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Further, section 1025 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111- 203) assigns to the Consumer Financial Protection Bureau ("CFPB") exclusive examination authority, and primary enforcement authority, to ensure compliance by banks and FSAs with Federal consumer financial laws, if the bank or FSA has more than $10 billion in assets. The CFPB has not provided the OCC with any information about, or other evidence of, discriminatory or other illegal credit practices relative to this institution with respect to the Federal consumer financial laws.

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, relatively permanent statistical subdivisions of a county delineated by local participants as part of the U.S. Census Bureau's Participant Statistical Areas Program. The primary purpose of CTs is to provide a stable set of geographic units for the presentation of decennial census data. CTs generally have between 1,500 and 8,000 people, with an optimum size of 4,000 people.

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 derived from the United States Census Bureau's American Community Survey data every 5 years and used to determine the income level category of geographies. Also, it is the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level of individuals within a geography. 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 (MD): 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 (MSA): 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 (loss) before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "Pretax Net 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 1h and Total Noninterest Income, line 5m, 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.