



LIMITED PURPOSE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 5, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HSBC Trust Company (Delaware), N.A.
Charter Number: 24601

1201 North Market Street, Suite 10001
Wilmington, Delaware 19801

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 qualified investments and community development (CD) loans. Community development services are adequate.
- The bank demonstrates no use of innovative or complex qualified investments or community development services. However, consideration was given to the bank's very limited staff, which had an impact on its ability for involvement in complex CD investments or services.
- The bank demonstrates excellent responsiveness to community development needs in its assessment area (AA).

Scope of the Examination

This is the bank's first Community Reinvestment Act (CRA) evaluation. In evaluating the bank's performance under the CRA, we reviewed community development activities from November 24, 2006 (date bank was granted full service bank powers and designated a limited purpose institution) through October 5, 2009. We reviewed the level and nature of qualified investments and CD loans and services. At the bank's request, we also considered community development lending provided by its affiliate, HSBC Bank USA, N.A.

If a bank has adequately addressed its 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, CD loans made outside of the AA were considered in evaluating its performance.

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

Description of Institution

HSBC Trust Company (Delaware), N.A. (HTCD), located in Wilmington, Delaware, was originally chartered as a limited purpose national bank to engage only in trust activities by the OCC in 2005, but converted to a full-service, FDIC insured institution on November 24, 2006. Upon conversion, the bank became subject to the CRA and also received a limited purpose designation. In addition to offering trust and securities clearing/custodian services, the bank facilitates the origination and clearing of refund anticipation loans issued through HSBC Taxpayer Financial Services. It does not engage in mortgage or small business/commercial lending and does not accept traditional deposit accounts. The bank has no branches and a staff of only three employees.

As of September 30, 2009, the bank had \$700 million in assets consisting primarily of short term interest bearing bank balances offset by inter-company short term borrowings.

The bank is a subsidiary of HSBC USA Inc., an indirectly-held, wholly-owned subsidiary of HSBC North America Holdings Inc., the holding company for all of HSBC's U.S. and Canadian businesses. The ultimate parent, HSBC Holdings Plc based in London, UK, is ranked as one of the world's largest banking and financial service organizations, with \$2.5 trillion in assets.

Table 1: Financial Information (000s)

	Year-end 2006*	Year-end 2007	Year-end 2008	Most Recent Quarter-end 09/30/2009	Average for Evaluation Period
Tier 1 Capital	50,570	53,405	54,165	52,220**	52,590
Total Income	2,422	20,215	15,799	13,915***	13,088
Net Operating Income	411	9,843	7,760	6,740***	6,189
Total Assets	50,872	62,415	67,143	699,810**	220,060

Source: Consolidated Report of Condition and Income

* Bank commenced operations November 24, 2006 ** Actual *** Annualized

Description of Assessment Area

HTCD's AA consists of New Castle County, Delaware (NCC). The county is part of the Wilmington DE-MD-NJ Metropolitan Division. The AA meets all of the requirements of the CRA Regulation and does not arbitrarily exclude any low- or moderate-income geographies. Based on 2000 US Census Data, NCC is the most densely populated county in Delaware containing 500,265 persons or 64% of the state's population. The City of Wilmington with 72,664 is the largest center of population within NCC.

Table 2 below represents the distribution of the AA's 127 census tracts for families and businesses by income level.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts***	127	7.87%	18.11%	48.03%	25.20%
Families	127,997	18.53%*	17.33%*	23.55%*	40.59%*
Businesses****	43,253	14.60%**	14.36%**	43.36%**	27.57%**

Source: Demographic Data – 2000 U.S. Census, Dun & Bradstreet Data-2009. *Represents families by income level. **Represents businesses by income level of census tract. *** One census tract not income categorized.

**** 0.11% of businesses located in no income designated tract.

There are 10 low-income, 23 moderate-income, 61 middle-income, and 32 upper-income census tracts. All of the low- and eight of the moderate-income tracts are located in the City of Wilmington. The 2009 HUD adjusted median family income for NCC is \$78,900.

Home values in NCC reached their peak in April 2007 when the median sales price was estimated at \$258,000. As of September 2009, the median sales price is approximately \$206,000.

The unemployment rate has spiked to 8.7% in September 2009 as two major automakers suspended operations. The rate is slightly higher than the overall state rate of 8.2%, but below

the national rate of 9.5%. Industries impacted the greatest by the economic downturn include construction, retail trade and professional and business services. The largest employment sector in the AA is retail with 38% of the jobs, followed by services at 17%. Major employers include Christiana Care Health System, E I DuPont de Nemours Co., and Bank of America (formerly MBNA). Although the poverty level of 8% is considered low, there are areas of significant poverty within the City of Wilmington.

The market for CD opportunities in Delaware is very challenging. There are multiple CD investment, loan and service opportunities throughout NCC and the state of Delaware, but the large number of financial institutions subject to CRA results in significant competition to participate in them. Over thirty financial institutions in the bank's AA actively seek out and compete for community reinvestment opportunities, making it a very competitive environment for funding organizations and projects.

Community contacts conducted during the evaluation period have identified ongoing affordable housing and small business needs. Due to the economic downturn, additional challenges exist. Support for borrowers with credit card hardships, foreclosure assistance, affordable rental housing, small business micro loans and alternatives to small, high cost loans are needed.

Conclusions about Performance

Summary

HTCD demonstrates a high level of qualified investments and CD loans in relation to its capacity and the opportunities available considering strong competition in the AA. The level of CD services is adequate. Investments totaling \$3.8 million are centered in mortgage-backed securities (MBS) and statewide housing bonds. Since the bank adequately addressed the CD needs in the AA, consideration was given to CD loans made by an affiliate in several other AAs.

The bank demonstrates excellent responsiveness to credit and CD needs in its AA. The majority of the qualified investments originated during the evaluation period are MBS that are comprised of mortgages made to low- and moderate-income borrowers in the AA. The bank's qualified investments and CD loans outside of the bank's AA primarily target and support affordable housing needs. Several hundred housing units were created by these activities.

None of the bank's community development activities are considered innovative or complex. However, we considered the bank's very limited staff, which had an impact on its ability for involvement in complex CD investments or services. A bank employee provided financial expertise to a local community development corporation that provides services to low- and moderate-income individuals.

Qualified Investments

During the evaluation period, the bank originated three investments and nine grants in its AA as shown in Table 3 below. Two of the investments are MBS comprised of home mortgage loans to low- and moderate-income individuals within the bank's AA. These MBS provided funding for eighteen mortgage loans to low- and moderate-income borrowers. The third investment consists of a Delaware State Housing Authority bond backed by single family mortgages made to/in qualifying borrowers/targeted census tracts with the potential to benefit the AA. There were 20 loans to low- and moderate-income borrowers in this bond.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	3,848
Originated Grants	50
Prior-Period Investments that Remain Outstanding	0
Total Qualified Investments	3,898
Unfunded Commitments*	0

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

The bank's investments are not considered innovative or complex, and are routinely provided by private investors. Investments are responsive to community needs. All of the investments and nearly all of the grants help to meet the critical need for affordable housing. Relative to the bank's capacity and ability, investments represent the following:

Table 4: Qualified Investment Percentages

	Benefit AA (%)
Total Investments/Average Tier 1 Capital	7.41
Total Investments/Average Total Income	29.78

Community Development Lending

HTCD has adequately met needs within the NCC AA through the provision of qualified investments and services. In accordance with provisions of the CRA for limited purpose banks, HTCD has requested and received consideration in this evaluation for CD lending performed by its affiliate in areas outside of the AA. These loans, totaling approximately \$71 million, address significant affordable housing needs primarily in the states of Connecticut, Illinois, Maryland, New Jersey and Florida. CD lending needs in the NCC AA are being addressed by the bank's affiliate, HSBC Bank USA, N.A.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	0	134.72%	134.72%
Total CD Lending/Average Total Income	0	541.34%	541.34%

Community Development Services

As previously noted, the bank employs only three persons. During the evaluation period, one employee served with a local community development corporation helping to prepare income tax returns for low- and moderate-income individuals.

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.

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

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"*]