Testimony of

Richard C. Hartnack
Vice Chairman
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Before the

Subcommittee on Financial Institutions and Consumer Credit

Of the

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Thank you for the opportunity to address this committee. My name is Richard Hartnack and I am the Vice Chairman in charge of consumer and small business banking at U. S. Bank.

Let me first provide my personal background. I was educated at UCLA (BA Economics) and Stanford University Graduate School of Business (MBA with a concentration in Finance). I have been active in the banking industry since 1971, with the exception of the time I was in graduate school. I am a veteran of the Vietnam War and flew 220 combat missions during that conflict as a Captain in the United States Marine Corps.

I have worked for 4 banking institutions—First Interstate Bank from 1971 to 1982, First National Bank of Chicago from 1982 to 1991, Union Bank of California from 1991 to 2005 and U. S. Bank from 2005 until the present.

I have worked in corporate, small business and consumer banking during my career and have personally managed mortgage operations at my employer institutions since the 1980s.

I have personally managed the Community Reinvestment Act compliance program at my employer institutions since 1982 and have consistently received "outstanding" ratings.

I have been actively engaged in both FDIC and open market bank acquisitions since the early 1980s and have personally managed more than 25 acquisition transactions. I executed acquisitions in Chicago during the 1980s and worked with some of the same groups testifying today. I worked with Greenlining and California Reinvestment Committee in California in both my current role with U.S. Bank and previously at Union Bank.

Of equal importance in this testimony is the track record of U.S. Bank and in that regard I would like to provide some information on our bank:

- We are the sixth largest commercial bank in the America with total assets in excess of $265 billion.
- We are headquartered in Minneapolis, Minnesota and operate branches in 24 contiguous states from Ohio to California.
- We serve over 15 million clients and operate over 3,000 branch offices.
- Most observers would agree that we are the highest performing and strongest bank in the country.
    - We scored highest on the government "stress test"
    - *Global Finance* listed us among the World's Safest Banks
    - *Barron's* named us one of the Most Respected Companies
    - *Euromoney* magazine called us the "Best Bank in the United States"
    - *Ponemon Institute* named us the #1 most trusted bank for the 4th straight year.

And, finally, U. S. Bank avoided participating in the mortgage lending practices that precipitated the current economic crisis. This, along with other prudent management practices, has enabled us to be consistently profitable throughout this crisis period, has allowed us to build our capital, grow our revenue, retain our people, avoid lay-offs and to be strong enough to be a competitive bidder for troubled franchises being marketed by the FDIC.

In the following subsections, we have endeavored to specifically address the questions submitted by staff in the formal invitation to these proceedings as well as other questions posed by staff close to this process.

<u>U. S. Bank Involvement in the FBOP/Park National Case</u>

This case developed, from the perspective of U. S. Bank, in the same manner as virtually all cases we have been involved with since 2008.

We had previously registered our interest in reviewing franchise sales with the FDIC. As is typical, our Director of Corporate Development received an email, that presumably was sent simultaneously to other interested parties, informing us that this institution was potentially going to be sold by the FDIC.

The process then proceeds along these lines (all from the perspective of U.S. Bank). We are presented and execute a confidentiality agreement covering the potential transaction. We are given access to a "data room" on a secured web site where a limited number of registered users from our company are able to perform the typical acquisition "due diligence" process. Following that we are granted a limited and tightly controlled opportunity to visit with management of the subject bank. We then perform a valuation exercise that leads to our developing a bid that conforms to the specific bidding conditions on the property in question.

The bid is submitted to the FDIC. Once the final decision is reached by the regulator of record to take control of the failed institution, the FDIC is named receiver and then the receiver completes the sale to the winning bidder.

As additional perspective we have actively engaged in the bidding process on seven occasions. We have declined to bid on numerous other occasions because our investigation suggested that the offered franchise was not a good fit with our organization. We have been the successful bidder on 4 of the 7 occasions on which we bid.

It certainly appears to us that the process is well run, transparent and very business-like in all regards. My personal observation is that it maximizes value and minimizes the losses from the insurance fund. Bidding is competitive and the fact that there are no second chances on these auctions causes all bidders to put their best bid on the table at the first (and only) opportunity.

U.S. Bank Plans for Park National Bank Assets

Simply stated, our objective with regard to the acquired loan assets is to maximize value for our shareholders over the long run. We very much view this process as a long term investment in expanding our franchise by investing in client relationships and the communities served by the acquired branches. We are not after a "fast buck" or a quick trade.

To accomplish this, we try to understand the entire situation surrounding each loan. We want to understand the borrower, the collateral, the original purpose of the loan, the performance of the borrower on the loan and any other relevant facts.

For loans that are current and performing our objective is a smooth conversion to U.S. Bank and then, if appropriate, we try to expand our relationship with the client by exploring other ways we can serve that client—additional loans, deposit and investment products, or by offering the other financial services our firm makes available to our clients.

For loans experiencing difficulty, we attempt to find a mutually satisfactory work out plan that is custom tailored to each client's situation. Tactics used include refinancing, interest rate modifications, payment restructurings, and principal write downs. We work with clients for staged liquidation of collateral to reduce the loan when that is appropriate and possible. Our last choice is always to foreclose on property or to take title to other assets pledged to secure a loan.

Past Involvement with FDIC Seized Institutions

As indicated above, we have been the successful bidder on 3 other institutions---Downey Savings, PFF Bank and First Bank of Idaho. In addition, we purchased the Nevada branches of the former Colonial Bank that were purchased by BB&T and subsequently offered in a spin off transaction. We, in turn, have announced our intention to spin off the Texas banks we acquired in the FBOP transaction. That transaction has not been completed.

We believe we have executed these transactions in an entirely satisfactory manner. We have met all our contractual obligations to the FDIC, we have kept the maximum number of offices open under the circumstances, we have offered as many jobs as possible, including employment opportunities to virtually all customer facing branch employees regardless of the fate of their particular office and we have honored all contractual obligations for charitable giving and have maintained the historic level of giving in the community after the acquisition.

Mortgage Lending, Modifications, Foreclosure, OREO and our role as Trustee

- Mortgage Lending: U.S. Bank is now the 5th largest mortgage lender in the United States. Our company holds $668.4 million in first mortgage loans on our books across the six county Chicagoland area. This represents 4,166 separate loans.
- Delinquency: In Chicagoland, about 4 percent of the mortgage debt is 60 days or more past due.
- Foreclosures: U.S. Bank has 109 loans it owns currently in the process of foreclosure.

- OREO: We currently own 20 properties where foreclosure has been completed and where the properties have not yet sold. We endeavor to assure these properties are properly cared for as this assures the best price at sale and that is directly in the interest of our shareholders.
- Modification: U.S. Bank participates in the HAMP program for loans we own and for loans serviced for FannieMae, FreddieMac and GinnieMae. In addition, we offer the FDIC program that was part of our purchase contract on the Downey and PFF properties. Finally, we have executed several thousand mortgage modifications on loans that we own and service for our own portfolio.
- Trustee Role: A source of confusion is our role as a Trustee for investors who invested in mortgage backed investment vehicles. In the Trustee role we represent the investors by holding the loans or, in the case of foreclosure, the property originally tied to the loans that back the securities the investors bought. In this role, we have no rights or obligations with regard to the borrower or the property. The servicer has the responsibility for all actions related to the borrowers and the properties. In our role as Trustee we are placed in title to the property upon foreclosure to protect the investors, but, again, we have no contractual rights to act in anyway on the property or the original loan or to deal with the borrower.

Community Development Arm of Park National Bank

Park Bank Initiatives is an Illinois non-profit organization focused on community development.

We have not completed our evaluation of all the economic feasibility issues, legal issues, tax issues and organizational issues involved in all the possible options available for managing this entity. However, we have reached some conclusions that are important to know at this stage.

1. The mission of the entity is consistent with our corporate strategy for community involvement and community development within the communities served by our branches.
2. Our corporate objective is to see that the NMTC allocation given Park National is deployed to support economically viable Chicago-based investments in community development as originally intended.
3. We believe it is critical that all involved—U.S.Bank, community groups, local government and the citizens of the communities affected—work together to ensure that the projects are managed by skilled staff with adequate resources, that sufficient working capital and human resources are available, that projects are well designed and broadly supported and that, in the end, all projects are both economically feasible at the outset and successful against a broad set of measures in the long run.

U.S. Bank intends to play an active and very supportive role in helping these development concepts become reality.

Disposition of Acquired Branches

Of the 31 branch offices acquired in the Chicagoland area, 5 will be closed and consolidated into existing U.S. Bank offices. In all cases, the branches are very close to each other (usually on the same street and within sight of each other) so there will be no reduction in service available to the population. In no case will a traditional Park National branch be consolidated into a grocery store office at U.S. Bank. Indeed, the grocery store branch network of U.S. Bank will result in Park National clients gaining 7 day a week, extended hour access to their accounts.

In two cases, U. S. Bank branches will be consolidated into former Park National offices.

All qualified customer facing employees in the branches have already been offered permanent employment with U.S. Bank. In nearly all cases the employment will be at the same branch they have been working at or another one in their neighborhood.

Thank you very much for the opportunity to participate in these proceedings.