

Morgan Stanley

June 30, 2020

VIA E-APPS

Brian S. Steffey
Assistant Vice President, Bank Applications Function
Federal Reserve Bank of New York
33 Liberty Street, New York, NY 10045

Re: Application of Morgan Stanley to Acquire by Merger E*TRADE Financial Corporation – Morgan Stanley Responses to Public Comments Addressing the Community Reinvestment Act

Dear Mr. Steffey:

By this letter Morgan Stanley is responding to certain comments filed in relation to its application (the “**Application**”) requesting approval of the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”) to acquire by merger E*TRADE Financial Corporation (“**E*TRADE**”) with Morgan Stanley as the surviving entity (the “**Proposed Transaction**”). The comment period for the Proposed Transaction has now closed, and Federal Reserve staff have provided to us copies of the 72 comments received.

Of the 72 comment letters received, 71 address the Community Reinvestment Act (“**CRA**”) record and activities of Morgan Stanley, E*TRADE and the proposed combined firm. One addresses competitive issues under the U.S. antitrust laws. In this response we address the comments received with respect to the CRA. In a separate response we address the comments regarding the antitrust laws.

Morgan Stanley’s Commitment to the CRA and the Communities it Serves

We begin by noting that not a single one of the 71 comment letters addressing the subject of the CRA opposes the Proposed Transaction. On the contrary, the comments generally offer support for Morgan Stanley’s merger with E*TRADE and the strong historical CRA performance of each institution. Commenters cite specific examples of Morgan Stanley’s and E*TRADE’s CRA initiatives in support of affordable housing, neighborhood revitalization, low-income families and individuals, small businesses, housing for the homeless, partnerships with community development financial institutions and a range of other programs.

A few commenters also suggest that Morgan Stanley make various commitments or modifications related to its CRA program, including maintaining or increasing contributions to certain community development programs, expanding the scope of certain community development programs, and reconfiguring its CRA program to account for the firm's combined size.¹ Morgan Stanley appreciates these comments and is committed to continuing its unbroken track record of outstanding CRA performance. To that end, and as previously discussed in responses to the Federal Reserve's additional information requests, Morgan Stanley expects to at least maintain E*TRADE's level of CRA grant support for organizations in E*TRADE's current CRA assessment area for at least five years following the closing of the Proposed Transaction.

In the wake of the COVID-19 pandemic Morgan Stanley has continued to make investments through its CRA program and has continued to support communities in need, in particular minority communities that have been substantially affected by COVID-19. For example, on June 29, 2020, Morgan Stanley announced \$10 million in grants to support the National Urban League ("NUL") and expand a number of critical initiatives in communities where the Urban League operates.² These funds will be used to support several economic empowerment initiatives, including financial literacy and homeowner counseling programs and, through NUL's Workforce Development Program, technology programs that focus on expanding broadband access for communities and households that lack high speed internet. In addition, the grants provided by Morgan Stanley will provide infrastructure support for NUL's Urban Empowerment Fund and will support a four-year internship program in NUL's Office of the President.

Similarly, on June 11, 2020, Morgan Stanley committed \$10 million in grants to Minority Depository Institutions, with \$5 million going to Industrial Bank, based in Washington, D.C., and \$5 million going to Citizens Trust Bank, based in Atlanta, to help the banks bolster loan loss reserves and continue to assist minority communities and small businesses that were affected by COVID-19.³ These grants will also assist small

¹ One of these commenters asserts that, following closing of the Proposed Transaction, Morgan Stanley would become the largest bank holding company in the United States, with approximately \$3.2 trillion in total assets. Morgan Stanley respectfully notes that this comment appears to be conflating Morgan Stanley's estimated pro forma amount of client assets (which do not belong to Morgan Stanley and thus are not reflected on its balance sheet) with its total consolidated assets (which belong to Morgan Stanley and thus are reflected on its balance sheet). As discussed in the Application, Morgan Stanley is the sixth largest bank holding company in the United States ranked by total consolidated assets and, upon completion of the Proposed Transaction, would still be the sixth largest bank holding company in the United States by total consolidated assets. Even after the Proposed Transaction, Morgan Stanley's total consolidated assets would amount to approximately only one third of those held by the country's largest bank holding company.

² See Morgan Stanley Press Release, Morgan Stanley Announces \$10 Million To Support National Urban League Collaboration, <https://www.morganstanley.com/press-releases/morgan-stanley-announces-10-million-to-support-national-urban-le>.

³ See Morgan Stanley Press Release, Morgan Stanley Announces \$10 Million To Support Minority Depository Institutions, <https://www.morganstanley.com/press-releases/morgan-stanley-announces--10-million-to-support-minority-deposit>.

businesses that were affected by COVID-19, particularly those that did not receive federal relief loans, and will support additional investments in technology systems to improve delivery of customer, mortgage and business lending services.

Morgan Stanley also announced, on May 20, 2020 that it was investing \$10 million to support the New York Forward Loan Fund, which provides sustainable capital to Community Development Financial Institutions to make low cost recovery loans in communities hard hit by the COVID-19 health and economic crisis.⁴ This investment of \$10 million in the New York Forward Loan Fund is in addition to \$25 million in grants that Morgan Stanley has pledged to support the ongoing relief efforts to the global COVID-19 crisis.

Beyond support intended to mitigate the effects of the COVID-19 crisis, Morgan Stanley has continued to make investments that help expand access to capital for women and minorities. On June 22, 2020 Morgan Stanley announced the launch, in partnership with TruFund Financial Services and the Ford Foundation, of the Impact Developers Fund.⁵ This \$26 million fund, seeded by Morgan Stanley and the Ford Foundation and managed by the Impact Developers Fund, will provide much needed capital to emerging businesses that lack access to adequate affordable capital, including minority- and women-owned real estate development companies. Funds provided by Morgan Stanley will allow these businesses to expand their capacity to build, own and operate quality affordable housing and to provide value-adding social services to enhance residents' quality of life.

Since the announcement of the Proposed Transaction E*TRADE has also continued to invest in the communities it serves. E*TRADE disbursed nearly \$1.7 million in general operating support grants to nearly 50 non-profit partners in April 2020. These grants were provided to support the increased demand for a variety of community services in the community due to the COVID-19 pandemic.

In addition, in response to the racial injustice crisis facing the United States, on June 15, 2020, E*TRADE announced a \$1 million donation, split between the Equal Justice Initiative and the NAACP Legal Defense Fund, to advance social justice and address racial inequality. E*TRADE also pledged \$250,000 in initial funding for the *Belonging in FinTech* E*TRADE scholarship, which will support diverse, emerging talent focused in the areas of financial services and technology.

⁴ See Morgan Stanley Press Release, Morgan Stanley Provides \$10 Million Investment For New York Forward Loan Fund, <https://www.morganstanley.com/press-releases/morgan-stanley-provides--10-million-investment-for-new-york-forw>.

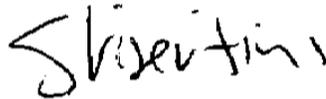
⁵ See Morgan Stanley Press Release, Morgan Stanley, TruFund Financial Services and Ford Foundation Announce Launch of \$26 Million Impact Developers Fund, <https://www.morganstanley.com/press-releases/morgan-stanley--trufund-financial-services-and-ford-foundation-a>.

Morgan Stanley is continuing to engage in discussions with community groups in connection with the Proposed Transaction and looks forward to continuing its, and E*TRADE's, strong record of community development and community investment after the consummation of the Proposed Transaction.

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If you have any questions regarding this letter, please feel free to contact me.

Very truly yours,



Sebastiano Visentini

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