



Comptroller of the Currency
Administrator of National Banks

Wholesale

Public Disclosure

March 31, 2007

Community Reinvestment Act Performance Evaluation

**Mellon Trust of New England, N.A.
Charter Number: 24412**

**One Boston Place
Boston, MA 02108**

**Office of the Comptroller of the Currency
Large Bank Supervision
250 E Street, S.W.
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.

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Institution's CRA rating:

This institution is rated **Outstanding**.

The conclusions for the rating criteria are:

- The bank demonstrates a high level of qualified investment activity, community development lending, and community development services.
- The bank has demonstrated excellent responsiveness to credit and community development needs in its assessment area.
- The bank demonstrates no use of innovative or complex qualified investments, community development loans, or community development services.

Scope of the Examination

In evaluating Mellon Trust of New England, N.A.'s (MTNE) performance under the Community Reinvestment Act (CRA), the OCC reviewed the bank's community development (CD) activities from **January 1, 2003** through **March 31, 2007**. The level and nature of qualified investments, CD lending, and CD services were reviewed. These are collectively called CD activities. The bank also requested consideration of qualified CD activities provided by its affiliates, Mellon Bank Community Development Corporation (MBCDC) and Mellon Ventures, L.P., be considered in the evaluation of the bank's performance. To be eligible, the affiliate activity cannot be claimed for CRA consideration by another Mellon Financial Corporation (MFC) affiliate.

If a bank has adequately addressed the CD needs within its assessment area (AA), the OCC will also consider CD activities of the bank that benefit areas outside of its AA. The bank has adequately addressed the needs of its AA. Therefore, CD activities outside of the AA were considered in evaluating overall CRA performance. At the prior examination dated September 30, 2002, the Federal Reserve Bank of Boston rated the Bank, then known as the Boston Safe Deposit and Trust Company, as Outstanding under the Community Development test for a wholesale bank.

Description of Institution

MTNE, headquartered in Boston, Massachusetts, is a wholly owned subsidiary of MFC, Pittsburgh, Pennsylvania. MFC is a multi-bank financial services holding company with assets of approximately \$41 billion as of December 31, 2006. Other banking subsidiaries of MFC operate in the states of Pennsylvania, New Jersey, Maryland, Delaware, Florida and California. MFC is also a significant provider of domestic and international investment management, trust,

and custody services. Subsequent to the CRA evaluation period of MTNE, MFC merged with The Bank of New York Company.

MTNE had assets of \$7.8 billion as of March 31, 2007. In 2003, MTNE changed to a national bank charter and its current name. The bank is primarily a fiduciary bank offering custody and asset management services. The bank’s core business lines include institutional asset management, securities management and administration, and private banking for high net worth individuals. The majority of the institution’s income is derived from fees related to providing financial asset management services. Since the strategic focus of the bank is not retail in nature, MTNE requested and received approval in 2003 from the OCC to be designated as a wholesale institution for CRA purposes. MTNE has two offices; the main office is located in Boston’s financial district (Suffolk County), and a branch is located in its operation center in Everett (Middlesex County), primarily to serve the center’s employees.

Table 1 provides an overview of MTNE’s financial information. There are no legal constraints impeding the Bank’s ability to meet the community’s credit needs.

Table 1: Financial Information (000s)

	Year-end 2003	Year-end 2004	Year-end 2005	Year-end 2006	3/31/2007	Avg for Evaluation Period
Tier 1 Capital	348,675	379,602	447,289	473,222	498,004	429,358
Total Income	496,821	676,300	905,477	1,196,118	872,512**	829,446
Net Operating Income	85,938	132,063	181,920	233,665	90,624**	144,842
Total Assets	6,219,495	7,060,560	9,361,336	10,234,551	7,821,061	8,139,401

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

MTNE’s income is derived largely from non-interest sources associated with asset management and service businesses. In 2006, MTNE earned 69 percent of total income from non-interest activities. Of the 31 percent earned from interest-related activities, 6 percent was derived from loans and leases. In the bank’s AA, MTNE has an overall deposit market share of 5.7 percent with virtually all of the deposits located in the Boston office. The bank receives strong competition for CD activities from several banks in the AA. Those banks include Citizens Bank, Bank of America, and Sovereign Bank.

Description of Assessment Area

MTNE has identified the Massachusetts counties of the Boston MSA as its assessment area. Those counties are Norfolk, Plymouth, Suffolk, Middlesex and Essex. Based upon the 2000 census, the MSA is divided into 841 census tracts or geographies containing a population of 4,001,752. A majority of the census geographies (69 percent) are considered middle- and upper-income with a majority of the population (72 percent) residing in those geographies. The MSA contains 1,533,041 households encompassing 980,724 families. The total number of housing

units is 1,593,023, of which 58 percent are owner-occupied. The 2006 updated median family income is \$81,029.

Table 2 shows the AA’s census demographics.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	841	8 %	23 %	44%	25 %
Families	980,724	21 %*	18 %*	22 %*	39 %*
Businesses	287,773	7 %**	16 %**	44 %**	33 %**

Source: Demographic Data - 2000 U.S. Census, Dun & Bradstreet Data. *Represents families by income level.

**Represents businesses by income level of census tract.

The state’s economy grew at a 4.7 percent annual rate in first quarter 2007, the fastest pace in nearly seven years. The U.S. economy grew at a lower 0.6 percent rate. Technology and medical products are the main drivers of this growth, which in turn fueled strong job growth. The state averaged 5,000 new jobs a month in the first quarter, accelerating from less than 3,000 a month in 2006.

In recent years, Massachusetts has suffered from a shrinking labor force. Two primary causes are the high cost of housing throughout Massachusetts and that many workers do not have the training needed by employers, particularly in skilled trades. An estimated 120,000 workers left the state between 2003 and the end of 2005 (the most recent years available), contributing to a 1.7% labor-force contraction, the only state showing losses for all three years. As a consequence, finding highly skilled tradesmen has been difficult for Massachusetts employers. There is a strong employer demand for more skilled job training programs. The unemployment rate for the AA was 5.1 percent in 2006. Major employers in the AA include Massachusetts General Hospital, Fidelity Investments, and De Moulas Super Markets, Inc.

Regionally, the median selling price for a single-family home in Greater Boston fell 1.1 percent to \$339,800 for the first quarter 2007. Condominium prices remained level at \$274,000. The affordability of housing in the AA remains well below the national average due to the limited supply of available land.

The Boston Redevelopment Authority and the City’s Department of Neighborhood Development are working together to make government held land available for affordable housing. In addition, to assist individuals needing affordable housing, the City and many community organizations are providing programs in financial education, English as a second language classes, and first-time homebuyer classes.

Statewide in 2006, there were 19,487 foreclosure notices filed by lenders against Massachusetts’s homeowners. Many of these are clustered in minority neighborhoods. It is estimated that approximately 30 percent of state homebuyers in 2006 bought homes with little or no down payment. Due to a rise in foreclosures, many community agencies are in dire need of foreclosure counselors.

Community contacts were reviewed to identify credit needs in the AA. Funding for affordable housing is in critical demand in the entire region. Contacts also noted the need for small loans and funding to support new start-up businesses.

Conclusions About Performance

Summary

MTNE demonstrates a high level of qualified investments, CD loans, and CD services. Qualified investments and grants originated during the evaluation period are significant. These total \$89.1 million and represent 21 percent of Tier I capital. Investments are centered in mortgage-backed securities (MBS) and in affordable housing developments supported by low-income housing tax credits (LIHTC). CD loans, including \$6.9 million made outside of the AA, total \$27 million. The level of CD loans made by the bank is representative of the bank's resources and profile in the assessment area. The competition for CD lending in the assessment area is strong. The bank competes against much larger financial institutions for CD loans. MTNE's personnel are very active in promoting CD services.

The bank demonstrates excellent responsiveness to credit and community development 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 assessment area. The bank's qualified investments, along with CD loans, and CD services primarily target and support affordable housing credit needs. Senior management takes a proactive role in providing CD services throughout the bank's assessment area by occupying leadership roles in numerous community-based organizations involved in addressing identified credit needs in the assessment area.

None of the bank's community development activities are considered innovative or complex.

Qualified Investments

MTNE originated a high level of qualified investments in the Boston MSA during the evaluation period. While the qualified investments were neither innovative nor complex, they are considered to be highly responsive to the need for affordable housing and economic development in the bank's AA. Qualified investments originated during the evaluation period totaled \$86.4 million. A majority (70 percent) of the total qualified investments originated in the evaluation period is in MBS. These are comprised of mortgages made to low- and moderate-income borrowers. Other investments include a \$7 million investment made in LIHTC through the Massachusetts Housing Equity Fund (MHEF). The MHEF is a subsidiary of the Massachusetts Housing Investment Corporation (MHIC), a non-profit corporation created to expand the financing of affordable housing in communities throughout the state by providing equity through the sale of limited partnership interests in projects eligible for low-income housing tax credits. MTNE made grants totaling \$2.7 million during the evaluation period. These grants supported affordable housing, small business development, financial literacy, and other CD services.

CD investments made during the prior evaluation period continue to have a positive effect on addressing credit needs in the AA. They include a \$1.4 million balance in a qualified mutual fund that invests primarily in securities consisting of single-family mortgages to low- or moderate-income individuals and multifamily developments that use LIHTC. Other qualified prior period investments that have a continued benefit to the bank’s AA include a \$4.9 million investment in HUD Section 108 certificate. The proceeds of the bond sales provided community development block grants (CDBG) to local governments for housing and economic development activities in distressed neighborhoods.

Tables 3 and 4 show the level of qualified investments and the corresponding percentages to allocated average Tier 1 Capital and Total Income.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	85,569	888	86,457
Originated Grants	2,644	0	2,644
Prior-Period Investments that Remain Outstanding	7,906	0	7,906
Total Qualified Investments	96,119	888	97,007
Unfunded Commitments*	874	0	874

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

- Investments located inside the delineated AA are contained in the column titled Benefits AA.
- Investments that benefit both the AA and also the broader statewide or regional areas including the AA or have potential to benefit the AA are also contained in the Benefits AA column.
- Investments completely located outside the AA and do not benefit or have the potential to benefit the delineated AA but are located in the greater New England states including Maine, New Hampshire, Vermont, Rhode Island, Connecticut and western Massachusetts are contained in the Outside AA section. These locations are not otherwise represented in the CRA examinations of other Mellon affiliated banks.

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	22.39	0.21	22.59
Total Investments/Average Total Income	11.59	0.11	11.70

Community Development Lending

MTNE originated an adequate level of CD loans during the evaluation period. The bank used statewide and local loan pools that financed affordable housing to address one of the AA’s most severe credit needs. None of the CD loans originated by the bank are considered to be innovative or complex. The Bank provided 138 CD loans during the evaluation period that totaled \$20.1 million. Another \$6.9 million of CD loans were made outside of the AA.

Following are descriptions of some of the more significant CD loans extended during the evaluation period based on responsiveness to CD needs:

The bank, under a line of credit funded 7 loans totaling \$14.8 million to the Massachusetts Housing Partnership Fund (MHP). Advances to MHP are used to finance construction, bridge and permanent mortgage loans for affordable housing developments.

The Boston Community Loan Fund (BCLF), was established as a non-profit that lends funds on a secured basis to community organizations for building community development projects in low-income communities. BCLF is designated as a Community Development Financial Institution (CDFI). Each investment has a 15-year term. MTNE opted to receive credit for its pro-rata share of the funds CD loans originated during the evaluation period. During the current exam period the bank’s pro-rata share of CD loans originated is \$11,861,789.

A line of credit was renewed in February 2005 in the amount of \$100,000 to Reach Out and Read, Inc., a program that promotes literacy as a standard part of pediatric primary care. Based in Somerville, there are more than 1,800 Reach Out and Read programs in all 50 states. The program is conducted in a Difficult Development Area (DDA) as designated by Housing and Urban Development. The program is a community service targeted to low- and moderate-income individuals.

The bank provided a \$874,000 loan commitment to a LIHTC fund that provides affordable housing to low and moderate-income individuals.

Table 5 shows show the level of CD lending and the corresponding percentages to allocated average Tier 1 Capital and Total Income.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	4.68	1.61	6.29
Total CD Lending/Average Total Income	2.42	0.83	3.25

Other Loan Data

In addition to the above CD lending activities, MTNE extended the following credit enhancements that help support CD. Two binding letters of credit in the amount of \$740,000 in support of affordable housing properties developed in Farmington and Berlin, CT, a \$700,000 letter of credit to the Boston YWCA for re-construction of their residence building which includes low-income housing units. The bank also provided \$2.4 million in construction financing to a housing project. Nine of the 30 lots to be developed will be reserved for affordable housing for low or moderate income households.

Community Development Services

The bank has provided a high level of CD services that shows excellent responsiveness to the credit needs of the community. MTNE staff provided professional assistance to community-based organizations involved in the development of affordable housing. In addition, the bank has continued to provide support by holding leadership positions in numerous organizations involved in community services such as assistance for the homeless. Bank employees also provide financial expertise to a number of nonprofit community-based organizations through membership on their boards of directors and direct participation in community development services. The following highlights some of the many community development services performed by MTNE employees:

- MTNE sponsored 47 financial planning workshops in partnership with Massachusetts Affordable Housing Alliance (MAHA). Bank employees took an active role in providing financial training to the workshop participants. A bank officer serves on the board of directors of MAHA and is involved in various affordable housing initiatives.
- The bank provides internships for low- or moderate-income students through the Private Industry Council (PIC) High School Internship Program. The program provides training in various segments of the business environment for students of the predominately low- and moderate-income Boston Public Schools. The program aims to enable students to learn skills and gain a better understanding of workplace norms needed in today's business world. In return, employers play a significant role in developing a workforce that will have the experience necessary to meet the demands of a changing economy. During the evaluation period, more than 100 high school students have participated in the PIC Program in various departments at MTNE. Each student is assigned a mentor and the program stresses meetings between interns and both their supervisor and mentor to provide feedback on performance. In addition to their work assignments, the interns attend workshops covering topics that include business etiquette, presentation skills and investment basics.
- A bank officer serves on the board of directors for a daytime shelter for homeless women. The bank employee provides oversight for financial planning.
- A bank officer serves on the board of directors of an organization that promotes affordable housing, programs for disadvantaged youth, senior citizen housing programs and supports homeless programs and shelters. The bank officer serves as chairman of the finance committee.

- A bank officer serves on the loan committee for the BCLF. The BCLF provides loans for sustainable investments that create affordable housing and jobs and services for low-income or disadvantaged people and communities.

Fair Lending 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 benefits a 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.

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 or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

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

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

Metropolitan Statistical Area (MSA) – Area defined by the director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

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.

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income.

Total Income – From the Consolidated Report of Condition and Income – Total Interest income plus Total 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.