

PUBLIC DISCLOSURE

September 30, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Boston Safe Deposit and Trust Company
RSSD # 44602

One Boston Place
Boston, Massachusetts 02108

Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts 02106

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.

TABLE OF CONTENTS

I.	Institution Rating	1
	a) Description of Institution	1
	b) Description of Assessment Area	2
	c) Conclusions with Respect to Performance.....	3
	1. Level of Activity.....	3
	2. Innovative Activities	12
	3. Responsiveness to Community	14
	d) Compliance with Nondiscrimination Laws	15
II.	Appendix	
	A. Appendix A - Scope of Examination	A-1
	B. Appendix B – Definitions	B-1

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Boston Safe Deposit and Trust Company (BSDT) has an outstanding record of helping to meet the community development and credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Conclusions about BSDT's CRA performance are based on the following:

- The bank has demonstrated a high level of community development loans and qualified investments. The level of community development services was found to be good.
- The bank has demonstrated excellent responsiveness to credit and community development needs in its assessment area.
- The bank exhibited occasional use of innovative or complex loans, qualified investments and community development services.

Scope

BSDT's performance was evaluated using the "Community Reinvestment Act Examination Procedures for Limited Purpose and Wholesale Institutions", as issued by the Federal Financial Institutions Examinations Council. These procedures assess the bank's efforts in meeting local community development needs through its participation in community development loans, qualified investments and community development services. BSDT's level of community development was measured by comparing current activities to the levels of activity reported during the last CRA examination conducted by the Federal Reserve Bank of Boston as of October 30, 2000. At the prior examination, the bank was rated outstanding on its CRA performance.

DESCRIPTION OF INSTITUTION:

BSDT, headquartered in Boston, Massachusetts, is a wholly owned subsidiary of Mellon Financial Corporation (MFC), Pittsburgh, Pennsylvania. MFC is an approved financial holding company with assets of approximately \$34 billion as of June 30, 2002. Its lead bank, Mellon Bank, NA, is the principal provider of traditional corporate/business services which include specialized operating entities such as Dreyfus and Founders Mutual Funds, Dreyfus Brokerage Services and a number of specialized investment boutiques. In December 2001, MFC sold its consumer, small business and certain middle market banking operations to Citizens Financial Group. The sale included over \$6 billion in loans and \$13 billion in deposits.

As of June 30, 2002, BSDT had assets of \$6.1 billion. The institution is primarily a fiduciary bank offering custody and asset management services. Its 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 institution is not retail in nature, BSDT is designated as a wholesale institution for CRA purposes. BSDT maintains only two offices; the main office is located in Boston's financial district, and the second branch is located in its operation center in Everett, primarily to serve the center's employees. BSDT has ten nonbank subsidiaries that exist either to serve its asset management and fiduciary business lines or for holding/tax purposes.

Until recently, BSDT's lending activities consisted primarily of jumbo mortgages and affordable housing loan products. However, with the sale of MFC's retail operations, BSDT discontinued its affordable housing program in December 2001. The last loan closed under this program was in February 2002. In addition, BSDT has scaled back its jumbo mortgage originations, decreasing its jumbo portfolio from \$2 billion in June 2001 to \$224 million as of June 30, 2002.

Overall, BSDT's community development loans and qualified investments totaled \$68,079,001 during the examination period. This represented 1.1 percent of total assets (\$6.1 billion) and 19 percent of average Tier One equity capital¹ as of June 30, 2002. Based on the institution's asset size and financial condition, the bank is able to meet the needs of its community.

DESCRIPTION OF ASSESSMENT AREA

BSDT's assessment area consists of Boston and six surrounding cities, all within the Boston MSA. In addition to Boston, these cities included in the assessment area are Cambridge, Everett, Malden, Medford, Somerville, and Chelsea.

According to the 1990 US Census Data, the seven communities within the institution's assessment area have a combined population of 921,997. This represents approximately 29.0 percent of the Boston Metropolitan Statistical Area (MSA) population. The majority of the census tracts in the assessment area are either low-or moderate-income tracts. Within the assessment area's 248 census tracts, 41 (17.0 percent) are low-income and 107 (43.2 percent) are moderate-income. The 75 middle-income and 19 upper-income tracts represent 30.2 percent and 7.7 percent, respectively, of the total tracts. The remaining six tracts (2.4 percent) are designated as NA and contain no households or family income. Most of the area's population (46 percent) resides in the moderate-income tracts. Middle-income tracts contain 35.0 percent of the population. Low-income tracts hold 12.0 percent of the population and upper-income tracts hold the remaining 7.0 percent.

Based on estimated HUD data that is adjusted annually, the adjusted median family income for the Boston MSA is \$74,200 for 2002 and \$70,000 for 2001. Median family income figures are used to measure the percent of families across the four income categories of low, moderate, middle, or upper-income. The categories are defined as follows: low-income—less than 50 percent of median; moderate-income—50 percent to less than 80 percent of median; middle-income—80 percent to less than 120 percent of median; and upper-income—120 percent or more of median income. Based on 1990 census data, a majority (53.2 percent) of the families in the assessment area are low- or moderate-income. Approximately 12.2 percent of families in the assessment area are characterized as having incomes below the poverty level.

The housing available to families in the assessment area is primarily rental and is comprised of 1-4 family dwellings. Of the total 397,485 housing units in the assessment area, 244,202 (61.4 percent) are occupied rental units, followed by 122,817 (30.9 percent) owner-occupied units, and 30,466 (7.7 percent) vacant units. Of the total number of housing units, 60.0 percent are 1-4 family and 38.7 percent are multifamily. Much of the area's housing stock is old and was built prior to 1940.

¹ **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"*]

Within the assessment area, the median housing value of \$165,314 is lower than the MSA value of \$184,019, but slightly above the statewide figure of \$162,213. These statistics indicate that housing in the assessment area consists primarily of older and expensive rental units. It should be noted that these statistics are based on 1990 housing data. Recent housing statistics indicate that Boston's median sales price has increased significantly since the previous examination. From October 31, 2000 through June 30, 2002, the median sales price for the City of Boston has risen from \$304,900 to \$375,000, a 23 percent increase. Similar trends were noted within the other cities and towns within the bank's assessment area.

A community contact interviewed during the examination stressed that affordable housing within Greater Boston still remains the key concern due to the increasing housing costs during the past several years. In support of this observation, an October 2000 housing study conducted by the Governor's Executive Office for Administration and Finance indicated that a main contributing factor to the high cost of housing in Massachusetts is that the level of housing production trails national rates. The state produces only about one-third of the per capita rate of multifamily housing than the nation as a whole. Multifamily housing is an important factor in creating lower cost housing. The study pointed out that although Massachusetts subsidizes more housing units than many states, the private sector produces less housing than other parts of the country.

CONCLUSIONS WITH RESPECT TO PERFORMANCE:

LEVEL OF ACTIVITY

Community Development Lending

BSDT has maintained a high level of community development lending in relation to its asset size and resource constraints. During the review period, BSDT's community development lending totaled \$31,315,068. The bank has been actively involved in providing loans to or through community development and non-profit organizations that facilitate affordable housing and providing community services targeted to low- and moderate-income individuals. These organizations include the Massachusetts Housing Partnership and the Boston Community Loan Fund. During the review period, BSDT also administered its own affordable mortgage program. This program included counseling sessions, bi-lingual assistance throughout the mortgage process and flexible underwriting terms. As noted in the performance context, BSDT discontinued this program - the last loan closed under this program in February 2002. The institution was given credit for the 14-month period in which this program was active.

Massachusetts Housing Partnership Fund (MHP)

As part of a Massachusetts State Law requirement, in conjunction with Mellon Financial Corporation's purchase of BSDT, Mellon was required to commit \$74 million over a 10-year period to the Massachusetts Housing Partnership (MHP). MHP uses these funds for construction and bridge financing and for permanent mortgage loans on affordable housing projects in Massachusetts. During the current examination period, Mellon advanced \$20,844,300 toward the original commitment. As of September 30, 2002, Mellon had advanced a total of \$56,741,102 toward the agreed \$74,000,000 commitment. This commitment, which was extended on May 14, 1993, will expire in 2003.

Advances during the examination period were used to fund the following projects:

- Auburn Court Phase II – In April 2000, the bank advanced \$5,264,300 for this project, located in Cambridge, Massachusetts under MHP’s permanent rental program. This program provides long-term fixed-rate financing for affordable rental properties of five units or more. The funds provide for construction of 60 mixed-income units, with 30 units at 60 percent or less than the area’s median income. The bank agreed to increase the set-aside agreement by \$2.3 million in order to facilitate this transaction. These set-aside funds are loaned at lower rates than prescribed in the original loan agreement, thereby enabling MHP to offer end loans for projects at reduced interest rates.
- Massachusetts Housing Investment Corporation (MHIC) – In March 2001, the bank approved a \$7,000,000 revolving line of credit to MHIC. Under the agreement, all advances from this line must be used for the financing of affordable housing activities that benefit low - and moderate-income households. Refer to the “responsiveness to community” section for more details.
- Mishawum Park Apartments – In June 2002, Mellon advanced \$8,580,000 for this project, which is located in Charlestown, Massachusetts under the permanent rental program. The project will consist of a twenty-building complex containing 337 residential housing units, 7 commercial units and 2 parking lots. A total of 273 of the units will be for tenants earning no more than 60 percent of the area median income.

Boston Community Loan Fund (BCLF)

The BCLF was established as a non-profit in 1985 to provide equity and subordinated debt financing to small businesses that promote economic development and that revitalize or stabilize low -and moderate-income neighborhoods in Massachusetts. As of the prior exam, BSDT had \$700,000 invested in the Boston Community Loan Fund (BCLF), which was designated as a Community Development Financial Institution (CDFI) in 1997. During the review period, the bank invested an additional \$500,000 to bring their capital contribution to this fund to \$1,200,000.

BSDT’s investment represented between 10.9 percent and 14.3 percent of the fund’s permanent capital at various intervals during the examination period. According to the CRA regulations, an institution may receive consideration for its pro-rata share of the organization’s community development loans. BSDT opted to receive credit for BCLF’s loans as an alternative to the amount of its qualified investment. During the review period, BCLF granted 136 loans totaling \$35,976,413 to various community development organizations, the majority of which are located in the bank’s assessment area. The bank’s pro rata share of the fund’s overall lending is \$4,487,117.

Business Loan and Equity Fund (BLEF)

In 1993 Congress instituted a pilot program to provide tax credits to CDCs. The Urban Edge Housing Corporation, a Massachusetts CDC, was one of the 20 CDCs nationwide designated to receive \$2 million in tax credits. Urban Edge established the Business Loan and Equity Fund for promoting employment and business opportunities for individuals who reside in target areas designated as Empowerment Zones. Urban Edge is the lead CDC and administrator of funds in the BLEF, which is comprised of seven local CDCs. The BLEF targeted a seven square mile area that encompasses 88.0 percent of the areas included in the Boston Empowerment Zone.

In 1995, BSDT provided a \$200,000 secured loan to Urban Edge in exchange for tax credits. In 1996, the bank converted the loan to a grant. BSDT's \$200,000 investment comprises a 10.0 percent interest in the total \$2,000,000 contributed to the BLEF by other local institutions. In lieu of its investment, BSDT takes credit for its pro rata share of Urban Edge's total loans. During the review period, the fund extended eight loans totaling \$1.4 million of which BSDT's pro rata share is \$141,000.

Affordable Housing Programs

BSDT takes a proactive approach to addressing housing needs within its assessment area. During the review period, the institution extended affordable mortgage loans to low- and moderate-income borrowers under two programs: the Community Loan Program (CLP) and the Soft Second program. The CLP provides mortgage loans to first time homebuyers. The program features downpayment assistance and a waiver of some closing costs. Prior to obtaining a mortgage under this program, the borrower must complete a bank-approved homebuyer workshop. The Soft Second program allows a buyer to obtain a first mortgage loan up to 75.0 percent of the purchase price and a second mortgage up to 20.0 percent of the purchase price. Payments on the second mortgage are interest only for the first ten years. Borrowers may qualify for downpayment assistance through the City of Boston. The interest rate charged under this program is below the market rate. Additionally, no private mortgage insurance is required.

As noted earlier in this section, BSDT discontinued this mortgage program in December 2001. Between November 2000 and February 2002, BSDT originated 41 loans under the CLP and Soft Second programs with a total dollar amount of \$5,803,051. The majority of loans were originated under the Soft Second program, with these loans comprising 88 percent (36 loans) of total originations. Of the 41 loans, 37 loans totaling \$5,310,651 were extended to low- and moderate-income borrowers and qualify as community development loans.

Massachusetts Business Development Corporation (MBDC)

In November 2001, the bank extended a \$234,000 standby letter of credit to this organization. The MBDC, a private, for-profit Boston based company funded by 35 Massachusetts financial institutions, provides financing for Massachusetts-based small businesses. Qualified borrowers typically include minority and women-owned businesses, nonprofit and community development organizations and businesses that demonstrate that their operations have a direct positive impact on economically disadvantaged areas.

Other CD lending

Two community development loans totaling \$298,000 were granted to a non-profit day care center through the bank's affiliate, Mellon Bank, N.A. This non-profit organization, located in Roxbury, provides day care services to low- and moderate-income individuals.

Qualified Investments

Since the prior examination, BSDT has demonstrated a strong level of qualified investments in organizations that meet a range of community development needs, particularly for the low- and moderate-income residents of its assessment area. The bank's qualified investments during the review period total \$36,763,933. Approximately \$25 million of this total is new investments or advances on previous investments not fully funded. The remaining balance represents the book

value of fully funded investments still on the bank's books. Detailed below are the bank's qualified investments considered during the review period.

Massachusetts Housing Equity Fund (MHEF)

The Massachusetts Housing Investment Corporation (MHIC) is a non-profit corporation created in 1990 by institutions in Massachusetts to help expand the financing of affordable housing in low- and moderate-income communities throughout the state. Part of the project financing is derived through the sale of limited partnership interests in projects eligible for low income housing tax credits. The equity investments are made through the Massachusetts Housing Equity Fund under Massachusetts Housing Equity Fund Inc. (MHEF), an MHIC subsidiary. MHEF is the general partner, and individual financial institutions in Massachusetts serve as limited partners. Each limited partner purchases investment units in the partnership and enters into an installment agreement obligating the limited partner to pay the unit commitment to the partnership over an eight-year period. In return, the partnership invests the funds in various low-income housing improvement projects to derive tax benefits for the partners. Each year a new partnership fund is created and the institution obligates itself to a new commitment amount payable over a seven to eight-year period.

Through participation in this fund, the institution has specified that its investments be limited to partnerships whose investments will be targeted to the Boston metropolitan area. There are circumstances, however, whereby BSDT participates in projects that are located outside its assessment area. A total of seven of the ten projects in the MHEF 2000 are located within the bank's assessment area. The remaining three are within Massachusetts. As stated in the CRA regulations, a wholesale institution may consider community development activities wherever they are located, as long as the institution has otherwise adequately addressed the credit needs within its assessment area. Since BSDT has adequately addressed local credit needs, all projects are included in this analysis.

The following table shows the number of partnership units purchased by BSDT for each fund year and the institution's share of the overall fund.

Partnership Fund	Number of Partnership Units Purchased	Partnership Fund Share
1994	2.0	8.4 %
1995	1.4	6.0%
1996	2.0	6.7%
1997	1.4	4.2%
1998	1.0	2.5%
1999	1.0	2.9%
2000	1.0	2.1%

Prior Years' Projects: Advances

The following is a breakdown of the total advances on prior commitments extended during the current examination period, November 1, 2000 through September 30, 2002. Advances for this time period totaled \$2,795,762.

MHEF 1993-1994 LP (Advances: \$708,900)

In 1994, the institution committed \$2,875,600 to MHEF '93 -' 94. During the review period, the institution advanced \$708,900. To date, the total amount advanced toward the original commitment is \$2,833,006.

MHEF 1995 LP (Advances: \$492,958)

BSDT committed \$2,000,000 to MHEF '95. During the review period, the institution advanced an additional \$492,958. The total amount advanced to date toward the original commitment is \$1,753,522.

MHEF 1996 LP (Advances: \$720,000)

The MHEF '96 received a \$2,840,000 commitment from the institution. BDST made two advances totaling \$720,000 during the review period. The total amount advanced toward the original commitment is \$2,060,000.

MHEF 1997 LP (Advances: \$450,704)

BSDT committed \$2,000,000 to MHEF '97. BSDT made two advances in 2001 and 2002 totaling \$450,704. To date, the total amount advanced is \$992,958.

MHEF 1998 LP (Advances: \$290,000)

The MHEF '98 received a \$1,420,000 commitment from BSDT in July 1998. Two advances in 2001 and 2002 were made totaling \$290,000. Advances towards this commitment total \$995,000.

MHEF 1999 LP (Advances: \$133,200)

BSDT committed \$1,420,000 to MHEF '99 in September 1999. The bank funded \$20,000 of its commitment upon admission to the fund. The bank advanced \$63,200 of its commitment in 2001 and \$70,000 of its commitment in June of 2002. Advances towards this commitment total \$153,200.

Review Period: Commitments and Advances

The following reflects new commitments and advances on those commitments during the review period. These commitments total \$1,020,000. Advances made on these commitments total \$728,806.

MHEF 2000 LP Commitment \$1,020,000 (Advances: \$728,806)

BSDT committed \$1,020,000 to MHEF '00 in February 2001. In 2001, the bank advanced \$620,713 of its commitment and made two advances totaling \$108,093 in 2002. Advances toward this commitment total \$728,806.

The following tables reflect the limited partnership projects identified for each partnership year and the number of affordable housing units anticipated for each project.

MHEF 2000 Pool Limited Partnerships			
Project / Location	Total # Units	Total # Affordable Housing Units	In/Out of Assessment area
Crocker Cutlery	48	48	Out
Northeast Apartments	69	69	Out
Pondview Apartments	60	56	In
Wardman Apartments	88	84	In
Viviendas Apartments	181	168	In
48-60 Middlesex Street	24	24	Out
Squirrel Brand Apartments	20	20	In
South End Apartments	28	27	In
Clara Mohammed Apartments	25	25	In
Cambridge Hope VI	69	69	In
Totals	612	590	

Mortgage-Backed Securities

During the review period, the bank purchased 20 mortgage-backed securities totaling \$20,306,931. The securities have face amounts ranging between \$149,700 and \$3,925,725. These bonds are secured by loans to borrowers with incomes below 80 percent of the MSA median income. Approximately 20 percent of loans securing these instruments originated within the bank's assessment area, and 90 percent were originated within the Boston MSA, which includes the bank's assessment area.

Community Revitalization Fund

In December 1999, BSDT (through its affiliate Mellon Bank Community Development Corporation) agreed to invest \$1,500,000 in the JER Hudson TCB Community Revitalization Fund I LP (Fund). The Fund is a low-income housing tax credit fund that targets affordable multi-family housing projects located in New England, New York, and Pennsylvania. Tax credits provide a dollar-for-dollar reduction against federal income liabilities to partners of qualified low-income housing projects. The Fund's General Partner, Community Revitalization GP LLC, was formed by a combination of the Fund's two sponsors, JER Hudson Housing Capital and The Community Builders Inc. (TCB). In 2002, BSDT committed an additional \$271,235 to this fund. A total of \$212,000 (BSDT's 50 percent share) was advanced to this fund during the review period.

Corporate Grants

BSDT's qualified investments include corporate grants to various organizations in the Boston area meeting the definition of community development. Most of the organizations provide community services as defined by the regulation. Such qualifying services include community-based childcare, health care, education, and social services. During the review period the institution provided corporate grants totaling \$571,573 to these types of organizations.

Seminar Sponsorships

During the review period, BSDT contracted to sponsor various home-buying and credit counseling seminars conducted by various non-profit organizations such as Massachusetts Affordable Housing Alliance, Neighborhood Assistance Corporation of America, Chelsea Restoration Corporation, Allston-Brighton CDC, Urban Edge, and City Life/Vida Urbana. These programs are targeted to low- and moderate-income individuals seeking access to various lending programs, including the institution's soft second and community loan products. During the review period the institution extended \$266,750 in sponsorship funds.

In-Kind Donations

BSDT provided in-kind grants of office furniture, donations of meeting space, and graphics and printing services to local non-profit organizations serving low- and moderate-income persons. During the review period, the institution's in-kind donations totaled \$10,950

Prior Commitments: Fully Funded

The following reflect the qualified investments fully funded by BSDT prior to the examination period and carried on the institution's books during the review period. The current book value of these investments is \$4,708,858.

Equity Limited Partnerships

Equity Investment Project	Closing Date	Fully Funded Commitment (\$)	Current Book Value (\$)
VBC Housing LP	5/90	1,680,000	406,898
Tax Credits LP	6/90	548,750	100,289
CCBA LP (Waterford)	6/91	400,000	107,724
Stony Brook Gardens LP	3/92	1,635,802	509,289
Hyde Square LP	5/92	1,136,500	369,080
Cortes Street LP	8/92	455,000	153,974
Parkview LP	9/92	362,750	124,525
Winston Lucerne LP	2/93	1,096,000	407,467
Alexander Magnolia LP	4/93	972,441	372,487
Prang Estate Assoc. LP	4/93	702,000	264,752
Walter J. Martin, SJ LP	4/93	945,302	364,726
Oak Terrace LP	10/93	1,930,000	826,509
Building 104 LP	12/93	1,602,500	701,138
Total Comm. / Book Value		13,467,045	4,708,858

HUD Section 108 Certificate

In June 1999, the bank purchased a \$5,000,000 U.S. Department of Housing and Urban Development (HUD) Section 108 certificate. Section 108 is the loan guarantee provision of HUD's Community Development Block Grant (CDBG) program. With the sale of these

certificates, HUD provides annual formula-based community development block grants to communities with populations of 50,000 or more and urban counties of 200,000 or more. Grants may be used for projects including economic development, housing rehabilitation, public facilities, and large-scale physical development projects. The most recent data available (2001) indicate that approximately 40 percent of the block grants distributed in Massachusetts were to communities that comprise the bank's assessment area. The book value of this investment is \$4,840,166 as of September 30, 2002.

Mortgage Backed Securities

During the previous examination, the bank purchased mortgage-backed securities totaling approximately \$9 million. The book value of this investment currently stands at \$2,222,137.

Boston Bank of Commerce

Each year during the review period BSDT continued to maintain \$100,000 in deposits in the Boston Bank of Commerce (BBOC). This investment was in the form of two - \$50,000 certificates of deposit. BBOC is a minority run institution designated as a Community Development Financial Institution (CDFI) serving the needs of primarily low- and moderate-income neighborhoods in Boston.

Community Development Services

Community development services are defined as activities in which the institution, or its staff, provides services or technical expertise with a primary purpose of community development. BSDT has maintained a good level of involvement in community development service activities since the last examination, especially in light of resources available. The institution accomplishes this by continuing to conduct or sponsor credit education and home ownership seminars, donating meeting space, and lending the financial expertise of its executives to various non-profit and community development-related boards and or committees. In addition, bank staff provide valuable financial or technical expertise in partnering with organizations through its Charitable Trust Grants program. Some of these programs are discussed in detail under the "Innovative Activities" section.

Seminars

As noted in the investment test, BSDT sponsored a number of homebuyer education seminars and classes during the review period. These seminars are co-sponsored through non-profit agencies to educate the community about household budgeting, maintaining a good credit history, obtaining a mortgage, the responsibilities of home ownership, and post-purchase assistance for buyers of multi-family housing. Presentations at these seminars are made by real estate brokers, home inspectors, closing attorneys, credit counselors, and mortgage originators. Either institution personnel or the community organizations under contract by the institution conduct the workshops.

During the review period the institution co-sponsored 145 multi-session seminars that resulted in over 800 graduates. A bank representative also made presentations at 18 homebuyer workshops outside of these contracted seminars during the review period.

Technical Expertise

In addition to participating in educational seminars during the review period, the institution's officers and employees held positions on boards or committees of organizations with a primary purpose of community development. The officers represented the institution and provide financial expertise to various organizations. The following are examples of positions held during the review period.

A Senior Vice President and Community Development Manager serves as a board member and investment committee member of the Massachusetts Housing Investment Corporation (MHIC). This organization was formed to provide financing and investments in affordable rental housing.

A Senior Vice President serves as director and Finance Committee member for the Ellis Memorial and Eldredge Settlement House. This organization provides social services to low-income families in the South End of Boston. Services include affordable childcare, adult daycare and health programs.

A First Vice President serves as a board member, Treasurer and Executive Committee Member for Project Place. This organization is a community-based human services agency that promotes social and economic self-sufficiency by providing a continuum of educational, employment and support services for homeless and low-income individuals.

A Vice President serves as a board member of the RFK Children's Action Corps. This is a non-profit child welfare agency providing education and treatment for troubled children.

The Vice President/Community Investment Officer serves on the Advisory Board for the Women's Institute for Housing and Economic Development, is a board member of the Massachusetts Community and Banking Council (MCBC), and board member and development committee member of the Federated Dorchester Neighborhood Houses. This officer also serves as a board member and Development Committee member of the Ricanne Hadrian Initiative for Community Organization (RHICO) and the Sear's Foundation. This officer also served as a board member of the Boston Adult Literacy Fund during the review period.

Other bank officers and employees lend financial expertise by serving on the boards or committees of various non-profit organizations including the YMCA of Boston, headquartered in Boston's South End; Citizens Schools, Inc.; Greater Boston Food Bank; Jobs for Youth; Boston Private Industry Council; Morgan Memorial Goodwill Industries; Friends of Boston's Homeless; Immigrant Learning Center; Jane Doe, Inc.; Columbia Point Community Partnership; Project Hope; Reach out and Read; Community Resources for Justice; and the Pine Street Inn.

Discretionary Charitable Trusts

BSDT also provides financial expertise in directing trust fund monies to various organizations and programs throughout the greater Boston area. Through the management of individual trust fund accounts, the institution has discretion to donate monies to different organizations. Recognizing its responsibility to the community, the institution chooses to direct funds to organizations that serve its community, many of which are oriented toward community development. During the review period, the institution distributed 50 grants totaling approximately \$2 million to agencies serving affordable housing and community welfare needs.

Banking Services

BSDT participates in the Massachusetts Community and Banking Council's welfare check cashing program and "Basic Banking for Massachusetts" program. The latter program features reduced account fees and lower minimum balance requirements on savings and checking accounts, and is targeted to low- and moderate-income persons.

Donations of Space

BSDT regularly donates meeting space in its headquarters to the local community organizations such as the Committee to End Elder Homelessness, Dimmock Community Health, The Reach Out and Read Program and The Private Industry Council.

Other Community Development Services

Mellon Financial Markets, LLC (MFM), an affiliate organization under Mellon Financial Corporation, is serving as the underwriter in connection with the \$15,195,000 Human Service Provider Revenue Bonds for the Seven Hills Foundation and Affiliates Issue, Series 2002. MFC is responsible for finding a ready market for these bonds and delivering the necessary sale proceeds to fund refinancing of certain mortgages and the acquisition, construction and renovation of new facilities. The Seven Hills organizations provide comprehensive services for persons with developmental disabilities and their family members throughout Massachusetts. This organization, the service area for which includes eleven counties in Massachusetts, has developed over 75 programs that serve 1,500 to 2,000 clients per day.

INNOVATIVE ACTIVITIES

A review of a wholesale institution includes consideration of the degree of innovation or complexity across the institution's community development activities. Innovative or complex activities serve low- and moderate-income persons in new ways or feature enhancements specifically designed to expand community development. During the review period, the bank made occasional use of innovative CD lending, investment, and service activities. The following initiatives were considered to be innovative activities during this examination.

Lending

Affordable Mortgage Program

As a wholesale institution required to meet community development needs, BSDT has chosen to take a proactive approach to meet the needs for affordable housing by maintaining its own lending program. During the review period, the bank employed an originator solely to handle mortgage loans to low- and moderate-income persons and to conduct homebuyer seminars. Direct contact with the community serves to ensure that applicants understand the mortgage process and the responsibilities associated with homeownership. Although this program was discontinued in December 2001, these loans still comprise approximately 16 percent of the bank's overall community development loan activity. Given BSDT's wholesale business structure, this program is considered innovative since this type of program is most common in retail institutions.

Investments – (Grants)

Project Hope

The bank provides lead support for this organization's *Mellon Women of Strength Program*, an economic development fund for homeless women and children. This innovative program provides funding to alleviate some of the barriers to achieving self-sufficiency, including education, childcare and peer support.

Services – (Charitable Trust Funds)

Allston-Brighton CDC – Asset Building Program

During the prior examination period, the bank received innovative credit for being one of the first Greater Boston institutions, in conjunction with the Allston Brighton Community Development Corporation (ABCDC), to develop an Individual Development Account (IDA) Program. The ABCDC develops and preserves affordable housing; generates employment opportunities; and enhances the cultural diversity of the Allston Brighton neighborhoods. The IDA program is an asset-building program in which low- and moderate-income participants are required to save \$50 per month in a homebuying fund. Boston Safe's original grant (charitable trust grant) represented a one-year of match dollars and two years of administrative support.

During the current review period, the bank worked with ABCDC to develop a higher education/job training IDA program that allows participants to identify, prepare for, and meet higher education goals or to enroll in advanced job training.

Mellon City ACCESS (MCA)

MCA is a cultural access program established by the Mellon Charitable Trust Program. Its primary goal is to provide underprivileged residents of Boston with access to the city's leading cultural institutions. The program was reengineered during the review period to provide inner city teens with better opportunities for future development and initiate stronger partnerships with local community-based organizations committed to working collaboratively to empower young people. A partnership was developed with six area organizations: Artists for Humanity, Boston Nature Center, The Children's Museum, The Food Project, Malden YMCA and Metro Lacrosse.

The program sponsors 34 inner-city youth, called "Teen Ambassadors", to serve as apprentices at these organizations. Along with funding employment, the program will provide five of the youths with \$5,000 scholarships for higher education upon completion of the program.

National Braille Press and Reach out and Read

In 1995, the bank became Reach out and Read's (ROR) first corporate sponsor. This program integrates literacy development into regular pediatric visits (local medical centers) for children between the ages of six months and six years. ROR identifies its sites by government guidelines for low- and moderate-income geographies. In 1999, the bank was instrumental in bringing together ROR and National Braille Press, using the ROR model to distribute Braille books to encourage literacy among vision-impaired youth.

RESPONSIVENESS TO CREDIT AND COMMUNITY DEVELOPMENT NEEDS

As evidenced by the bank's high level of community development activity, Boston Safe demonstrates a high degree of responsiveness and clear commitment to its community by addressing the most pressing needs of affordable housing and community services. A community contact identified affordable housing as one of the primary credit needs in the assessment area. Through its community development lending and qualified investments, the bank has provided numerous low- and moderate-income families with affordable housing. The bank's community development services were also responsive to affordable housing and community development services targeted to low- and moderate-income individuals.

Community Development Lending

The majority of BSDT's community development lending supported initiatives targeting affordable housing and community development services funding. Hundreds of affordable housing units have been made available through the bank's involvement with organizations such as the Mass Housing Partnership Fund. In addition, through this fund, the bank advanced a \$7,000,000 line of credit to MHIC. This line of credit has resulted in over \$14,000,000 in new financing to entities providing credit for affordable housing and community development activities that benefit low- and moderate-income households. Through its affordable housing program, the bank provided access to affordable home ownership throughout the Greater Boston area. In addition, the bank has funded various community development activities such as affordable housing, economic development and community services through its involvement with the Boston Community Loan Fund.

Qualified Investments

The majority of the bank's qualified investments support affordable housing activities. The majority of the bank's investments were through mortgage-backed securities (MBS). The bank ensured that all MBS purchases were secured by mortgages to low- and moderate-income borrowers. Approximately 90 percent of these loans were within the Boston MSA. A community contact noted that affordable housing is not just an issue in Boston but for the whole Greater Boston Area. Additionally, BSDT's corporate grants and Homebuyer Counseling Seminars funding enabled community based organizations to provide low- and moderate-income individuals with vital community development services and homebuying education.

Community Development Services

Through sponsoring and participation in affordable housing seminars, the bank provided over 800 participants with guidance in the homebuying process. Since the prior examination, bank officers and staff have actively provided financial expertise to various community development organizations. In addition, through its Discretionary Charitable Trusts Grants, BSDT funded a number of local organizations that provide much needed community services such as job training and education to segments of the community in need. BSDT staff also is instrumental in working with these organizations to develop programs targeting low- and moderate-income individuals and in providing financial and technical guidance to ensure program stability.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of antidiscrimination laws and regulations were identified. BSDT's fair lending policies, procedures, and training are appropriate and reasonable given the institution's size and business orientation.

APPENDIX A

SCOPE OF EXAMINATION

This examination covered BSDT's community development activities as of September 30, 2002. Also considered were community development activities by its affiliates Mellon Bank, N.A., Mellon Community Development Corporation and Mellon Financial Markets, LLC. The review covered the period from November 1, 2000 to September 30, 2002. All three areas under community development were considered during this examination: community development lending, qualified investments and community development services. The scope included a full scope review of community development activities within the bank's assessment area of Boston, Cambridge, Everett, Malden, Medford, Somerville, and Chelsea.

APPENDIX B

Community Development: (1) Affordable housing including multifamily rental housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802 (a)(2) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

Performance Context: The economic and demographic characteristics of a bank's assessment area(s). The following information is considered to help understand the context in which an institution's performance should be evaluated: (1) the economic and demographic characteristics of the assessment area(s); (2) lending, investment, and service opportunities in the assessment area(s); (3) the institution's product offerings and business strategy; (4) the institution's capacity and constraints; (5) the prior performance of the institution, and in appropriate circumstance, the performance of similarly situated institutions; and (6) other relevant information.

Qualified Investments: are defined under the regulation as lawful investments, deposits, membership shares, or grants that have a primary purpose of community development. Such investments may take the form of direct grants to organizations that serve a community development purpose or equity investments in projects or funds designed to meet affordable housing needs or other community development purposes. They may also consist of in-kind contributions of property or services.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit

unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.