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Comptroller of the Currency  
Administrator of National Banks

Wholesale

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## **PUBLIC DISCLOSURE**

**May 15, 2005**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Mellon Bank, N.A.  
Charter Number: 6301**

**One Mellon Bank Center  
Pittsburgh, PA 15258**

**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 three rating criteria are:

- The bank demonstrates a high level of qualified investment activity, community development lending, and community development services.
- The bank demonstrates occasional use of complex qualified investments and community development loans.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment areas.

**Scope of the Examination**

The evaluation of Mellon Bank, N.A.'s (Mellon) performance under the CRA covers community development (CD) activities from January 1, 2001 through December 31, 2004. Reviewed were the level and nature of qualified investments, community development lending, and community development services. These are collectively called CD activities. The bank also requested consideration of qualified CD activities provided by its affiliates. At the prior examination dated April 23, 2001, the bank was rated Outstanding.

If a bank has adequately addressed the CD needs within its assessment area, the OCC will also consider CD activities of the bank that benefit areas outside of its assessment area (AA). Mellon has adequately addressed the needs of its AAs. Therefore, CD activities outside of the AAs were considered in evaluating overall CRA performance.

Prior to its designation as a wholesale bank, Mellon originated affordable home mortgages and loans to small businesses with community development purposes. Qualitative consideration was given to these activities. These activities are not shown in the tables or calculations. However, they are discussed in the appropriate AAs.

Mellon's deposits in domestic offices as of June 30, 2004 (the most recent data available for analysis) total \$6.781 billion. Of this total, \$5.461 billion or 80.53 percent are on deposit in Pennsylvania; \$1.287 billion or 18.98 percent in the Philadelphia-Camden-Wilmington MSA; and \$33.3 million or 0.49 percent in Maryland. These percentages were used to allocate income and capital to each of the areas.

The State of Pennsylvania represents over 80% of bank deposits and the Pittsburgh AA has 99% of the deposits in the State. However, included in Pittsburgh totals are deposits that originate from other areas of the country as part of Mellon's service and asset management businesses. This performance context factor was considered in our CRA evaluation of the Pittsburgh AA. CD activities outside of the AAs are considered in the conclusions for the State of Pennsylvania and the Pittsburgh AA. This included \$22 million of the investments and grants located in Pennsylvania, but outside of the Pennsylvania AAs and having no potential to benefit the AAs.

This examination rates the overall CRA performance of Mellon as well as its performance in the Philadelphia-Camden-Wilmington, (PA-NJ-DE-MD) multistate metropolitan area (MSA) and the States of Pennsylvania and Maryland. The overall rating is based on the CRA performance of the bank in each state and the multistate metropolitan area. The State of Pennsylvania was weighted the heaviest in determining the bank's overall CRA performance as a significant majority of the bank's deposits are in Pennsylvania. Similarly, the Pittsburgh AA received the most weight in determining the conclusions in the State of Pennsylvania as 99% of the State's deposits are attributed to Pittsburgh. The ratios contained in this evaluation were derived by allocating bank capital and income to the states, MSAs and AAs. The allocations are based on the amount of banking deposits reported by the bank for these areas.

Mellon's qualified investments, grants and community development loans are presented in this evaluation as follows:

- Those located inside the delineated AAs are contained in the column titled Benefits AA.
- Those that benefit both the AA and also the broader statewide or regional areas that includes the AAs and have potential to benefit the AAs are also contained in the Benefits AA column.
- Those completely located outside of the AAs (including the broader regional areas mentioned above) and that do not benefit the delineated AAs are contained in the Outside AA section. This includes all locations throughout the country that are not otherwise represented in the CRA examinations of other Mellon affiliate banks.

Mellon has designated six AAs: the three metropolitan divisions (MD) that make up the multistate MSA of Philadelphia-Camden-Wilmington; two Pennsylvania AAs - Harrisburg-Carlisle MSA and Pittsburgh MSA; and the Maryland AA consisting of the Bethesda-Frederick-Gaithersburg MD. For 2004, the designation of counties included in Mellon's assessment areas changed to conform to metropolitan area definition changes made by the Office of Management and Budget. While the impact of this change in practical effect was minimal, certain less populous counties were removed or added to Mellon's AAs. The bank's AAs meet the requirements of the CRA regulation and do not arbitrarily exclude low- and moderate-income geographies.

## **Description of Institution**

Mellon is headquartered in Pittsburgh, Pennsylvania. It is a wholly owned subsidiary of Mellon Financial Corporation (MFC), a \$35 billion asset holding company, also headquartered in Pittsburgh. In December 2001, Mellon sold its retail banking operations, including the majority of its branches, to Citizens Financial Group (Citizens). As a condition of the sale, Mellon agreed not to compete with Citizens for retail banking business in the geographies Mellon had previously served and the areas where Mellon retained branch locations. The non-compete agreement runs until December 1, 2006. The transaction and agreement effectively meant the withdrawal by Mellon from traditional retail banking as a line of business.

The sale significantly reduced Mellon's branch and deposit base. The primary business lines during the evaluation period centered on institutional asset and private wealth management along with

corporate and institutional services such as asset servicing and treasury services. Mellon has 22 banking offices with 19 in Pennsylvania and one each in New Jersey, Delaware and Maryland. Following the sale of its retail operations, Mellon applied for and received a wholesale bank CRA designation on July 19, 2002.

Mellon conducts limited lending activities, primarily to accommodate the customer needs of its other lines of businesses. The bank also benefits from the CD activities of three of its affiliates. Mellon Bank Community Development Corporation (MBCDC) offers community development loans and investments to businesses and non-profit organizations in Mellon’s assessment areas. Its officers also provide technical financial services and expertise to community organizations. Mellon Ventures, Inc. (MVI), as a licensed Small Business Investment Company (SBIC), made equity venture capital investments within Mellon’s AAs and elsewhere around the country. Mellon Financial Markets, LLC, (MFM) provides bond-underwriting services to local governments, school districts, municipal authorities and state agencies. A number of these bonds provided capital for infrastructure projects specifically benefiting low- to moderate-income (LMI) individuals and families. Qualified CD activities of all three Mellon affiliates are included in this CRA examination.

*Table 1* provides an overview of Mellon’s financial information. Within the scope of its current business units, there are no legal constraints impeding the Bank’s ability to meet the community’s credit needs.

**Table 1: Mellon Bank, N.A. - Financial Information (000s)**

	<b>Year-end 2001*</b>	<b>Year-end 2002</b>	<b>Year-end 2003</b>	<b>Year-end 2004</b>	<b>Average for Evaluation Period</b>
<b>Tier 1 Capital</b>	\$2,172,467	\$1,993,183	\$2,080,856	\$2,049,097	\$2,073,901
<b>Total Income</b>	\$4,747,512	\$2,860,701	\$2,520,540	\$2,144,040	\$3,068,198
<b>Net Operating Income</b>	\$1,268,760	\$688,103	\$595,963	\$387,891	\$735,179
<b>Total Assets</b>	\$27,813,441	\$26,841,350	\$20,838,836	\$25,203,827	\$25,174,364

Source: Consolidated Report of Condition and Income and bank reported data. \*2001 income includes 11 months of operating results from business units sold to Citizens

Following the 2001 sale of its retail business to Citizens, Mellon’s income now derives largely from non-interest sources associated with its asset management and service businesses. In 2004, Mellon earned 71 percent of its total income from non-interest activities. Of the 29 percent earned from interest-related activities, 8 percent was derived from loans and leases. In its combined AAs, Mellon has an overall deposit market share of 2.7 percent. Market share is the greatest in Pittsburgh, where Mellon is ranked fourth with 10.2 percent market share.

## Multistate Metropolitan Area and Metropolitan Divisions

CRA rating for the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD multistate Metropolitan Statistical Area (Philadelphia MSA): **Outstanding**<sup>1</sup>

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of community development lending and qualified investment activity.
- The bank demonstrates occasional use of complex qualified investments.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment area.

### **Description of Philadelphia-Camden-Wilmington, PA-NJ-DE-MD multistate Metropolitan Statistical Area (Philadelphia MSA)**

The Philadelphia MSA is comprised of the Philadelphia MD, Camden MD, and Wilmington MD. Mellon operates 10 offices in the MSA with 8 of the offices in the Philadelphia MD. Banking competition is strong. There were 153 banks in the Philadelphia MSA as of December 2004, including large national and regional financial institutions. The Philadelphia MSA is one of the 12 largest MSAs in the U.S. with a population of 5.6 million. The updated 2004 HUD adjusted median family income is \$68,220. The Philadelphia MSA has experienced moderate economic growth with the Camden MD being the leader. Trade, transportation, and utilities are the largest industry sectors in the Philadelphia MSA, accounting for nearly one-fifth of all employment. The Philadelphia MSA continues to experience declines in manufacturing jobs. The 2004 unemployment rate for the Philadelphia MSA was 5.2 percent.

The Philadelphia MD consists of five Pennsylvania counties: Bucks, Chester, Delaware, Montgomery and Philadelphia. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. Mellon operates 8 branches within the MD: three in Montgomery County, two each in Philadelphia and Delaware counties, and one in Chester County. As of the 2000 census, the area had a total population of 3.7 million reflecting an increase of 3.2 percent from the 1990 census. The Philadelphia MD is predominately urban with the city of Philadelphia being the economic center. Located in Philadelphia County, it is the largest city in the state and the fifth largest city in the U.S. While the AA has experienced growth, the City of Philadelphia continues to lose population and jobs to the suburbs. Chester County is the least industrialized county in the AA and one of the wealthiest counties in the state. Delaware County is the smallest county in the state, yet per square mile it is one of the most densely populated. Montgomery County has the highest number of manufacturing workers in the state with biotech and pharmaceutical companies an

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<sup>1</sup> This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

integral part of the economy. The eastern part of the county bordering Philadelphia is densely populated and has large commercial and industrial districts. Bucks County is one of the fastest growing counties in the Philadelphia MD. The heavily populated lower Bucks County is well developed, with a strong industrial base. The updated 2004 HUD adjusted median family income for the AA is \$66,300. Owner-occupied housing units comprise 64 percent of total housing units. Owner-occupied units located in LMI geographies are 9 percent and 18 percent, respectively. Eleven percent of households are below the poverty level.

**Table 2: Philadelphia MD Assessment Area Description**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	987	12 %	19 %	33 %	33 %
<b>Families</b>	970,405	22%*	17%*	21%*	40%*
<b>Businesses</b>	343,124	9 %**	16 %**	30 %**	45 %**

*Source: Demographic Data - 2000 U.S. Census, and 2004 Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. Table data do not add to 100% due to rounding. Also, (18) Census Tract areas not income categorized.*

The AA has experienced a moderate economic recovery going into 2005. The biggest turnaround has been in the region’s manufacturing sector. However, it should be noted that the region lost 45,000 manufacturing jobs from 2001 through 2003. Economic growth is expected to come from the business service industries, health care professions, science, and technology. Major industries in the AA are pharmaceuticals, education, communications, business/financial services and healthcare. Some of the larger employers are the University of Pennsylvania, Merck & Co., Vanguard Group, Inc., Wyeth Pharmaceutical and Research, GlaxoSmithKline, and Comcast Corporation. The December 2004 unemployment rate was 5.2 percent. (The unemployment rate includes the Camden MD AA and Wilmington AA.) Refer to *Table 2* for other key demographics.

Recent community contacts were used to determine credit needs. In addition, a community contact was made with a national organization that assists community-based organizations with technical assistance, capital, and training. Credit needs in the AA vary. However, there is an overall credit need for funding to develop affordable housing and economic development. This is particularly true in the cities of Philadelphia and Chester in Delaware County.

The Camden MD consists of the counties of Burlington, Camden and Gloucester. Mellon’s sole branch in the Camden MD is in Camden County. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. As of the 2000 census, the area had a total population of 1.2 million reflecting an increase of 5.2 percent from the 1990 census. The Camden MD is mostly urban. The 2004 weighted average median family income for the area is \$73,400. Owner-occupied housing units comprise 71 percent of total housing units. Owner-occupied units located in LMI geographies are 3 percent and 9 percent, respectively. Some 7 percent of households are below the poverty level. The 2004 unemployment rate was 4.8 percent. Refer to *Table 2* below for other key demographics.

**Table 2: Camden MD Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	318	6 %	15 %	57 %	20 %
<b>Families</b>	310,492	19 %*	19 %*	25 %*	38 %*
<b>Businesses</b>	61,058	4 %**	11 %**	56 %**	28 %**

Source: Demographic Data - 2000 U.S. Census, and 2004 Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. Table data do not add to 100% due to rounding. Also, (5) Census Tracts are not income categorized.

The Camden MD is closely tied economically to the Philadelphia MD. Job growth has occurred in professional and businesses services and trade, transportation, and utilities. However, the AA continues to lose manufacturing jobs. The city of Camden is the industrial and commercial center of the AA. It also is one of the poorest cities in the U.S. Some of the larger employers in the MD are America’s PEO, Inc., Cooper Health Systems, Our Lady of Lourdes Medical Center, and Campbell Soup. Community contacts conducted in the Camden MD were used to determine credit needs. These included a community development financial organization (CDFI) providing small business loans in the city of Camden and a Philadelphia-based non-profit organization operating a small business incubator. Funding for small and start-up businesses was cited as a credit need along with support for affordable housing development.

The Wilmington MD consists of three counties located in three states: New Castle, Delaware; Cecil, Maryland; and Salem, New Jersey. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. Mellon’s sole branch in the AA is in New Castle County. Competition for CD investments and loans is strong in this market due to the presence of several large specialty banks. As of the 2000 census, the area had a total population of 651 thousand reflecting an increase of 12.4 percent from the 1990 census. The greater Wilmington area is urban with the remaining portion of the AA being primarily rural. The updated 2004 HUD adjusted median family income is \$69,700. Owner-occupied housing units comprise 67 percent of total housing units. Owner-occupied units located in LMI geographies are 2 percent and 14 percent, respectively. Seven percent of households are below the poverty level. The 2004 unemployment rate for the Wilmington MD was 4.4 percent. Refer to *Table 2* for other key demographics.

**Table 2: Wilmington MD Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	127	8 %	18 %	48 %	25 %
<b>Families</b>	127,997	18%*	17%*	24%*	41%*
<b>Businesses</b>	36,419	12%**	15%**	50%**	22%**

Source: Demographic Data - 2000 U.S. Census, and 2004 Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract. Percentages do not add to 100% due to rounding. Also, (1) Census Tract is not income categorized.

Economic conditions in the Wilmington MD are considered to be strong. This is evidenced by the relatively low unemployment rate. Historically, the economy of the Wilmington MD was based on a number of large chemical companies. These companies have been downsizing since the mid-1980’s resulting in significant job losses. The financial service industry is now the largest industry employer followed by the healthcare profession. Some of the largest employers in the Wilmington MD are MBNA Corporation, DuPont, Christiana Care Health, and Astrazeneca, L.P.



Recent community contacts conducted in the AA were used to determine credit needs. Credits needs identified include funding for affordable housing development and technical assistance grants for small business development.

## Conclusions About Performance

### Summary

The bank demonstrates a high level of qualified investments and CD loans in the MSA. The level of qualified investments and CD loans is commensurate with the bank’s financial capacity. CD activities demonstrate an excellent response to the credit needs for affordable housing and economic development. The bank has made a substantial investment in mortgage-backed securities (MBS) that are made up of mortgages to LMI borrowers. CD loans and credit enhancements were also made by the bank to support affordable housing and economic development. Mellon made occasional use of complex investments in the Philadelphia MD. Complex investments include affordable housing low-income housing tax credits (LIHTC) and small business equity investments made through Mellon’s affiliate SBIC. Prior to the designation as a wholesale bank, Mellon originated a high level of home mortgage loans and loans to small businesses for community development purposes. Qualitative consideration was given to these activities. The impact of the origination of home mortgage loans and loans to small businesses on the overall bank performance was neutral.

### Qualified Investments

#### Philadelphia, Pennsylvania MD

The bank originated a high level of qualified investments in the AA during the evaluation period. The qualified investments, totaling \$97.1 million, are responsive to identified credit needs. The LIHTC and venture capital equity investments are considered complex investments. *Tables 3 and 4* show the level of qualified investments and the corresponding percentages to allocated Tier 1 Capital and Total Income.

**Table 3: Philadelphia MD - Qualified Investment Activity (000s)**

	<b>Benefits Philadelphia MD**</b>
<b>Originated Investments</b>	\$66,854
<b>Originated Grants</b>	\$2,008
<b>Prior-Period Investments that Remain Outstanding</b>	\$28,312
<b>Total Qualified Investments</b>	\$97,174
<b>Unfunded Commitments*</b>	\$0

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. \*\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Philadelphia MD - Qualified Investment Percentages**

	<b>Benefits Philadelphia MD (%)*</b>
<b>Total Investments/Average Tier 1 Capital</b>	27.10
<b>Total Investments/Average Total Income</b>	18.32

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

The bank invested \$50.7 million in MBS during the evaluation period. The MBS are comprised of pools of single-family loans to LMI borrowers in the Philadelphia AA. \$439 thousand in MBS remain outstanding from the prior evaluation period. Mellon also invested \$2.9 million in a multi-family affordable housing project bond.

The bank made the following investments in LIHTC to develop affordable housing in the Philadelphia AA. Two of the LIHTC investments are considered to be complex due to the analysis required to ascertain the levels of risk and feasibility of the projects and the multiple layers of financing and institutions involved. Financing for affordable housing was a credit need identified in the Philadelphia AA.

- Three investments for a total of \$2.3 million to a national equity fund that financed the development of affordable housing in the Philadelphia AA through the use of LIHTC. Investments in the fund from prior periods totaled \$1.3 million. Together these investments supported the construction of 282 units of affordable housing in the Philadelphia AA
- An investment of \$101 thousand was made in LIHTC to develop a multi-family housing project. The project is comprised of 105 units of affordable housing for LMI senior citizens in Douglassville, Pennsylvania. Investments in special needs (i.e., senior housing) are complex due to the limitations imposed on the use of LIHTCs. Since the use of LIHTC are limited to development costs, additional analysis is required to ascertain that other funding sources for the cost of services that are required by the senior citizens is viable in order to guarantee the success of the project.
- An investment of \$754,897 was made in a project to create affordable housing and convert a historic building in downtown Philadelphia into a mixed-use property. The renovated building will create 54 affordable housing (apartment) units and retail space at the street level. The project was financed using both LIHTC and historic tax credits. The combination of mixed-use property and multiple sources of complex tax credit financing are not routinely provided by private investors.

MVI made venture capital equity investments totaling \$9.9 million in 5 companies in the Philadelphia AA. MVI investments totaling \$26.5 million from prior to this evaluation period remain outstanding. Private investors do not routinely provide venture capital funding.

A \$1 million equity investment was made in a community development fund to support affordable housing investments in the AA. The investment is responsive to the credit need for financing for affordable housing.

The Bank renewed a \$75,000 deposit in a community development credit union in Philadelphia.

Mellon made grants to organizations totaling \$2 million within the AA during the evaluation period. These grants were for affordable housing, economic development, job training, and social services. Some of the grants made by the bank are as follows:

- Grants totaling \$1.125 million were made as part of a ten-year partnership between Mellon and a multi-purpose human service agency. The grants are part of a tax credit program that encourages corporations to form long-term partnerships with community organizations. The grants focused on providing affordable housing, neighborhood revitalization and economic development projects for LMI people in the Germantown section of Philadelphia.
- Grants totaling \$243,350 were made for affordable housing-related initiatives. Included are grants for transitional housing, homeless support, housing workshops, low-and moderate-income student housing, lower-income senior housing and energy and utility assistance for qualified homeowners.

**Camden, New Jersey MD**

The bank originated a high level of qualified investments in the AA during the evaluation period. The qualified investments, totaling \$6.8 million, are responsive to identified credit needs. *Tables 3 and 4* show the level and category of qualified investments and the corresponding percentages to allocated Tier 1 Capital and Total Income.

**Table 3: Camden MD - Qualified Investment Activity (000s)**

	<b>Benefits Camden MD**</b>
<b>Originated Investments</b>	\$6,703
<b>Originated Grants</b>	\$20
<b>Prior-Period Investments that Remain Outstanding</b>	\$134
<b>Total Qualified Investments</b>	\$6,857
<b>Unfunded Commitments*</b>	\$0

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. \*\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Camden MD - Qualified Investment Percentages**

	<b>Benefits Camden AA (%)*</b>
<b>Total Investments/Average Tier 1 Capital</b>	3,306.
<b>Total Investments/Average Total Income</b>	2,235.
<b>Total Investments/Average Pass-Through Receivables</b>	0

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by the bank management.

The bank invested \$6.1 million in MBS during the evaluation period. The MBS are comprised of pools of single-family loans to LMI borrowers in the AA. \$134 thousand of MBS are outstanding from the prior evaluation period.

An equity investment of \$606 thousand was made to finance an affordable senior residential healthcare facility in Gloucester County. The investment was made in conjunction with LIHTC and historic tax credits. The complex financing involved various private and public investors to create a unique three-tiered level of care senior housing, assisted living, and a patient care/dementia component for Alzheimer patients. Since the use of LIHTC are limited to development costs, additional analysis is required to ascertain that funding for the cost of services that are required by the senior citizens is viable in order to guarantee the success of the project.

The bank made 2 CD grants totaling \$20 thousand for economic development and financing for small businesses.

**Wilmington, Delaware MD**

The bank originated a high level of qualified investments in the Wilmington AA during the evaluation period. The \$12.4 million in qualified investments and grants are seen as responsive to credit needs. *Tables 3 and 4* show the level and category of qualified investments and the corresponding percentages to allocated Tier 1 Capital and Total Income.

**Table 3: Wilmington MD - Qualified Investment Activity (000s)**

	<b>Benefits Wilmington MD**</b>
<b>Originated Investments</b>	\$11,863
<b>Originated Grants</b>	\$45
<b>Prior-Period Investments that Remain Outstanding</b>	\$502
<b>Total Qualified Investments</b>	\$12,410
<b>Unfunded Commitments*</b>	\$1,140

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. \*\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Wilmington MD - Qualified Investment Percentages**

	<b>Benefits Wilmington MD (%)*</b>
<b>Total Investments/Average Tier 1 Capital</b>	35.62
<b>Total Investments/Average Total Income</b>	24.08

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

The bank invested \$11.5 million in MBS during the evaluation period. The MBS are comprised of pools of single-family loans to LMI borrowers in the AA. \$219,000 of MBS are outstanding from the prior evaluation period.

The bank has made a series of investments in a nonprofit, multi-bank CDC with the mission of establishing affordable housing and economic development throughout the State of Delaware. Mellon has participated in four low-income housing, tax credit investments through the CDC’s equity fund. Funding for this includes \$387,371 during the evaluation period, \$232,988 outstanding from prior to the evaluation period and \$1.1 million committed, but not yet funded. This is in addition to Mellon’s initial CDC charter stock investment of \$50,000 that continues from the prior evaluation period.

The bank made grants totaling \$45,200. Included was funding for rehabilitation of housing and housing related services, literacy and other educational programs directed toward LMI students, and other human services.

**Community Development Lending**

**Philadelphia, Pennsylvania MD**

The bank originated a high level of CD loans during the evaluation period. CD loans originated in the Philadelphia AA during the evaluation period totaled \$32.8 million. The following table shows percentages for total dollars of CD loans.

**Table 5: Philadelphia MD - Community Development Lending Percentages**

	<b>Benefits Philadelphia MD (%)*</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	9.15
<b>Total CD Lending/Average Total Income</b>	6.19

\* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

The following describes significant CD loans extended during the evaluation period based on the dollars involved and responsiveness to community development needs.

- Mellon provided \$6 million of funding for a construction project in Philadelphia on property that was subject to environmental remediation of a Brownfield site.
- Over 50 CD loans for approximately \$9 million were made primarily to community-based organizations to support affordable housing initiatives. Another \$7.9 million in loans were originated to finance economic development initiatives and social services support for LMI individuals.

Although not included in the total amount of CD lending in *Table 5* above, a \$2.85 million letter-of-credit was issued as a credit enhancement for a bond issued by a county redevelopment authority. This helped to fund a 105-unit residential property for lower-income seniors.

Prior to its designation as a wholesale bank, Mellon originated \$20 million of affordable home mortgages and \$29 million of loans to small businesses with community development purposes. These totals are not included in the tables. We considered these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

**Camden, New Jersey MD**

The bank originated \$640 thousand in CD loans in the AA during the evaluation period. This is considered a high level of lending in relation to the bank’s limited presence in the AA. The CD loans are responsive to the credit needs in the AA. The following table shows percentages for total dollars of CD loans.

**Table 5: Camden MD-Community Development Lending Percentages**

	<b>Benefits [Name of] AA (%)*</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	308.5
<b>Total CD Lending/Average Total Income</b>	208.5
<b>Total CD Lending/Average Pass-Through Receivables</b>	0

*\* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by bank management.*

CD loans were made to two small business loan funds that target their lending to distressed communities in the City of Camden and other areas of the southern New Jersey market. One fund, a CDFI, received \$500 thousand to support delivery of micro-business loans to start-up businesses in LMI geographies of Camden. The other loan fund, administered by a nonprofit consortium formed by six banks, received \$100 thousand.

A loan for \$40,000 was made to a Camden nonprofit to purchase a house where LMI youth will be trained in life skills.

Prior to its designation as a wholesale bank, Mellon originated \$6 million of affordable home mortgages and \$690 thousand of loans to small businesses with community development purposes. These totals are not included in the tables. We considered these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

**Wilmington, Delaware MD**

The bank originated an adequate level of CD loans in the AA in relation to its limited presence in the AA. The bank originated one CD loan for \$250,000 during the evaluation period. The following table shows percentages for total dollars of CD loans.

**Table 5: Wilmington MD - Community Development Lending Percentages**

	<b>Benefits Wilmington MD (%)*</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	0.72
<b>Total CD Lending/Average Total Income</b>	0.49

\* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

A loan for \$250,000 was made to a CDC to support affordable housing and commercial development in the State of Delaware.

Prior to its designation as a wholesale bank, Mellon originated a \$42,000 affordable home mortgage and \$1.5 million of loans to small businesses with community development purposes. These totals are not included in the tables. We considered these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

**Community Development Services**

**Philadelphia, Pennsylvania MD**

Mellon provided an adequate level of CD services. Community development services offered by the bank addressed the credit needs of first-time homebuyers and provided financial expertise to community-based organizations involved in community development activities. Community development services activities include:

- Six homebuyer instructional workshops were held for a total of 113 LMI potential first-time homebuyers. The workshops were held throughout Philadelphia with several community development partners in an effort to reach the widest possible audience.
- A bank officer provides financial expertise through service on the board of directors of a community-based organization in Northwest Philadelphia. The organization focuses on providing senior citizens, the majority who are LMI, with access to support services and activities.

**Camden, New Jersey MD**

Mellon provides an adequate level of community services commensurate with its single office location in the Camden MD. Bank staff worked with the Affordable Housing Coalition of Burlington County, Inc. to conduct a homebuyers workshop.

**Wilmington, Delaware MD**

Mellon provides an adequate level of community services commensurate with its single office locations in the Wilmington MD. Two Mellon officers provided financial expertise to a CDC in assessing development plans for a mixed residential commercial rehabilitation development in downtown Wilmington.



# State Rating

## State of Pennsylvania

CRA Rating for Pennsylvania: **Outstanding**

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of qualified investment activity and community development lending.
- The bank demonstrates rare use of complex qualified investments and community development loans.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment areas.

## Description of Assessment Areas

Mellon has designated two MSAs as AAs in the State of Pennsylvania. The AAs are the Pittsburgh MSA and the Harrisburg-Carlisle MSA. The areas are heavily urbanized; however, they also contain rural locations. The AAs include the second largest city in Pennsylvania, Pittsburgh, as well as the State’s Capitol, Harrisburg.

The Pittsburgh AA consists of seven counties: Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. As of the 2000 census, the area had a total population of 2.4 million reflecting a decrease of 1.5 percent from the 1990 census. It is the only one of the bank’s AAs to lose population between the census periods. Over half of the population in the AA resides in Allegheny County. Mellon operates 10 branches within the AA: nine in Allegheny and one in Westmoreland County. Banking competition is strong with 64 banks in the AA, including several large multi-state regional institutions that have extensive branch networks and the ability to combine CD activities with their retail banking offices and products. The updated 2004 HUD adjusted median family income is \$54,900. Owner-occupied housing units comprise 66 percent of total housing units. Owner-occupied units located in LMI geographies are 1 percent and 18 percent, respectively. Eleven percent of households are below the poverty level. The 2004 unemployment rate was 5.8 percent. Refer to *Table 2* for other key demographics.

**Table 2: Pittsburgh MSA Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	721	5 %	24 %	50 %	21 %
<b>Families</b>	654,982	20 %*	19 %*	22 %*	40 %*
<b>Businesses</b>	182,824	4 %**	19 %**	44 %**	32 %**

Source: Demographic Data - 2000 U.S. Census, 2003 Dun & Bradstreet Data. \*Represents families by income level.

\*\*Represents businesses by income level of census tract. Percentages do not add to 100% due to rounding. (1) Census Tract is not income categorized.

The economic conditions in the seven counties are mixed. The manufacturing sector continues a slow decline with offsetting growth in service industries. The area continues its transition from steel, mining and durable goods to education, health care and financial services. The 5.4% unemployment rate in Allegheny County is lower than the other counties in the AA. Unemployment in Armstrong County at 7.2 percent and Fayette County at 7.8 percent is significantly higher than the State’s average rate of 5.5 percent. The economic conditions in Butler County are generally good. Situated north of Pittsburgh, it shares in the benefit of being close to a major city, while retaining the lower cost of living in rural counties. It was the only county in southwestern Pennsylvania to experience population growth during the 1990’s. The largest employment sectors are education, health and social services. Some of the larger employers are UPMC Medical Health System, U.S. Government, Commonwealth of Pennsylvania, and West Penn Allegheny Health Systems.

Recent community contacts conducted for other banks in the AA were used to determine credit needs. Credits needs identified include funding for small businesses relocating to the AA. As an older industrial center with a declining population, area needs include economic redevelopment and revitalization efforts to create new economic growth and stabilize older areas. In addition, credit needs exist for the development of affordable housing, including housing for a large senior citizen population.

The Harrisburg-Carlisle MSA AA consists of the counties of Cumberland, Dauphin and Perry. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. As of the 2000 census, the area had a total population of 509 thousand. This is a 7.3 percent increase from the 1990 census. Mellon’s one branch in the AA is in Cumberland County. Competition for CD investments and loans is strong in this market. There were 32 banks in the AA as of December 2004. The updated 2004 HUD adjusted median family income is \$61,400. Owner-occupied housing units comprise 65 percent of total housing units. Owner-occupied units located in LMI geographies are 2 percent and 13 percent, respectively. Eight percent of households are below the poverty level. The December 2004 unemployment rate was 3.2 percent. Refer to *Table 2* for other key demographics.

**Table 2: Harrisburg-Carlisle MSA Assessment Area Description**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	111	5 %	23 %	55 %	17 %
<b>Families</b>	135,197	18%*	19 %*	24 %*	39 %*
<b>Businesses</b>	43,887	3 %**	16 %**	63 %**	18 %**

*Source: Demographic Data - 2000 U.S. Census, 2004 Dun & Bradstreet Data. \*Represents families by income level.*

*\*\*Represents businesses by income level of census tract*

The economic conditions in all three counties are good. The State’s lowest level of unemployment is in Cumberland County at 3 percent, with relatively low rates also in Dauphin (4%) and Perry (5.1%) counties. While construction and manufacturing industries have shed jobs during the evaluation period, this has more than been compensated by gains in service industries, retail trade, health and government. The State Capital and associated government agencies headquartered in and around Harrisburg provides a stabilizing economic influence to the area.

Recent community contacts conducted for other banks in the AA were used to determine credit

needs. In addition, a community contact was conducted with a community-based development corporation. Credits needs identified include equity funding and long-term mortgages for affordable housing projects, and financing for small business development.

## **Conclusions About Performance**

### **Summary**

The bank demonstrates a high level of CD investments and lending. CD activities outside of the AAs had a positive impact on the bank's overall CRA performance and that of Pennsylvania. The bank received credit for CD activities outside of its AAs because it has adequately addressed CD needs within its AAs. Credit for the activities outside of the AAs was considered as part of the evaluation of the Pittsburgh AA. This is because, as described in the scope of examination section of this report, the State of Pennsylvania received the most weight in determining overall CRA performance, and Pittsburgh, in turn, received the most weight in Pennsylvania as it holds 99% of the bank's Pennsylvania deposits. In addition, it was noted that over \$30 million of the CD investment and loans outside of the AA and having no potential benefit to the AA took place in, and benefited, the State of Pennsylvania. We considered non-local deposits assigned to the bank's Pittsburgh office as a performance context issue in our CRA analysis of the Pittsburgh AA.

The bank demonstrates excellent responsiveness to the credit and economic development needs of the AAs. The need for affordable housing continues to be a community development need in the AAs. The bank has made extensive use of mortgage-backed securities (MBS). The MBS are secured by mortgages to LMI borrowers. Mellon also made equity investments in affordable housing projects supported by LIHTC and made grants to community-based organizations engaged in affordable housing development. Limited use of complex qualified investments and CD lending was demonstrated. CD services demonstrate an adequate commitment to addressing credit and community development needs in the AA. The bank is an active investor in a state program designed to develop partnerships between financial institutions and community-based organizations to promote economic development.

The bank has a high level of CD loans to nonprofit organizations that is responsive to the area's need for affordable housing. This includes affordable housing needs for the area's large senior citizen population. Mellon has also been highly responsive to efforts to stabilize and revitalize LMI areas through CD lending that supports economic development via redevelopment of environmental "brownfields" in the Pittsburgh area. Prior to the designation as a wholesale bank, Mellon originated a high level of loans to small businesses for community development purposes. We consider these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

**Qualified Investments**

**Pittsburgh AA**

The bank originated a high level of qualified investments in the AA and outside the AA during the evaluation period. The investments and grants are responsive to credit needs of the AA, and included a few complex qualified investments. As the bank has adequately met the CD needs of the AA, these additional outside of the AA CD activities had a positive impact on the bank’s overall CRA performance.

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

**Table 3: Pittsburgh MSA - Qualified Investment Activity (000s)**

	<b>Benefits AA</b>	<b>Outside AA**</b>	<b>Totals</b>
<b>Originated Investments</b>	\$45,696	\$92,332	\$138,028
<b>Originated Grants</b>	\$4,762	\$791	\$5,583
<b>Prior-Period Investments that Remain Outstanding</b>	\$12,976	\$74,000	\$86,976
<b>Total Qualified Investments</b>	\$63,434	\$167,123	\$230,557
<b>Unfunded Commitments*</b>	\$832	0	\$832

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. \*\* Investments included in the Outside AA column have no potential benefit to the AA. Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Pittsburgh MSA - Qualified Investment Percentages**

	<b>Benefits Pittsburgh AA (%)*</b>	<b>Outside AA (%) **</b>
<b>Total Investments/Average Tier 1 Capital</b>	3.82	10.0
<b>Total Investments/Average Total Income</b>	2.58	6.7

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. \*\* Investments included in the Outside AA column have no potential benefit to the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

A number of the qualified investments in the AA are MBS comprised of pools of single-family loans made to LMI borrowers in the AA. \$22 million were purchased during the evaluation period while \$547,000 worth remains from the prior evaluation period. Mellon also made current period investments of \$14.8 million in 8 multifamily affordable housing project bonds.

Mellon invested \$3.7 million during the evaluation period in several LIHTC equity investment pools benefiting the AA. Some of the investments in LIHTC loan pools are as follows:

- The bank provided \$636,000 in funding to a housing pool to support development of affordable multifamily housing in the Pittsburgh area. To date, some 451 units of affordable housing have been constructed. An additional \$10 million in prior period funding is also

outstanding on this project.

- MBCDC invested \$1.1 million in a LIHTC fund targeting affordable multifamily housing projects in New England, New York and Pennsylvania. As this investment is shared with an affiliate, the \$1.1 million represents the portion targeted for investment in Pennsylvania.
- \$75,000 investment in the Pittsburgh Equity Fund to develop affordable housing in Pittsburgh.

MVI made equity investments totaling \$2.8 million in 2 companies during the current evaluation period. One SBIC investment of \$1 million remains outstanding from the prior evaluation period. Equity investments in small businesses are considered complex due to the level of due diligence and financial structure of the investments and are not routinely provided by private investors.

MBCDC made three investments during the evaluation period totaling \$1.5 million in a venture capital investment fund for developing small businesses in Pittsburgh. In addition, the Bank holds a similar venture capital investment from a prior evaluation period with a book value of \$201,574.

A \$750,000 investment was made in a community development fund to support affordable single and multi-family housing in the AA. The investment is responsive to the credit need for financing for affordable housing.

MBCDC invested \$90,499 in a project sponsored by a nonprofit housing organization to support the purchase and rehabilitation of affordable housing in Beaver County. Other MBCDC investments include \$273,814 in affordable home mortgages outstanding from a prior evaluation period and an \$83,229 deposit in a community development credit union in Pittsburgh.

The bank continues to hold an investment of \$856,000 in the Community Development Trust, a real estate investment trust (REIT) that invests in affordable multifamily housing.

The bank originated grants totaling \$4.7 million during the evaluation period to support community development. Some of the grants originated are as follows:

- Mellon made grants totaling \$943,000 to a community-based organization that serves LMI residents of the Bloomfield-Garfield neighborhoods. This is part of a ten-year partnership between the bank and local CDC through the state Neighborhood Assistance Program. Designed to help eliminate blight and promote economic development programs it offers job training, health services, affordable housing and other social and human services.
- The bank donated \$106,000 to a CDC to support job-training programs for LMI persons.
- Mellon donated \$8,000 to help build a Habitat house in Pittsburgh's East Liberty neighborhood.
- Donations totaling \$115,000 were made to a food bank that serves LMI individuals.
- The bank donated \$111,000 to an affordable housing organization that works with LMI

individuals and families to help them achieve and maintain homeownership.

Qualified investments made outside of the AA totaled \$167 million.

Mellon's SBIC MVI made equity investments of \$73.1 million to 21 companies during the current evaluation period. MVI also has 13 equity investments totaling \$72.4 million outstanding from the prior evaluation period. Equity investments in small businesses are considered complex due to the level of due diligence and financial structure of the investments.

The bank invested in \$17 million of MBS during the evaluation period. The MBS are comprised of pools of single-family loans to LMI borrowers. Another \$1.6 million in MBS are outstanding from the prior evaluation period.

Mellon invested \$2.1 million in a multi-family affordable housing project bond in Hazleton, PA.

The Bank maintains two CD investments in Pennsylvania communities from the prior evaluation period totaling \$87 thousand. One is with CD credit union and the other is a CDFI fund engaged in developing affordable housing for low-and moderate-income individuals and families.

A \$45 thousand LIHTC equity investment in a multifamily affordable housing project in York, PA remains outstanding from a prior evaluation period.

Mellon also made \$790,661 in grants that provided CD services primarily in those states where the AAs are located. Examples of some of the grants are:

- \$300 thousand over a three-year period to a state university for a workforce development capital campaign. The Community Bridge Project uses trained volunteers to reach low-income individuals helping them attain the necessary workforce skills while engaging community business and human service agencies to address economic development issues in the community.
- An \$18,300 grant to a youth service organization specializing in institutional and community-based residential care, independent living, educational and mental health services as well as job training for lower-income families.
- A \$10 thousand grant to a northwest Pennsylvania foundation serving the developmental needs of children and adults with disabilities, many of whom reside in LMI areas and are themselves low- and moderate-income.
- A \$5 thousand grant to promote community fundraising intended to raise money for scholarships for low-income youth residing in public housing within the City of Erie.
- A \$7,500 grant supporting a local housing development program for lower-income families with special development needs in Lancaster, PA.
- Supporting a life-skills training program for homeless women through a \$25 thousand grant. The program provides a broad range of social services in the Lancaster, PA area including

housing, vocational support and counseling. The goal of the program is to promote self-sufficiency.

- Mellon contributed \$94,500 toward a five-year program through the Committee for Economic Growth supporting the organizing of local business and industry to foster growth, through economic investment and job creation in the lower-income communities of the City of Wilkes-Barre, PA.
- \$18,500 in grants to the Salvation Army in Pennsylvania and Delaware. The grants support various capital campaigns funding the Organization’s mission of serving the needs of lower-income individuals and families with food, shelter, healthcare and occupational training.
- \$30 thousand grant toward the capital campaign to construct a 24-person group home for LMI children in Mercer County, PA.

**Harrisburg AA**

The bank originated a high level of qualified investments in the AA during the evaluation period. The investments and grants are seen as responsive to credit needs in the AA. *Tables 3 and 4* show the level of qualified investments and the corresponding percentages to allocated Tier 1 Capital and Total Income.

**Table 3: Harrisburg-Carlisle MSA - Qualified Investment Activity (000s)**

	<b>Benefits Harrisburg-Carlisle MSA</b>
<b>Originated Investments</b>	\$13,664
<b>Originated Grants</b>	\$98
<b>Prior-Period Investments that Remain Outstanding</b>	\$534
<b>Total Qualified Investments</b>	\$14,296
<b>Unfunded Commitments*</b>	\$0

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Harrisburg-Carlisle MSA - Qualified Investment Percentages**

	<b>Benefits Harrisburg-Carlisle MSA (%)*</b>
<b>Total Investments/Average Tier 1 Capital</b>	164.12
<b>Total Investments/Average Total Income</b>	110.94

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

The bank invested \$11.5 million in MBS during the evaluation period. The MBS are comprised of pools of single-family loans to LMI borrowers in the AA. \$190,000 of MBS are outstanding from the prior evaluation period. The bank also invested \$1.5 million in a multifamily affordable housing bond.

The bank is a LIHTC investor in a 48-unit temporary housing shelter for homeless and abused women in Harrisburg, PA. The shelter also provides on-site family and support services to the women. Current period funding is \$495,000. An additional \$343,000 is outstanding from prior evaluation period. Renovation of the historic building in a low-income geography helped to revitalize and stabilize the area.

A \$100,000 investment was made in a community development fund to support affordable housing financing in the AA. This investment is responsive to the AA’s need for funding for affordable housing.

The bank made grants totaling \$98,000 primarily to organizations involved in the rehabilitation of affordable housing and affordable housing-related services.

**Community Development Lending**

**Pittsburgh AA**

Mellon originated a high level of CD loans attributed to the Pittsburgh AA during the evaluation period. The “high level” assessment reflects the volume of CD loans originated as well as the dollars extended. Mellon made 94 CD loans during the evaluation period in the AA that totaled \$61 million. Most of these loans were for affordable housing. Another \$20.5 million of CD loans outside of the AA, but primarily in Pennsylvania, were also considered as part of the Pittsburgh AA performance. The volume of CD loans demonstrates a high activity level by Mellon in granting CD loans, particular to non-profit organizations in support their affordable housing initiatives.

One CD loan in the AA involved complex financial arrangements not routinely provided by the private market. Two LIHTC financial transactions in Pennsylvania but outside of the AA were considered complex due to the multiple layers and sources of funding and the financial expertise required to structure the transaction.

The CD loans are considered highly responsive in addressing identified credit needs of the AA. These needs include affordable housing and the revitalization and stabilization of LMI geographies which the bank has accomplished through “brownfield” lending support. The following table shows percentages for total dollars of CD loans.

**Table 5: Pittsburgh MSA - Community Development Lending Percentages**

	<b>Benefits Pittsburgh AA (%)*</b>	<b>Outside AA (%) **</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	3.69	1.44
<b>Total CD Lending/Average Total Income</b>	2.49	.98

*\* Community development loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. \*\*Community development loans included in the Outside AA column have no potential benefit to the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).*



Following are descriptions of some of the more significant CD loans extended during the evaluation period based on dollars amounts, responsiveness to CD needs or the level of complexity:

- Mellon made a \$24.14 million CD loan to construct a 270-unit multifamily project on Pittsburgh's South Side. The apartments were developed on the site of an old steel plant and necessitated extensive environmental remediation and public infrastructure improvements to connect the project with existing neighborhoods. The moderate-income area has been designated by the City of Pittsburgh for redevelopment as part of a comprehensive revitalization plan by the local Urban Redevelopment Authority. When completed, the area will include retail, office and multifamily housing facilities.
- A \$9 million CD construction loan was made to build government offices providing school and classroom assistance to students in Allegheny County. The building, located in the Steel Valley Enterprise Zone moderate-income geography, will bring new jobs to the area. The site is part of a 260-acre former steel industry brownfield. The site will provide educational support for State Board of Education programs including alternative education for dependent youth, shelter education systems and family centers; homeless children's initiative; and early childhood and family support services.
- Mellon made a \$7 million CD loan for the construction of an addition to non-profit organizations building in Pittsburgh. Located in a moderate-income geography, the facility serves as an anchor for redevelopment and revitalization plans of the area.
- Mellon loaned \$3.3 million for construction of a 50-unit low-income housing tax credit apartment building targeting lower-income individuals 55 years of age or older. Constructed in Butler County, the building meets a need for affordable senior housing.
- A \$3 million loan to a non-profit that acts as a clearinghouse and administrator for a number of CD loan programs. These programs are largely targeted to Economic Development Zones primarily serving LMI communities.
- In a complex transaction, a \$1.6 million dollar bridge loan was made to a Butler County nonprofit that develops affordable housing. A \$1.6 million letter-of-credit was also provided as a credit enhancement to structure the loan. The letter-of-credit is not reportable, nor included in the CD lending totals but was considered for CD purposes.
- The bank made over 80 additional CD loans during the evaluation period to non-profit organizations in support of affordable housing. These loans totaled nearly \$17 million.
- A \$100,000 loan was made to a CDFI to support a micro small business loan fund serving Pennsylvania's Appalachian region.

Prior to its designation as a wholesale bank, Mellon originated \$4.17 million of affordable home mortgages and \$29 million of loans to small businesses with community development purposes in the Pittsburgh AA. These totals are not included in the tables. We consider these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

Mellon made \$20.5 million in CD loans outside of its AAs. The majority of the CD loans were multi-family affordable housing loans. Key among the multi-family projects were:

- A loan of \$2.3 million for a construction loan and \$255,200 permanent loan to build a LIHTC 36-unit elderly housing development in a low-income neighborhood of Erie, PA.
- A \$2.6 million construction loan for a 40-unit LIHTC development in the Wilkes-Barre-Scranton area of Pennsylvania.
- \$4.6 million for rehabilitation and construction of a 100-unit low-income facility to house elderly and handicapped individuals in northeastern PA.
- A total of \$7 million to construct two multi-family affordable housing projects in Easton and Cambridge, Maryland. Together, these projects will provide nearly 200 units of affordable housing to lower-income families in this rural area.

Prior to its designation as a wholesale bank, Mellon originated \$5.5 million in single-family affordable home mortgages made through its Neighborhood Home Mortgage Loan Program and \$38 million small business loans that had community development purposes. These loans are outside of Mellon’s AA and are not included in the CD totals above. We considered these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

**Harrisburg AA**

The bank originated a high level of CD loans during the investment period. CD loans originated during the evaluation period totaled \$3.6 million. The CD loans are responsive to credit needs of the AA. The following table shows percentages for total dollars of CD loans.

**Table 5: Harrisburg-Carlisle MSA - Community Development Lending Percentages**

	<b>Benefits Harrisburg-Carlisle MSA (%)*</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	41.33
<b>Total CD Lending/Average Total Income</b>	27.09

*\* Community development loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).*

A \$3 million line of credit was renewed to a community development bank. This bank was chartered by the State to provide capital to qualified community development financial institutions (CDFI) throughout Pennsylvania so they may help support comprehensive community revitalization and job creation. While this bank is located in Harrisburg, it supports activities throughout the State of Pennsylvania, including the assessment areas of Philadelphia and Pittsburgh.

Two CD loans were made for \$457,000 to nonprofit organizations to provide funding for the purchase and rehabilitation of single-family residential properties in Cumberland County for

subsequent resale to LMI homebuyers.

Prior to its designation as a wholesale bank, Mellon originated \$9.7 million of affordable home mortgages and \$799,000 of loans to small businesses with community development purposes. These totals are not included in the tables. We consider these loans qualitatively in our evaluation and they had a neutral impact on CRA performance.

## **Community Development Services**

### **Pittsburgh AA**

Mellon provided an adequate level of CD services to organizations in the Pittsburgh AA. These organizations in turn provide support for the development of affordable housing, assistance to small businesses, revitalization of distressed communities, and housing and social counseling to LMI individuals. The following describe some of the CD services provided during the evaluation period.

Mellon officers conducted a series of consumer credit workshops for 270 student participants at a local high school. Most of the attendees were from LMI families and households.

A bank officer serves on the Board of the Urban League of Pittsburgh, Inc. The bank officer provided financial expertise in fundraising, marketing, and related financial matters.

Two Mellon officers serve on the board of directors of The Strategic Investment Fund. In addition, a senior Mellon officer has served on its Loan Committee since the Fund's inception. The Funds' purpose is to provide a source of private sector financing for projects to promote economic development, create employment opportunities, contribute to the elimination of urban blight and enhance community development in the City of Pittsburgh and the ten counties that comprise an area defined as southwestern Pennsylvania.

Two executives served on the Pittsburgh advisory board of Local Initiative Support Corporation (LISC). The organization promotes affordable housing, credit availability, economic development, senior citizen housing programs, community revitalization and supports homeless programs and shelters.

A Mellon officer serves on the Community Investment Fund of a non-profit organization supporting affordable housing and economic development programs located in the Monongahela Valley area. Technical assistance is provided in developing loan applications and underwriting standards.

A MBCDC officer provides financial expertise through service on the Loan Committee of a CD bank. The CD bank supports local, federally certified CDFIs through capacity building grants, start-up expansion or development services throughout Pennsylvania.

Mellon provides financial expertise support to the local United Way's capital campaign fundraising activities. Activities include chairing the fundraising efforts.

CD services provided outside of the AA are as follows:

The Bank reported more than 20 additional CD services to over 20 organizations during the evaluation period. Many of these services occurred in areas where Mellon, prior to the sale of the retail operations, had a branch. Over 30 workshops were held for more than 1,000 attendees covering homebuyer education; financial literacy and life-skills training; how to construct a business plan for beginning small business owners; and banking programs for lower-income seniors.

MFM serves as an underwriter in connection with affordable housing, school construction and economic development programs offered by state agencies and municipal authorities that impact LMI individuals and families. In areas of Pennsylvania outside Mellon's AAs, \$31.3 million in bonds were underwritten to: provide for new school construction (\$16 million) in two predominately low- and moderate-income districts.

### **Harrisburg AA**

The bank provided an adequate level of CD services to organizations that promote economic development and affordable housing in the Harrisburg AA. Services provided demonstrate an active responsiveness to identified CD needs. The following describe several of the CD services provided during the evaluation period:

- Mellon helped sponsor a homebuyer education workshop through the Harrisburg Fair Housing Council, Inc. The workshops are designed to assist LMI individuals learn what is necessary to become a homeowner. Eleven workshops served 497 attendees seeking guidance toward becoming first-time homebuyers.
- A bank officer participated on a taskforce to explore the feasibility of merging two community-based affordable housing organizations.
- A MBCDC officer assists in directing the funding outreach efforts for a state-chartered community development bank. The state-chartered community development bank was designed to support CDFIs with debt financing.
- A bank officer spoke on small business financing programs at two workshops sponsored by an organization that promotes small business development.

# State Rating

## State of Maryland

CRA Rating for Maryland: **Outstanding**

The conclusions for the three rating criteria are:

- The bank demonstrates high levels of qualified investment activity and community development lending.
- The bank made rare use of complex CD activities.
- The bank demonstrates excellent responsiveness to credit and community development needs in its assessment areas.

## Description of Assessment Area

### Bethesda-Frederick-Gaithersburg MD Assessment Area

The Bethesda-Frederick-Gaithersburg MD (AA) consists of two counties: Frederick and Montgomery, Maryland. The AA complies with CRA guidelines and does not arbitrarily exclude LMI geographies. Mellon’s 1 branch in the AA is in Montgomery County. There are 35 banks in the AA. As of the 2000 census, the area had a total population of 1.1 million reflecting an increase of 17.8 percent from the 1990 census. The 2004 weighted average median family income for the area is \$91,600 and is the highest in any of Mellon’s assessment areas. Owner-occupied housing units comprise 68 percent of total housing units. Owner-occupied units located in LMI geographies are 0.6 percent and 16 percent, respectively. Only 5 percent of households are below the poverty level. The December 2004 unemployment rate was 2.9 percent. Refer to table 2 for other key demographics.

**Table 2: Bethesda-Frederick-Gaithersburg MD - Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	209	2 %	24 %	43 %	31 %
<b>Families</b>	278,302	18 %*	19 %*	23%*	40 %*
<b>Businesses</b>	85,031	1%**	23%**	44%**	32%**

Source: Demographic Data - 2000 U.S. Census, 2004 Dun & Bradstreet Data. \*Represents families by income level.

\*\*Represents businesses by income level of census tract

The AA has a strong economy. Montgomery County is a suburban county of Washington, D.C. The county is a thriving business center, Maryland’s most populous jurisdiction, and a major job generator in the state. The county is sharply divided between the more prosperous western side and the poorer eastern side. It is also divided between the areas closer to Washington, D.C., which tends to be more urbanized, and the agricultural fringe areas of the county. Some of the larger employers are National Institutes of Health, Giant Food, Adventist Healthcare, Anaya, and Marriott International.

Frederick County is Maryland’s largest county in size. Leading employers are Bechtel, BP Solar, Camber Bio Science, CitiMortgage, Fort Detrick, and State Farm Insurance. Frederick County is also Maryland’s largest dairy producer, providing one-third of the state’s milk production.

Recent community contacts were used to determine credit needs. Credit needs identified include financing for small business development and affordable housing.

## Conclusions About Performance

### Summary

The bank originated a high level of qualified investments and CD loans in the AA during the evaluation period. Qualified investments included a \$1.1 million investment made to develop affordable housing using a combination of LIHTC and historical tax credits. Private investors do not routinely provide this type of complex investment. Investing and lending activities are responsive to credit needs identified in the AA in relation to the bank’s limited presence in the market.

### Qualified Investments

The level of investments in the Bethesda-Frederick-Gaithersburg MD is high. *Tables 3 and 4* show the level of qualified investments and the corresponding percentages to allocated Tier 1 Capital and Total Income.

**Table 3: Bethesda-Frederick-Gaithersburg MD - Qualified Investment Activity (000s)**

	<b>Benefits Bethesda-Frederick-Gaithersburg MD</b>
<b>Originated Investments</b>	\$6,542
<b>Originated Grants</b>	\$8
<b>Prior-Period Investments that Remain Outstanding</b>	\$0
<b>Total Qualified Investments</b>	\$6,550
<b>Unfunded Commitments*</b>	\$0

\* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.

**Table 4: Bethesda-Frederick-Gaithersburg MD - Qualified Investment Percentages**

	<b>Benefits Bethesda-Frederick-Gaithersburg MD (%)*</b>
<b>Total Investments/Average Tier 1 Capital</b>	64.46
<b>Total Investments/Average Total Income</b>	43.57

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).

The bank purchased \$5.3 million in MBS. The MBS are secured by pools of single-family

mortgages to LMI borrowers in the AA.

The bank invested \$1.1 million in a LIHTC and historic tax credit investment. The investment will finance the conversion of an older hotel in downtown historic district of Frederick, MD. The hotel is being converted into a mixed-use, multi-family housing development containing 46 units with 26 set aside for affordable housing. The affordable component is for tenants making not more than 60 percent of the area median income. The first floor will provide commercial and retail space. The combination of various sources of funding and mixed-use property represents a complex investment not routinely provided by private lenders.

The bank made three CD grants totaling \$8,000.

**Community Development Lending**

Mellon originated a high level (\$1.7 million) of CD loans in the AA. The following table shows percentages for total dollars of CD loans.

**Table 5: Bethesda-Frederick-Gaithersburg MD - Community Development Lending Percentages**

	<b>Benefits Bethesda-Frederick-Gaithersburg MD (%)*</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	16.73
<b>Total CD Lending/Average Total Income</b>	11.31

*\* Community development loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capita and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at [www.fdic.gov](http://www.fdic.gov).*

The bank made a \$1.7 million CD loan to rehabilitate a 49-unit affordable LIHTC multi-family apartment building in a moderate-income area of Wheaton, Maryland.

Prior to its designation as a wholesale bank, Mellon originated \$9.7 million of affordable home mortgages. These totals are not included in the tables. We considered these loans qualitatively in our evaluation and they had a neutral impact on the CRA performance.

**Community Development Services**

The bank demonstrated an adequate level of community development services. Mellon conducted three homebuyer workshops for 32 attendees in Montgomery County. These workshops are targeted to first-time LMI mortgage applicants so they may learn how to gather the down payment, budget and successfully apply for a home mortgage loan.

**Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.



## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance examination. 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 metropolitan areas (MAs) or divisions (MDs) using the 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 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 Development Financial Institution (CDFI)** – by statute means a person (other than an individual) that has a primary mission of promoting community development, serves an investment area or targeted population, provides development services in conjunction with equity investments or loans (directly or through a subsidiary or affiliate), maintains accountability to residents of its investment area or targeted population, and is not an agent or instrumentality of the United State or of any State or political subdivision of a State.

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

**Metropolitan Division (MD)** – Area defined by the director of the United States Office of management and Budget. MDs consist of subdivisions within MAs or MSAs (Metropolitan Statistical Areas).

**Net Operating Income** – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. (*Schedule RI - Income Statement, line 8*)

**Qualified Investment** - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**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 11*)

**Total Assets** – Total bank assets as listed in the Consolidated Report of Condition and Income. (*Schedule RC - Balance Sheet, line 12*)

**Total Income** – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. (*Schedule RI - Income Statement, Total Interest Income, line 1h and Total Noninterest Income, line 5m*)

**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.