

PUBLIC DISCLOSURE

August 4, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Investors Bank and Trust Company
20072**

**24 Federal Street
Boston, MA 02110**

Federal Deposit Insurance Corporation

**200 Lowder Brook Drive
Westwood, MA 02090**

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Investors Bank and Trust Company** prepared by **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **August 4, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated **SATISFACTORY**.

Investors Bank and Trust Company (IBT) is assigned a CRA rating of Satisfactory under the Community Development Test. The bank has been designed as a "Wholesale Purpose" Bank under the CRA. Consequently, its rating has been assigned based on its performance in providing qualified community development loans, investments, and services in its assessment area, or a broader regional or state-wide area. In assigning this rating, consideration has been given to the unique nature of IBT's business; it has a very limited capacity to conduct the types of lending, or provide the types of services that the CRA regulation considers for a wholesale bank. With respect to lending, IBT is primarily an asset management firm, with no lending officers. Out of 1,052 employees, one employee spends approximately one quarter of his time generating the two very limited types of lending done by this bank. This lending does not involve the evaluation of credit-worthiness inherent in most lending decisions because the loans are so heavily secured, and specialized. With respect to financial services, the nature of this bank's business does not lend itself to the type of "financial expertise" that could be used to aid community development groups seeking to put together a loan package or develop housing. In addition, the bank was subject to the Competitive Equality Banking Act of 1987 (CEBA) until the end of 1995, and has since grown very rapidly. The bank has chosen to meet its CRA obligations through community development investments, and it has relied primarily on one investment vehicle that it developed several years ago. While it has invested in that to the extent that the investment was available within its assessment area, the amount invested is minimal in relation to the bank's assets, and it is believed that management could have broadened the type of investments, and other activities considered. While subsequent CRA examinations will continue to take the nature of the bank's business into effect, other factors such as prior CEBA restraints, and rapid asset growth will not continue to be a consideration, and a stronger performance will be needed to retain the "satisfactory" rating.

DESCRIPTION OF INSTITUTION:

Discussion of Institution:

IBT's primary function since its creation in 1969 has been asset administration. IBT performs various services for financial asset managers and the pooled products they sponsor, including domestic and global securities custody, multi currency accounting, performance measurement, foreign exchange, institutional transfer agency, securities lending, and mutual fund administration.

The bank also offers trust custody services. These services provide securities custody and accounting services to individuals, family groups, trusts, endowments and foundations, and retirement plans. IBT establishes its client base by forming relationships with investment advisors, unrelated to IBT, and working with advisors to service mutual clients. IBT receives approximately 75% of its revenue from financial asset administration services.

IBT formerly operated as a subsidiary of Eaton Vance Corporation, from the bank's formation through November 1995. Eaton Vance Corporation is an investment management firm.

Throughout that time, the bank was subject to the Competitive Equality Banking Act of 1987 (CEBA). CEBA restricted the bank from making commercial loans and from underwriting residential mortgages. IBT was also limited to a 7% annual asset growth rate cap. Due to these restrictions, the board of directors for the bank and Eaton Vance Corporation decided to separate the business operations of the bank from those of Eaton Vance Corporation in November 1995 by means of a spin-off to the shareholders of Eaton Vance Corporation. The spin-off eliminated the regulatory restrictions which the bank was subject to under CEBA.

As part of the spin-off, a new holding company was established and named Investors Financial Services Corporation (IFSC). Immediately following the spin-off, IFSC raised over \$34 million of net new capital in an initial public offering of 2.3 million shares of the bank's common stock to form a new holding company. With IBT now a wholly-owned subsidiary of IFSC, and since the restrictions of CEBA no longer exist, the bank was able to take advantage of the cash management and commercial lending opportunities present in the asset administration business.

This restructuring has allowed the bank to better serve its customers in its primary business of asset administration and trust custody. IBT can now accept deposits which the customers previously had to place in other financial institutions. The bank's clients (which consist mostly of managers of mutual funds, unit investment trusts, and other pooled asset products) typically generate large cash balances from securities sales and other transactions which they wish to invest on a short-term basis. Because the bank was subject to growth restrictions under CEBA, it was not able to accept those large cash deposits, and as a result, directed those deposits to other financial institutions. During fiscal year 1995, the bank directed client deposits to other banks which averaged almost \$1.2 billion daily. Since CEBA was lifted in November 1995, IBT has acquired these deposits and as a result, the bank has experienced significant asset growth. Total assets at 12-31-95 were \$322,436,000. Total assets grew nearly 200% from 12-31-95 through 12-31-96, when total assets were \$964,458,000. IBT's total assets grew further to \$1,256,676,036 at 6-30-97, representing a 30% increase from year-end 1996.

The deposits which the bank acquired are housed in various securities with the majority being mortgage-backed securities. This influx of deposits has not resulted in a substantial increase in the loan portfolio, as lending is not the bank's primary function. Overall growth in the loan portfolio is much smaller than overall asset or deposit growth.

Although many of the bank's clients use credit lines to leverage their portfolios or to handle overnight cash shortfalls, CEBA restrictions prevented the bank from making commercial loans of this type. Since the bank became a subsidiary of IFSC, it has been able to extend this type of credit directly to existing and potential customers.

While under the restrictions of CEBA, IBT met its CRA responsibilities by developing an investment vehicle which would not violate CEBA's prohibition of directly originating mortgages. This investment is discussed in detail under "Performance-Community Development Test" later in this report.

The bank's main office and operations center is located at 200 Clarendon Street in Boston. The only branch office is located in downtown Boston at 24 Federal Street. No branch additions or closings have occurred since the last examination, and none are anticipated for the immediate future. IBT also has three other "administration sites". These are located in Dublin, Ireland; Toronto, Canada; and the Cayman Islands. The Toronto office was opened during 1993 to service the growing offshore mutual fund market. In July 1994, the bank opened the Dublin, Ireland office to service European clients. Both the Toronto and Dublin offices maintain employees to perform fund accounting services. A small administration site was opened in the Cayman Islands in February 1996. This site is operated by the Bank of Nova Scotia, therefore only IBT's books and records are maintained there.

IBT plans to continue a strategy of providing global and domestic custody and multi-currency accounting as the principal asset administration services provided to the bank's clients. The bank's securities lending, foreign exchange, transfer agency and mutual fund administration services are value-added services used by clients based on their particular needs. IBT's lending is planned to expand primarily to its mutual fund clients, with the balance of the bank's loan growth to come from its trust custody clients consistent with the asset growth of that business. The bank does not plan to expand lending beyond these two markets. The bank currently has 55 mutual fund groups, investment advisors, banks and insurance companies as clients with custody assets totaling approximately \$146 billion, including \$10.5 billion in foreign assets. The loans to mutual funds include lines of credit and advances pursuant to the terms of the custody agreements between the company and those mutual fund clients to facilitate securities transactions and redemptions. The bank's loan policy prohibits any loans to borrowers that do not purchase securities custody services from the bank. The institution also does not accept deposits from the general public.

The bank's net Loan-to-Deposit (LTD) Ratio at December 31, 1996 was 11.1 percent, and was 13.8% at June 30, 1997. Total loans to assets for the same time periods were 6.8%, and 8.1% respectively. The bank's loan policy suggests that an appropriate level for the bank's LTD ratio should be 40%. Loans to mutual funds totaled \$85,052,029 as of June 30, 1997, while loans to individuals (custody trust customers) totaled \$17,462,670.

IBT was last examined for compliance with the Community Reinvestment Act by the Federal Deposit Insurance Corporation as of September 28, 1994 and was accorded a Satisfactory rating.

ASSESSMENT AREA

BOSTON, MASSACHUSETTS

As a wholesale financial institution for CRA purposes, this evaluation will consider activities which benefit not only Boston, Massachusetts, but a broader regional and state-wide area.

SUMMARY OF INSTITUTION'S OPERATIONS IN *Boston, Massachusetts*:

The main office and operations center is located at the Hancock Tower, 200 Clarendon Street, Boston. The bank's only branch office is located in downtown Boston, at 24 Federal Street. This branch location serves only the trust custody clients and any employees of the former Eaton Vance Holding Company which maintain deposits at the bank. It is not a traditional branch office.

DESCRIPTION OF *Boston, Massachusetts*:

The City of Boston is located in Eastern Massachusetts, approximately 106 miles south of Portland, Maine; 44 miles northeast of Providence, Rhode Island; 93 miles northeast of Hartford, Connecticut; and 218 miles northeast of New York City. Boston is a very historic city comprised of diverse neighborhoods. From the North End to Bay Village, Back Bay to the South End, Jamaica Plain to Charlestown, the city shows its diversity of populations, of languages, of foods and philosophies.

The bank's assessment area is comprised of the City of Boston, which is part of the Boston, MA-NH Metropolitan Statistical Area (MSA). While the Boston, MA-NH MSA is a multi-state MSA, the bank has no offices in the New Hampshire portion of the MSA. IBT's assessment area consists of 164 census tracts within the city of Boston. Detailed in Table 2 below is a summary of the census tracts within the bank's assessment area.

Table 2

CENSUS TRACT SUMMARY FOR THE CITY OF BOSTON		
CENSUS TRACTS	Number of Tracts in City of Boston	Percent of Tracts in City of Boston
Low-Income	37	22.6
Moderate-Income	75	45.7
Middle-Income	39	23.8
Upper-Income	13	7.9
TOTAL	164	100.00

1990 U.S. Census Data

Total population for the MSA based on 1990 U.S. Census Data is 3,276,862. Total number of households is 1,236,037. Owner-occupied units for the MSA represent 53.3% while rental units represent 40.2%, and vacant units represent 6.5%. The median home value for the MSA based on 1990 census data was \$186,100. Median Family Income for the MSA is \$48,749.

Total population for the City of Boston is 574,283, which comprises 17.5% of the total MSA population. The total number of households within the assessment area is 227,958. The 1990 census estimates that approximately 15% of the city's population is below the poverty level and that approximately 66,253 or 56.3% families earn less than 80% of the MSA median income. The city's median family income is \$34,377, or 70.5% of the MSA median income. According to 1990 census data, owner-occupied units for IBT's assessment area totals 28.1%, while rental units total 63%, and vacant units comprise 8.9%. The median home value for the assessment area was \$160,083. Clearly, IBT's assessment area displays a lower owner-occupancy level as well as a lower median income in comparison to the MSA.

The 1995, 1996, and 1997 Department of Housing and Urban Development (HUD) Estimated Median Family Household Income (FHI) for the Boston MSA was \$53,100, \$56,500, and \$59,600, respectively. FHI for the city of Boston was considerably less at \$37,505.

The bank's assessment area includes many Community Development Corporations. Some of these organizations include the Boston Community Development Loan Fund, Community Economic Development Assistance Corporation, East Boston CDC, Massachusetts Housing Investment Corporation, Paul Sullivan Housing Trust, The Women's Institution for Housing and Economic Development, and Urban Edge Housing Corporation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE in Boston, Massachusetts:

Given the bank's unique characteristics, management applied to the FDIC, in conjunction with its application to the Commonwealth of Massachusetts, to be designated as a "wholesale purpose" institution for CRA purposes on November 18, 1996. The application was approved on February 20, 1997. This bank is considered to be a "wholesale bank" because it is designated as such.

COMMUNITY DEVELOPMENT TEST

The revised CRA regulation assesses wholesale institutions under the community development test. The community development test considers the institution's community development activities, which are defined as community development lending, qualified investments and services with the primary purpose of community development. As defined under the revised CRA regulation, community development includes affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small business or small farms and activities that revitalize or stabilize low- and moderate-income geographies.

Specifically, the performance criteria for the wholesale bank consists of 1) The number and amount of community development loans, qualified investments, or community development services; 2) The use of innovative or complex qualified investments, community development loans, or community development services and the extent to which the investments are not routinely provided by private investors; and 3) The bank's responsiveness to credit and community development needs.

As defined under the revised CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose.

Due to the nature of IBT's business, it does not directly originate mortgage loans. Presently the bank's only branch is geared specifically to taking deposits from its trust customers. The bank's only Loan/CRA Officer is dedicated to originating loans to its securities custody customers and to mutual funds, consistent with IBT's business. To fulfil the bank's CRA responsibilities, management developed the "Special Home Financing Program", after it was determined that one of the community needs was home financing. The bank worked with two local mortgage loan brokers who agreed to package loans made in low- and moderate-income areas within the City of Boston (the bank's assessment area). These loans were packaged into a customized \$1,000,000 FNMA security. The bond was not issued to the bank until the pool of mortgages totaled the amount of the bond.

In August 1995, IBT further executed an agreement with Plymouth Mortgage Company and Members Mortgage Company to originate and package loans for securitization with FNMA. Presently, the bank works with only Members Mortgage. Members Mortgage received a list of all low- and moderate- income census tracts located in the City of Boston, from which the bank will accept loans. The bank has the right to purchase the FNMA mortgage backed securities each month that they become available. Approximately \$2,909,746 was outstanding in the customized bonds as of June 4, 1997. A detailed list of the mortgages securing these bonds are reflected in Table 1 on the following page.

Table 1

FNMA MORTGAGE BACKED SECURITIES PURCHASED			
LOCATION	CENSUS TRACT NUMBER	DOLLAR AMT OF SECURITY	SETTLEMENT DATE
Boston	103	108,723	3/97
Hyde Park & Mattapan	1401.01 & 1011.01	217,750	6/97
South Boston	610	136,000	5/96
Jamaica Plain	1202	175,000	2/97
Jamaica Plain	1202	131,500	1/97
Hyde Park	1401.01	121,000	1/97
Hyde Park	1401.01	127,300	1/97
Mattapan	1010	90,000	10/96
Hyde Park	1401.01	73,000	6/96
Boston	103	108,723	3/97
Roxbury	818	76,500	11/96
Roslindale	1105.02	100,000	11/96
Dorchester	920	125,000	3/96
Dorchester	915	112,500	3/96
Dorchester & Roxbury	1005 & 810	125,900	3/96
South Boston	610	103,200	6/96
Dorchester & Mattapan	923 & 1010.01	197,800	10/95
West Roxbury	1304.01	108,900	4/96
Mattapan	1010.01	53,000	4/96
Roslindale	1101.02	85,500	4/96
Roslindale, Charlestown, & East Boston	1401.01, 1304.01, 509	330,500	4/96
South Boston	605	80,000	8/97

Hyde Park	1401.01	121,950	8/97
TOTAL		2,909,746	

The bank's CRA performance had previously been restricted due to limitations placed on its activities by CEBA, which restricted the bank's asset growth and ability to add new services. The CEBA restrictions were lifted pursuant to the divestiture of IBT by its former parent corporation. Because the asset growth restrictions were lifted, the bank has the option to increase its participation in its current CRA related activities.

Under the revised CRA regulation, qualified investments are reviewed to determine the level of such qualified investments, the use of innovative or complex qualified investments, and the responsiveness these investments serve to the community development needs of the assessment area.

IBT has chosen to focus its CRA efforts in one investment vehicle which was created originally in 1994, and has since been modified. While this investment was considered innovative when it was developed, it has been continuously used since then. However, to the bank's credit is the fact that they have purchased all the mortgages that have become available in their assessment area under this program. The bank's CRA Officer contacts the mortgage broker monthly to determine if any new mortgages will be originated in the low- and moderate-income census tracts within their assessment area. The CRA Officer is also entertaining the possibility of purchasing these mortgages outside the assessment area, but in other low- and moderate-income census tracts if the revised regulation will allow.

Another mitigating factor in the level of the qualified investments is the fact that since the restrictions of CEBA were lifted at the end of 1995, the bank has experienced significant asset growth as detailed above. While asset growth has been rapid, the growth of the "Special Home Financing Program: has been strong as well. As of year-end 1994, the bank had purchased the FNMA bond which totaled \$1,000,000. Since then, the total of mortgages packaged into the customized security has risen to \$2,909,746. This represents 291% growth in this program. Additionally, within this time period the bank applied for their wholesale bank designation, and was subsequently approved in February 1997.

Community Development Lending

As defined under the revised CRA regulation, community development lending includes loans which have community development as the primary purpose. Due to the nature of IBT's business, it only grants loans to accommodate existing clients and collateralizes loans with the securities which are held in trust at IBT. However, IBT granted a loan for \$12,500 to the Boston Community Loan Fund (BCLF). The loan originated in January 1991, at 4%, and was amended

in 1994 for the same amount at 2%. The note was again renewed as of June 30, 1997 with the purpose to fund low-income housing.

BCLF is a non-profit community development financial institution (CDFI) developed for the purpose of providing access to credit and capital to community based or community controlled organizations which are involved in projects that build, rehabilitate or preserve affordable housing in the Boston area for lower income households and other disadvantaged people. BCLF is a member of the National Association of Community Development Loan Fund which was formed to provide local community loan funds with technical assistance and other advice. BCLF accepts loans and grants from individuals, private, and public foundations and religious organizations. BCLF then pools the proceeds of the loans and grants with other income of the fund to make loans at below market rates, for the benefit of affordable housing projects.

Under the revised CRA regulation, qualified community development loans are reviewed for the level of qualified loans, the use of innovative or complex qualified loans, and the responsiveness these loans serve to the community development needs of the assessment area.

Again, due to the nature of the bank's business, IBT does not originate any mortgage loans, however they are able to originate loans to CDCs, which in turn can lend out funds, or disburse them into low- and moderate-income housing projects, or other community development activities. The bank does not have personnel trained in mortgage origination, nor does the bank have any branch network. Their only branch location located in Boston, is primarily used for the trust custody clients. IBT's total loan to assets ratio as of 6-30-97 was 8.15%, which further reflects that IBT is not in the business to lend. IBT therefore has chosen to focus its CRA efforts in the investments in the mortgage pools. The bank identified a need for low- and moderate-income housing financing, and developed a way in which they could get the funds into the community.

A number of consumer compliance regulations do not apply to IBT because it does not originate mortgage loans. Therefore there was no review of antidiscrimination laws including the Equal Credit Opportunity Act (ECOA), the Fair Housing Act, and the Home Mortgage Disclosure Act. ECOA is applicable for non-originated applications; however, due to the low volume of loans (less than 150 applications within a calendar year), the bank is not required to provide written adverse action notices. The bank's loan policy prohibits any loans to borrowers that do not purchase securities custody services from the bank; with one exception made for the CDC loan.

Community Development Services

As defined under the revised CRA regulation, community development services refers to

providing services of the type generally provided by the financial services industry. This includes but is not limited to providing technical assistance about financial services to community-based groups, local or tribal government agencies, or intermediaries serving low- and moderate-income housing or economic revitalization and development needs. Due to the nature of IBT's business, and the rapid asset growth which has occurred recently, the bank has not participated in these types of activities to date. However, there are opportunities available within IBT's assessment area including providing technical assistance on financial matters or financial services education to small businesses, community development organizations, or other organizations. These services, however, must primarily be for a community development purpose in order to qualify under community development services. It is also not clear whether, given the nature of this bank's business, it would naturally possess the types of expertise needed.

OTHER ACTIVITIES

SUMMARY OF INSTITUTION'S OTHER COMMUNITY DEVELOPMENT ACTIVITIES

Due to the nature of IBT's business, there were no activities outside of the qualified investments and community development loans which the bank is involved in.

SCOPE OF EXAMINATION

SCOPE OF EXAMINATION Full Scope		
TIME PERIOD REVIEWED	10/94 TO 8/4/97	
FINANCIAL INSTITUTION Investors Bank and Trust Company		PRODUCTS REVIEWED Community Development Investments Community Development Services Community Development Loans
AFFILIATE	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
NA	NA	NA

