

FEDERAL DEPOSIT INSURANCE CORPORATION

RE: Bank of Boston Connecticut
Hartford, Connecticut

Application for Consent to Conduct an Activity
Which May Not be Permissible for a National Bank

STATEMENT

Pursuant to the provisions of section 24 of the Federal Deposit Insurance Act, Bank of Boston Connecticut, Hartford, Connecticut (the "Bank"), has filed an application with the Federal Deposit Insurance Corporation ("FDIC") requesting consent to retain certain equity investments and to fund contractual capital calls and purchase warrants through its majority owned subsidiary, BancBoston Capital Inc., Boston, Massachusetts (the "Subsidiary") in accordance with plans developed at the time the investments were acquired.

The Subsidiary provides mezzanine and equity financing for corporate restructurings, leveraged buyouts, and business expansions. Target markets include domestic media, entertainment and basic manufacturing companies. The Subsidiary also invests in a small number of limited partnerships which invest in similar transactions. The Subsidiary principally invests in a base security, such as subordinated debt or preferred stock; however, equity investments in the form of warrants or common stock are also common. The companies in which the Subsidiary has invested are closely held with no recognized market.

State chartered, majority-owned subsidiaries of FDIC-insured state banks may not engage as principal in an activity that is not permissible for a subsidiary of a nationally chartered bank unless they obtain consent from the FDIC. In order to be approved the bank must comply with applicable capital standards and the FDIC must determine that the activity poses no significant risk to the appropriate deposit insurance fund.

In general, the OCC has delineated the types of permissible activities through various rule makings, banking circulars and interpretive rulings. These publications have been reviewed and it does not appear that the activities of the Subsidiary are permissible for a subsidiary of a national bank. Section 24 is therefore applicable.

The Bank acquired its 75.1 percent interest in the Subsidiary as a contribution to capital from its parent holding company, Bank of Boston Corporation, Boston, Massachusetts, in late 1990. Bank of Boston Corporation retains the remaining stock of the Subsidiary. The State Banking Department approved the transfer as an addition to the Bank's capital structure on October 30, 1990.

The Bank's investment in the Subsidiary currently represents approximately 35 percent of Tier I capital. The Bank is well-capitalized under the prompt corrective action definition, and is otherwise in satisfactory financial condition and is adequately managed. The Subsidiary is a bona fide subsidiary, as defined at 12 C.F.R. § 362.2(d). The assets of the Subsidiary are of

generally acceptable quality, presenting limited risk to the Bank at this time. In addition, the FDIC has determined that the Subsidiary's management possesses the necessary experience to continue successful operation of the Subsidiary. The Bank has requested authorization for the Subsidiary to continue its operations to allow for orderly divestiture. The Bank has informed the FDIC that additional investment activity by the Subsidiary, unless required by current contractual obligations, is not anticipated.

Having found that the operation of the Subsidiary in question involves an activity that did not require FDIC review or consent at inception but does so now because of a new legal requirement, that the Bank's financial condition and management are acceptable, that the continued operation of the Subsidiary is not economically unsound, that immediate divestiture of its equity investments may result in significant loss, and that the Bank is in compliance with applicable capital standards, the FDIC concludes that allowing the subsidiary to continue to engage in its current activities consistent with its original investment plans until the earlier of five years or the date upon which divestiture is completed does not pose a significant risk to the deposit insurance fund and therefore approval is warranted subject to the following restrictions.

The Bank shall meet all applicable capital standards, exclusive of its investment in the Subsidiary. The Bank shall notify the FDIC of any significant change in facts or circumstances. The FDIC's action is conditioned on its ability to alter, suspend, or

withdraw its approval in the event the facts and circumstances presented in the application change significantly. In addition, transactions between the Subsidiary and the Bank that would be covered transactions for the purposes of Sections 23A and 23B of the Federal Reserve Act, 12 U.S.C. §§ 371c and 371c-1, if the Subsidiary were an affiliate of the Bank under Sections 23A and 23B, shall not exceed the amount limitations and shall be made in accordance with other restrictions of Sections 23A and 23B to the same extent as though the Subsidiary were an affiliate of the Bank. Finally, the Subsidiary will continue to be maintained as a bona fide subsidiary.

The FDIC notes that its consent action is unique to this case, that it was significantly influenced by acquisition pre-section 24 and that its view of a de novo request for such activity might well be different.

ASSOCIATE DIRECTOR
DIVISION OF SUPERVISION