Regional & Community Bankers Conference

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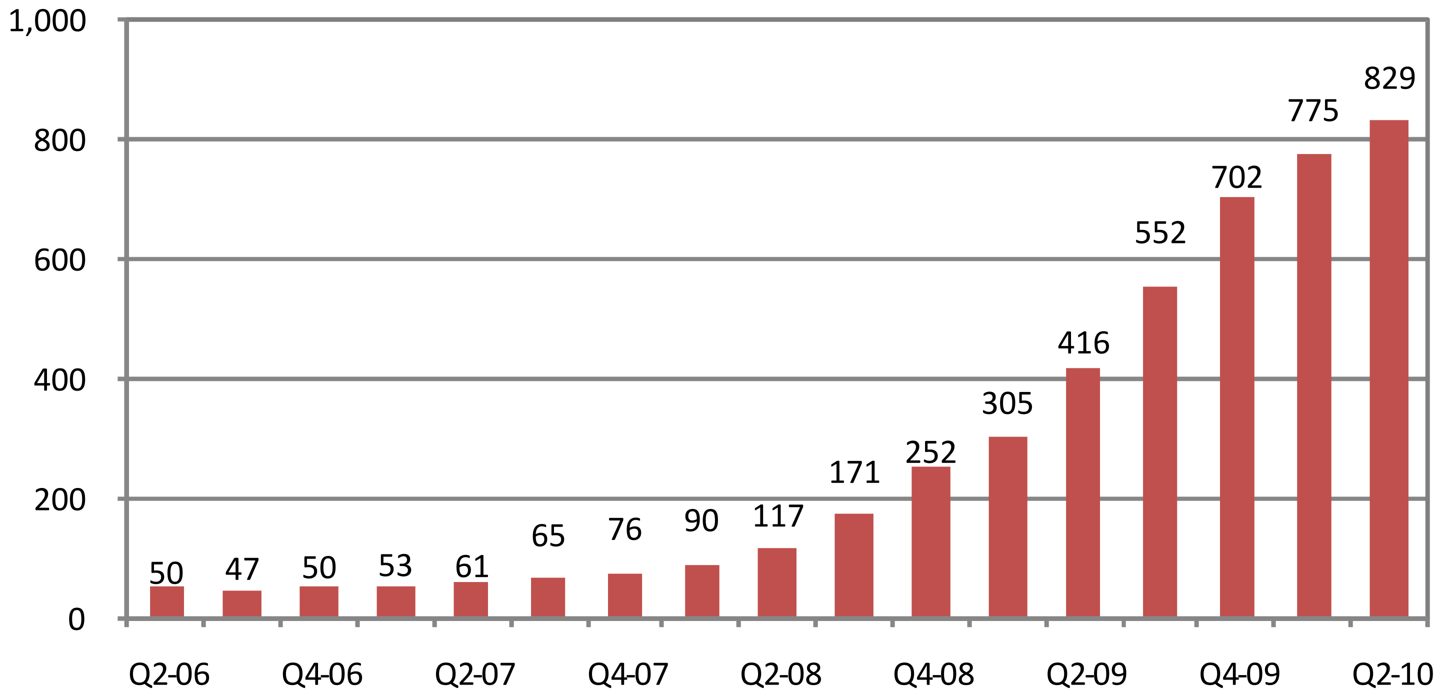
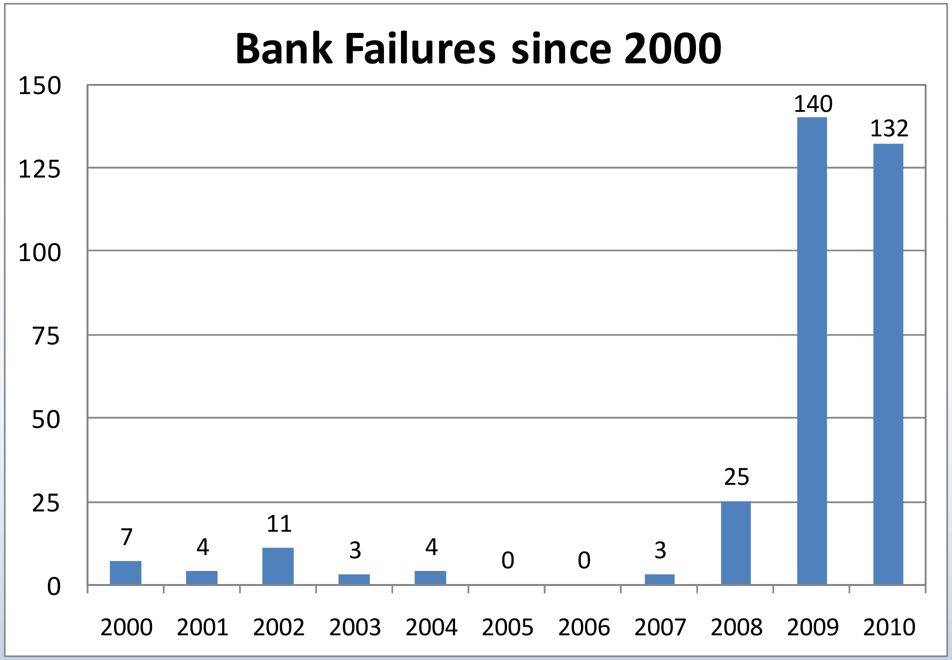
Federal Reserve Bank of Boston
October 21, 2010

The FDIC's problem bank list continues to grow



Source: FDIC

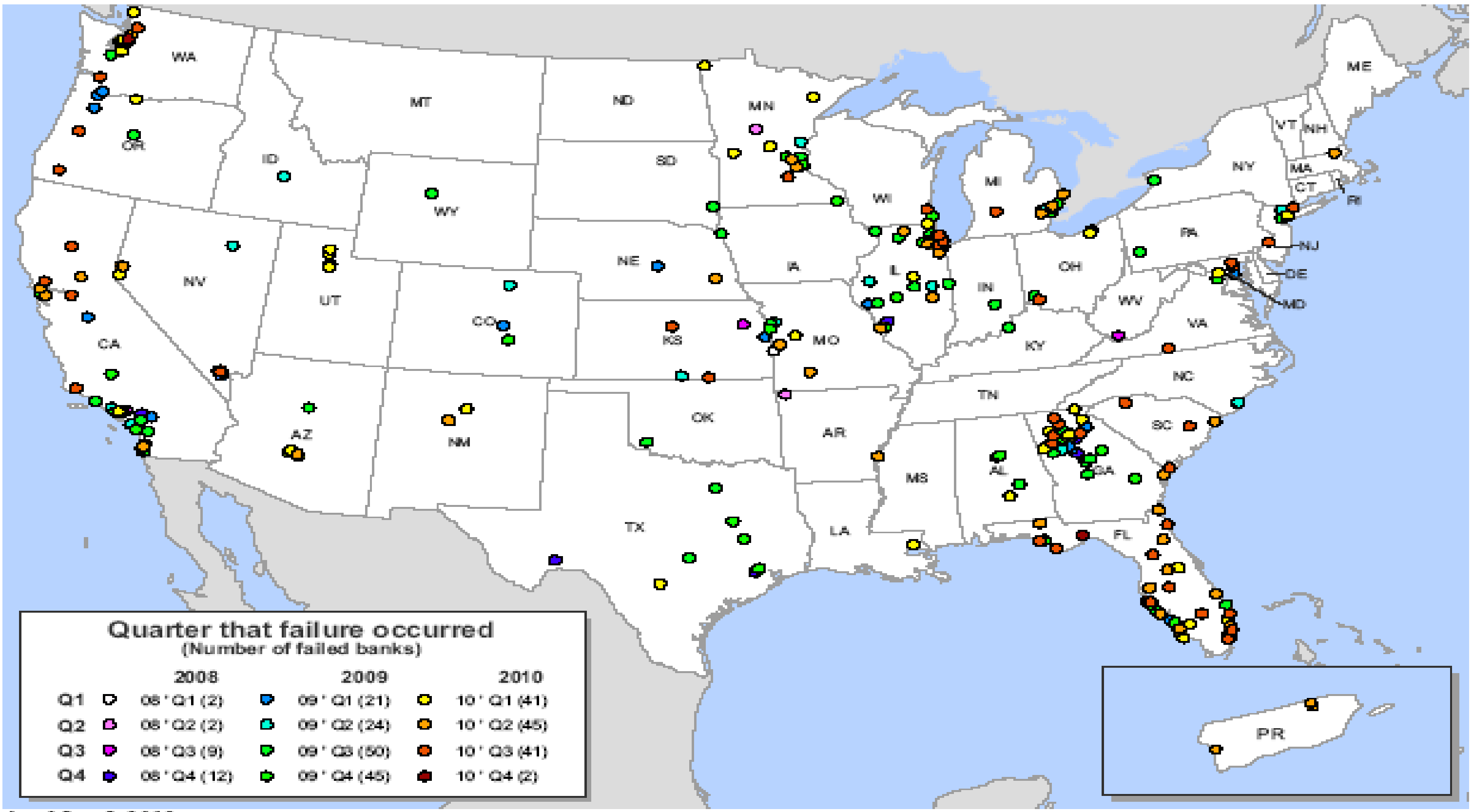
Bank failures reached a record high in 2009



Note: Data as of 10/19/10

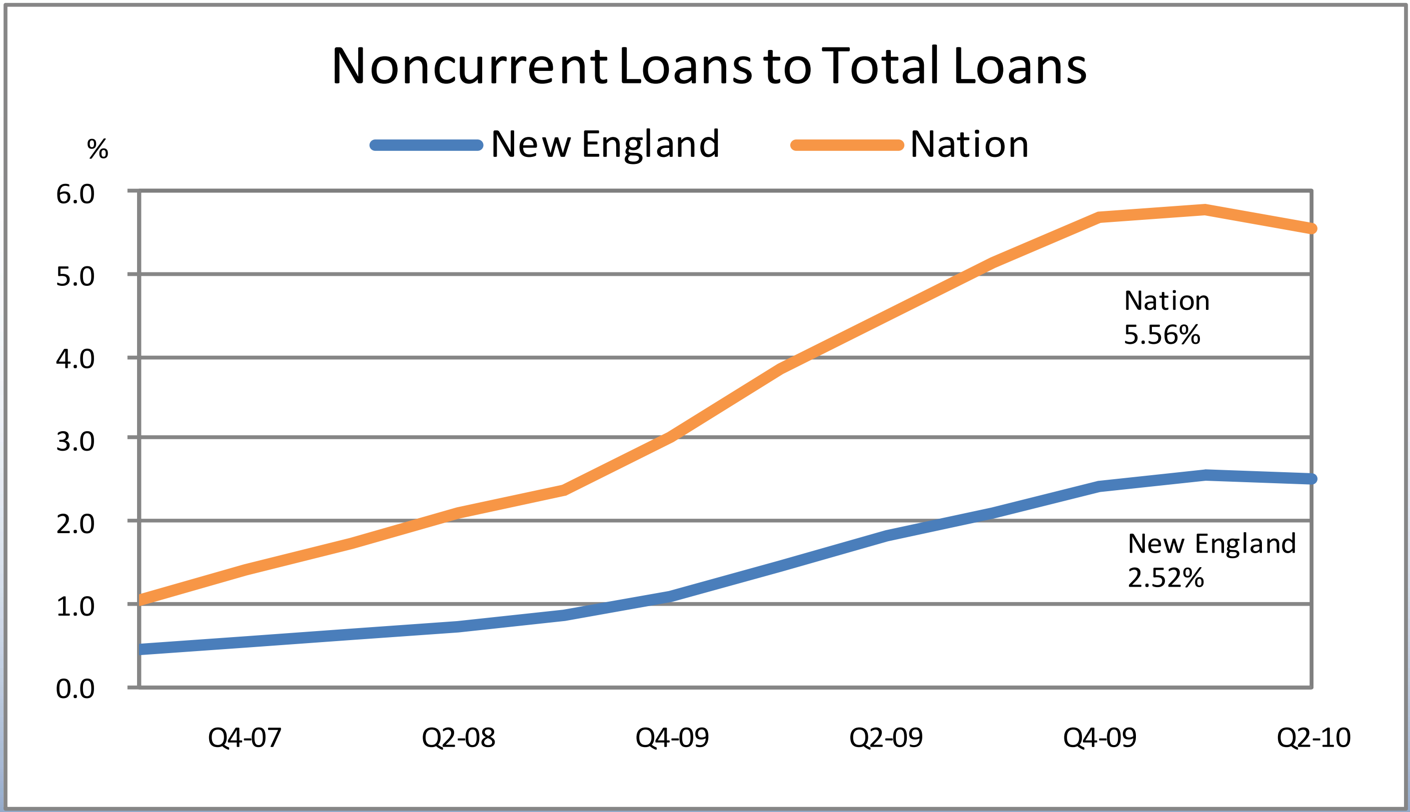
...but remain geographically concentrated

Bank and thrift failures since 2008



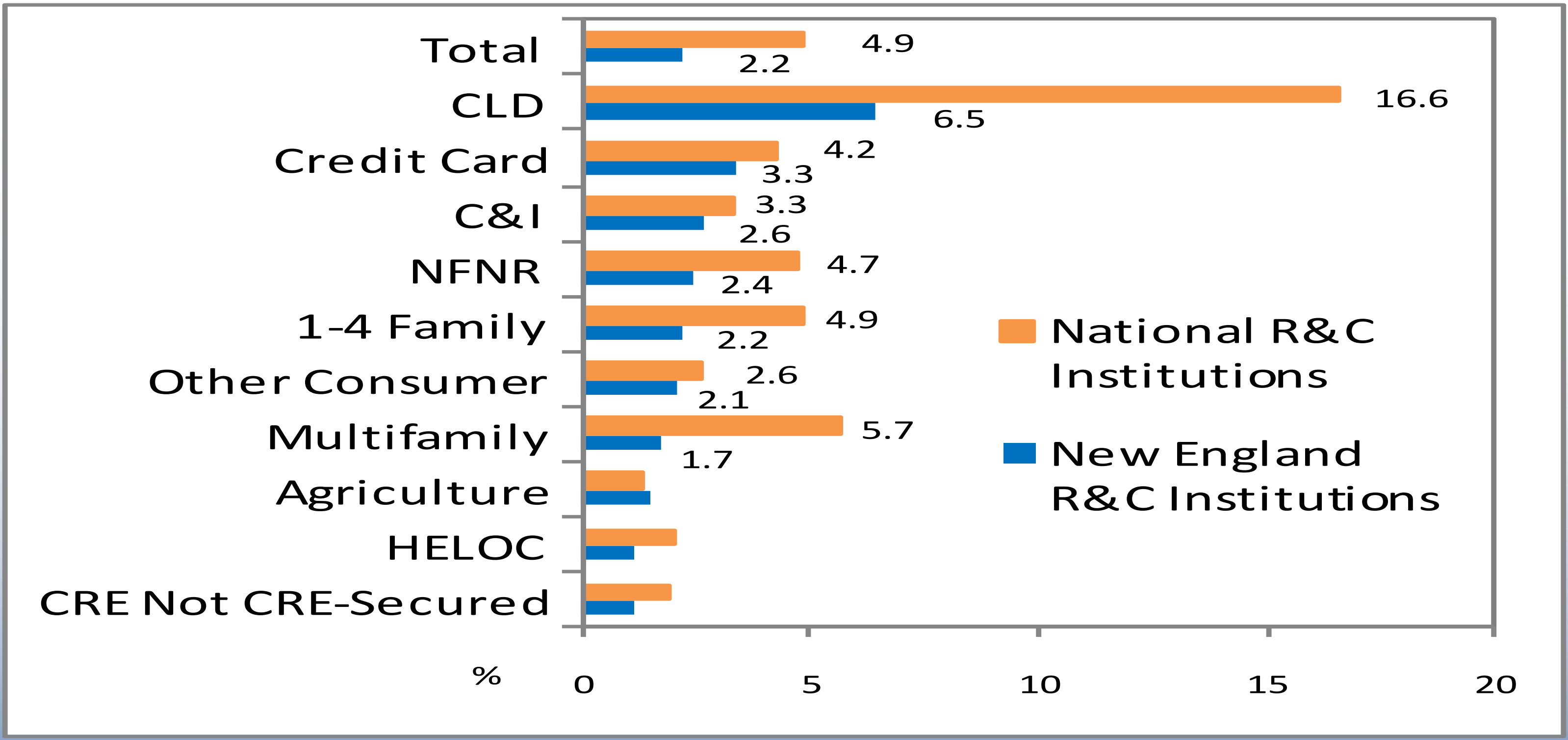
As of Oct. 8, 2010.
Source: SNL Financial

Noncurrent loans posted the first decline since almost three years ago



Note: Data as of 6/30/10
Source: FDIC

New England delinquencies are lower than the nation in almost all loan categories



Note: Data as of 6/30/10

Top Ten Highlights of DFA

1) Establishes a Financial Stability Oversight Council to monitor systemic risks. Chaired by the Secretary of Treasury; Fed a member
2) Charges the Fed with establishing prudential standards for BHCs greater than $50 billion and systemic ally risky non-bank financial companies
3) Makes a number of changes to the regulatory and supervisory framework for banking organizations; eliminates the OTS and expands authority of Fed.
4) Establishes new regulation of advisers to hedge funds and places new scrutiny on the activities of credit rating agencies.
5) Brings greater transparency to, and regulation of, the over-the-counter derivatives market.

“Top Ten” (continued)

6) Gives the Fed an enhanced role in setting standards for systemically important financial market utilities and payment, settlement, and clearing activities conducted by financial institutions.
7) Creates a new Federal Bureau of Consumer Protection.
8) Places new restrictions on emergency lending by the Fed and impacts Fed transparency and governance; includes one-time audit and review of Fed governance by GAO and future Fed discount window disclosure requirements; establishes new BOG Vice Chairman over supervision.
9) Calls for regulations to be issued to prohibit insured depository institutions and their affiliates from engaging in “proprietary trading” and other actions.
10) Establishes new insolvency rules and functions that are designed to mitigate the problems faced by systemically important firms confronting collapse.

DFA Impact on Regional & Community Banks

Bureau of Consumer Financial Protection

- Any new rules will apply to all banks
- Bureau will have examination and enforcement authority only for those over $10B
- For those under $10B:
  - Bureau may *participate* in exams
  - Bureau may *recommend* enforcement actions

Trust Preferred Securities (TPS)

- Bank Holding Companies (BHCs) under $500mm in assets: *no change (allowed in Tier 1)*
- BHCs $500mm to $15B: *existing TPS grandfathered in Tier 1, new TPS will be Tier 2*
- GAO must study 1) hybrid capital instruments and 2) access to capital by institutions under $5B

DFA Impacts on Regional & Community Banks

Deposits

- FDIC insurance limit permanently raised to $250k
- Transaction Account Guarantee extended to YE 2012
- Can pay interest on business checking starting July 2011
- FDIC must study definition of core & brokered deposits

Sarbanes-Oxley (SOX)

- Institutions with < $75mm in market cap now exempt from SOX 404(b) internal control rules (external audit)
- SEC must study reducing SOX 404(b) burden on those with market cap from $75mm to $250mm

DFA Impacts on Regional & Community Banks

Credit Ratings

- Federal agencies must determine an alternative standard of credit-worthiness for use in capital & other regulations
  - Includes Discount Window collateral policies

Compensation Standards

- Agencies must jointly issue rules for financial institutions with $1 billion or more in assets

Charter Conversions

- Generally prohibited if bank is subject to supervisory action

Public Disclosure

- Fed must disclose names of Discount Window borrowers after a 2 year delay