

# Federal Reserve Bank of Boston BANK NOTES

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• Edited by Jason Wild •

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## Merger Announcement

On February 18, 2003, Union Bankshares Inc, Morrisville, VT, announced plans to merge its two subsidiary banks. Union Bank, Morrisville, VT, and Citizens Savings Bank and Trust Co., St. Johnsbury, VT, will be merged under the title and charter of Union Bank. The holding company has operated the subsidiaries semi-autonomously since acquiring Citizens in December of 1999. Union Bank has eight branches serving north central Vermont. Citizens has four branches serving northeastern Vermont, all of which will remain open under the Citizens brand name upon completion of the merger.

In a statement, Union CEO Ken Gibbons said, "This is simply a step to increase our competitiveness and delivery capability to our current and prospective customers." He added, "The impact of combining the two banks makes us more competitive, saves us money, and reduces our regulatory burden." Pending regulatory approval, the merger is expected to close May 1, 2003.

As of June 30, 2002, Union Bankshares had total deposits of \$280.0 million and ranked 7th among all commercial bank and thrift institutions in Vermont.

(SNL Bank & Thrift Weekly, 2/24/03;

Union Form 8-K, 2/19/03; American Banker, 2/21/03)

## Application Approved

On January 30, 2003, the Federal Reserve granted approval to Chittenden Corporation, Burlington, VT, to acquire Granite State Bankshares Inc, Keene, NH. The deal, which was announced in November of 2002, is expected to close in the second quarter of 2003.

As of June 30, 2002, Chittenden Corp had total deposits of \$279.6 million and ranked 13th among all commercial banking and thrift institutions in New Hampshire. As of the same date, Granite State Bankshares had total deposits of \$762.0 million and ranked 5th.

(Federal Reserve Release H.2, 2/1/03)

## Branch Openings

On December 10, 2002, Central Co-operative Bank, Somerville, MA, opened a branch located at 88 Montvale Ave, Woburn, MA.

Cambridge Savings Bank, Cambridge, MA, opened a branch located at 145 Great Road, Acton, MA, on January 13, 2003.

On January 13, 2003, Lowell Five Cents Bank, Lowell, MA, opened a branch located at 65 Groton Street, Pepperell, MA.

Wrentham Co-operative Bank, Wrentham, MA, opened a branch located at 1005 South Street, Wrentham, MA, on January 23, 2003.

On January 27, 2003, Commonwealth National Bank, Worcester, MA, opened a branch located at 564 Main Street, Shrewsbury, MA.

Naugatuck Valley Savings & Loan S.B., Naugatuck, CT, opened a branch located at 49 Perchings Drive, Derby, CT, on February 10, 2003.

(Internal Notice, 2/10/03, 2/12/03)

## Branch Address Change

On November 12, 2002, Katahdin Trust Company, Patten, ME, relocated its Limestone, ME, branch from 222 Main Street to 35 Main Street.

(Internal Notice, 2/12/03)

## Branch Acquisition

Effective at the close of business February 7, 2003, Woronoco Savings Bank, Westfield, MA, completed the sale of its Big Y Supermarket branch located at 800 Boston Road, Springfield, MA, to BPA Bank National Association, Newark, NJ. The deal marks the last of three branch sales Woronoco announced in August 2002. The bank previously sold two supermarket branches to Southbridge Savings Bank, Southbridge, MA. In addition, on February 13, 2003, Woronoco announced plans to move its South Hadley supermarket branch two miles to a new full service location in Chicopee, MA, during the third quarter of 2003.

As of June 30, 2002, Woronoco had total deposits of \$370.7 million and ranked 54th among all commercial bank and thrift institutions in Massachusetts.

(Internal Notice, 2/10/03;

SNL Bank & Thrift Weekly, 2/18/03)

## OTS Announces Thrift Industry Earnings

On February 19, the Office of Thrift Supervision (OTS) announced the thrift industry had achieved record earnings in 2002. Total earnings among thrifts reached \$11.8 billion last year, well above the previous record of \$10.8 billion in 2001. OTS Director James Gilleran said,

"These last few years have generally been great years to be in the thrift business. Present indications are that the industry will achieve favorable results in the first quarter of 2003, aided by the current low interest rate environment, which has led to record refinancing."

In addition, thrift assets topped \$1 trillion, up from \$978 billion in the previous year. This marks the first time since 1990 that thrift assets have exceeded \$1 trillion. Troubled assets increased from 0.70 to 0.75 percent of total assets between 2001 and 2002; however, the number of problem thrifts decreased from 16 to 14. Problem thrifts accounted for only 0.3 percent of total industry assets.

The number of thrift institutions in the U.S. at the end of 2002 was 974, down from 1,019 in 2001. The decrease was mainly due to mergers and acquisitions. There was only one thrift failure in 2002.

(OTS 03-05, 2/19/03;

SNL Bank & Thrift Weekly, 2/24/03)

## **Fed Amends Regulation B**

On February 19, the Federal Reserve Board approved a final rule amending Regulation B, which implements the Equal Credit Opportunity Act (ECOA). The new rule will allow banks to collect data regarding credit applicants' personal characteristics. In order to deter discrimination, current regulations prohibit creditors from inquiring about, or noting, applicant characteristics such as race or national origin in connection with non-mortgage credit, but the prohibition also prevents creditors from analyzing their own lending practices. The Home Mortgage Disclosure Act already requires lenders to collect similar information from mortgage applicants.

The Board is creating an exception to allow creditors to develop compliance programs that utilize applicant data in a controlled and targeted manner. If a creditor's self-test program indicates that "it is more likely than not" that it has violated the ECOA, the regulation requires the creditor to take corrective action. Creditors using a self-test program must still inform applicants that providing personal characteristics is optional. Any information that is collected must be kept separate from loan applications and cannot be used in lending decisions.

The new rule also requires creditors to retain for 25 months certain records related to prescreened solicitations, such as the list of criteria used to select potential customers. The effective date of the rule is April 15, 2003; however, the mandatory compliance date is April 15, 2004, in order to allow time for any operational changes.

(Federal Reserve Press Release, 2/19/03;

SNL Bank & Thrift Weekly, 2/24/03;

American Banker, 2/20/03)

## **FDIC Offers Payday Lending Guidance**

On January 29, the Federal Deposit Insurance Corporation (FDIC) released draft guidance pertaining to payday lending, a growing form of subprime lending.

Payday loans are small-dollar, short-term, unsecured loans that borrowers promise to repay out of their next paycheck. The loans are usually priced at fixed fee amounts, which produce very high costs for borrowers and high yields for lenders because of the short terms to maturity. Only a few insured institutions are currently engaged in payday lending; however, the FDIC noted that payday lenders have been actively seeking relationships with insured institutions.

Institutions that are active payday lenders assume many risks. The FDIC stated that, "the combination of the borrower's limited financial capacity, the unsecured nature of the credit, and the limited underwriting analysis of the borrower's ability to repay pose substantial credit risk for insured depository institutions." The Office of the Comptroller of the Currency intervened twice in 2002 when that agency felt banks in Texas and Pennsylvania did not properly manage their payday lending programs.

The FDIC's draft also addresses guidelines for recovery practices, income recognition, managing risks associated with third-party relationships, as well as consumer protection issues. Comments on the proposed guidance will be accepted until March 14.

(FDIC PR 5-2003; SNL Bank & Thrift Weekly, 2/3/03)

## **Banking Regulators Testify About Deposit Insurance Reform**

On February 26, Federal Deposit Insurance Corporation (FDIC) Chairman Don Powell, Federal Reserve Chairman Alan Greenspan, Comptroller of the Currency John Hawke, Office of Thrift Supervision Director James Gilleran, and Under Secretary of the Treasury for Domestic Finance Peter Fisher offered testimony to the Senate Banking Committee on current legislative efforts to reform deposit insurance. The regulators were in unanimous agreement with regard to the core reforms of merging the Bank Insurance Fund and Savings Association Insurance Fund, eliminating the hard 1.25% reserve ratio target in favor of a floating range, and allowing the FDIC to establish risk-based premiums for the fund.

Proposals to increase the level of deposit insurance and to index the level to inflation did not receive similar support. Mr. Powell said the FDIC supports the plan, while the other four regulators expressed doubt that any increase would be beneficial. Mr. Greenspan noted his agency feels an increase in coverage "is unlikely to add measurably to the stability of the banking system." Mr. Gilleran noted that in his time at the OTS no community thrift has asked for increased coverage "because they don't believe that they will receive more deposits because of it."

Senator Richard Shelby, the committee's chairman, and other members of the committee voiced support for moving forward with a plan to implement the reforms that have broad-based support. Shelby expressed optimism that reforms could be passed quickly, saying, "We can seize this opportunity and move forward [with] common-

sense reforms, reforms which protect depositors and taxpayers and ultimately make a good system better.” Although there are deposit insurance reform bills in both the House of Representatives and the Senate, Shelby asked Mr. Fisher to have the Treasury draw up its own legislative language for consideration.

(SNL Bank & Thrift Daily, 2/27/03;  
American Banker, 2/27/03)

Items in this publication focus on developments affecting banking structure in New England. The items are condensations of articles from a selected group of daily newspapers and press releases of federal and state financial regulatory agencies. Their reproduction does not imply our endorsement of the accuracy, opinions or policies reflected in the subject matter.

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