

Federal Reserve Bank of Boston BANK NOTES

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State Street Corp. Buying Investors Financial Services Corp.

On February 5, 2007, State Street Corp. of Boston, MA, announced that it had signed a definitive agreement to acquire Boston-based Investors Financial Services Corp. for approximately \$4.5 billion in stock. Both companies' Boards of Directors have approved the agreement which, pending regulatory and shareholder approval, is expected to occur by the third quarter of 2007.

Upon completion of the deal, State Street will have over \$14 trillion in assets under custody, including \$3.5 trillion in mutual fund assets under administration. State Street says it also will become the leading investment service provider to the offshore and hedge fund industries and gain capabilities for servicing the growing private equity fund market. Upon closing of the deal, State Street will service over \$340 billion in hedge fund assets.

State Street expects the transaction to be dilutive to its operating earnings in 2007, neutral to earnings in 2008 on an operating basis, and accretive to operating earnings in 2009. (State Street Press Release, 2/05/07; SNL Bank M&A Weekly, 2/05/07)

Mergers and Acquisitions

BankFive MHC, headquartered in Fall River, MA, agreed on February 20, 2007, to acquire New Bedford, MA-based New Bedford Community Bancorp and its Luzo Community Bank. Upon completion of the deal, BankFive MHC will expand its footprint in Bristol County, MA, with two branches. (SNL Bank & Thrift Daily, 2/26/07)

Effective with the opening of business on February 15, 2007, Capital Crossing Bank of Boston, MA, merged into Lehman Brothers Bank, FSB of Wilmington, DE. The deal, originally reported in September 2006, marks the acquisition of Capital Crossing (a commercial bank with \$1.1 billion in assets) by an investment bank (Lehman Brothers). The two companies have had a longstanding partnership covering loan purchase transactions. (Internal notices, 2/16/07; Boston Globe January 23, 2007; SNL B& Thrift Daily, 1/24/07)

Citizens Financial Group, Inc., parent company of Charter One Bank and a unit of Royal Bank of Scotland Group, said it had completed its acquisition of GreatBanc Inc. of Lisle, IL, as of February 1, 2007. The \$167 million deal positions Citizens as the fourth largest commercial

bank in the Chicago region. (SNL Bank & Thrift Daily, 2/02/07; Charter One Press Release, 2/1/07)

Eastern Bank Corp. unit Eastern Bank, based in Boston, MA, agreed to merge with Sharon, MA-based Sharon Co-operative Bank on January 30, 2007. Sharon Co-operative will merge into Eastern by the summer of 2007, pending regulatory approval. With the deal, Eastern Bank will have 73 locations serving 350,000 customers from Merrimack Valley, MA, to Cape Cod, MA. (Eastern Bank Corp. press release, 2/07/06; SNL Bank & Thrift Daily, 2/27/07)

Gardiner Savings Institution FSB of Gardiner, ME, completed its acquisition of First Citizens Bank of Presque Isle, ME, on January 16, 2007. First Citizens is still operating under the same name, as a division of Gardiner Savings. (SNL Bank & Thrift Weekly Northeast Edition, 2/20/07)

Newburyport, MA-based Institution for Savings in Newburyport and Ipswich Cooperative Bank of Ipswich, MA, agreed to a merger of mutuals, the companies announced on February 7, 2007. After the consolidation, expected to occur this summer pending regulatory approvals, the consolidated bank will operate under the "Institution for Savings" name. The merger will expand the institution's footprint in Essex County, MA, to a total of five offices. (Institution for Savings and Ipswich Co-operative Bank Press Release, 2/7/07; SNL Bank M&A Weekly, 2/26/07)

Reorganization

On February 15, 2007, Mayflower Co-operative Bank completed its reorganization as a wholly owned subsidiary of a new holding company, Mayflower Bancorp, Inc. of Middleboro, MA. (SNL Bank & Thrift Daily, 2/20/07)

Branch Openings

Berkshire Hills Bancorp Inc., headquartered in Pittsfield, MA, opened a second Guilderland, NY, branch on February 6, 2007. (SNL Bank & Thrift Weekly, Northeast Edition, 2/12/07)

Country Bank for Savings of Ware, MA, will open a second branch in a Wal-Mart Supercenter in Leicester, MA, on March 14, 2007. With the opening of the branch, the bank will have four branches in Worcester County, MA, and 15 branches in total. (SNL Bank & Thrift Daily, 2/26/06)

Connecticut Bank & Trust Co. of Hartford, CT, announced that it expects to open offices in both Windsor and Rocky Hills, CT, during 2007, subject to regulatory approvals. During 2006, the company opened banking centers in Vernon and Newington, CT. (SNL Bank and Thrift Daily, 1/30/2007)

The First National Bank of Orwell, headquartered in Orwell, VT, opened a Shoreham Route 22A branch in Shoreham, VT, on December 11, 2006. (Internal notices, 2/19/07)

The Guilford Savings Bank of Guilford, CT, opened a new branch on Boston Post Road in Old Saybrook, CT, on February 6, 2007. (Internal notices, 2/19/07)

New Hampshire Thrift Bancshares Inc. (NHTB) of Newport, NH, announced that its Lake Sunapee Bank unit opened an 18th branch in Milford, NH, in December 2006 and said that a 19th branch is planned for Hanover, NH, during the first quarter of 2007. (SNL Bank and Thrift Daily, 1/26/2007)

Branch Closings

Mechanics Savings Bank of Auburn, ME, closed a branch at 100 Mount Avenue in Auburn, ME, effective close of business on November 30, 2006. (Internal notices, 2/16/07)

Branch Relocation

The First National Bank of Litchfield, CT, relocated its Torrington Fair Supermarket branch on December 11, 2006. The branch's new location is 1057 Torrington Street, Torrington, CT. (Internal notices 2/16/07)

Federal Bank and Thrift Regulatory Agencies Seek Public Comment on Proposed Supervisory Guidance for Basel II

On February 15, 2007, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision issued a joint press release seeking public comment on three proposed supervisory guidance documents related to the September 2006 notice of proposed rulemaking (NPR) on new risk-based capital requirements in the United States for large, internationally active banking organizations.

The September 2006 NPR detailed the agencies' proposal to implement the new capital framework issued by the Basel Committee on Banking Supervision in 2004 (Basel II). The proposed U.S. Basel II capital framework would be mandatory for large, internationally active U.S. banking organizations and optional for other institutions. The Basel II NPR includes requirements that banking organizations need to satisfy to calculate their risk-based capital under the proposed capital framework. The proposed supervisory guidance provides information to assist bankers, as well as supervisors, in addressing the Basel II qualification requirements.

Two of the proposed documents relate to the Basel II advanced approaches for calculating risk-based capital requirements: the advanced internal ratings-based (IRB) approach for credit risk and the advanced measurement approaches (AMA) for operational risk. These guidance documents have been updated since they were previously issued for public comment in 2003 and 2004. The third document proposes guidance on the Basel II supervisory review process for assessing capital adequacy and is being issued for the first time.

The guidance documents, the press release, and related materials are available online at the following address: www.federalreserve.gov/boarddocs/press/bcreg/2007/20070215/default.htm. (Interagency Press Release, 2/15/06)

Small Banks Adopting Remote-Capture Technology; Check 21 Image Exchange

According to a survey released in February at the American Bankers Association National Conference for Community Banks, small banks are adopting remote deposit technology at a much faster rate than their transition to the Internet.

According to the *American Banker*, 58 percent of respondents said they have adopted or plan to adopt remote capture technology by the end of 2008. Remote capture lets business customers convert checks into digital images and then transmit the files electronically to a bank for deposit.

The survey indicated that 30 percent of bankers questioned believed the adoption of remote deposit was an essential survival strategy, and 24 percent claimed to have remote capture to "be on tech's leading edge."

The survey also revealed that 53 percent of community banks have adopted image technology so that they could take advantage of the Check Clearing for the 21st Century Act, also known as Check 21. Check 21 enables banks to exchange checks electronically and benefit from improved efficiencies, such as the potential to clear dollars faster and reduce check processing costs.

In addition to those who have already moved into the image exchange world, 23 percent of small banks plan to implement image technology in 2007 and an additional 10 percent said they plan to adopt it in 2008. (*American Banker*, 2/21/07; Internal Sources)

FRB Boston Publishes Papers on Consumer Payment Behavior and Choices; New Method of Payment

The Federal Reserve Bank of Boston has published two papers related to changes in consumer payments. The first is a Public Policy Discussion Paper from the Bank's Research Department entitled "*The Boston Fed Study of Consumer Behavior and Payment Choice: A Survey of Federal Reserve System Employees.*" The survey was developed because, while the ways in which people pay for goods and services are changing dramatically, little data and research on consumer behavior and payment choice are publicly

available. Major contributions of the survey are that it asks: why payment choices are made; why individual payment behavior has changed; and why individual-specific payment characteristics matter for payment choice.

The second paper, “*Mobile Phone: The New Way to Pay?*” is an industry briefing from the Emerging Payments Research Group on mobile payments. The paper provides some background on mobile technologies, barriers to

adoption, and considerations on consumer acceptance of this emerging payments technology.

To view the papers, visit the Boston Fed’s Emerging Payments Research Group’s web site at www.bos.frb.org/economic/eprg/index.htm.



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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