

Federal Reserve Bank of Boston
BANK NOTES

• Edited by Anne McElroy •

March 2008
Vol. XXXVII, No. 3

Mergers and Acquisitions

Boston Private Financial Holdings Inc. of Boston, MA, completed its acquisition of a majority interest (70 percent) in Davidson Trust Company of Philadelphia, PA. Davidson Trust will continue to operate under its own name as an affiliated partner of Boston Private. (*SNL Bank Mergers & Acquisitions Weekly*, 2/04/08; *Boston Private press release*, 2/01/08)

USI Holdings Corporation of Briarcliff Manor, NY, announced on February 1, 2008, that it had completed its acquisition of Webster Insurance, Inc. from Webster Financial Corporation of Waterbury, CT. In addition, USI Holdings and Webster Financial announced a joint marketing agreement between the two companies to provide expanded products and services between their respective customers. (*SNL Financial Services Daily*, 2/05/08; *USI Holdings press release*, 2/01/08)

Walpole Co-operative Bank of Walpole, MA, and Norwood Co-operative Bank of Norwood, MA, announced in late January that the two companies had terminated their agreement to combine in a merger of equals. No reason was provided for cancellation of the deal, which was originally announced on January 3, 2008. (*Norwood, MA "Daily News Transcript,"* 1/30/08)

De Novo Opens

Optima Bank and Trust officially opened for business in Portsmouth, NH, on January 30, 2008. Serving as the New Hampshire seacoast's only locally owned commercial bank, Optima will offer traditional banking products such as checking and savings accounts, commercial loans, mortgages, IRAs, and a 24-hour on-site secure ATM. The bank's goal is to capitalize on local relationship banking. Optima originally filed applications to open a state-chartered bank in May 2007. (*Internal sources*, 2/01/08; *"Seacoastonline.com,"* 2/11/08)

Corporate Title Changes

Effective February 21, 2008, Fitchburg Savings Bank changed its corporate title to Rollstone Bank & Trust. Within two months, the bank's email and website will be updated to reflect the new name. (*Internal sources*, 2/21/08)

New Branches

Citizens Financial Group, Inc. of Providence, RI, plans to open 50 additional supermarket-based branches in New York over the next two years. Most of the branches are expected to be opened in New York's Lower Hudson Valley or on Long Island. (*SNL Bank & Thrift Daily*, 2/12/08)

Leader Bank, NA of Arlington, MA, opened a branch on Pleasant Street in Belmont, MA, on January 14, 2008. The branch is Leader's fourth since the bank opened as community bank in May 2002. (*Internal sources*, 2/15/08)

Legacy Banks, a unit of Legacy Bancorp of Pittsfield, MA, announced on February 4, 2008, that it applied for federal and state regulatory approval to open branches in Albany and Latham, NY. Pending regulatory approval, the branches will open in the third and fourth quarters of 2008, respectively. Legacy Banks currently has 16 offices throughout Massachusetts' Berkshire County and eastern New York. (*SNL Bank & Thrift Daily*, 2/06/08; *Legacy press release*, 2/05/08)

Mechanics Co-operative Bank of Taunton, MA, opened a branch at 72 Main Street in Bridgewater, MA, on December 10, 2007. Mechanics now has four offices in Taunton and surrounding communities. (*Internal sources*, 2/01/08)

Southbridge Savings Bank of Southbridge, MA, opened a branch on Leicester Street in North Oxford on January 15, 2008. Southbridge now has 13 full service branches. (*Southbridge press release*, 1/22/08)

United Financial Bancorp, Inc., holding company for United Bank, both headquartered in West Springfield, MA, announced on February 25, 2008, that it had opened a new branch on Shaker Road in East Longmeadow, MA. United Bank now has 14 full service branches located throughout western Massachusetts. (SNL Bank and Thrift Daily 02/26/2008; United Financial Bancorp press release, 2/25/08)

Wainwright Bank & Trust Company of Boston, MA, opened a branch on Brattle Street, Cambridge, MA, on January 2, 2008. (Internal sources, 2/15/08)

Webster Bank, NA of Waterbury, CT, opened two separate branches during December 2007. On December 17, 2007, Webster opened a branch on North Main Street in East Longmeadow, MA. A second branch was opened on Amity Road in Woodbridge, CT, on December 19, 2007. (Internal sources, 2/01/08)

FFIEC Approves Revisions to Consolidated Reports of Condition and Income for 2008

The Federal Financial Institutions Examination Council (FFIEC) approved revisions to the reporting requirements for the Consolidated Reports of Condition and Income (Call Report). These regulatory reporting revisions will be implemented as of March 31, 2008. Reporting new items will be optional for this initial report date and will be required beginning June 30, 2008.

The revisions incorporate certain modifications that were made in response to comments received on proposed changes to the Call Report that the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (Board), and the Federal Deposit Insurance Corporation (FDIC) published on September 11, 2007.

The FFIEC is providing advance notification to help financial institutions plan for these changes. The U.S. Office of Management and Budget (OMB) must approve these changes before they become final.

For more details about the revisions, including information on obtaining the Call Report forms and instructions, please view the FDIC's February 20, 2008, *Financial Institution Letter* online at www.fdic.gov/news/news/financial/2008/fil08013.html. (FDIC FIL-13-2008, 2/20/08)

Proposed Changes to Regulations D and I to Incorporate Provisions of Financial Services Regulatory Relief Act of 2006

The Federal Reserve Board, on February 7, 2007, requested public comment on proposed changes to Regulation D (Reserve Requirements of Depository Institutions) and Regulation I (Issue and Cancellation of Federal Reserve Bank Stock) to incorporate provisions of the Financial Services Regulatory Relief Act of 2006. The proposed amendments would remove certain restrictions on the way depository institutions maintain required

reserves and clarify and update other provisions of the regulations.

The Federal Reserve Act imposes reserve requirements on certain deposits and other liabilities (primarily checking accounts) of depository institutions, such as banks, thrift institutions, and credit unions.

Depository institutions must maintain required reserves in the form of vault cash or as a balance in an account at a Federal Reserve Bank. Depository institutions may maintain a balance directly with a Federal Reserve Bank or with a correspondent institution that, in turn, holds reserve balances for respondents in a Federal Reserve account on a "pass-through" basis.

The proposal would implement revisions to current pass-through rules, and clarify and modernize the regulations. More information on the proposed changes is available by viewing the Board of Governors' February 12, 2008, press release at www.federalreserve.gov/newsevents/press/bcreg/20080207a.htm.

Public comments on the proposed changes are due by March 28, 2008. Directions on submitting comments are available at www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm. (Federal Reserve Board of Governors' press release, 2/12/08)

Reminder: FRB Boston is Updating our Postal Mailing List for *Bank Notes*

The January and February paper versions of *Bank Notes* included a subscription renewal form for paper subscribers to complete, and to indicate whether they wish to continue to receive *Bank Notes* in paper form, or convert to an electronic subscription.

If you have not yet renewed your subscription, please use our online form at www.bos.frb.org/economic/banknote/index.htm.

For subscribers who choose to receive *Bank Notes* electronically, please check with your IT staff to make sure that your inbox is able to receive bulk mail notices from the following address: Boston.BankNotes@bos.frb.org.

If you have any questions, or if you do not receive your next issue by April 15, 2008, please call the *Bank Notes* editor at (617) 973-3126.

ACH Growth Brings Opportunities and Risks

ACH volume grew over 12% in 2007. Over a third of these transactions were checks converted to ACH payments. Currently, only 0.05 percent of all ACH transactions are returned as "unauthorized," meaning that ACH is one of the safest payment mechanisms.

While growth is positive, increased product offerings mean that more parties have access to the ACH network, increasing financial institutions' risk exposure. As with any new technology, fraudsters continually seek out and attempt to exploit any weakness.

Institutions that initiate ACH transactions (Originating Depository Financial Institutions, or "ODFI's") are particularly vulnerable to ACH losses. In

addition to fraud, institutions may experience operational or transaction risks due to human error or system malfunction. All ACH participants should have internal audit programs specifically tailored to the complexity and risks of their own retail payments products and technologies. There are many resources available to help financial institutions reduce ACH risk exposure. For example, both the FFIEC and the OCC have issued guidance documents that can be downloaded from www.FFIEC.gov and www.OCC.gov.

In February 2007, NACHA issued "*A Comprehensive Strategy for Risk Management in the ACH Network*." The document outlines NACHA's goal to ensure "high-quality ACH transactions and reduce the risk for financial institutions, businesses, and consumers."

The strategy addresses risk reduction in five categories: 1) network entry requirements; 2) ongoing requirements; 3) enforcement; 4) ACH Operator tools; and 5) cross-channel risk.

The Federal Reserve Banks maintain ongoing relationships with NACHA, EPN (the Electronics Payment Network), and financial institutions on the industry's Risk Management Advisory Group (RMAG) to continually improve NACHA rules and processes to minimize ACH risk. (The Reserve Banks and EPN are the nation's two ACH Operators.)

The Reserve Banks also offer ACH risk management products that can help institutions enhance their existing procedures and help meet audit requirements.

We urge all financial institutions to review the resources mentioned in this article, and to call their Reserve Bank Account Executive with any questions on how the Boston Reserve Bank can help with their ACH risk management efforts. (Internal sources, www.NACHA.org, www.FFIEC.gov, www.OCC.gov)



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.

Bank Notes is available without charge. To be added to the electronic mailing list or to the paper distribution list, send an e-mail message to Boston.BankNotes@bos.frb.org. If unable to do so, call Anne McElroy at (617) 973-3126. To access *Bank Notes* on the Web, check the Boston Fed's web site at www.bos.frb.org/economic/banknote/index.htm.