

Federal Reserve Bank of Boston BANK NOTES

• Edited by Jason Wild •

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Chittenden Completes Merger

Chittenden Corporation, Burlington, VT, completed its acquisition of Granite State Bancshares, Keene, NH, on February 28, 2003. The company now appears ready to focus on fostering growth within its newly expanded New England network. Speaking at the Keefe Bruyette & Woods Eastern Region Bank Symposium, chief banking officer John Kelly said Chittenden plans to combine Granite State and Ocean National, which was acquired in February of 2002, to allow the two banks to operate as one. Executive Vice President and CFO Kirk Walters revealed the company plans to extend the reach of its subsidiary, Bank of Western Massachusetts, within the Springfield, MA, area. Though focused primarily on organic growth, Walters also said, "There are a number of well-run, qualified banks throughout New England we continue to take a look at and [will] try to be opportunistic."

As of June 30, 2002, Granite State Bankshares had total deposits of \$762.0 million and ranked 5th among all commercial banking and thrift institutions in New Hampshire, while Chittenden Corp. had total deposits of \$279.6 million and ranked 13th. As of the same date, Chittenden Corp. had total deposits of \$849.1 million and ranked 23rd in Massachusetts.

(SNL Bank & Thrift Weekly, 3/10/03)

Bank Openings

On March 13, Rivergreen Bank, Kennebunk, ME, opened as a state chartered commercial bank.

Independence Bank, East Greenwich, RI, opened as a state chartered commercial bank on March 25, 2003.

(Internal Notice, 3/13/03, 3/15/03)

Branch Acquisition Completed

On March 21, 2003, Century Bank & Trust Company, Somerville, MA, completed its purchase of certain assets and deposit liabilities from Capital Crossing Bank, Boston, MA. Century transferred all assets and liabilities from Capital Crossing's branch at 1220 Boylston Street, Chestnut Hill, MA, to its own Chestnut Hill Branch located at 1184 Boylston Street. In addition, Century acquired substantially all of the retail deposits from Capital Crossing's main office at 101 Summer Street, Boston, MA.

In total, the transaction involved approximately \$200 million.

As of June 30, 2002, Century Bank & Trust had total deposits of \$987.3 million and ranked 15th among all commercial bank and thrift institutions in Massachusetts. As of the same date, Capital Crossing had \$579.5 million and ranked 33rd.

(Internal Notice, 3/24/03; Capital Crossing PR, 3/21/03)

Branch Openings

The Camden National Bank, Camden, ME, opened a branch located at 108 Lafayette Center, Kennebunk, ME, on December 30, 2002.

On February 3, 2003, Unibank for Savings, Whitinsville, MA, opened a branch located at 160 Worcester-Providence Turnpike, Route 146, Sutton, MA.

Effective March 3, 2003, First Community Bank, Woodstock, VT, opened a branch located at 104 Merchants Row, Rutland, VT.

Bangor Savings Bank, Bangor, ME, opened a branch located at 19 Main Road North, Hampden, ME, on March 17, 2003.

On March 24, 2003, The Bank of Southern Connecticut, New Haven, CT, opened a branch located at 1475 Whalley Avenue, New Haven, CT.

(Internal Notice, 3/11/03, 3/12/03, 3/26/03)

Branch Address Changes

People's Bank, Bridgeport, CT, relocated its branch from 218 Route 12 to 220 Route 12, Groton, CT, effective February 28.

On March 21, Fleet National Bank, Providence, RI, relocated its branch from 2250 Third Avenue to 157 East 125th Street, New York, NY. The new branch title is Harlem East Branch. Effective March 28, Fleet also relocated its branch from 803 Montauk Highway to 999 Montauk Highway, Shirley, NY.

(CT DOB, 3/21/03; Internal Notice, 3/27/03, 3/31/03)

Branch Closings

On February 14, Citizens Bank of Massachusetts, Boston, MA, closed six branches in Massachusetts. The branches were located at 440 Massachusetts Avenue, Arlington; 695 Main Street, Waltham; 361 Main Street,

Malden; 258 Cambridge Street, Burlington; 328 Broadway Street, Somerville; and 443 Charles Street, Malden.

At the close of business March 14, Fleet National Bank, Providence, RI, closed its branch located at 3495 Route 1 South, Princeton, NJ.

Rockville Bank, Vernon, CT, closed its branch located at 207 Hartford Turnpike, Vernon, CT, on March 21, 2003.

On March 28, 2003, Fleet National Bank, Providence, RI, closed its branch located at 556 Merris Avenue, Summit, NJ.

(Internal Notice, 3/27/03, 3/31/03; CT DOB, 3/21/03)

Applications Approved

On February 25, the Federal Reserve Bank of Boston granted approval to Bridgewater Savings Bank, Bridgewater, MA, to form a bank holding company. On March 11, the Bank also approved an application by Putnam Savings Bank, Putnam, CT, to reorganize into a mutual holding company.

As of June 30, 2002, Bridgewater Savings Bank had total deposits of \$195.2 million and ranked 109th among all commercial bank and thrift institutions in Massachusetts. As of the same date, Putnam had total deposits of \$162.6 million and ranked 44th in Connecticut.

(Internal Notice, 2/28/03, 3/14/03)

Fleet to Sell Payroll Unit

On March 17, Paychex Inc, Rochester, NY, announced it had reached an agreement to acquire InterPay Inc, a wholly owned subsidiary of FleetBoston Financial, Boston, MA. Paychex will pay \$155 million in cash and acquire 33,000 new clients. InterPay provides a full range of payroll and human resource administrative services, primarily to small to medium-sized firms.

The firms also agreed to enter a referral relationship that will enable Fleet to continue to offer payroll processing and related services to its small and mid-sized business clients on a co-branded basis. The deal is expected to close in early April.

(Boston Globe, 3/18/03; Paychex Press Release, 3/17/03)

FDIC Reports Record Bank Industry Earnings

The Federal Deposit Insurance Corporation (FDIC) reported record earnings by insured institutions for 2002. The agency's Quarterly Banking Profile showed banks and savings institutions earned \$25.6 billion in the fourth quarter and \$105.4 billion for the entire year, nearly a 21% increase over 2001. This marked the first time earnings have exceeded \$100 billion. Rich Brown, the agency's chief economist, attributed the favorable performance to "low interest rates and strong consumer demand." Brown also expressed optimism that banks and thrifts will continue to do well in 2003, saying "faster [economic] growth should help reduce loan-loss provisions and boost lending activity, particularly on the commercial side."

The report also showed a decline in problem loans. Noncurrent loans, those 90 days or more past due, declined by a small amount in the fourth quarter. It is the first decline in such loans since the fourth quarter of 1999. The number of institutions on the FDIC's "Problem List" declined by 10 in the fourth quarter, to 136, while total assets at problem institutions declined from \$42 billion to \$39 billion. Eleven institutions failed in 2002, the most since 1994 when 13 insured institutions failed.

(FDIC PR-17-2003; American Banker, 3/5/03; FDIC Quarterly Banking Profile, 3/4/03)

Massachusetts Passes Tax on REITs

On March 5, Massachusetts Governor Mitt Romney signed a new law that could cost some bank holding companies millions of dollars. The law eliminates the state's 95% deduction from income taxes of dividends earned by real estate investment trusts (REITs) for all tax years ending on or after December 31, 1999. Prior to the passage of the law, the Massachusetts Department of Revenue issued notices of assessment to a number of banks and thrifts for back-taxes on REIT dividends. In June and July of last year, at least six institutions reported they had received such notices.

Many banks throughout the country invest in REITs for tax and capital management purposes. It is anticipated that about 50 banking and thrift institutions in Massachusetts will be affected by the change. Accounting principles require companies to recognize the total estimated tax assessment at the time a law is passed, so a large number of firms have already announced one time charges and loss provisions for the first quarter of 2003 to cover the retroactive portion of the taxes. Some of these firms include State Street (\$25 million), Investors Financial Services (\$13.9 million), Seacoast Financial (\$11.2 million), Brookline Bancorp (\$5.5 million), Capital Crossing Bank (\$5.4 million), CCBT Financial (\$5.1 million), Banknorth Group (\$5 million), Boston Fed Bancorp (\$4.6 million), and Century Bancorp (\$3.2 million).

When reporting the amounts of charges and loss provisions, most companies also indicated a willingness to challenge the constitutionality of the retroactive portion of the law.

(SNL Bank & Thrift Weekly, 3/10/03, 3/17/03, 3/24/03; American Banker, 3/7/03)

Regulators Issue Guidance on Mortgage Banking Activities

On February 25, the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision, issued an advisory letter regarding the risks associated with mortgage banking activities. The guidance explains risk management principles including valuation and modeling processes, hedging, management information systems, and internal auditing. The agencies point out that the guidance applies to all banks and thrifts, although it is mainly aimed

at institutions actively involved in mortgage banking activities.

Regulators also noted that while “the number of institutions with significant exposure to mortgage banking assets is limited, mortgage banking is a significant and growing business line for many institutions.” This observation and the “record volume of refinancings” prompted the need for such guidance.

(SNL Bank & Thrift Weekly, 3/3/03;
FFIEC Press Release, 2/25/03)

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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