Federal Reserve Bank of Boston

BANK NOTES

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Mergers and Acquisitions

Danvers Bancorp, Inc. unit Danversbank of Danvers, MA, officially completed its acquisition of BankMalden Co-operative Bank of Malden, MA, on February 23, 2007. With the merger, originally announced in November 2006, Danversbank now operates 14 full-service offices in the Greater Boston area. (Internal Notices, 3/02/07, SNL Bank & Thrift Daily, 3/27/07)

On March 5, 2007, Boston Private Financial Holdings, Inc., of Boston, MA, entered into an agreement to acquire Charter Financial Corp. of Bellevue, WA, for $70.8 million in cash and stock. By acquiring Charter Financial, Boston Private will expand its footprint in the Pacific Northwest. The deal, which is subject to the approval of Charter Bank shareholders and regulatory approval, is expected to be completed in the third quarter of 2007. (SNL Bank & Thrift Weekly, Northeast Edition, 3/12/07)

Peoples Federal Savings Bank of Boston, MA, and Brookline Cooperative Bank, of Brookline, MA, have reached an agreement to merge. The combined bank, operating as Peoples Federal Savings Bank, will consist of six full-service offices located throughout Boston and suburban Boston. Pending regulatory and shareholder approval, the deal is expected to be finalized in the third quarter of 2007. (Brookline Tab, 3/27/07; Peoples Federal Savings Bank Press Release, 3/15/07)

Conversions

Ledyard National Bank, Norwich, VT, filed materials on March 16, 2007, to adopt a holding company structure by forming a new company, Ledyard Financial Group, Inc. (SNL Daily, 3/23/07)

Postal Community Credit Union, recently renamed First Priority Credit Union, is making a second attempt to convert to a mutual savings bank. The credit union had previously attempted to convert to a federally chartered savings bank, but the effort failed as there was no legal provision to enable the charter change. However, in early 2007, the Massachusetts legislature passed a law that allows a state-chartered credit union to convert into a state-chartered mutual savings bank. (SNL Bank and Thrift Daily, 3/22/07)

Branch Openings/Relocations

The First Colebrook Bank of Colebrook, NH, relocated from 147 Main Street, Colebrook, NH, to 132 Main Street, Colebrook, NH, on January 1, 2007. (Internal Notices, 3/02/07)

Berkshire Bank, a unit of Berkshire Hills Bancorp, of Pittsfield, MA, announced the opening of a full-service branch in Colonie, NY, on March 5, 2007. The move marks progress in Berkshire Bank's plan to continue its expansion in the Capital Region of New York. Berkshire Bank also announced its intention to open a branch in Glenville, NY, in April 2007. (SNL Bank & Thrift Weekly, Northeast Edition, 3/12/07)

Camden National Bank of Camden, ME, opened a new branch in Rockland, ME, on March 11, 2007. The bank now has 27 locations in Maine. (SNL Bank & Thrift Daily, Northeast Edition, 3/19/07)

On February 28, 2007, the Massachusetts Division of Banks gave East Cambridge Savings Bank of Cambridge, MA, permission to purchase a Cambridge, MA, branch of The First National Bank of Ipswich. (Massachusetts Division of Banks' February 2007 Activity Report)

First Valley Bancorp, Inc., unit Valley Bank of Bristol, CT, opened a new branch in Bristol, CT, on March 12, 2007. In January, Valley Bank opened an office in Southington, CT, and is now considering other locations in towns in the surrounding area. (SNL Bank & Thrift Daily, 3/15/06)

People's Bank, Inc., of Bridgeport, CT, opened a 75th full-service supermarket branch in New London, CT. People's Bank, a unit of People's Mutual Holdings, now operates over 150 branches throughout Connecticut. (SNL Bank & Thrift Weekly Northeast Edition, 3/05/07)

Regulatory Reports Filed by Banks and Savings Institutions to Be Revised

On March 2, 2007, the Federal Financial Institutions Examination Council (FFIEC) announced revisions to the reporting requirements for the Consolidated Reports of Conditions and Income (Call Report) and the Thrift Financial Report (TFR). The revisions took effect on March 31, 2007.

The changes call for the replacement of certain information currently collected in the Call Report and TFR for deposit insurance assessment purposes. In addition, the FFIEC and FDIC are revising the information collected in Call Report Schedule RC-E, "Deposit Liabilities," and TFR Schedule DI on time deposits, particularly regarding certain retirement accounts affected by the FDIC's amended deposit insurance regulations.

The revisions were published by the FFIEC in a letter to financial institutions. The letter, along with forms and instructions to assist financial institutions, is available online at www.ffiec.gov/whatsnew.htm by scrolling to the agency's March 2, 2007, announcement. (FDIC/FFIEC Financial Institution Letter, 3/02/07)

Agencies Seek Comment on Subprime Mortgage Lending Statement

Federal regulatory agencies (Board of Governors of the Federal Reserve System,

Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision) have issued for comment a proposed Statement on Subprime Mortgage Lending to address certain risks and emerging issues relating to subprime mortgage lending practices, specifically, certain adjustable-rate mortgage (ARM) lending products.

The agencies are seeking comment on the proposals, with comments due on May 7, 2007. (Instructions about filing comments were published in the March 8, 2007, *Federal Register*.) Based on comments received, the regulators will decide whether the guidelines should be widened beyond the subprime adjustable-rate mortgage market. In addition, they intend to determine whether an institution's limiting of prepayment penalties to the initial fixed-rate period would assist consumers by providing them sufficient time to assess and act on their mortgage needs.

Additionally, the agencies seek to determine whether subprime loans present inappropriate risks to institutions and consumers, and whether the guidelines restrict the abilities of existing subprime borrowers to refinance their loans. Also, the regulators seek comment on whether there are other forms of credit that would meet the subprime need without the risk of payment shock.

The agencies' March 2 press release and detailed guidance are available online at www.federalreserve.gov/boarddocs/press/bcreg/2007/20070302/default.htm.

Federal Regulators Seek Public Comment on Model Privacy Notice

On March 21, 2007, eight federal regulators released a notice of proposed rulemaking (NPR) to request comment on a model privacy form that financial institutions can use for privacy notices to consumers under the Gramm-Leach-Bliley (GLB) Act. The Act requires privacy notices to describe an institution's information-sharing practices, and for certain types of sharing consumers have the right to opt out. The notices must be provided when a consumer first becomes a customer of a financial institution, and then annually as long as the relationship lasts.

The proposed model privacy form is the "prototype privacy notice" developed after a year-long consumer testing process. The NPR proposes that a financial institution choosing to use the model form would satisfy the disclosure requirements for the notices and therefore could take advantage of a legal "safe harbor." The NPR also proposes to remove, after a transition period, the sample clauses not included in some of the agencies' privacy rules.

The NPR was developed jointly by the Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, Federal Trade Commission, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Securities and Exchange Commission.

The agencies' NPR seeks comment on all aspects of the model form, including its content and format and whether it provides sufficient flexibility for financial institutions to disclose their sharing practices accurately.

The interagency press release and NPR are available online at: www.federalreserve.gov/boarddocs/ press/ bcreg/2007/20070321/default.htm. (Joint Agency Press Release, 3/21/07)

Financial Institutions Feeling the Need to Process Checks via Image

Nearly two and a half years after the effective date of the Check Clearing for the 21st Century Act (Check 21), financial technology experts agree that institutions that do not embrace check image exchange are going to face spiraling expenses.

Image exchange lets institutions eliminate the couriers, bags, bundles, airplanes, and high-speed equipment required to sort, bundle, transport, and then re-sort millions of paper checks daily.

The switch to image exchange from traditional paper methods is being driven by a number of factors, including the high cost of traditional paper processing and the improved availability offered by image exchange.

Financial institutions also are using image exchange to adapt to shortened deadlines resulting from the Federal Reserve Banks' restructuring of their check processing infrastructure, which is a direct result of the continued decline in the volume of checks processed. Along with the

Fed, other check processors throughout the industry are seeing a dramatic drop in check volumes as more and more checks are converted to ACH payments through mechanisms such as Account Receivable Conversion (ARC) and Point of Purchase conversion (POP).

Although many institutions have found the switch to image exchange to be challenging, the practice is gaining ground. According to the Electronic Check Clearing House Organization (ECCHO), check payments totaling $8.5 trillion were processed as images in 2006. In addition, the Federal Reserve Banks report that over one-third of their checks were processed via image exchange in January 2007.

ECCHO also reports that over 5,500 financial institutions (approximately 34 percent of all institutions) nationwide are exchanging images instead of paper checks, and many more institutions are in the process of implementing image exchange technology. (American Banker 3/13/07, Internal Sources)

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