

# Federal Reserve Bank of Boston BANK NOTES

• Edited by Jason Wild •

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## Citizens to Acquire Port Financial

On April 17, 2003, Citizens Financial Group, Providence, RI, announced it has agreed to purchase Port Financial Corp, Brighton, MA, in an all cash deal estimated to be worth \$285 million. Upon completion of the deal, the eleven-branch network of Cambridgeport Bank, the subsidiary of Port Financial, will be integrated into Citizens Bank of Massachusetts.

Citizens and its parent company, Royal Bank of Scotland Group (RBSG), Edinburgh, Scotland, have been very active acquirers in past years, making 22 deals in the last decade. The last deal in Boston was the company's acquisition of Medford Bancorp in October 2002. RBSG CEO Fred Goodwin said the agreement with Port Financial is "a small tactical acquisition that...usefully deepens the Citizens franchise in a prosperous part of the Boston area." The deal will allow Citizens, already the second largest bank in Massachusetts and New England, ranked by assets, to "provide the same convenience and the same depth to compete in Eastern Massachusetts" with FleetBoston Financial Corp, Boston, MA, says Citizens Financial CEO Lawrence Fish. The deal is expected to close in the third quarter of 2003, pending regulatory and shareholder approval.

As of June 30, 2002, Royal Bank of Scotland Group had total deposits of \$14.8 billion and ranked 3rd among all commercial bank and thrift institutions in Massachusetts. As of the same date, Port Financial had total deposits of \$1.1 billion and ranked 14th.

(Boston Globe, 4/18/03;  
SNL Bank & Thrift Weekly, 4/21/03; Citizens PR, 4/17/03)

## Merger Announcement

On March 17, 2003, Auburndale Co-operative Bank, and Newton South Co-operative Bank, both of Newton, MA, filed a merger application with the Federal Deposit Insurance Corporation. The banks agreed to merge their assets and deposits without exchanging any consideration. To convey that this deal is a merger of equals, the new company will be known as Village Bank. Village Bank will continue to operate the five Auburndale branches and the two Newton South branches that are currently open.

Auburndale and Newton South are Newton's only remaining mutual institutions. Ken Brennan, CEO of Auburndale, said, "The ability to remain as a mutual is a strong focus of both institutions and one of the key

reasons for going after this consolidation." He also added, "There is a temptation for two healthy mutual thrifts to go to stock [ownership], but when you have a valuable franchise and you are a stock company, there is always someone who will come in and buy you out." Leaders of both institutions say the deal is a chance to advance technologically, as well as offer a wider variety of products, while remaining focused on the local community. Pending approval from the FDIC and the Massachusetts Division of Banks, the merger is expected to be completed by the fall of 2003.

As of June 30, 2002, Auburndale Co-op had total deposits of \$275.0 million and ranked 74th among all commercial bank and thrift institutions in Massachusetts. As of the same date, Newton South Co-op had total deposits of \$96.4 million and ranked 154th.

(American Banker, 4/23/03; Auburndale PR, 3/12/03;  
SNL Bank & Thrift Weekly, 4/7/03)

## Bank Name Changes

Weymouth Co-operative Bank, Weymouth, MA, changed its name to Weymouth Bank on October 1, 2002.

On April 4, 2003, the Connecticut Department of Banking granted approval for First International Bank, Hartford, CT, to change its name to UPS Capital Business Credit. First International was acquired by UPS Capital Corporation, Atlanta, GA, in August 2001.

(Internal Notice, 4/3/03; CT DOB, 4/4)

## Branch Closing

At the close of business on March 15, Citizens Bank of Rhode Island, Providence, RI, closed its Ro-Jack Foodstore branch located at 1 Commerce Way, Route 6, Seekonk, MA.

(Internal Notice, 4/24/03)

## Branch Openings

On January 21, Athol Savings Bank, Athol, MA, opened a branch located at 560 Summer Street, Barre, MA.

Abington Savings Bank, Abington, MA, opened a branch located at 97 Libbey Parkway, Weymouth, MA, on January 27.

On January 31, Franklin Savings Bank, Franklin, NH, opened a branch located at 139 King Street, Boscawen, NH.

Bangor Savings Bank, Bangor, ME, opened a branch located at 77 Capitol Street, Augusta, ME, on March 10.

On March 31, New MilBank, New Milford, CT opened a branch located at 200 Main Street South, Southbury, CT.

Eastern Bank, Lynn, MA, opened a Shaw's Supermarket branch located at 246 Border Street, East Boston, MA, on April 7.

(Internal Notice, 4/8/03, 4/9/03.)

## **Citizens Sells Trust Business to J.P. Morgan**

On April 7, J.P. Morgan Chase & Co, New York, NY, announced the acquisition of the corporate and municipal trust business of Citizens Financial Group. Financial terms of the deal, which closed on April 4, were not disclosed. J.P. Morgan's trust business provides issuing and paying agent services to corporate and municipal issuers as well as underwriters, financial advisors, and bond counsel.

As a result of the acquisition, J.P. Morgan becomes the largest corporate trustee in Rhode Island and the second largest in New England. Mike Clarke, executive vice president at J.P. Morgan, said the company looks forward "to expanding the scope of our client relationships by establishing a new office in Providence, RI, and expanding our existing New England presence beyond our Boston, MA, office."

(SNL Bank & Thrift Weekly, 4/14/03;

J.P. Morgan PR, 4/7/03)

## **Gilleran to Chair FFIEC**

On April 1, Office of Thrift Supervision (OTS) Director James Gilleran began a two-year term as Chairman of the Federal Financial Institutions Examination Council (FFIEC). The FFIEC is made up of the heads of the Federal Deposit Insurance Corporation, the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the OTS, as well as a member of the Federal Reserve Board of Governors. The Council is charged with promoting uniformity with respect to examination and supervisory policies and procedures in the supervision of financial institutions. Mr. Gilleran took his position as OTS director in December 2001, after serving as California State Banking Superintendent.

The FFIEC also named NCUA Chairman Dennis Dollar as the Council's new Vice Chairman.

(SNL Bank & Thrift Weekly, 4/7/03; OTS PR, 4/1/03)

## **OCC Proposes New Procedures for Foreign Operations**

In the April 23 edition of the Federal Register, the Office of the Comptroller of the Currency proposed to amend its regulations governing U.S. branches and agencies of foreign banks as well as the foreign operations

of national banks. The aim is to make regulatory requirements more streamlined and risk-based.

The new regulations would simplify procedures for national banks' foreign operations through branches, eliminate the need to file an application with the OCC when a foreign bank downgrades its U.S. operations, require approval but not a new license for additional branches or agencies opened after the establishment of an initial office, and clarify that a foreign bank with federal branches in more than one state may consolidate its capital equivalency deposits in one deposit account.

The agency believes "these proposed changes will further conform the treatment of federal branches and agencies of foreign banks to that of their domestic national bank counterparts consistent with the national treatment principles of the International Banking Act." Comments on the proposal will be accepted until June 23.

(SNL Bank & Thrift Weekly, 4/28/03;

Federal Register, 4/23/03)

## **Regulators Weigh In On Third Party Issues**

On April 23, the FDIC, NCUA, OCC, and OTS issued guidance to assist banks and thrifts in managing the risks associated with weblinks. Weblinks take users to a different part of a website or to another website.

The regulators warn against reputation risk and compliance risk associated with links to other entities. Reputation risk could stem from links to third party service providers if the customer becomes confused as to who is offering a product, is dissatisfied with the quality of products or services, or becomes confused as to whether certain regulatory protections apply to third party products or services. Compliance risk can arise from the inappropriate release of customer information by the third party or if the third party creates or affects compliance obligations of the financial institution. The guidance applies to links to affiliated and non-affiliated third parties.

In a presentation at the Federal Reserve Bank of Atlanta on April 10, FDIC Chairman Don Powell spoke about the need for strengthened oversight of third parties. He talked specifically about issues facing accounting and law firms as well as ratings agencies because banks' normal operations rely on the effective functioning of such firms. Mr. Powell said he welcomes recent moves by Congress and the Securities and Exchange Commission to promote transparency in the industries because he is concerned "that there is no clear standard of accountability for these firms."

(Joint Press Release, 4/23/03;

SNL Bank & Thrift Weekly, 4/21/03)

## **New Basel II Proposal Released**

On April 29, the Basel Committee on Banking Supervision issued a third version of the New Basel Capital Accord. The proposal is based on three pillars that allow banks and regulators to properly evaluate risk: minimum

capital requirements, which seek to refine the measurement framework set out in the 1988 accord; supervisory review of an institution's capital adequacy and internal assessment process; and market discipline through effective disclosure to encourage safe and sound banking practices.

The capital requirement portion of the proposal is the most complex and has received the most attention. It is intended to be more risk sensitive than the current accord and to accommodate the wide variations in the ability to measure and manage risks that exist among banks worldwide. U.S. regulators have indicated that only the most sophisticated risk measurement technique will be used here. They also anticipate applying the rule only to the country's 10 largest banks, with another 10 expected to comply voluntarily. The Federal Reserve Board estimates that these 20 institutions control about 99% of all U.S.-based banking assets.

The Basel Committee will accept comments on the proposal through July 31, and aims to have a final version of the new accord completed by the end of this year, with worldwide implementation by the end of 2006. U.S. regulators are expected to issue a plan for implementation in this country in June.

(American Banker, 4/30/03; BIS PR, 4/29/03)

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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