Federal Reserve Bank of Boston

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Mergers and Acquisitions

Two Hamden, Conn.-based credit unions, **Hamden Federal Credit Union** and **Wepawaug-Flagg Federal Credit Union**, merged under the name of Wepawaug-Flagg Federal Credit Union on July 1, 2010. *(SNL B&T Weekly Northeast 6/7/10, Internal sources, 7/02/10)*

On June 21, 2010, Springfield, Vermont-based **Bryant Federal Credit Union** and Barre, Vermont-based **United Community Credit Union** merged into Essex Junction, Vermont-based **Champlain Valley Credit Union**. The corporate title was also changed to One Credit. *(Internal sources, 6/24/10)*

Branch Openings

Farmington, Conn.-based **First Connecticut Bancorp** unit **Farmington Bank** opened its second Plainville, Conn. branch at 129 New Britain Avenue on June 15, 2010. The new branch opening is the first part of the bank's plan to open branches in Plainville and Berlin, CT in 2010. *(SNL B&T Weekly Northeast 6/21/10; Hartford Courant Press Release 6/10/10)*

Taunton, Mass.-based **Bristol County Savings Bank** opened a New Bedford, Mass. branch at 1307 Ashley Boulevard on June 4, 2010. *(SNL B&T Weekly Northeast 6/14/10; Press Release 6/4/10)*

Gorham, Maine-based **Gorham Savings Bank** opened a branch at 202 US Route 1 in Falmouth Foreside on June 14, 2010. *(Internal sources, 6/24/10)*

Bank Reorganization

On May 1, 2010, **Charles River Bancorp MHC** and **Charles River Bancorp Inc** were formed through the reorganization of Medway, Mass-based **Charles River Bank**. Charles River Bancorp Inc acquired Charles River Bank. *(Internal sources, 6/24/10)*

Federal Reserve to Implement Changes to Payment System Risk Policy in Early 2011

The Federal Reserve Board announced on June 28, 2010, that it will implement changes to its Payment System Risk (PSR) policy in early 2011. A specific implementation date will be announced at least 90 days in advance. In December 2008, the Board adopted revisions to the policy and said that the Federal Reserve would implement these changes between late 2010 and early 2011. The revised PSR policy explicitly recognizes the role of the central bank in providing intraday credit to healthy depository institutions predominantly through collateralized daylight overdrafts. The policy encourages institutions to pledge collateral to cover daylight overdrafts by providing collateralized daylight overdrafts at a zero fee and by raising the fee for uncollateralized daylight overdrafts to 50 basis points (annual rate).

In anticipation of depository institutions' changing needs for collateral management under the revised policy, the Federal Reserve, in collaboration with the industry, assessed and identified opportunities to improve System operational systems. The Reserve Banks have been implementing enhancements to their operational systems and processes that will improve the efficiency and effectiveness of pledging, withdrawing, and monitoring collateral.

Many of these operational improvements will be available to institutions on or before the implementation date of the PSR policy changes. *(Reserve Board Press Release, 6/28/10)*

Federal Reserve Announces Posting Rules for New Same-day Automated Clearing House Service

The Federal Reserve Board announced on June 21, 2010, posting rules for a new same-day automated clearing house (ACH) service.

The Federal Reserve Banks will be offering an opt-in, same-day settlement service for certain ACH debit payments through the FedACH service effective August 2, 2010. FedACH customers may opt-in to this service by completing a participation agreement. The service will be limited to transactions arising from consumer checks converted to ACH and consumer debit transfers initiated over the Internet and phone.

When new financial services are offered by the Reserve Banks, the Board determines the time that payments will post to an institution's Federal Reserve account so that it may manage and appropriately fund its account. The Board determined that SameDay forward debit transfers will post to institutions' Federal Reserve accounts at 5:00 p.m. ET and SameDay return debit transfers will post at 5:30 p.m. ET. Depository institutions seeking more detailed information about the FedACH SameDay service should contact their Federal Reserve Account Executive or visit www.frbservices.org. Also, the Federal Register notice is available at http://www.federalreserve.gov/newsevents/press/other/20100621a.htm. *(Reserve Board Press Release, 6/21/10)*

Federal Reserve, OCC, OTS, FDIC Issue Final Guidance on Incentive Compensation

The Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Federal Deposit Insurance Corporation (FDIC) issued final guidance on June 21, 2010, to ensure that incentive compensation arrangements at financial organizations take into account risk and are consistent with safe and sound practices. The guidance was originally proposed by the Federal Reserve last year. The OCC, OTS, and FDIC are joining in issuing the final version.

The Federal Reserve, in cooperation with the other banking agencies, has completed a first round of in-depth analysis of incentive compensation practices at large, complex banking organizations as part of a so-called horizontal review, a coordinated examination of practices across multiple firms. Last month, the Federal Reserve delivered assessments to the firms that included analysis of current compensation practices and areas requiring prompt attention. Firms are submitting plans to the Federal Reserve outlining steps and timelines for addressing outstanding issues to ensure that incentive compensation plans do not encourage excessive risk-taking.

During the next stage, the banking agencies will be conducting additional cross-firm, horizontal reviews of incentive compensation practices at the large, complex banking organizations for employees in certain business lines, such as mortgage originators. The agencies will also be following up on specific areas that were found to be deficient at many firms, such as:

- Many firms need better ways to identify which employees, either individually or as a group, can expose banking organizations to material risk;
- While many firms are using or are considering various methods to make incentive compensation more risk sensitive, many are not fully capturing the risks involved and are not applying such methods to enough employees;
- Many firms are using deferral arrangements to adjust for risk, but they are taking a "one-size-fits-all" approach and are not tailoring these deferral arrangements according to the type or duration of risk; and
- Many firms do not have adequate mechanisms to evaluate whether established practices are successful in balancing risk.

In addition to the work with the large, complex banking organizations, the agencies are also working to incorporate oversight of incentive compensation arrangements into the regular

examination process for smaller firms. These reviews are being tailored to take account of the size, complexity, and other characteristics of these banking organizations.
The guidance is designed to ensure that incentive compensation arrangements at banking organizations appropriately tie rewards to longer-term performance and do not undermine the safety and soundness of the firm or create undue risks to the financial system. Because improperly structured compensation arrangements for both executive and non-executive employees may pose safety and soundness risks, the guidance applies not only to top-level managers, but also to other employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group.

Federal Reserve staff will prepare a report, in consultation with the other federal banking agencies, after the conclusion of 2010 on trends and developments in compensation practices at banking organizations. The guidance will become effective when published in the Federal Register, which is expected shortly. *(Reserve Board Press Release, 6/28/10)*

Agencies Propose to Expand Scope of Community Reinvestment Act Regulations to Encourage Depository Institution Support for HUD Neighborhood Stabilization Program Activities

The federal bank and thrift regulatory agencies announced on June 17, 2010, a proposed change to the Community Reinvestment Act (CRA) regulations to support stabilization of communities affected by high foreclosure levels. The proposed change specifically would encourage depository institutions to support the Neighborhood Stabilization Program (NSP) administered by the U.S. Department of Housing and Urban Development (HUD).

Under the NSP, HUD has provided funds to state and local governments and nonprofit organizations for the purchase and redevelopment of abandoned and foreclosed properties. The agencies' proposal would encourage depository institutions to make loans and investments and provide services to support NSP activities in areas with HUD-approved plans.

The proposal would supplement existing CRA consideration for community development activities, including neighborhood stabilization activities. For example, for NSP areas identified in HUD-approved plans, the agencies would provide CRA consideration for activities that benefit individuals with incomes of up to120 percent of the area median and geographies with median incomes of up to120 percent of the area median. NSP-eligible activities would receive favorable consideration under the new rule only if conducted within two years after the date when NSP program funds are required to be spent.

Allowing banking institutions to receive CRA consideration for NSP-eligible activities in additional NSP-targeted areas creates an opportunity to leverage government funding targeted to areas with high foreclosure and vacancy rates and also serves the purposes of the CRA.
The proposed rule and more information regarding this are available at http://www.federalreserve.gov/newsevents/press/bcreg/20100617c.htm. (Reserve Board Press Release, 6/17/10)