

Federal Reserve Bank of Boston BANK NOTES

• Edited by Jason Wild •

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Webster to Acquire North American Bank

On June 5, 2003, Webster Financial Corporation, Waterbury, CT, announced that it has reached a definitive agreement to acquire North American Bank & Trust Company, Waterbury, CT, in a cash and stock deal valued at \$30 million. The deal will mark the first whole bank purchase for Webster since acquiring MECH Financial Inc. in June 2000. More recently Webster has been an active acquirer of insurance brokers and specialty lenders.

North American CEO Fielding Moore said, "Webster is our natural partner. The merger enables North American to align with a partner who will enhance the services available to our customers without sacrificing the personal attention and dedication that North American has always offered." North American currently operates eight branches in western Connecticut, while Webster operates 109 offices throughout the state. The deal, which is subject to regulatory and shareholder approval, is expected to close in the fourth quarter of 2003.

As of June 30, 2002, Webster Financial had total deposits of \$7.2 billion and ranked 3rd among all commercial bank and thrift institutions in Connecticut. As of the same date, North American Bank & Trust had total deposits of \$136.4 million and ranked 50th.

(SNL Bank & Thrift Weekly, 6/9/03;

American Banker, 6/6/03; Webster PR, 6/5/03)

Sovereign to Acquire First Essex

Sovereign Bancorp, Philadelphia, PA, announced June 13, 2003, that it has entered into a definitive agreement to purchase First Essex Bancorp, Andover, MA, in a cash and stock deal valued at \$400 million. The acquisition will be Sovereign's first purchase in New England since acquiring almost 280 branches that were divested during the Fleet-BankBoston merger in 1999.

By acquiring First Essex, Sovereign will gain twenty new branches, eleven in northern Massachusetts and nine in southern New Hampshire, as well as "a solid small business and middle market corporate banking team." In a statement, Sovereign Chairman and CEO Jay Sidhu said the deal "achieves a #1 market share in two of Sovereign's identified desirable markets, Lowell, MA, and Salem, NH." He continued by saying, "It is an in-market, fill-in transaction, small in size relative to Sovereign...and it

complements our strengths as a deposit gathering franchise and as a solid small business and middle market corporate bank." In addition to gaining market share in the Boston area, the deal gives Sovereign an initial entrance to the Londonderry, Pelham, and Windham, NH, markets. Sovereign expects the deal to close in the first quarter of 2004, pending regulatory and shareholder approval.

As of June 30, 2002, Sovereign had total deposits of \$7.7 billion and ranked 4th among all commercial bank and thrift institutions in Massachusetts, while First Essex had total deposits of \$831.2 million and ranked 24th. As of the same date, Sovereign had total deposits of \$480.5 million and ranked 9th in New Hampshire, and First Essex had total deposits of \$502.7 million and ranked 7th.

On June 3, 2003, Sovereign Bank opened a community mortgage center in Roxbury, MA. The center is intended to allow customers of all income levels to apply for and afford a mortgage and to refinance a home. Employees of the new center will be fluent in Spanish, Vietnamese, or Portuguese.

(SNL Bank & Thrift Weekly, 6/16/03;

American Banker, 6/16/03; Sovereign PR, 6/13/03;

Boston Globe, 6/4/03)

Branch Openings

Ocean National Bank, Kennebunk, ME, opened a branch located at 900 Elm Street, City Hall Plaza, Manchester, NH, on February 18.

On March 3, Bay State Savings Bank, Worcester, MA, opened a branch located at 352 Belmont Street, Worcester, MA.

Eastern Bank, Lynn, MA, opened a Shaw's Supermarket branch located at 780 South Main Street, Sharon, MA, on May 26.

On May 31, Banknorth NA, Portland, ME, opened two branches in Massachusetts: 721 Central Street, Leominster, and 588 Cabot Street, Beverly.

The Co-operative Bank, Roslindale, MA, opened a branch located at 265 Washington Street, Westwood, MA, on June 3.

On June 4, Southbridge Savings Bank, Southbridge, MA, opened a branch located at 1073 Main Street, Holden, MA.

Also on June 4, North Middlesex Savings Bank, Ayer, MA, opened a branch located at 947 Massachusetts Avenue, Lynn, MA.

The National Grand Bank of Marblehead, Marblehead, MA, opened a branch located at Marblehead High School, 2 Humphrey Street, Marblehead, MA, on June 11.

(Internal Notice, 6/10/03, 6/11/03, 6/13/03, 6/25/03)

Branch Relocation

Effective June 6, Fleet National Bank, Providence, RI, relocated its branch from 1194 Stratford Avenue to 1234 Stratford Avenue, Bridgeport, CT.

(Internal Notice, 6/11/03)

Citizens Announces Supermarket and Stadium Deals

Citizens Bank of Massachusetts, Boston, MA, announced June 9, 2003, that it will expand its partnership with Stop & Shop Supermarkets by opening nine new full-service, in-store branches in Barnstable County on Cape Cod. The move is designed to complement Citizens' seven traditional and three in-store branches currently operating on the Cape. Supermarket branches continue to be a big part of Citizens' growth strategy. The bank currently has 155 such branches in New England and 247 throughout the country. The new offices are expected to open in October 2003.

As of June 30, 2002, Citizens had total deposits of \$14.7 billion and ranked 3rd among all commercial bank and thrift institutions in Massachusetts.

On June 17, 2003, Citizens Bank of Pennsylvania, Philadelphia, PA, announced it has reached an agreement for the naming rights of the Philadelphia Phillies new baseball stadium for the next 25 years. Under the terms of the deal, Citizens will pay \$57.5 million to name the new venue Citizens Bank Park and to be the team's official bank. The park is expected to open in April 2004. In addition, Citizens will pay \$37.5 million to be the only bank with advertising during Phillies television and radio broadcasts. Hal Tovin of Citizens called the deal a "key part" of the bank's entrance into the Philadelphia market. He also said it will "build comprehensive, top-of-mind name recognition and awareness. This becomes the cornerstone of our presence and marketing efforts."

(SNL Bank & Thrift Weekly, 6/16/03;

Boston Globe, 6/10/03; American Banker, 6/18/03; Citizens PR, 6/9/03, 6/17/03)

Banks, MA DOR Settle Tax Dispute

According to published reports, numerous banks throughout Massachusetts have reached an agreement with the state's Department of Revenue (DOR) to settle the issue of whether back taxes are owed for earnings from banks' real estate investment trust (REIT) subsidiaries since 1999. Many banks throughout the country have created REITs in recent years by pooling mortgages into separate subsidiaries. In order to avoid double taxation of income, Massachusetts law allows parent companies to pay tax on only 5% of the dividends paid to them by

subsidiaries. The income earned by REITs was not taxable at the subsidiary level because they are supposed to pay out at least 90% of their income to shareholders. Thus, the banks in Massachusetts were effectively paying only 5% of the taxes they would have paid on the mortgages without a REIT subsidiary.

In March, the state passed legislation that in effect eliminated the tax deduction for all tax years ending on or after December 31, 1999. Most banks vowed to fight the retroactive nature of the law, but recently many have announced they are part of a broad settlement negotiated with the DOR. According to the Boston Globe, 60 banks entered an agreement that called for the banks to pay 50% of the taxes and 50% of the interest owed from previous years by June 23. In addition, the state was to receive \$90 million before the deal would become official. Among the banks that reported being part of the agreement are Brookline Bancorp, Port Financial Corp., Independent Bank Corp., Falmouth Bancorp, Capital Crossing Bank, CCBT Financial Companies, Century Bancorp, Investors Financial Services, Boston Private Financial, Seacoast Financial, Berkshire Hills Bancorp, Slade's Ferry Bancorp, Central Bancorp, Hingham Institution for Savings, BostonFed Bancorp, and Westfield Financial. The settlement would allow the banks to realize a tax credit in the second quarter, which would reverse portions of the charges taken in March that covered the full tax liabilities.

(Boston Globe, 6/11/03; American Banker, 6/17/03;

SNL Bank & Thrift Weekly, 6/16/03, 6/30/03)

FDIC Reports Industry Earnings

The Federal Deposit Insurance Corporation (FDIC) announced June 4, that federally insured commercial banks and savings institutions earned a record \$29.4 billion in the first quarter of 2003. The agency attributed the higher earnings to lower expenses for bad loans and larger gains on sales of securities. Compared to a year ago, provisions for loan losses decreased by almost 20 percent, and securities gains nearly tripled, to \$3.7 billion.

The FDIC's chief economist, Richard Brown, commented, "Commercial loan performance improved again for the second straight quarter and this is a trend that should continue in the foreseeable future." Also during the quarter, noncurrent loans declined by 2.5 percent, and mortgage-related assets grew by \$119.8 billion, accounting for more than 70 percent of all asset growth.

(FDIC PR, 6/4/03; SNL Bank & Thrift Weekly, 6/9/03)

Regulators to Seek Comments on Regulatory Burden

On June 3, the Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision announced that they will publish a joint notice in the Federal Register requesting comments on a plan "to identify and eliminate outdated, unnecessary or unduly

burdensome regulations imposed on insured depository institutions.”

The request is being made pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996, which requires the agencies to review their regulations at least once every ten years. It also marks the beginning of a three-year joint effort to obtain suggestions from the industry and public on more streamlined and less burdensome ways to regulate. Twice a year the agencies will publish a list of categories for which they are seeking comments. The first group of categories is applications and reporting, powers and activities, and international operations.

(Federal Reserve PR, 6/3/03;
SNL Bank & Thrift Weekly, 6/9/03)

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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