

Federal Reserve Bank of Boston BANK NOTES

• Edited by Anne McElroy •

October 2008
Vol. XXXVII, No. 10

Emergency Economic Stabilization Act of 2008 Passed

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law by President Bush. Federal Reserve Chairman Ben Bernanke issued the following statement:

"I applaud the action taken by the Congress. It demonstrates the government's commitment to do what it takes to support and strengthen our economy. The legislation is a critical step toward stabilizing our financial markets and ensuring an uninterrupted flow of credit to households and businesses.

"The Federal Reserve will continue to work closely with the Treasury as it undertakes these new initiatives. We will continue to use all of the powers at our disposal to mitigate credit market disruptions and to foster a strong, vibrant economy." (*Internal Sources*, 10/3/08)

Federal Reserve to Pay Interest on Required and Excess Reserve Balances

On October 6, 2008, the Federal Reserve Board announced that it will begin to pay interest on depository institutions' required and excess reserve balances. The payment of interest on excess reserve balances will give the Federal Reserve greater scope to use its lending programs to address conditions in credit markets while maintaining the federal funds rate close to the target established by the Federal Open Market Committee. Paying interest on required reserve balances should essentially eliminate the opportunity cost of holding required reserves, promoting efficiency in the banking sector.

The Financial Services Regulatory Relief Act of 2006 originally authorized the Federal Reserve to begin paying interest on balances beginning October 1, 2011. The recently enacted Emergency Economic Stabilization Act of 2008 accelerated the effective date to October 1, 2008.

To employ the accelerated authority, the Board is amending Regulation D (Reserve Requirements of Depository Institutions) to direct Reserve Banks to pay interest on required reserve balances and on excess balances.

The revisions to Regulation D noted above are effective as of October 9, 2008. Full details on these and

related changes are available online by viewing the Board's press release at www.federalreserve.gov/newsevents/press/monetary20081006a.htm. (*Reserve Board press release*, 10/06/08)

Mergers and Acquisitions

On September 4, 2008, Eastern Bank Corporation of Boston, MA, completed its acquisition of MASSBANK Corp., the parent company of MASSBANK of Reading, MA. The new \$7.0 billion institution will have nearly 90 branches and will serve more than 400,000 consumers and businesses across eastern Massachusetts. The cash transaction was valued at approximately \$170 million.

Eastern and MASSBANK branches will operate as separate units until later this fall, when the banks' operations will be merged under the Eastern name. Eastern Bank is the largest independent, mutually owned commercial banking franchise in New England. (*Internal sources*, 9/12/08; *Eastern Bank Corporation press release*, 9/03/08)

Kennebec Savings Bank of Augusta, ME, is discussing a potential merger with KV Federal Credit Union of Augusta, ME, according to a press release issued by the institutions on September 8, 2008. The deal must be approved by regulators, directors and members of the credit union, and the bank. The combined institution would operate as a federally chartered mutual savings bank with over \$700 million in assets. (*SNL Bank & Thrift Daily*, 9/11/08)

Putnam Bank, a unit of PSB Holdings Inc. (MHC) of Putnam, CT, has agreed to acquire a branch from Savings Institute Bank & Trust Co., a unit of SI Financial Group Inc. (MHC) of Willimantic, CT. The branch is located in Gales Ferry, CT. (*SNL Bank M&A Weekly*, 9/22/08)

Savings Bank of Maine (\$890.8 million) of Gardiner, ME, completed its acquisition of Rivergreen Bank (\$97.9 million) of Kennebunk, ME, on September 19, 2008. The total merger consideration was approximately \$13 million. Established in 1834, Savings Bank is an independent community bank with 29 full-service branches throughout the northern, eastern, central, and mid-coast regions of Maine. Savings Bank now has assets of \$970 million and

three new branches. (*Savings Bank of Maine press release, 9/19/08; SNL Bank & Thrift Weekly Northeastern Edition, 9/29/08*)

Mechanics' Cooperative Bank of Taunton, MA, completed its acquisition of Lafayette Federal Savings Bank on September 1, 2008. The new entity will have seven branches in Massachusetts' Bristol County. (*Internal sources, 6/01/08, 9/04/08*)

SJB Federal Credit Union of Fall River, MA, completed its acquisition of Eastern Mass Employees Federal Credit Union, of Fall River, MA, on August 23, 2008. (*Internal sources, 9/05/08*)

Conversions

On September 16, 2008, Avon Cooperative Bank of Avon, MA, became a member of the Federal Reserve System. (*Internal sources, 9/19/08*)

Branch Openings

Eastern Bank of Boston, MA, opened a branch on Everett Avenue in Chelsea, MA, on August 18, 2008. (*Internal sources, 9/12/08*)

National Bank of Middlebury of Middlebury, VT, opened a branch on 140 Commerce Street in Hinesburg, VT, on August 18, 2008. (*Internal Sources, 9/27/08*)

Profile Bank, FSB of Rochester, NH, opened a branch in Somersworth, NH, on September 15, 2008. (*Internal Sources, 9/27/08*)

United Bank, a unit of United Bancorp, of Springfield, MA, opened a branch in Northampton, MA, on September 22, 2008. (*SNL Bank & Thrift Weekly, 9/29/08*)

Branch Closings

TD Bank, N.A. of Wilmington, DE, closed a branch at 212 Boston Post Road in Orange, CT, at the close of business on September 20, 2008. (*Internal sources, 10/03/08*)

NCUA Arranging Mergers for Troubled Credit Unions

The National Credit Union Administration (NCUA) is helping to arrange several mergers for troubled credit unions, according to a September 2, 2008, report by the Credit Union Journal. In 2008, the NCUA has closed several insolvent credit unions, including two in New England. (*SNL Bank & Thrift Daily, 9/08/08*)

Federal Banking Agencies Evaluating FASB's Accounting Proposals

The federal banking agencies are evaluating amendments to generally accepted accounting principles

proposed on September 15, 2008, by the Financial Accounting Standards Board (FASB).

The Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS) are evaluating the potential impact these proposals could have on banking organizations' financial statements, regulatory capital, and other regulatory requirements. More details are available in the Board's September 15, 2008, press release at www.federalreserve.gov/newsevents/press/bcreg/20080915b.htm. (*Reserve Board press release, 9/15/08*)

Federal Reserve Programs to Provide Liquidity to Markets

On September 19, the Federal Reserve approved two interim final rules to help to provide liquidity to markets by extending loans to banking organizations to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds.

The first interim final rule would provide a temporary limited exception from the Board's leverage and risk-based capital rules for bank holding companies and state member banks. The second would provide a temporary limited exception from sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between a bank and its affiliates.

The interim final rules will facilitate participation by depository institutions and bank holding companies in this special lending program as intermediaries between the Federal Reserve and money market mutual funds.

The exceptions expire on January 30, 2009, unless extended by the Board, and are subject to various conditions to promote safety and soundness. A web site to help institutions is available at www.frbdiscountwindow.org/mmmf.cfm?hdrID=14. The site provides links to Terms & Conditions, FAQs, and various forms. (*Internal sources, 9/19/08; 9/29/08*)

Federal Reserve Initiatives to Support Financial Stability

Between September 19 and September 29, 2008, the Federal Reserve announced several initiatives to support financial stability and to maintain a stable flow of credit to the economy. The Federal Reserve will continue to adapt liquidity facilities as necessary and keep them in place as long as circumstances require.

Actions by the Federal Reserve include: (1) increasing the size of the 84-day maturity Term Auction Facility (TAF) auctions to \$75 billion per auction from \$25 billion beginning with the October 6 auction, (2) conducting two forward TAF auctions totaling \$150 billion in November to provide term funding over year-end, and (3) increasing swap authorization limits with the Bank of Canada, Bank of England, Bank of Japan, Danmarks

Nationalbank (National Bank of Denmark), European Central Bank (ECB), Norges Bank (Bank of Norway), Reserve Bank of Australia, Sveriges Riksbank (Bank of Sweden), and Swiss National Bank to a total of \$620 billion, from \$290 billion previously announced. *(Internal sources, 9/19/08 through 9/29/08)*

Access Info on the Most Current Federal Reserve Actions from One Web Page

To provide ready access to all recent Federal Reserve actions on current economic events, a new web page provides links to all relevant press releases, Federal Register notices, FAQs, and more. Please visit and bookmark the page: www.federalreserve.gov/newsevents/recentactions.htm. *(Internal sources, 10/01/08)*

Annual Adjustments for Reserve Calculation and Deposit Reporting, Regulation D

On September 29, 2008, the Federal Reserve Board announced the annual indexing of the reserve requirement exemption amount and of the low reserve tranche for 2009, which are used to calculate reserve requirements of depository institutions. The Board also announced the annual indexing of the nonexempt deposit cutoff level and the reduced reporting limit that will be used to determine deposit reporting panels in 2009. All institutions must hold a percentage of certain types of deposits (mostly

checking accounts) as reserves in the form of vault cash, as a deposit in a Reserve Bank, or as a deposit in a pass-through account in a correspondent institution. Institutions must also regularly submit reports of their deposits and other reservable liabilities.

For net transaction accounts in 2009, the first \$10.3 million will be exempt from reserve requirements. A 3 percent reserve ratio will be assessed on net transaction accounts over \$10.3 million up to and including \$44.4 million. A 10 percent reserve ratio will be assessed on net transaction accounts over \$44.4 million.

For institutions that report weekly, the new requirements will apply to the fourteen-day reserve computation period that begins Tuesday, December 2, 2008, and the corresponding fourteen-day reserve maintenance period that begins Thursday, January 1, 2009. For institutions that report quarterly, the new requirements will apply to the seven-day reserve computation period that begins Tuesday, December 16, 2008, and the corresponding seven-day reserve maintenance period that begins Thursday, January 15, 2009.

For more detailed information, please see the Board's September 29, 2008, announcement at www.federalreserve.gov/newsevents/press/bcreg/20080929a.htm. *(Reserve Board press release, 9/29/08)*



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. *Bank Notes* is available without charge.

To be added to the electronic mailing list or to the paper distribution list, send visit our online subscription form at www.bos.frb.org/economic/banknote/bnsubscribe.htm. If unable to do so, call Anne McElroy at (617) 973-3126. To access *Bank Notes* on the Web, visit the Boston Fed's web site at www.bos.frb.org/economic/banknote/index.htm.