Federal Reserve Bank of Boston

BANK NOTES

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Mergers and Acquisitions

Boston-based Eastern Bank Corp. ($6.76 billion) reported on Nov. 18 that it completed the acquisition of **Wainwright Bank & Trust Co.** ($1.03 billion). The cash transaction was valued at approximately $163 million, or $19 per share of Wainwright Bank common stock. (SNL B&T weekly 11/22/10)

Hauppauge, N.Y.-based Smithtown Bancorp Inc. said Nov. 19 that its shareholders approved the company's plan to merge with **Bridgeport, Conn.-based People's United Financial Inc.** More than 96% of the votes cast were in favor of the merger. The transaction has also received all necessary regulatory approvals. The companies expected the merger to be completed Nov. 30. (SNL B&T weekly 11/22/10)

New Haven, Conn.-based Bank of Southern Connecticut and Naugatuck, Conn.-based Naugatuck Valley Financial Corp. (MHC) ($581.1 million) on Nov. 12 terminated their merger agreement. Under the agreement, Naugatuck Valley Financial Corp. would have acquired Bank of Southern Connecticut's parent company, Southern Connecticut Bancorp Inc. ($156.4 million), immediately following the completion of Naugatuck Valley's second-stage conversion to become a stock holding company. (SNL B&T weekly 11/29/10)

Bridgeport, Conn.-based People's United Financial Inc. ($21.90 billion) has completed the acquisitions of North Andover, **Mass.-based LSB Corp**. ($780.4 million) and Hauppauge, N.Y.-based Smithtown Bancorp Inc. ($2.28 billion). (SNL B&T weekly 12/06/10)

Middletown, Conn.-based Liberty Bank ($3.25 billion) said Dec. 6 that it completed the acquisition of **Wethersfield, Conn.- based Connecticut River Community Bank** ($165.6 million), effective Dec. 3. (SNL B&T weekly 12/13/10)

The Federal Reserve Board approved an interim rule amending Regulation Z,

which implements the Truth in Lending Act (TILA). The Board is issuing this interim rule to clarify certain aspects of a September 24, 2010, interim rule, in response to public comments. The September interim rule implements provisions of the Mortgage Disclosure Improvement Act (MDIA), which amended TILA to require mortgage lenders to disclose examples of how a loan's interest rate or monthly payments can change. Those statutory amendments will become effective on January 30, 2011.

The MDIA seeks to alert borrowers to the risks of payment increases before they take out mortgage loans with variable rates or payments. Under the Board's September interim rule, lenders' cost disclosures must include a payment summary in the form of a table stating the initial rate and corresponding periodic payment and, for adjustable rate loans, the maximum rate and payment that can occur during the first five years as well as a "worst case" example showing the maximum rate and payment possible over the life of the loan.

This interim rule clarifies that creditors' disclosure should reflect the first rate adjustment for a "5/1 ARM" loan because the new rate typically becomes effective within 5 years after the first regular payment due date. Today's interim rule also corrects the requirements for interest-only loans to clarify that creditors' disclosures should show the earliest date the consumer's interest rate can change rather than the due date for making the first payment under the new rate. The rule also clarifies which mortgage transactions are covered by the special disclosure requirements for loans that allow minimum payments that cause the loan balance to increase.

Creditors have the option of complying with either the Board's September 2010 interim rule as originally published or as revised by this interim rule until October 1, 2011, at which time compliance with this interim rule will become mandatory.

The Board is soliciting comment on the interim rule for 60 days after publication in the *Federal Register*, which is expected shortly. *Release Date: November 17, 2010*

Agencies Release Annual CRA Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions

The federal bank regulatory agencies today announced the annual adjustment to the asset-size thresholds used to define small bank, small savings association, intermediate small bank and intermediate small savings association under the Community Reinvestment Act (CRA) regulations. The annual adjustments for banks are required by the CRA rules.

Annual adjustments to these asset-size thresholds are based on the change in the average of the Consumer Price Index (CPI) for urban wage earners and clerical workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

As a result of the 2.21 percent increase in the CPI index for the period ending in November 2010, the definitions of small and intermediate small institutions for CRA examinations will change as follows:

“Small bank” or “small savings association” means an institution that, as of December 31 of either of the prior two calendar years, had assets of less than $1.122b.

“Intermediate small bank” or “intermediate small savings association” means a small institution with assets of at least $280m as of December 31 of both of the prior two calendar years, and less than $1.122b as of December 31 of either of the prior two calendar years.

These asset-size threshold adjustments are effective January 1, 2011. The agencies will publish the adjustments in the Federal Register. In addition, the agencies will post a list of the current and historical asset-size thresholds on the website of the Federal Financial Institutions Examination Council. (www.ffiec.gov/cra) *Release Date: November 17, 2010*

The Federal Reserve Board posted detailed information on its public website about more than 21,000 individual credit and other transactions conducted to stabilize markets during the recent financial crisis, restore the flow of credit to American families and businesses, and support economic recovery and job creation in the aftermath of the crisis.

Many of the transactions, conducted through a variety of broad-based lending facilities, provided liquidity to financial institutions and markets through fully secured, mostly short-term loans. Purchases of agency mortgage-backed securities (MBS) supported mortgage and housing markets, lowered longer-term interest rates, and fostered economic growth. Dollar liquidity swap lines with foreign central banks helped stabilize dollar funding markets abroad, thus contributing to the restoration of stability in U.S. markets. Other transactions provided liquidity to particular institutions whose disorderly failure could have severely stressed an already fragile financial system.

As financial conditions have improved, the need for the broad-based facilities has dissipated, and most were closed earlier this year. The Federal Reserve followed sound risk-management practices in administering all of these programs, incurred no credit losses on programs that have been wound down, and expects to incur no credit losses on the few remaining programs. These facilities were open to participants that met clearly outlined eligibility criteria; participation in them reflected the severe market disruptions during the financial crisis and generally did not reflect participants' financial weakness.

The data made available can be downloaded in multiple formats, including Excel, at www.federalreserve.gov/newsevents/reform_transaction.htm. The Excel files allow users to search, sort, and filter the data for each program in multiple categories. The site also provides explanations of each program as well as definitions for the data elements. *Release Date: December 1, 2010*

The Federal Reserve Board requested comment on a proposed rule that would establish debit card interchange fee standards and prohibit network exclusivity arrangements and routing restrictions.

The Board's proposal would implement the debit card interchange fee and routing provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Debit card interchange fees are established by payment card networks and paid by merchants to card issuers for each transaction.

The proposed new Regulation II, Debit-Card Interchange Fees and Routing, would establish standards for determining whether a debit card interchange fee received by a card issuer is reasonable and proportional to the cost incurred by the issuer for the transaction. These standards would apply to issuers that, together with their affiliates, have assets of $10 billion or more. Certain government-administered payment programs and reloadable general-use prepaid cards would be exempt from the interchange fee limitations.

The Board is requesting comment on two alternative interchange fee standards that would apply to all covered issuers: one based on each issuer's costs, with a safe harbor (initially set at 7 cents per transaction) and a cap (initially set at 12 cents per transaction); and the other a stand-alone cap (initially set at 12 cents per transaction). Under both alternatives, circumvention or evasion of the interchange fee limitations would be prohibited. The Board also is requesting comment on possible frameworks for an adjustment to the interchange fees to reflect certain issuer costs associated with fraud prevention.

If the Board adopts either of these proposed standards in the final rule, the maximum allowable interchange fee received by covered issuers for debit card transactions would be more than 70 percent lower than the 2009 average, once the new rule takes effect on July 21, 2011.

The proposed rule would also prohibit all issuers and networks from restricting the number of networks over which debit card transactions may be processed. The Board is requesting comment on two alternative approaches: one alternative would require at least two unaffiliated networks per debit card, and the other would require at least two unaffiliated networks per debit card for each type of cardholder authorization method (such as signature or PIN). Under both alternatives, the issuers and networks would be prohibited from inhibiting a merchant's ability to direct the routing of debit card transactions over any network that the issuer enabled to process them.

According to the recently released 2010 Federal Reserve payment study, debit card use in the United States now exceeds all other forms of noncash payments and, by number of payments, represents approximately 35 percent of total noncash payments.

Comments on the proposal are due by February 22, 2011. *Release Date: December 16, 2010*