

BANK NOTES

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2007 Saw Heavy Merger Activity in New England... More of the Same for 2008?

As of December 1, 2007, there have been 34 completed mergers and/or acquisitions in 2007 involving First District financial institutions, making New England one of the most active regions for bank deals in the United States this year.

Twenty-six of the mergers to date involved banks, thrifts, and holding companies; 7 involved credit unions, and one involved a bank's acquisition of a credit union. This volume is more than double the 16 mergers involving First District institutions in 2006.

And, with several more merger or acquisition agreements recently announced, it appears that significant merger activity will continue in the First District well into 2008.

In fact, two of the nation's top five mergers planned for 2008 involve institutions with a strong presence in New England. The largest anticipated transaction, valued at \$8.5 billion, is the acquisition of Commerce Bancorp of Cherry Hill, NJ, by Toronto-Dominion (TD) Bank Financial Group of Toronto, Canada, owner of TD Banknorth, whose U.S. operations are managed from Portland, ME.

The fourth largest transaction presently underway involves People's United Financial Group of Bridgeport, CT, which has entered into an agreement to acquire Chittenden Corporation of Burlington, VT, in a deal valued at \$1.9 billion.

Most New England mergers, however, involve small- to medium-sized community banks. In 2007, the vast majority of merger activity involved Massachusetts and Maine financial institutions.

It is unclear whether or not the pace of merger activity slated for early 2008 will continue throughout the year. A recent report by the investment bank of Keefe, Bruyette & Woods (KBW) of New York, NY, predicted that bank merger activity across the U.S. would slow down in 2008, due in part to "higher financing costs and the widespread credit crisis." (Internal sources; *SNL Bank M&A Weekly*, 11/26/07; *The Bank and Thrift Advisor*; Q12007; *Reuters Online*, 11/19/07)

Mergers and Acquisitions

Legacy Bancorp Inc. of Pittsfield, MA, has received regulatory approval from the Massachusetts Division of Banks, the New York State Banking Department, and the FDIC to acquire five branches of First Niagara Bank, a unit of First Niagara Financial Group Inc. of Lockport, NY. The five branches are located in eastern New York. The acquisition is expected to close on December 7, 2007. (*SNL Bank & Thrift Daily*, 10/09/07; Legacy Bancorp press release, 10/22/07)

Northeast Bank Insurance Group Inc., a unit of Northeast Bancorp of Lewiston, ME, has signed a purchase and sale agreement to acquire insurance broker Spence & Matthews Insurance of Berwick, ME. The transaction, financial terms of which were not disclosed, was expected to close on November 30, 2007. (*SNL Bank and Thrift Weekly - Northeastern Edition*, 11/19/07)

Savings Institute Bank & Trust Company, a unit of SI Financial Group Inc. (MHC) of Willimantic, CT, announced on November 14, 2007, that it had agreed to acquire the New London, CT, branch offices and deposits of the Bank of Southern Connecticut, of New Haven, CT. Subject to regulatory approval, the transaction is expected to be completed in the first quarter of 2008.

In October, Savings Institute Bank & Trust reached an agreement with Eastern Federal Bank of Norwich, CT, to acquire the Colchester, CT, branch of Eastern Federal. That transaction was expected to be completed on or about November 30, 2007. (*SNL Bank and Thrift Weekly - Northeastern Edition*, 11/19/07; *SNL Bank and Thrift Weekly - Northeast Edition*, 10/15/07)

De Novos

Quinnipiac Bank & Trust Co. of Hamden, CT, is set to open for business in February 2008. The bank had initially hoped to open in the fall of 2007, but was delayed in raising capital, as it restricted purchases to local investors. Quinnipiac Bank & Trust Co. will open a temporary branch in Hamden, CT, in February, with additional branches planned for New Haven and North Haven, CT, during its first eighteen months of operation. The bank plans to focus on small- to medium-sized

businesses in Hamden, New Haven, and North Haven, CT. (*SNL Bank and Thrift Weekly – Northeast Edition*, 11/05/07)

Veritas Bank, currently under organization in Lawrence, MA, expects to complete raising its capital in January 2008, and hopes to open for business by March 1, 2008. Veritas Bank intends to serve the minority communities of Lawrence, MA. (*SNL Bank and Thrift Weekly – Northeast Edition*, 11/12/07)

Corporate Title Changes

The Lynn Postal District Employees Credit Union of Lynn, MA, changed its name to Massachusetts Postal Employees Credit Union. The title change will be effective on December 1, 2007. (Internal sources, 11/26/07)

Branch Openings/Closings

BankRhode Island of Providence, RI, opened a branch at 499 Smithfield Avenue in Pawtucket, RI, on October 29, 2007. (Internal sources, 11/09/07)

The Connecticut Bank & Trust Company of Hartford, CT, opened a branch at 396 Cromwell Avenue in Rocky Hill, CT, on October 15, 2007. (Internal sources, 11/09/07)

South Adams Savings Bank opened a branch at 41 Park Street in Lee, MA, on November 11, 2007. (*SNL Bank and Thrift Weekly – Northeastern Edition*, 11/19/07)

Federal Banking Agencies Approve Final Rule to Implement Basel II Capital Accord

The Federal Reserve Board of Governors, FDIC, and Office of Thrift Supervision in early November approved rules to implement new risk-based capital requirements in the United States for large, internationally active banking organizations.

The new advanced capital adequacy framework, known as Basel II, more closely aligns regulatory capital requirements with actual risks and should further strengthen banking organizations' risk-management practices.

For banking organizations that meet the qualifying criteria, Basel II would replace current U.S. rules implementing the *Basel Capital Accord of 1988* (Basel I). Basel II would be mandatory for large, internationally active banking organizations (so-called "core" banking organizations with at least \$250 billion in total assets or at least \$10 billion in foreign exposure) and optional for others.

Under Basel II, core banking organizations would be required to enhance the measurement and management of their risks, including credit risk and operational risk, through the use of advanced approaches for calculating risk-based capital requirements.

More information, including the complete final rule and a "*Technical Overview of the Proposed Rule*," is available online at www.federalreserve.gov/generalinfo/basel2/FinalRule_BaselII/. (Board of Governors' press release, 11/02/07; FDIC press release, 11/05/07)

Federal Regulatory Agencies Issue Final Regulation and Guidelines on Identity Theft "Red Flags"

The federal financial institution regulatory agencies and the Federal Trade Commission have issued a final rule and guidelines on identity theft "red flags" and address discrepancies. The rule requires that financial institutions and creditors implement a written identify theft prevention program, that card issuers assess the validity of change of address requests, and that users of consumer reports reasonably verify the identity of the subject of a consumer report in the event of a notice of address discrepancy.

The regulation and guidelines implement sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003. Supplement A of the guidelines, detailed in a November 29, 2007 *Federal Register* notice, contains a list of 26 "red flags" that financial institutions and creditors may consider incorporating into their identify theft prevention programs.

The joint final rules and guidelines are effective January 1, 2008, and the mandatory compliance date for the rule is November 1, 2008.

More information about the rule, including the Federal Register notice, is available online at www.federalreserve.gov/newsevents/press/bcreg/20071031a.htm. (Board of Governors' press release, 10/31/07; FDIC Financial Institution Letter, 11/15/07)

Business Continuity: Good Sense for All Financial Institutions

For the benefit of the nation's banking system overall, financial institutions must do their part to be prepared.

In fact, regulatory agencies require it. "Because financial institutions play a crucial role in the United States economy, it is important their business operations are resilient and the effects of disruptions in services are minimized in order to maintain public trust and confidence in our financial system," states the Federal Financial Institutions Examination Council (FFIEC) *Business Continuity Planning* booklet. The booklet serves as a reference guide for financial institutions overseen by the

- Federal Reserve Banks;
- Federal Deposit Insurance Corporation (FDIC);
- National Credit Union Administration (NCUA);
- Office of the Comptroller of the Currency (OCC); and/or
- Office of Thrift Supervision (OTS).

The FFIEC maintains other business continuity resources at www.ffiec.gov, including "*Lessons Learned From Hurricane Katrina: Preparing Your Institution for a Catastrophic Event*." This report lists specific actions to take in the event of a natural disaster that may trigger a run on cash.

Many of the regulatory Web resources make it clear that business continuity is a matter of managing risk and keeping the public trust. Bank examiners, auditors, investors and the general public expect it. With this in mind, the BITS Financial Services Roundtable, a nonprofit industry consortium whose members include 100 of the largest U.S. financial institutions, maintains a crisis management Web site, www.bitsinfo.org. The *Publications* link on this site provides materials categorized under topics such as crisis management coordination, fraud reduction and operational risk.

Financial institutions that do business with the Federal Reserve Banks should also be familiar with the “*National Business Continuity Guide*,” which is available online at www.frbservices.org. The Guide provides continuity information for all Federal Reserve products and services in the unlikely event of a business disruption. Specific product and service information is provided on the following:

- Steps to take to prepare for a Federal Reserve business disruption;
- Actions to take during a Federal Reserve business disruption; and
- Actions to take immediately following a Federal Reserve business disruption.

In addition, the Federal Reserve Bank of Boston’s website has a Business Continuity page (www.bos.frb.org/finsvcs/continuity/buscont.htm) that provides instructions on what First District financial institutions should do in case local Cash or Check services are disrupted. The page also provides links to online pandemic flu planning resources maintained by the U.S. Department of Health and Human Services and the World Health Organization. (*FedFocus, News from the Federal Reserve Banks*, 09/07; internal sources)



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

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