Federal Reserve Bank of Boston

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Note: The February issue of *Bank Notes* is available online at: www.bostonfed.org/economic/banknote/index.htm.

Mergers and Acquisitions

Feb 1, Glens Falls National Bank and Trust Co., a unit of Glens Falls, N.Y.-based Arrow Financial Corp. ($1.91 billion), said that it acquired Chestertown, N.Y.-based Upstate Agency Inc. After signing a letter of intent to acquire the independent property and casualty insurance agency in 2008, Arrow Financial and Glens Falls National Bank had terminated discussions for the deal in 2009. Under the terms of the deal, Arrow Financial issued 119,755 shares to Upstate Agency's sole shareholder, according to a regulatory filing. Based on Arrow Financial's Jan. 31 closing share price of $22.68, the shares are valued at approximately $2.7 million. Upstate Agency, which has seven offices in northern New York, will operate as a wholly owned subsidiary of Glens Falls National Bank, according to a Feb. 1 news release. (SNL B&T weekly 2/7/11)

Feb 2, Pittsfield, Mass.-based Legacy Bancorp Inc. said that the "go-shop" period granted under its merger agreement with Berkshire Hills Bancorp Inc. expired. Under the agreement, Legacy Bancorp had the right to pursue alternative acquisition proposals from third parties from the date of agreement through Jan. 31. Legacy Bancorp did not receive any alternative acquisition proposals during the "go-shop" period despite informing other banking companies about the period through its financial adviser, Keefe Bruyette & Woods Inc. In March, both companies expect to file with the SEC preliminary proxy materials related to the special meetings to vote on the proposed merger. (SNL B&T weekly 2/7/11)

Feb 11, Shareholders of Athol, Mass.-based Athol-Clinton Cooperative Bank and Webster, Mass.-based Hometown Bank, A Cooperative Bank approved the companies' proposed merger, Telegram.com reported Feb. 10, citing Athol-Clinton Co-operative Bank Chairman Steven Duvarney. The deal is expected to close in the first week of April, Duvarney said. The transaction still requires regulatory approval. (SNL B& T weekly 2/14/11)

Federal Reserve Announcements

Feb 1, The **federal bank and thrift regulatory agencies announced proposed changes today to reporting requirements for savings associations and savings and loan holding companies regulated by the Office of Thrift Supervision (OTS).**

The proposed changes include a change from quarterly Thrift Financial Reports to quarterly Consolidated Reports of Condition and Income, commonly known as Call Reports.

The agencies – the OTS, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and Federal Reserve Board – are proposing the changes pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Provisions of Dodd-Frank require the transfer of OTS functions to the OCC, FDIC, Federal Reserve Board, and Bureau of Consumer Financial Protection on July 21, 2011.

Benefits of the proposed changes include uniform reporting systems and processes among all FDIC-insured banks and savings institutions. These changes also would make uniform all reporting requirements among all holding companies supervised by the Federal Reserve Board. Also, the agencies would have a common set of reports for monitoring and evaluating financial condition and trends.

Under the proposals, savings associations and their holding companies would continue their current reporting processes until the effective dates cited above. The agencies are requesting comment on the proposed changes within 60 days of their publication in the Federal Register, which is expected soon.

Office of Thrift Supervision
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System

Feb 8, The Federal Reserve Board **requested comment** on a proposed rule that implements **two provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act related to the designation by the Financial Stability Oversight Council of systemically important nonbank financial companies for consolidated supervision by the Board.**

First, the proposed rule establishes the requirements for determining if a company is "predominantly engaged in financial activities." Under the Dodd-Frank Act, a company generally can be designated by the Council only if 85 percent or more of the company's revenues or assets are related to activities that have been determined to be financial in nature under the Bank Holding Company Act.

Second, the proposed rule defines the terms "significant nonbank financial company" and "significant bank holding company." Among the factors the Council must consider in determining whether to designate a nonbank financial company for supervision by the Board is the extent and nature of the company's transactions and relationships with other "significant" nonbank financial companies and "significant" bank holding companies. Under the proposal, a firm would be considered "significant" if it has $50 billion or more in total consolidated assets or had been designated by the Council as systemically important. Comments on the proposal must be submitted by March 30, 2011.

Feb 16, The Federal Reserve Board on Wednesday announced the members of **its Community Depository Institutions Advisory Council (CDIAC)** and the president and vice president of the council for 2011.

CDIAC will provide input to the Board on the economy, lending conditions, and other issues. Members were selected from representatives of banks, thrift institutions, and credit unions serving on newly created local advisory councils at the 12 Federal Reserve Banks. One member of each of the Reserve Bank councils will serve on the CDIAC, which will meet twice a year with the Federal Reserve Board in Washington. The Board announced in October that it was forming the CDIAC to replace the Thrift Institutions Advisory Council.

Feb 17, The Federal Reserve System in February will conduct its Survey of Finance Companies as part of an effort to paint a complete and continuing picture of the sector in the aftermath of the financial crisis.

"As recent events have made very clear, the availability of credit to consumers and businesses is critical to the efficient functioning of our economy," Federal Reserve Chairman Ben S. Bernanke said in a letter to prospective survey participants. The survey results will further the understanding of the structure of the finance company industry, he noted.

The assets and liabilities of finance companies – non-depository companies that provide financing to consumers or businesses – have been surveyed by the Federal Reserve at roughly five-year intervals since 1955. The data collected provide a benchmark for the System's monthly report on the outstanding accounts receivable of finance companies (presented in the Federal Reserve's Finance Companies statistical release) and provide a comprehensive update on these companies' sources of funds. This information in turn becomes an important input to the estimates of total consumer credit (presented in the Federal Reserve's Consumer Credit statistical release) and the U.S. flow of funds accounts.

Feb 23, The Federal Reserve Board issued a **final rule and requested public comment on a second rule under Regulation Z to revise the escrow account requirements for certain home mortgage loans.** The revisions to the regulation, which implements the Truth in Lending Act (TILA), are being made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The final rule implements a provision of the Dodd-Frank Act that increases the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien, "jumbo" mortgage loans. Jumbo loans are loans exceeding the conforming loan-size limit for purchase by Freddie Mac, as specified by the legislation.

Feb 23, The Federal Reserve on Wednesday issued a Spanish version of the 2010 Federal Financial Institutions Examination Council's *Bank Secrecy Act/Anti-Money Laundering Examination Manual* (1.9 MB PDF). The Federal Reserve, in conjunction with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, developed the Spanish version to make the regulatory expectations regarding Bank Secrecy Act/Anti-Money Laundering compliance programs accessible to a wider group of people. The manual provides current and consistent guidance on risk-based policies, procedures, and processes for banking organizations to comply with the Bank Secrecy Act and safeguard operations from money laundering and terrorist financing.