

Federal Reserve Bank of Boston
BANK NOTES

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

Mergers and Acquisitions

Union Bank/Northway Bank

June 1, On May 27, Morrisville, Vt.-based Union Bank, a unit of Union Bankshares Inc., completed the purchase and assumption of three New Hampshire branches from Berlin, N.H.-based Northway Bank, a unit of Northway Financial Inc. The purchase and assumption included deposits of approximately \$67 million, loans of approximately \$34 million, the two branch facilities in Groveton and North Woodstock, N.H., and the assumption of the lease for the Littleton, N.H., branch. Union Bank is retaining the 18 employees at the branches, according to a Form 8-K. (SNL B&T Weekly 6/6/11)

Brookline Bancorp/Bancorp Rhode Island

June 9, Brookline, Mass.-based Brookline Bancorp Inc. agreed to acquire Bancorp Rhode Island Inc. for about \$234 million in cash and stock. In its initial proposal in March, Brookline suggested a purchase price range of \$44 to \$48 per share with the actual price to be determined after due diligence. The amount would be paid 50% in cash and 50% in stock. On April 18, Brookline orally confirmed its offer of \$48.25 per share. The two companies executed the deal shortly thereafter and issued a joint press release publicly announcing the transaction on April 20. After the deal, Bancorp Rhode Island unit Bank Rhode Island will retain its Rhode Island bank charter and board of directors, with Bancorp Rhode Island's President and CEO Merrill Sherman and another Bancorp Rhode Island director joining the Brookline board. (SNL B&T Weekly 6/13/11)

Service Credit Union/Seacoast Credit Union

June 20, Hampton, N.H.-based Seacoast Credit Union members on June 13 approved a plan to merge with Portsmouth, N.H.-based Service Credit Union. The merger became effective July 1. The combined entity, which will carry just the Service name, will have more than 147,000 members and 500 employees, according to a June 19 report by Seacoastonline.com. All Seacoast Credit

Union employees will retain their jobs following the combination. (SNL B&T Weekly 6/27/11)

Berkshire Hills Bancorp/Legacy Bancorp

June 20, Berkshire Hills Bancorp Inc. and Legacy Bancorp Inc., both based in Pittsfield, Mass., won respective shareholder approval for Berkshire to acquire Legacy and its unit Legacy Banks. Berkshire expects to issue about 4.4 million shares in conjunction with this merger, bringing its total shares outstanding to approximately 21.1 million and its total market capitalization to roughly \$450 million based on Berkshire's recent stock price. The deal remains subject to approval by state and federal regulatory agencies. It is also conditioned on an acceptable agreement for the divestiture of approximately \$160 million of Legacy deposits in Berkshire County. This divestiture is slated to be complete in 2011. (SNL B&T Weekly 6/27/11)

Branch Openings

Naugatuck Savings Bank

June 18, Naugatuck Savings Bank opened a domestic branch of a domestic bank at 2989 Whitney Avenue, Naugatuck, Conn.

Century Bank and Trust Company

June 20, Century Bank and Trust Company established a domestic branch of a domestic bank at 32 Langley Road, Newton Centre, Mass.

Federal Reserve Announcements

Final rule on debit card interchange

June 29, The Federal Reserve Board issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. This rule, Regulation II (Debit Card Interchange Fees and Routing), is required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Debit card interchange fees are established by payment card networks and ultimately paid by merchants to debit

card issuers for each electronic debit transaction. As required by the statute, the final rule establishes standards for assessing whether debit card interchange fees received by debit card issuers are reasonable and proportional to the costs incurred by issuers for electronic debit transactions. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. This provision regarding debit card interchange fees is effective on October 1, 2011.

The Board also approved on Wednesday an interim final rule that allows for an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the interim final rule. If an issuer meets these standards and wishes to receive the adjustment, it must certify its eligibility to receive the adjustment to the payment card networks in which it participates. Comments on the interim final rule are due by September 30, 2011. The fraud-prevention adjustment is effective on October 1, 2011, concurrent with the debit card interchange fee limits. The Board will re-evaluate this adjustment in light of feedback received during this comment period.

When combined with the maximum permissible interchange fee under the interchange fee standards, a covered issuer eligible for the fraud-prevention adjustment could receive an interchange fee of up to approximately 24 cents for the average debit card transaction, which is valued at \$38.

In accordance with the statute, issuers that, together with their affiliates, have assets of less than \$10 billion are exempt from the debit card interchange fee standards. To assist payment card networks in determining which of the issuers are subject to the debit card interchange fee standards, the Board plans to publish by mid-July and annually thereafter lists of institutions that are above and below the small issuer exemption asset threshold. Also, the Board plans to annually survey the networks and publish a list of the average interchange transaction fees each network provides to its covered and exempt issuers. This information should enable issuers, including small issuers, to more readily compare the interchange revenue they would receive from each network.

The final rule prohibits all issuers and networks from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks. The effective date for the network exclusivity prohibition is April 1, 2012, with respect to

issuers, and October 1, 2011, with respect to payment card networks. Issuers of certain health-related and other benefit cards and general-use prepaid cards have a delayed effective date of April 1, 2013, or later in certain circumstances.

Issuers and networks are also prohibited from inhibiting a merchant's ability to direct the routing of the electronic debit transaction over any network that the issuer has enabled to process them. The merchant routing provisions are effective on October 1, 2011.

Host state loan-to-deposit ratios

June 30, The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on June 24, 2010.

In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

A bank that fails both steps is subject to sanctions by the appropriate banking agency.

New member banks

June 15, Walpole Co-operative Bank became a member of the Federal Reserve System.

June 17, Watertown Savings Bank became a member of the Federal Reserve System.

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