Commonwealth of Massachusetts
Division of Banks

2010 ANNUAL REPORT

In March 2010, the Division of Banks relocated its main office from One South Station to 1000 Washington Street in Boston

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Division of Banks

Annual Report
For the year ending
December 31, 2010

Governor
Deval Patrick

Commissioner
David J. Cotney

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This annual report has been developed in accordance with Massachusetts General Laws chapter 167, §13.

About the Division

The Division of Banks' (Division) mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 160 managers, examiners, and support staff are responsible for the supervision of nearly 230 state-chartered banks and credit unions holding combined assets of approximately $260 billion, as well as the licensing and supervision of over 4,500 individual mortgage loan originators and over 3,700 non-bank financial entities, including mortgage brokers and lenders, finance companies, check cashers, money transmitters, and debt collectors. Accordingly, the Division plays a key role in maintaining depositor confidence in the State's banking system, as well as fostering a positive impact on the Commonwealth's economy.

The Division traces its origins to February 7, 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston, through Chapter 25 of the Acts of 1783. This Charter, signed by Governor John Hancock and Senate President Samuel Adams, includes one of the first known provisions to require bank examinations. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of $53 million.

Massachusetts was on the forefront of the banking industry as well as banking regulation. The Provident Institution for Savings in the Town of Boston was incorporated as the nation's first mutual bank in 1816.

On March 27, 1906, Chapter 204 of the Acts of 1906 was signed and established the current structure of the Division.

Letter from the Commissioner

June 30, 2011

I am pleased to present the 2010 Annual Report of the Commonwealth of Massachusetts Division of Banks. I became Acting Commissioner in November 2010 when former Commissioner Steven L. Antonakes was appointed to lead the Depository Supervision Unit of the new Consumer Financial Protection Bureau. In January 2011, I was appointed Commissioner of Banks by Governor Deval Patrick. I am honored that Governor Patrick chose me for a job that presents significant opportunities to strengthen consumer protections in the financial services industry, while also maintaining a secure and sound state-chartered banking and financial-services system. I am also honored to succeed Steve Antonakes as Commissioner, as he played a leadership role in the response to the foreclosure crisis, led negotiations on a national level on many multi-state settlements with mortgage companies and other entities, and played an integral role in developing and implementing the Nationwide Mortgage Licensing System.

In 2010, 157 banks failed throughout the country and Congress focused on regulatory restructuring in an effort to prevent future financial meltdowns and determine how to orderly unwind institutions which are deemed "too big to fail." As issues continue to unfold, these events will shape the financial services marketplace of the future.

The situation in Massachusetts remains very different. The vast majority of state-chartered banks and credit unions remain sound and well-capitalized. However, this past year presented challenges as Massachusetts experienced its first bank failure in 16 years in April 2010. Fortunately, the resulting transaction was successful in that depositors experienced no losses. We continue to benefit from the foresight of our local institutions generally maintaining strong underwriting standards throughout this last business cycle.

On July 21, 2010 President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. This legislation is designed to overhaul our nation's financial system, expand consumer protections, and enhance financial regulation. The Act acknowledges the essential role of state regulators, appropriately recalibrates the balance of power between state and federal regulators, and offers the prospect of a new era of state-federal collaboration and cooperation. While enactment of the Dodd-Frank Act was a monumental achievement, implementing the provisions and requirements of the Act will take significant time and resources for federal regulators and the industry.

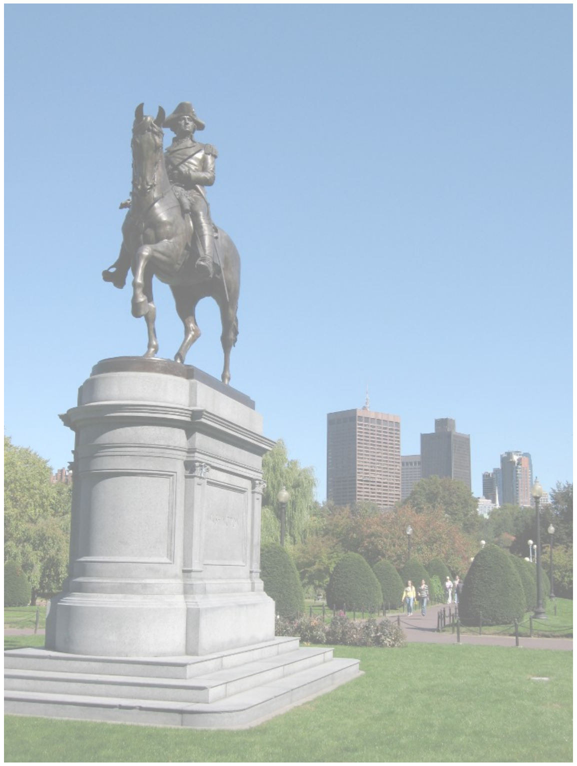
In closing, I would like to acknowledge the hard work of the Division's 160 employees and their continued efforts in maintaining a safe and sound and accessible banking and financial services environment. As you can see by the subsequent sections of this report, 2010 was a very accomplished year for the agency, and objectives for 2011 are intended to continue the agency's tradition of excellence.

Sincerely,

Commissioner of Banks

- Led a **35-state settlement agreement** with CitiFinancial following an examination by the Division.
- Issued **43 temporary cease-and-desist orders** against licensed mortgage loan originators for failing to meet heightened requirements for licensure.
- Ordered unlicensed **"Buy Here, Pay Here"** Auto Dealerships to cease financing activity in Massachusetts.
- Completed an investigation of non-bank **automated teller machines** (ATMs), which found more than 300 machines operating without approval, and another 101 registered machines that did not meet state regulations.
- Funded **$800,000 in grants** for foreclosure prevention and first-time home counseling services. To date, approximately $3.8 million in grants have been awarded.
- Led an effort to create a policy statement opposing high-interest **refund anticipation loans**.
- **Testified before federal agencies** on the Home Mortgage Disclosure Act and the Community Reinvestment Act.
- Released results of a **study conducted by the Division** showing that check-cashing entities are more expensive to use than a basic checking account at a bank.
- In collaboration with the Office of Consumer Affairs and Business Regulation and many of the state's leading community and financial organizations, announced a **new campaign** highlighting low-cost banking services.
- Issued Regulatory Bulletin 5.1-106, **Reverse Mortgage Products**: Guidance for Managing Compliance and Reputation Risks.
- Amended regulations regarding **Parity with Federal Credit Unions** and **Disclosure of Consumer Credit Costs and Terms**.
- Issued **over 650 formal and informal regulatory orders** against non-depository institutions.
- Completed **229** bank and credit union examinations and **324** examinations of non-bank licensees.
- Issued **8,296 licenses** to mortgage companies, mortgage loan originators, money service businesses, and consumer finance companies.
- Completed 498 bank, credit union, licensee, and other **approval requests** and issued 38 **legal opinions**.
- Resolved 275 **consumer complaints** and secured **reimbursements** on behalf of consumers totaling $21,725.
- Received 861 **foreclosure relief** requests, of which 468 were granted long-term stays. Since 2007, 3,403 foreclosure relief requests were received, of which 1,798 were granted long-term stays. In addition, 127 loan modification requests were received in 2010.
- Continued the coordination of **weekly conference calls** for all state mortgage regulators regarding problem entities, regulatory issues, and examination findings to share information and coordinate solutions between state agencies.

2011 Objectives



- Maintain a sound, competitive, and accessible banking and financial services environment by enhancing the statutory and regulatory structure, as well as the examination and supervisory processes for regulated entities.
- Continue to provide relief to existing homeowners and improve the regulatory and legal framework for the non-bank mortgage industry.
- Continue to implement the CSBS and the American Association of Residential Mortgage Regulators (AARMR) NMLS in an effort to further protect consumers and bring greater accountability and transparency to the mortgage industry.
- Advance the quality of the Division's supervision by maintaining a qualified and diverse professional staff.
- Continue to request a delay in the foreclosure proceedings for Massachusetts consumers who have filed a complaint with the Division.
- Improve the existing regulatory and business climate by streamlining processes, refining risk-focused supervisory policies, and by expanding the use of technology.
- Safeguard consumers through expanded financial literacy and consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections.
- Work with the new Consumer Financial Protection Bureau (CFPB) in developing information sharing agreements.
- Develop new rules regarding right-to-cure foreclosure notices and reverse mortgages as a result of legislation signed by Governor Deval Patrick in August 2010 as part of the Patrick-Murray Administration's response to the foreclosure crisis in Massachusetts.
- Gather feedback on the state of the industry, the economy, current issues of concern, and supervision efforts from Chief Executive Officers and senior executives from state-chartered banks and credit unions.

During 2010, mortgage supervision remained a significant focus of the Division. Over the past several years, the mortgage market changed dramatically. Property values peaked in 2006, but dropped continuously since then as a result of the weakened economy and mortgage crisis. In the Commonwealth, however, total market values have not declined as significantly as in other parts of the country. Mortgage rates also continued to decline in 2010, but consumer demand remained stagnant in many areas. At the same time, foreclosure rates continued to rise in 2010, and the number of homes seized in foreclosure on a nationwide basis surpassed 2009 figures. The Division continues to focus on monitoring foreclosure trends and assisting Massachusetts homeowners through this process. Many homeowners throughout the country are faced with unemployment and negative equity, which is hindering some homeowners from keeping up with mortgage payments or refinancing their current mortgage. Many Massachusetts banks and credit unions continue to offer relief in terms of loan modifications and troubled debt restructures to struggling borrowers. It should be noted that Massachusetts has not experienced the level of unemployment or volume of foreclosures as other parts of the country, such as California, Florida, Nevada, Arizona, Illinois, and Michigan.

The number of licensed mortgage lenders and brokers tripled from 2002 to 2007 in this state as a result of the housing boom, but over the last couple of years, the downturn of the economy and higher barriers to entry resulted in a decline in the number of lenders and brokers licensed to conduct business in the Massachusetts.

Another ongoing focus of the Division in 2010 was reverse mortgages and protecting the Massachusetts elderly that enter into these loan products . The Division issued Regulatory Bulletin 5.1-106: Reverse Mortgage Products: Guidance for Managing Compliance and Reputation Risks, to promote consistent regulation in the reverse mortgage market and clarify how licensed mortgage brokers and mortgage lenders can offer reverse mortgage products in a way that addresses the unique consumer protection concerns raised by reverse mortgage products. In addition, the Division issued several enforcement actions with administrative penalties to licensed entities for unfair and deceptive reverse mortgage advertising practices.

In 2010, the Division issued nearly 300 Cease and Desist Orders and Consent Orders against mortgage lenders and brokers and loan originators for unlicensed activity or failure to comply with Massachusetts law or regulation. The Division also participated with other states in multistate mortgage company examinations as part of the MultiState Mortgage Committee, which is comprised of ten state regulatory officials and is responsible for the selection of examination targets, coordinating multistate examinations, and developing uniform examination processes. One such example was the 35-state settlement agreement that was reached with CitiFinancial in March 2010. The agreement between CitiFinancial and state mortgage regulators was executed after an examination conducted by the Division to determine compliance with state and federal consumer protection laws found that CitiFinancial had failed to report 91,127 residential mortgage loans to the federal government, as required by the Home Mortgage Disclosure Act (HMDA). CitiFinancial was ordered to remit a penalty totaling $1.25 million to the 35 states that are party to this agreement.

The 2008 Housing and Economic Recovery Act included the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act), which recognized and built upon states' efforts by requiring all mortgage loan originators to be either state-licensed or federally-registered through the Nationwide Mortgage Licensing System (NMLS) by July 31, 2010. On July 31, 2009, Governor Deval Patrick signed into law SAFE Act legislation (Massachusetts SAFE Act) to ensure that Massachusetts will retain oversight of mortgage loan originators and maintain funding to provide grants to regional foreclosure prevention centers located throughout the Commonwealth.

With the introduction of the Massachusetts SAFE Act, the Division was charged with ensuring that all new applicants and current licensees complied with the new law by no later than December 31, 2010. Under the Massachusetts SAFE Act, mortgage loan originators are required to complete 20 hours of pre-licensing education, pass both the Massachusetts SAFE Mortgage Loan Originator Test and the National SAFE Mortgage Loan Originator Test, and submit fingerprints for a national criminal background check. Mortgage loan originators who applied for a license after July 31, 2009, had until July 31, 2010 to meet the licensing requirements under the Massachusetts SAFE Act. The Division issued 43 temporary cease-and-desist orders in August 2010 against licensed mortgage loan originators in Massachusetts for failing to meet requirements for licensure under the 2009 law by the July 31st deadline.

To facilitate the transition to the SAFE standards for mortgage loan originators who were licensed in the states prior to the passage of the SAFE Act, the Conference of State Bank Supervisors, in cooperation with the State Regulatory Registry LLC (CSBS/SRR), established an Education Certification Process which allowed regulators to give credit to licensees who had taken education prior to the passage of the SAFE Act. The Division coordinated and administered this process during 2010 for Massachusetts mortgage loan originators. The Division ensured that all mortgage loan originators licensed in Massachusetts on or after January 1, 2011, were in full compliance with the Massachusetts SAFE Act.

Also, in early 2010, NMLS launched "NMLS Consumer Access." This is a fully searchable website that allows the public to view information concerning state-licensed mortgage lenders, brokers, and individuals currently licensed through NMLS.

During 2010, additional functionality was introduced through the NMLS that would permit regulator access to a license applicant's national criminal background check as well as the individual's single-bureau credit report.

As of December 2010, the Division had approved 4,524 mortgage loan originators in NMLS. This is a decrease from the 5,177 approved loan originators in NMLS as of December 2009.

In 2010, the Division provided $800,000 in grants to ten regional foreclosure prevention and education centers and nine local consumer agencies. A total of 6,174 clients were served. To date, approximately $3.8 million in grants have been awarded.

Other foreclosure prevention efforts of Division included:

- Ensuring tenants of foreclosed properties are granted additional tenant at will rights.
- Mandating an accounting of the disposition of the proceeds of a foreclosure sale to a foreclosed consumer, including whether there is any surplus due to the consumer or if any deficiency remains.
- Maintaining a foreclosure database at the Division of Banks that includes information on all preliminary "Right to Cure" or foreclosure filing notices and all final foreclosure sale information.
- Requiring a 90-day "Right to Cure" and that a notice of the Right to Cure be filed with the Division of Banks. (A 150-day Notice of Right To Cure applies to mortgagors served a Notice after August 7, 2010.)
- Requiring that the holder of a mortgage notify the Division of the date of a foreclosure sale and the purchase price of the property.

As noted above, the Division maintains a public, web-based foreclosure database of Massachusetts foreclosure notices. By providing public access to the database, anyone with an interest in tracking and understanding foreclosure trends in their neighborhood can do so.

Community organizations and regional housing agencies are also able to use the tracking feature to better focus their relief efforts or to study trends and allocate their funds accordingly. Through the database, the Division has the capability of closely monitoring trends among brokers and lenders whose loans have high frequencies of foreclosure. The database is also built with a functionality to track the entities responsible for maintaining foreclosed properties. The database lists the foreclosures throughout the state line-by-line and includes the amount and date of the sale, community and foreclosing entity. To protect the privacy of the individuals and families whose homes are in foreclosure, the database will not make consumer names or property addresses available to the general public. The Division opened the database to local public safety and code enforcement officials in late 2008, enabling municipalities to better respond to public safety hazards associated with vacant foreclosed properties. The online database allows the Division to study trends and better focus foreclosure examination efforts.

Further, since April 2007, the Division has continued to implement Governor Deval Patrick's initiative to help homeowners facing foreclosure seek delays, or stays, on the proceedings. When a consumer contacts the Division, the Division seeks a 30- to 60-day extension of foreclosure proceedings on the consumer's behalf, as long as it pertains to the consumer's primary residence. If the foreclosure is scheduled to take place in more than seven days, the Division will refer the consumer to The Homeownership Preservation Foundation's Homeowner's HOPE™ Hotline. The Division tracks this data and, in 2010, 468 long-term stays were granted, or 56% of stays requested.

Provisions similar the Massachusetts Community Reinvestment Act (CRA) were extended to certain mortgage lenders as part of Chapter 206 of the Acts of 2007, An Act Protecting and Preserving Home Ownership. Chapter 206 amended Section 8 of General Laws Chapter 255E to now require that the Division include an additional evaluation in its inspection of mortgage lenders that have made 50 or more home mortgage loans in the previous calendar year and are Home Mortgage Disclosure Act (HMDA) filers. This evaluation, Mortgage Lender Community Investment (MLCI), assesses and provides a publicly available report of the record of the mortgage lender's performance in meeting the mortgage credit needs of communities in the Commonwealth.

The regulations for MLCI became effective on September 5, 2008. Examinations for compliance began in 2009 in order to allow the entities sufficient time to review the requirements of the regulation and to develop processes to address its requirements. Seventeen MLCI examinations were completed in 2010. Of the 17 reports issued, two were issued without an MLCI evaluation when it was determined that integrity of the lenders' HMDA data was not reliable. Consent Orders were issued with a $25,000 fine. One additional examination was issued with a Consent Order due to a significant recordkeeping violation; a fine of $60,000 was agreed upon in this case and an MLCI rating of "Needs Improvement" was assigned.

One of the Division's overarching goals is to safeguard consumers through expanded financial literacy and consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections. Several measures were taken in 2010 in conjunction with this initiative.

"Buy Here, Pay Here" Auto Dealerships

Beginning in February through July 2010, the Division issued cease-activity directives to 72 companies for suspected unlicensed financing activity. Dealers who sell motor vehicles in Massachusetts under a retail installment contract and hold the contract, typically referred to as "Buy Here, Pay Here," are required to be licensed. The action focused on car dealers who were giving loans without a license. Licensed dealers must adhere to maximum interest rate limits and inform customers of loan terms in an appropriate manner. The licensing process also includes a background check and subjects the licensee to examination by the Division of Banks, creating further protections for consumers. Additionally, MassDOT's Registry of Motor Vehicles Division issued a new policy statement announcing that it will not allow a motor vehicle dealer who sells vehicles under a retail installment contract and holds the contracts to obtain a "lien code" unless the dealer is in possession of the required license from the Division of Banks.

In conjunction with the directives, the Division published on its website and distributed to the industry "Buy Here, Pay Here" Information on Licensing Requirements for Motor Vehicle Financing by Motor Vehicle Dealers. The release discussed licensing requirements and licensing application procedures.

Refund Anticipation Loans

In early 2010, the Division created a policy statement opposing high-interest refund anticipation loans (RAL). The policy statement was published in February by CSBS and the American Council of State Savings Supervisors.

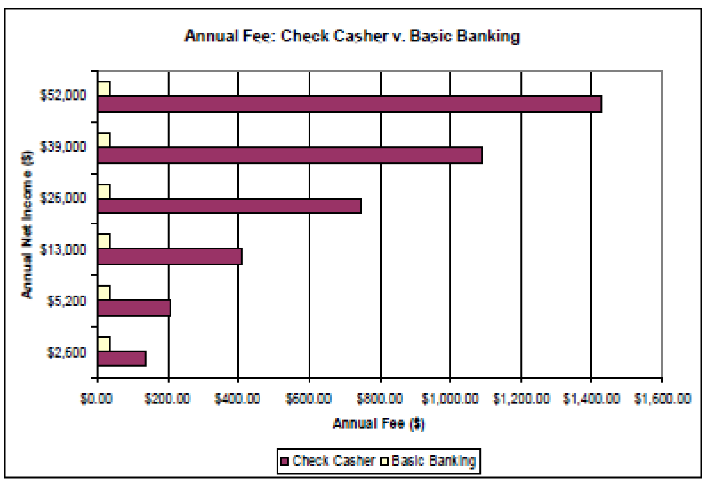
A RAL is a loan borrowed against the amount of a consumer's anticipated income tax refund, and often includes fees to be paid to the tax preparer and extremely high interest rates for the financial institution. High-rate RALs are very costly to consumers, and the Division opposes the predatory interest rates associated with most RALs.

The rapid turnaround of refunds through electronic payment has made RALs unnecessary. These loans offer no benefit or value to the taxpayer, and take money out of a refund.

As an alternative, the Division urges consumers to electronically file income tax returns and request direct deposit to a checking or savings account. In addition, the Division encourages out-of-state banks to refrain from making high-rate RALs.

Low-cost Banking

The Division engaged in two initiatives in late 2010 relating to banking costs. One initiative was a report comparing check casher and basic banking fees, which found that check-cashing entities are more expensive to use than a basic checking account at a bank. The Division's study demonstrated that, on average, consumers will pay 4 to 40 times per month the maximum fees charged to maintain a basic checking account to cash weekly payroll checks and write money orders.



Based on rate information collected from 43 state-licensed check-cashers and the parameters set forth in the Basic Banking for Massachusetts Program, the average percentages charged by check cashers to cash a variety of checks - payroll, insurance, government, lottery, drafts, personal, drafts and money orders - ranged from 2.39% up to 6.83% of the check's face value. Basic checking accounts, an alternative to utilizing check casher services, are offered by Massachusetts banks in collaboration with the Massachusetts Community and Banking Council's voluntary Basic Banking for Massachusetts Program.

The Division also collaborated with the Patrick-Murray Administration's Office of Consumer Affairs and Business Regulation and many of the state's leading community and financial organizations in a new campaign highlighting low-cost banking services. Participants discussed the benefits to having a bank or credit union account, and launched the new "Save Money! Bank on It" campaign encouraging consumers who do not have a bank account to sign up for one.

Nationally, the federal government took broad measures to protect consumers and overhaul the financial services industry in the Dodd–Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010. Some of the major provisions of the Act affecting the banking industry include:

- Creates of the Bureau of Consumer Financial Protection (CFPB), which will work to protect consumers from abusive financial services practices and regulate consumer financial products and services
- Ends the "too big to fail" bailouts
- Creates the Financial Stability Oversight Council, a new oversight body to evaluate systemic risk
- Creates a new Office of Financial Literacy
- Abolishes the Office of Thrift Supervision (but preserves the thrift charter)

Consumers also continued to benefit in 2010 from the "Helping Families Save Their Homes Act of 2009," which included an extension of the temporary increase of federal deposit insurance by the FDIC and NCUA from $100,000 per depositor to $250,000 through December 31, 2013, made permanent by the Dodd-Frank Act.

The financial condition of Massachusetts-chartered banks remains fundamentally sound. Asset quality is satisfactory while loan portfolios continued to grow in 2010. Loan delinquencies also trended downward, especially in construction and commercial real estate loan portfolios; however, levels never reached those seen in states where real estate speculation was prevalent. In general, both underwriting and credit administration polices and procedures were satisfactory, which limited loan losses.

In 2010, one Massachusetts bank failed; this was the first failure in 16 years. However, all deposits and branch offices of the bank were acquired in a smooth transition and there were no losses to the depositors.

The number of problem banks continued to rise on a national level, as the FDIC reported 157 bank failures throughout the United States in 2010, compared to 140 in 2009.

Earnings posted for Massachusetts-chartered financial institutions have shown improvement despite significant economic challenges. Nevertheless, some banks have continued to experience the effects of the mortgage crisis in their investment portfolios. Some banks reported net losses for the year as a result of securities write-downs, higher loan loss provision expenses, and increased operating costs, but 90 percent of the banks were profitable. Amid the challenging environment, there has been an increase in the average net interest margin since 2009, as bank management has adjusted the cost of funds to offset lower interest income levels.

In 2010, banks experienced some relief from the special premium that was levied by the FDIC in 2009 to raise the Deposit Insurance Fund reserve ratio. No special premiums were issued by the FDIC in 2010. However, the NCUA assessed a combined 26 basis points on credit unions for the National Credit Union Share Insurance Fund premium and Corporate Stabilization Fund assessments. The Corporate Stabilization Fund assessment continues an ongoing effort to repay the United States Treasury over multiple years for borrowings necessary to stabilize the corporate credit union system.

Bank and credit union liquidity levels remained strong during 2010, while borrowing levels have decreased. At the same time, exposure to interest rate risk has been mitigated through the implementation of prudent investment strategies. Nevertheless, the ability of bank executives to manage their balance sheets will remain a focus of the Division's supervision program. Many experts predict that an increase in the historically low-rate environment in the near future could impact the net interest margin.

Further, the industry's Boards of Directors/Trustees and senior operating management are considered capable and seasoned. They have developed and implemented operating policies, procedures, strategies, and risk management practices that provide a framework for sound operations. At the same time, increased scrutiny of loan and investment portfolios will challenge bank management teams to ensure that they continue to employ the sound underwriting and credit administration practices that helped them weather the prolonged economic downturn.

Finally, compliance with the Bank Secrecy Act and Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) continued to be a priority for the Division's examination staff. In the wake of the tragic events of September 11, 2001, Congress enacted the USA PATRIOT Act in part to stem the flow of funds to terrorists. The Division continues to enhance its anti-money laundering examination practices and programs to identify illicit and suspicious activities. To ensure that these activities are identified and addressed, the Division has provided advanced training to examiners and the majority of managers. Through collaborative partnerships with industry groups and other state and federal regulators, the Division's examination staff has the necessary tools to properly monitor compliance with these regulations. To further enhance the Division's ability to monitor compliance with these regulations, information-sharing agreements are in place with the Financial Crimes Enforcement Network and the Internal Revenue Service. These agreements provide for an exchange of relevant information on the variety of entities supervised by the Division.

Summary of Major Corporate Transactions

There were ten major corporate transactions involving state-chartered financial institutions consummated in 2010. One of these transactions involved the closing of a state-chartered co-operative bank by the Commissioner. There were five transactions involving mergers, four of which resulted in the reduction of two saving banks, one co-operative bank, and one credit union in the state system. The fifth merger transaction, which did not affect the number of financial institutions, was the acquisition of a holding company and its subsidiary national bank that subsequently merged into a savings bank. Three of the transactions were the reorganization into mutual holding companies by co-operative banks.

There have been ten banks that completed reorganizations into mutual holding companies over the last three years. Another major transaction involved a reorganization of a trust company into a holding company structure.

	2005	2006	2007	2008	2009	2010
MA State Chartered Financial Institutions	266	264	248	237	234	229

Branching

Branch office openings, closings and relocations remained an area of significant activity during 2010 on state, national and international levels. Berkshire Bank was approved to open two additional branch offices in New York. Enterprise Bank also received approval to establish two additional branch offices in New Hampshire. State Street Bank and Trust Company was approved to relocate a branch office in Australia. In a multi-step transaction, a newly established California-chartered bank acquired two branch offices of a national bank in Massachusetts.

Savings Banks

Two state-chartered savings banks merged out of existence during the year. One savings bank merged with and into another savings bank. The other savings bank merged as part of a multi-step transaction with and into a federal savings bank. A state-chartered savings bank was the surviving institution of a transaction involving the acquisition of a holding company and its subsidiary national bank. At year-end 2010, there were 64 savings banks.

Mergers

- Beverly National Bank, Beverly merged with and into Danversbank, Danvers on February 12, 2010.
- East Bridgewater Saving Bank, East Bridgewater merged with and into Bridgewater Savings Bank, Raynham on January 1, 2010.
- River Bank, North Andover merged with and into People's United Bank, Bridgeport, CT on November 30, 2010.

Co-operative Banks

The number of state-chartered co-operative banks was reduced by two during the year. This was due to the closing of one co-operative bank and the other involved the consummation of a previously-approved merger transaction with a state-chartered savings bank. Three co-operative banks completed reorganizations into mutual holding companies. In all three mutual holding company reorganizations, a mid-tier holding company was formed. The last mutual holding company reorganization was the 59th such reorganization of a state-chartered mutual bank. At year-end 2010, there were 57 co-operative banks.

Merger

Mt. Washington Co-operative Bank, South Boston merged with and into East Boston Savings Bank, East Boston on January 4, 2010.

Closing

Butler Bank, Lowell was closed by the Commissioner of Banks on April 16, 2010 and the FDIC was appointed as its liquidating agent. People's United Bank, Bridgeport, CT acquired most assets and all the liabilities of Butler Bank.

Name Change

Chelsea-Provident Co-operative Bank changed its name to Chelsea Bank.

Mutual Holding Company Reorganizations

- Charles River Bank, Medway reorganized into mutual holding company, Charles River Bancorp, MHC with a mid-tier holding company, Charles River Bancorp, Inc. on May 1, 2010.
- Norwood Co-operative Bank, Norwood reorganized into a mutual holding company, 1889 Bancorp, MHC with a mid-tier holding company, 1889 Financial Service Corporation on March 31, 2010.
- Pilgrim Bank, Cohasset reorganized into a mutual holding company, Conahasset Bancshares, MHC with a mid-tier holding company, Conahasset Bancshares, Inc. on January 10, 2010.

Trust Companies

The number of state-chartered trust companies remained unchanged during the year. A significant transaction, which did not affect the number of trust companies, was the reorganization of The Bank of Cape Cod, Hyannis to a holding company structure. The Bank of Cape Cod was formed in July of 2006 and it began operations in September of 2006. At year-end 2010, there were 18 trust companies.

Reorganization into Holding Company

Bank of Cape Cod, Hyannis reorganized into a holding company, New England Bancorp, Inc. on February 22, 2010.

Credit Unions

There was one merger transaction involving two state-chartered credit unions completed during 2010. At year-end 2010, there were 90 credit unions.

Merger

Turnpike Credit Union, Weston merged with and into Mass Bay Credit Union, formerly MBTA Employees Credit Union, Boston on June 28, 2010.

Note: This merger was a result, in part, of the reorganization of the state's transportation agencies into a new Massachusetts Department of Transportation known as MassDOT.

Name Changes

Aldenville Credit Union changed its name to Alden Credit Union.

Fall River Municipal Employees Credit Union changed its name to Fall River Municipal Credit Union.

Legislation

There were nine bills signed into law in 2010 which contain provisions with significant and long-term impact on statutes governing banks, credit unions, and licensees within the jurisdiction of the Division of Banks and related matters as follows:

Chapter 176, An Act Relative To Savings Bank Life Insurance

Chapter 234, An Act Clarifying Certain Banking Laws

Chapter 240, An Act Relative To Economic Development Reorganization

Chapter 253, An Act Relative To The Massachusetts Credit Union Share Insurance Corporation

Chapter 258, An Act Relative To Mortgage Foreclosures

Chapter 273, An Act Relative To Deposits In Trust For Other Persons

Chapter 282, An Act Relative To Discharge Of Certain Mortgages

Chapter 284, An Act Relative To Credit Union Shares And Deposits

Chapter 431, An Act Further Regulating Debt Collection

Regulations

During the year, the Division amended two of its regulations, 209 CMR 32.00: Disclosure of Consumer Credit Costs and Terms, and 209 CMR 50.00: Parity with Federal Credit Unions.

209 CMR 32.00: Disclosure of Consumer Credit Costs and Terms:

The amendments were required to remain consistent with, and at least as protective as, the Federal Reserve Board's Regulation Z, Truth in Lending. Massachusetts is required to ensure such consistency to maintain its exemption under §226.29 and Appendix B of Regulation Z. The amendments generally addressed the following areas: the electronic provision of disclosures; changes to credit card account disclosures and terms mandated under the federal CARD Act; changes to account disclosures and timing under the Mortgage Disclosure Improvement Act; and the addition of sections to address prohibited practices in higher cost mortgage loans and credit secured by a consumer's principal dwelling; and special rules for private education loans. Certain technical changes were also made.

209 CMR 50.00: Parity with Federal Credit Unions:

The amendments to 209 CMR 50.00 were divided into two general categories: new authorities and structural amendments. This was the sixth set of amendments to the so-called credit union parity regulation since its original promulgation in 1999.

A. New Authorities

New authorities were divided into two categories, authorities for credit unions and credit union service organizations (CUSO). New authorities for credit unions included the authority to provide the following: additional types of employee benefit plans and authority to make investments to fund said employee benefit plans that would otherwise be impermissible; correspondent services to foreign as well as state- and federally-chartered credit unions; and payroll services.

New authorities for CUSOs included: agency for sale of insurance; credit card loan origination, including the authority to purchase credit unions' credit card portfolios and retain them within the credit union affiliated structure; payroll processing; employee leasing services; stored value products; and amendments to the respective CUSO authorities for consumer mortgage loan origination and student loan origination to clarify that CUSOs may buy and sell participation interests in such loans. There was also authority for the following check cashing and money transfer services to certain nonmembers within their fields of membership: selling negotiable checks, travelers checks, money orders and other similar money transfer instruments; cashing checks and money orders; and receiving international and domestic electric fund transfers.

B. Structural Amendments

The Division issued an Industry Letter on February 11, 2010 relative to the impact of Chapter 454 of the Acts of 2008, *An Act Relative to Credit Union Mortgages*, which amended chapter 171 of the General Laws relative to consumer and mortgage lending and loan participations, and the purchase and sale of consumer and mortgage loans. Subsequent amendments to the parity regulations as necessitated by Chapter 454 were addressed in the Industry Letter. In addition, all language relative to CUSOs, which included both approval and notice authorities, has been consolidated into one new section, 209 CMR 50.07.

Trust Companies

State-chartered trust companies remained financially strong during 2010, despite significant economic challenges. Total assets declined by less than 1% from $176 billion to $175 billion as compared to an 8% decline from 2008 to 2009, while total deposits increased by 16%, or approximately $7 billion. The increase in deposits allowed for a 60% reduction in borrowed funds. Net loans and leases increased by 1%, and total securities decreased by the same amount. Other real estate owned increased significantly by 94%, but represents less than 1% of total assets.

State-chartered trust companies posted net income of $2.0 billion in aggregate for the 12 months ending December 31, 2010. However, this includes net income of $1.8 billion from the largest state-chartered institution, State Street Corporation. No extraordinary items were reported for 2010 compared to $3.6 billion in extraordinary items in 2009, which allowed for net income to increase from the 2009 loss of $1.6 billion. Overall, the trust industry in Massachusetts performed well in a difficult economic environment.

TRUST COMPANIES STATEMENT OF CONDITION

As of December 31,	2009 (000's)	2010 (000's)	% Change
Assets			
Non Interest Bearing Balances	2,739,724	3,265,969	19.21%
Interest Bearing Balances	28,050,332	23,044,987	-17.84%
Securities Held to Maturity	21,319,604	12,799,895	-39.96%
Securities Available for Sale	77,028,243	84,633,508	9.87%
Total Securities	98,347,847	97,433,303	-0.93%
Federal Funds Sold	86,679	125,469	44.75%
Securities Purchased Under Agreement to Resell	2,386,910	2,928,198	22.68%
Loans and Leases Held for Sale	55,182	55,797	1.11%
Loans and Leases, Net of Unearned Income	25,098,155	25,424,325	1.30%
Allowance for Loan and Lease Losses	307,882	288,512	-6.29%
Net Loans and Leases	24,790,273	25,135,813	1.39%
Trading Assets	4,516,068	5,577,209	23.50%
Bank Premises and Equipment	1,064,567	1,001,552	-5.92%
Other Real Estate Owned	16,184	31,452	94.34%
Investment in Unconsolidated Subsidiaries	555	15	-97.30%
Goodwill	4,730,468	5,625,244	18.92%
Intangible Assets	1,761,112	2,475,624	40.57%
Other Assets	8,023,753	8,500,729	5.94%
Total Assets	**176,569,654**	**175,092,640**	**-0.84%**
Liabilities			
Non Interest Bearing Deposits	15,360,424	20,141,206	31.12%
Interest Bearing Deposits	96,762,875	98,861,176	2.17%
Total Deposits	112,123,299	119,002,382	6.14%
Federal Funds Purchased &	4,657,752	7,846,834	68.47%
Securities Sold under Agreement to Repurchase	11,400,857	8,495,129	-25.49%
Trade Liabilities	4,556,356	6,185,204	35.75%
Other Borrowed Money	21,960,763	8,688,461	-60.44%
Subordinated Notes and Debentures	1,033,432	1,097,209	6.17%
Other Liabilities	3,902,771	5,437,179	39.32%
Total Liabilities	**159,635,230**	**156,477,752**	**-1.98%**
Equity			
Minority Interest in Consolidated Subsidiaries	(37)	(15)	59.46%
Preferred Stock	56,200	51,801	-7.83%
Common Stock	64,883	63,471	-2.18%
Surplus	11,209,665	11,268,524	0.53%
Retained Earnings	8,006,588	7,324,061	-8.52%
Accumulated Other Comprehensive Income	(2,275,116)	(92,999)	95.91%
Other Equity Capital	(127,760)	(15)	99.99%
Total Equity Capital	16,934,424	18,614,888	9.92%
Total Liabilities and Equity Capital	**176,569,654**	**175,092,640**	**-0.84%**

Trust Companies

TRUST COMPANIES STATEMENT OF INCOME Years ended December 31,	2009 (000's)	2010 (000's)	% Change
Total Interest Income	4,270,717	4,229,031	-0.98%
Total Interest Expense	793,333	761,565	-4.00%
Net Interest Income	**3,477,384**	**3,467,466**	-0.29%
Provision for Loan and Lease Losses	252,998	95,792	-62.14%
Income From Fiduciary Activities	4,201,924	4,194,019	-0.19%
Service Charges	72,256	40,987	-43.28%
Trading Revenue	618,435	600,025	-2.98%
Investment Banking, Advisory, Brokerage fees and Commissions	172,745	181,203	4.90%
Venture Capital Revenue	110	28	-74.55%
Net Servicing Fees	899	718	-20.13%
Net Securitization Income	0	0	0.00%
Insurance Commission and Fees	59,065	503	-99.15%
Net Gains (Losses) on Sale of Assets	445,604	143,223	-67.86%
All Other Noninterest Income	850,073	1,125,382	32.39%
Total Noninterest Income	**6,421,111**	**6,286,088**	**-2.10%**
Realized Gains (Losses) on Held-To- Maturity Securities	1,036	(252,962)	-24517.18%
Realized Gains (Losses) on Available-For-Sale Securities	160,771	(16,369)	-110.18%
Total Realized Gains (Losses)	**161,807**	**(269,331)**	**-266.45%**
Salaries and Employee Benefits	3,051,589	3,545,425	16.18%
Expenses of Premises and Fixed Assets	1,114,987	1,089,689	-2.27%
Goodwill Impairment Losses	550	0	-100.00%
Amortized Expenses and Impairment Loss For Other Intangibles	136,549	157,604	15.42%
Other Noninterest Expense	2,413,691	1,914,468	-20.68%
Total Noninterest Expense	**6,717,366**	**6,707,186**	**-0.15%**
Income (Loss) Before Income Taxes	**3,089,938**	**2,950,576**	**-4.51%**
Applicable Income Taxes	1,008,693	634,314	-37.12%
Income (Loss) Before Extraordinary Items	**2,081,245**	**2,037,495**	**-2.10%**
Extraordinary Items	(3,664,112)	0	100.00%
Net Income (Loss)	**(1,582,867)**	**2,037,486**	**228.72%**
Net Income (Loss) attributable to noncontrolling (minority) interests	(527)	9	101.71%
Net Income (Loss)	**(1,582,340)**	**2,037,486**	**228.76%**

Total assets for state-chartered savings banks increased to approximately $56 billion, a change of 12.4% from year-end 2009. Although the industry continues to work through some problem assets, loans increased by 6% and the allowance for loan and lease losses increased by 16% compared to a 23% increase from 2008 to 2009. Other real estate owned also continued its rise from $76 million in 2008, to $90 million in 2009 to $101 million as of December 31, 2010. Liquid assets declined with a decrease of 3% in Federal Funds sold from $685 million to $464 million. On the funding side, total deposits increased by 15% while borrowed funds were reduced by 22%. Total equity capital grew by 15%, as earnings improved by more than double over 2009 levels.

Net income improved dramatically to $348 million for the 12 months ending December 31, 2010, from $138 million for the previous year. Net interest income improved by 21% as interest expense continued to decline while interest income improved moderately. Meanwhile, the provision for loan and lease losses, which nearly doubled from $91 million in 2008 to $176 million in 2009 as loan portfolios continued to be strained, decreased to $128 million in 2010. The industry also posted gains on the sales of securities in the amount of $39 million.

Overall, the savings bank industry in Massachusetts has performed well and remains in sound financial condition.

SAVINGS BANKS STATEMENT OF CONDITION

As of December 31,	**2009 (000's)**	**2010 (000's)**	**% Change**
Assets			
Non Interest Bearing Balances	659,382	655,800	-0.54%
Interest Bearing Balances	1,208,101	1,654,340	36.94%
Securities Held to Maturity	1,295,093	1,627,966	25.70%
Securities Available for Sale	10,276,501	13,467,533	31.05%
Total Securities	11,571,594	15,095,499	30.45%
Federal Funds Sold	29,605	0	-100.0%
Securities Purchased Under Agreement to Resell	685,282	463,514	-32.36%
Loans and Leases Held for Sale	183,484	355,096	93.53%
Loans and Leases, Net of Unearned Income	32,674,152	34,684,508	6.15%
Allowance for Loan and Lease Losses	373,066	434,132	16.37%
Net Loans and Leases	32,301,086	34,250,376	6.03%
Trading Assets	27,334	50,479	84.67%
Bank Premises and Equipment	706,786	756,581	7.05%
Other Real Estate Owned	90,021	101,439	12.68%
Investment in Unconsolidated Subsidiaries	390	1,049	168.97%
Goodwill	198,876	414,664	108.50%
Intangible Assets	58,020	80,423	38.61%
Other Assets	2,018,828	2,274,304	12.65%
Total Assets	**49,738,789**	**55,885,563**	**12.36%**

Liabilities			
Non Interest Bearing Deposits	3,009,477	3,842,688	27.69%
Interest Bearing Deposits	35,182,957	40,414,732	14.87%
Total Deposits	38,192,434	44,257,420	15.88%
Federal Funds Purchased	21,730	33,332	53.39%
Securities Sold under Agreement to Repurchase	615,409	556,331	-9.60%
Trade Liabilities	1,018	1,757	72.59%
Other Borrowed Money	5,391,883	4,185,275	-22.38%
Subordinated Notes and Debentures	7,199	3,965	-44.92%
Other Liabilities	511,046	700,837	37.14%
Total Liabilities	**44,740,719**	**55,885,563**	**24.91%**
Equity			
Minority Interest in Consolidated Subsidiaries	701	992	41.51%
Preferred Stock	10	10	0.00%
Common Stock	159,246	219,417	37.78%
Surplus	2,976,491	2,988,110	0.39%
Retained Earnings	1,847,221	2,534,894	37.23%
Accumulated Other Comprehensive Income	51,736	47,577	-8.04%
Other Equity Capital	(37,335)	(992)	97.34%
Total Equity Capital	4,998,070	5,743,423	14.91%
Total Liabilities and Equity Capital	**49,738,789**	**55,885,565**	**12.36%**

SAVINGS BANKS STATEMENT OF INCOME

	2009 (000's)	2010 (000's)	% Change
Total Interest Income	2,316,992	2,357,539	1.75%
Total Interest Expense	907,600	654,137	-27.93%
Net Interest Income	**1,409,392**	**1,703,402**	**20.86%**
Provision for Loan and Lease Losses	176,364	127,648	-27.62%
Income From Fiduciary Activities	20,443	36,705	79.55%
Service Charges	91,383	112,124	22.70%
Trading Revenue	3,269	5,481	67.67%
Investment Banking, Advisory, Brokerage fees and Commissions	15,500	18,552	19.69%
Venture Capital Revenue	(63)	(266)	-322.2%
Net Servicing Fees	6,047	8,131	34.46%
Net Securitization Income		0	0.00%
Insurance Commission and Fees	21,615	76,572	254.25%
Net Gains (Losses) on Sale of Assets	52,871	56,664	7.17%
All Other Noninterest Income	79,455	118,589	49.25%
Total Noninterest Income	**290,520**	**438,360**	**50.89%**
Realized Gains (Losses) on Held-To-Maturity Securities	(14,349)	(18,198)	-26.82%
Realized Gains (Losses) on Available-For-Sale Securities	(28,619)	47,817	267.08%
Total Realized Gains (Losses)	**(42,968)**	**29,619**	**168.93%**
Salaries and Employee Benefits	699,180	873,502	24.93%
Expenses of Premises and Fixed Assets	157,991	185,443	17.38%
Goodwill Impairment Losses		0	0.00%
Amortized Expenses and Impairment Loss For Other Intangibles	5,399	12,678	134.82%
Other Noninterest Expense	421,196	493,441	17.15%
Total Noninterest Expense	**1,283,766**	**1,565,064**	**21.91%**
Income (Loss) Before Income Taxes	**196,814**	**449,050**	**128.16%**
Applicable Income Taxes	58,139	140,515	141.69%
Income (Loss) Before Extraordinary Items	**138,675**	**347,559**	**150.63%**
Extraordinary Items			0.00%
Net Income (Loss)	**138,675**	**347,214**	150.38%
Net income (loss) attributable to noncontrolling (minority) interests	598	353	-40.97%
Net Income (Loss)	**138,077**	**347,559**	**151.71%**

Co-operative Banks

The total assets of state-chartered co-operative banks declined a moderate 3% in 2010. Funding sources shifted away from borrowed money, which declined 23%, to noninterest bearing deposits, which increased 2%. Net loans posted a decrease of 4% and a 6% increase in the allowance for loan and lease losses. Improvement in the overall economic environment is also evident in the decrease in other real estate owned, which jumped 49% from $47 million in 2008 to $69 million in 2009 and has decreased to $45 million as of December 31, 2010.

The capital level improved by nearly 3% and exceeds 10% of total assets at year-end 2010. Net income improved nearly three-fold from $25.5 million in 2009 to $68.7 million in 2010. Net interest income improved by 8% over 2009 as interest expense fell at a faster rate than interest income. The provision for loan and lease losses expense decreased 25%, as co-operative banks made progress with problem loans. Securities losses also continued, but with a dramatic reduction from $2 million in 2009 to $514 thousand in 2010.

CO-OPERATIVE BANKS STATEMENT OF CONDITION

As of December 31,	2009 (000's)	2010 (000's)	%Change
Assets			
Non Interest Bearing Balances	226,952	178,977	-21.14%
Interest Bearing Balances	421,986	685,206	62.38%
Securities Held to Maturity	495,759	407,533	-17.80%
Securities Available for Sale	1,865,509	1,811,025	-2.92%
Total Securities	2,361,268	2,218,558	-6.04%
Federal Funds Sold	108,448	108,889	0.41%
Securities Purchased Under Agreement to Resell			
Loans and Leases Held for Sale	33,197	55,809	68.11%
Loans and Leases, Net of Unearned Income	10,622,130	10,184,094	-4.12%
Allowance for Loan and Lease Losses	122,830	130,519	6.26%
Net Loans and Leases	10,499,300	10,053,575	-4.25%
Trading Assets			
Bank Premises and Equipment	270,368	254,156	-6.00%
Other Real Estate Owned	69,405	45,926	-33.83%
Investment in Unconsolidated Subsidiaries			
Goodwill	2,973	3,345	12.51%
Intangible Assets	8,476	10,239	20.80%
Other Assets	591,273	559,510	-5.37%
Total Assets	**14,593,646**	**14,118,381**	-3.26%
Liabilities			
Non Interest Bearing Deposits	904,730	926,077	2.36%
Interest Bearing Deposits	10,549,932	10,374,037	-1.67%
Total Deposits	11,454,662	11,300,114	-1.35%
Federal Funds Purchased	4,819	0	-100.00%
Securities Sold under Agreement to Repurchase	25,869	27,960	8.08%
Trade Liabilities			0.00%
Other Borrowed Money	1,523,606	1,166,848	-23.42%
Subordinated Notes and Debentures	3,000	3,000	0.00%
Other Liabilities	79,835	77,439	-3.00%
Total Liabilities	**13,091,791**	**12,575,363**	-3.94%
Equity			
Minority Interest in Consolidated Subsidiaries	65	57	-12.31%
Preferred Stock	3,000	3,000	0.00%
Common Stock	10,846	10,834	-0.11%
Surplus	966,892	947,402	-2.02%
Retained Earnings	522,735	581,726	11.29%
Accumulated Other Comprehensive Income	4,215	3,465	-17.79%
Other Equity Capital	(5,898)	(57)	99.03%
Total Equity Capital	**1,501,855**	**1,543,019**	2.74%
Total Liabilities and Equity Capital	**14,593,646**	**14,118,382**	**-3.26%**

CO-OPERATIVE BANKS STATEMENT OF INCOME

Years ended December 31,	2009 (000's)	2010 (000's)	% Change
Total Interest Income	699,308	645,367	-7.71%
Total Interest Expense	268,431	180,588	-32.72%
Net Interest Income	**430,877**	**464,779**	**7.87%**
Provision for Loan and Lease Losses	53,429	40,336	-24.51%
Income From Fiduciary Activities	191	10	-94.76%
Service Charges	22,108	20,124	-8.97%
Trading Revenue			0.00%
Investment Banking, Advisory, Brokerage fees and Commissions	2,075	2,070	-0.24%
Venture Capital Revenue			0.00%
Net Servicing Fees	2,733	2,748	0.55%
Net Securitization Income			0.00%
Insurance Commission and Fees	913	825	-9.64%
Net Gains (Losses) on Sale of Assets	13,179	15,921	20.81%
All Other Noninterest Income	21,358	21,729	1.74%
Total Noninterest Income	**62,557**	**63,748**	**1.90%**
Realized Gains (Losses) on Held-To-Maturity Securities	(1,837)	132	107.19%
Realized Gains (Losses) on Available-For-Sale Securities	(226)	(798)	-253.1%
Total Realized Gains (Losses)	**(2,063)**	**(514)**	**75.08%**
Salaries and Employee Benefits	203,047	203,800	0.37%
Expenses of Premises and Fixed Assets	46,141	42,773	-7.30%
Goodwill Impairment Losses		128	N/A
Amortized Expenses and Impairment Loss For Other Intangibles	395	677	71.39%
Other Noninterest Expense	139,937	132,848	-5.07%
Total Noninterest Expense	**389,520**	**380,226**	**-2.39%**
Income (Loss) Before Income Taxes	**48,422**	**107,965**	**122.97%**
Applicable Income Taxes	22,875	38,692	69.15%
Income (Loss) Before Extraordinary Items	**25,547**	**68,759**	**169.15%**
Extraordinary Items			0.00%
Net Income (Loss)	**25,547**	**68,759**	**169.15%**
Net income (loss) attributable to noncontrolling (minority) interests	(6)	(8)	-33.33%
Net Income (Loss)	**25,553**	**68,759**	**169.08%**

The Commonwealth's credit unions continued to experience sound growth in 2010, with total assets increasing 5% to $14.5 billion from $13.9 billion. Shares have increased to $11.8 billion from $11.3 billion, or 5%, despite a highly competitive deposit market and lagging economy. The majority of share growth has been funneled into investment portfolios, as cash and investments increased 11% since 2009. As a result, credit unions' liquidity positions have strengthened. The downturned economy is evident in credit unions' loan portfolios, as net loans have only increased by 1% to $8.9 billion, as compared to a 3% increase between 2008 and 2009. Additionally, due to the current economic conditions, other real estate owned increased 22% from $9.4 million in 2009 to $11.4 million in 2010. There has been a slight increase in borrowed funds, which grew from $958 million in 2009 to $984 million in 2010. Additionally, due to the economic slowdown and lower interest rate environment, accrued dividends payable on shares decreased 43% from $1.7 million at 2009 to $991 thousand at 2010. Also, as state-chartered credit unions have continued to expand their membership base and services, investments in infrastructure and branch networks have grown, as evidenced by land and building assets increasing from $194.9 million in 2009 to $203.7 million in 2010.

Net income for the Commonwealth's credit union movement increased from $55.3 million in 2009 to $63.5 million in 2010, largely due to a 35% decrease in provision for loan and lease loss expenses and increases in net interest income. Although total interest income declined 5% since 2009 due to the low interest rate environment, interest expense declined 24%, resulting in an 8% increase in net interest income from $376.6 million in 2009 to $405.2 million in 2010. Coupled with the expense reductions was a 26% decrease in non-interest income, largely due to an improvement in the loss on investments from negative $2.2 million in 2009 to a gain in 2010 of $5.2 million. Further, credit unions experienced a 99% decrease in other non-operating income, from $62.6 million in 2009 to $667 thousand in 2010, as a result of the one-time pass-back income from the NCUA in 2009 that was originally expensed by the credit unions to fund the NCUA's Corporate Stabilization Program.

The decline in interest expense and minimal change in non-interest expense, coupled with decreases in non-interest income, resulted in a total net income for 2010 of $63.5 million, which increased equity capital in Massachusetts credit unions by 4%. Overall, the credit union movement continues to expand, diversify, and remain strong despite a challenging financial environment.

CREDIT UNIONS
STATEMENT OF CONDITION

Years ended December 31,	2009 (000's)	2010 (000's)	% Change
Assets			
Cash and Investments	$ 4,565,098	5,050,737	11%
Loans and Leases, Net of Unearned Income	8,913,533	9,030,677	1%
Allowance for Loan and Lease Losses	74,453	84,569	14%
Net Loans and Leases	8,839,080	8,946,108	1%
Land and Building	194,995	203,711	4%
Other Fixed Assets	52,143	55,691	7%
Other Real Estate Owned	9,358	11,437	22%
Other Assets	243,272	268,625	10%
Total Assets	**13,903,946**	**14,536,309**	**5%**
Liabilities			
Total Shares and Deposits	11,262,945	11,803,170	5%
Total Borrowings	958,208	983,583	3%
Accrued Dividends Payable on Shares	1,730	991	-43%
Accounts Payable and Other Liabilities	79,039	87,195	10%
Total Liabilities	**12,301,921**	**12,874,939**	**5%**
Equity			
Regular Reserves	263,388	263,265	0%
Appropriation for Non-Conforming Investments	508	114	-78%
Undivided Earnings	1,305,472	1,368,548	5%
Net Unrealized Gain/(Loss) on AFS	36,866	31,637	-14%
Other Reserves	(4,210)	(2,194)	48%
Total Equity Capital	**1,602,025**	**1,661,370**	**4%**
Total Liabilities + Equity Capital	**13,903,946**	**14,536,309**	**5%**

CREDIT UNIONS
STATEMENT OF INCOME

Years ended December 31,	2009 (000's)	2010 (000's)	% Change
Total Interest Income	$ 623,597	593,177	-5%
Total Interest Expense	246,988	188,002	-24%
Net Interest Income	**376,609**	**405,175**	**8%**
Provision for Loan and Lease Losses	**63,334**	**41,403**	**-35%**
Fee Income	73,473	79,353	8%
Other Operating Income	25,614	32,440	27%
Gain (Loss) on Investments	(2,239)	5,202	332%
Gain (Loss) on Disposition of Fixed Assets	(1,989)	(767)	61%
Other Non-Operating Income/(Expense)	62,637	667	-99%
Total Non-Interest Income	**157,496**	**116,896**	**-26%**
Employee Compensation and Benefits	194,227	204,266	5%
Travel and Conference Expense	4,208	4,634	10%
Office Occupancy Expense	32,194	34,246	6%
Office Operation Expense	61,007	62,409	2%
Education and Promotional Expense	14,599	15,705	8%
Loan Servicing Expense	14,614	15,174	4%
Professional and Outside Services	38,882	40,716	5%
Member Insurance	41,952	28,370	-32%
Operating Fees	1,886	1,860	-1%
Miscellaneous Operating Expenses	11,928	9,788	-18%
Total Non-Interest Expense	**415,497**	**417,169**	**0%**
Net Income (Loss)	**55,274**	**63,500**	**15%**

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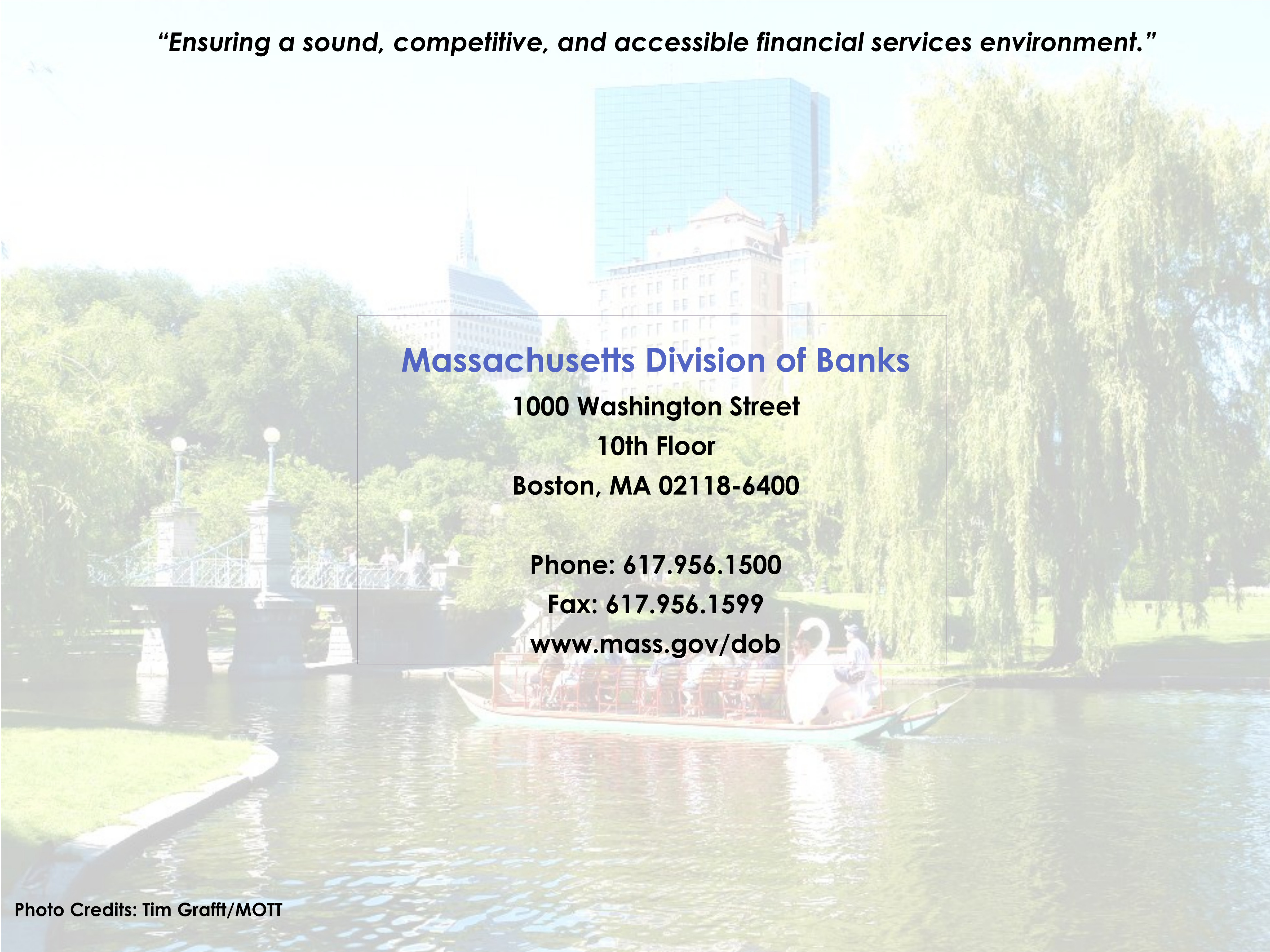

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