

Commonwealth of Massachusetts

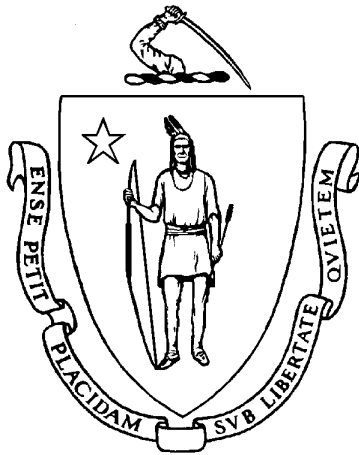
DIVISION OF BANKS



2012 Annual Report

Division of Banks

Annual Report
For the year ending
December 31, 2012



Governor
Deval Patrick

Commissioner of Banks
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 ensure a sound, competitive, and accessible banking and financial services environment throughout the Commonwealth of Massachusetts. The Division's vision is to have a financial services environment in which the public has confidence in its financial institutions, consumers have the information they need to make wise financial choices, and financial institutions can compete on a level playing field. Its 160 managers, examiners, and support staff are responsible for the supervision of 214 state-chartered banks and credit unions holding combined assets of approximately \$336 billion, as well as the licensing and supervision of over 4,700 individual mortgage loan originators and more than 1,200 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 28, 2013



I am pleased to present the 2012 Annual Report of the Massachusetts Division of Banks (Division). The Division has been a leader in strengthening consumer protection in the financial services industry, while also maintaining a secure and sound state-chartered banking and financial services system.

In July 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. This legislation was designed to overhaul our nation's financial system, expand consumer protections, and enhance financial regulation. Implementing the provisions and requirements of the Act has continued to take significant time and resources for regulators and the industry during 2012. In fact, collaboration with the Consumer Financial Protection Bureau was one of the Division's primary goals in 2012 and will continue to be a focus in 2013.

One of the more significant events of 2012 was the \$25 billion consumer financial protection settlement. The largest in U.S. history, the settlement between 49 state Attorneys General, state mortgage regulators, including the Division, the federal government, and the country's five largest mortgage servicers was reached to resolve alleged misconduct by the companies in loan servicing and foreclosure practices.

The number of bank failures throughout the country notably declined in 2012, falling from 92 in 2011 to 51. Congress and state and federal regulators continue to focus on efforts to prevent future financial crises and to determine how to orderly unwind institutions which are deemed "too big to fail." Compounding this in 2012 were economic challenges, the low interest rate environment, the housing and jobs market concerns, the fiscal cliff, and the debt ceiling issues. Despite the tough financial environment in which we all have to navigate, in Massachusetts the vast majority of state-chartered banks and credit unions remain sound and well-capitalized.

Given the challenging economic environment, the Division continues to seek ways to reduce regulatory burden on our financial institutions and licensees. In 2012, we initiated a comprehensive review of all Regulatory Bulletins and regulations to determine opportunities for the agency to reduce regulatory burden and compliance redundancy by streamlining, updating, or repealing requirements wherever possible. In May and October we issued the first and second rounds of results of this initiative. The Division also remains committed to transparency, and in March 2012 rolled out its "Division at Glance" report, which is posted quarterly to our website.

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, 2012 was a very accomplished year for the Division, and objectives for 2013 are intended to continue the agency's tradition of excellence.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Cotney".

David J. Cotney
Commissioner of Banks

2012 Accomplishments

206

Formal and informal regulatory orders issued by the Division against non-depository institutions.

5,964

Licenses issued by the Division to mortgage companies, mortgage loan originators, money services businesses, debt collectors, loan servicers, and consumer finance companies. In addition, 3,890 branches/agents are licensed by the Division.

534

Total examinations completed by the Division

240

Bank and credit union examinations

294

Non-bank licensee examinations

222

Consumer complaints resolved by the Division, along with a total off \$19,177 in secured reimbursements on behalf of customers.

759

Foreclosure relief requests received by the Division, of which 386 were granted long-term stays.

432

Total number of completed bank, credit union, licensee, and other approval requests (404) and number of legal opinions issued (28).

2

The Division approved two federally-chartered banks to convert to Massachusetts state charters (Brookline Bank and First Ipswich Bank), the first such conversions of this type since 2001.

2012 Accomplishments

January 23, 2012

The Division issued a **consumer advisory** encouraging low- and moderate-income taxpayers to explore the potential benefits of the federal **Earned Income Tax Credit**.

March 23, 2012

The Division entered into a **Multi-State Settlement Agreement** with J. B. Nutter, Inc., a licensed mortgage lender, resulting from an examination initiated through the Multi-State Mortgage Committee.

May 1, 2012

The **Commissioner** was **reappointed** to the Federal Financial Institutions Examination Council's **State Liaison Committee**.

February 28, 2012

The Division issued a Section 8 industry letter on **unearned fees in mortgage loan transactions**.

April, 4 2012

The Division issued Frequently Asked Questions on the **150/90 Day Right to Cure Notice** to clarify requirements for the industry.

May 11, 2012

The Division issued its first round of results from the **Regulatory Bulletin review** initiative to identify opportunities to **reduce regulatory burden**. The second round of results was issued on October 2, 2012.

March 2, 2012

The final 209 CMR 56.00: **Right To Cure regulation** issued by the Division became effective.

April, 2012

The Division provided Chapter 206 **grants totaling \$900,000** for funding regional foreclosure centers, consumer counseling agencies, and first-time homebuyer grantees.

May 21, 2012

The Commissioner was appointed as the **Secretary** of the **Conference of State Bank Supervisors'** Board of Directors.

March 6, 2012

The Division, MassDOT, and the RMV Division implemented **collaborative procedures** to ensure that **motor vehicle dealers** that engage in motor vehicle sales financing are **properly licensed** as sales finance companies.

April 16, 2012

Beginning on this date, all **new license applicants** were required to submit their applications to the Division through the Nationwide Mortgage Licensing System (NMLS).

June 12, 2012

Division staff and the Federal Reserve Bank of St. Louis Staff hosted a **webinar** for all Massachusetts state-chartered banks and credit unions regarding the **Emergency Communication System (ECS)**.

2012 Accomplishments

July 10, 2012

The Division issued industry guidance relative to **money transmission to foreign countries** by foreign transmittal agencies.

September 14, 2012

The Division issued an Industry Letter to credit unions to clarify the agency's position on **indirect automobile lending** and **field of membership** requirements.

November 1, 2012

The Division transitioned all of the consumer finance company, debt collector, and money services businesses licensees onto NMLS, becoming the **first state to transition all of its remaining licenses to NMLS**.

July 17, 2012

The Division issued an Industry Letter to mortgage brokers, lenders, and servicers regarding **coordination with the CFPB** and confidentiality.

September 20, 2012

Google translate was added to the Division's website, allowing more consumers and individuals to **view and understand** the resources available by the Division.

December 24, 2012

The Division issued guidance to banks and credit unions relating to **Corporate Account Takeover** risk.

August 29, 2012

The Division held a public informational hearing to gather input on the **new foreclosure regulations**, signed by the Governor on August 3rd.

October 23, 2012

The Division issued guidance for depository institutions that have **Non-Bank ATM customers**.

December 27, 2012

The Division issued guidance on **mortgage loan modifications** and **Troubled Debt Restructuring (TDR)**.

August 31, 2012

Amendments to **209 CMR 50.00: Parity with Federal Credit Unions** became effective.

October 26, 2012

The Division issued an Industry Letter to credit unions relative to **employee benefit arrangements** and **Parity with Federal Credit Unions**.

2013 Objectives

Maintain a sound, competitive, and accessible banking and financial services environment throughout the Commonwealth, while striving to demonstrate integrity, innovation, and excellence.

Participate in America Saves Week and encourage financial institutions to promote the importance of consumer savings.

Continue to coordinate with the Consumer Financial Protection Bureau (CFPB) on examinations as well as on consumer complaints.

Plan for periodic, ongoing industry outreach sessions and utilize existing and innovative channels to distribute industry letters, guidance, and updates to keep the Division's regulated entities better informed.

Perform a regulation review relating to the Massachusetts Truth in Lending regulations, foreign transmittal agencies, check cashers, check sellers, finance companies, non-bank ATMs, and loan servicers. In addition, complete the review of all Regulatory Bulletins.

Recruit, develop, and retain professional, dedicated staff to provide effective oversight over the financial service industries of the Commonwealth.

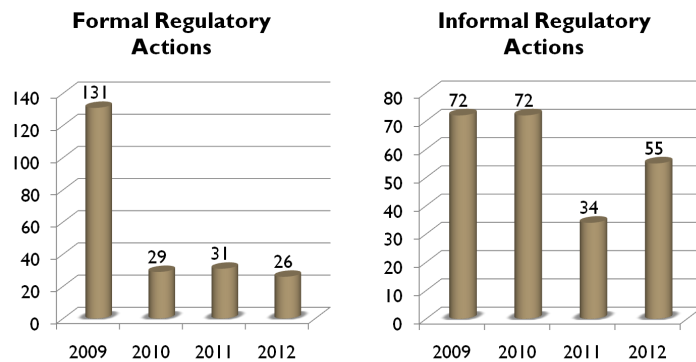
During 2012, the Division continued to expand its coordination and cooperation with the CFPB through the sharing of examination and monitoring information and by participating in concurrent examinations of non-depository mortgage entities.

The Division also continued to participate as a member of the Multistate Mortgage Committee (MMC). The MMC is a committee of ten state regulatory officials appointed by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators for the purpose of coordinating multistate examinations of mortgage entities, developing uniform examination processes, and modernizing traditional examination procedures.

The initiatives undertaken by the MMC this year included:

- ◆ Coordinated state regulatory agency participation with a coalition of state Attorneys General in a joint state-federal \$25 billion settlement agreement entered during February 2012 with the country's five largest mortgage servicers. The landmark settlement agreement resolved the findings of the MMC examination and Attorneys General investigations of alleged misconduct in the servicing and foreclosure practices occurring in the loan servicing industry. The terms of the settlement agreement include significant monetary assistance for distressed borrowers and establishing formalized loan servicing standards.

REGULATORY ACTIONS AGAINST BROKERS & LENDERS



Actions issued by the Division of Banks

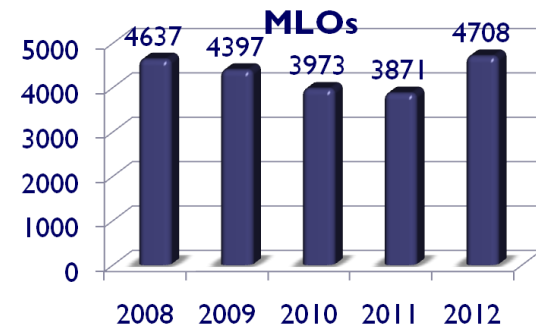
- ◆ Continued management and facilitation of a series of multistate examinations incorporating updated examination procedures utilizing compliance software to modernize examination techniques and create examination review efficiencies.
- ◆ Finalization of the terms of a Settlement Agreement entered during March 2012 which resulted from the findings of a nine-state MMC examination of a Missouri based mortgage lender alleging significant violations of the SAFE Act and of the consumer protection laws governing reverse mortgage loans.



The Division continued to examine and enforce industry compliance with the 2009 Massachusetts Act adopting the federal Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) through examinations conducted of Massachusetts licensed mortgage lenders, mortgage brokers, and mortgage loan originators. In 2012, the Division collected administrative penalties associated with non-compliance with the SAFE Act totaling nearly \$1.2 million.

The Division participated in development discussions coordinated by the Nationwide Mortgage Licensing System and Registry (NMLS) staff during 2012 and focused on the introduction of a uniform state test for applicants for a mortgage loan originator license. The uniform state test is also intended to introduce licensing efficiencies for mortgage loan originators seeking to obtain licensure in multiple state jurisdictions. The Division anticipates adopting the uniform state test during 2013.

The chart to the right shows the number of mortgage loan originators approved by the Division of Banks in NMLS between year-end 2008 and year-end 2012.



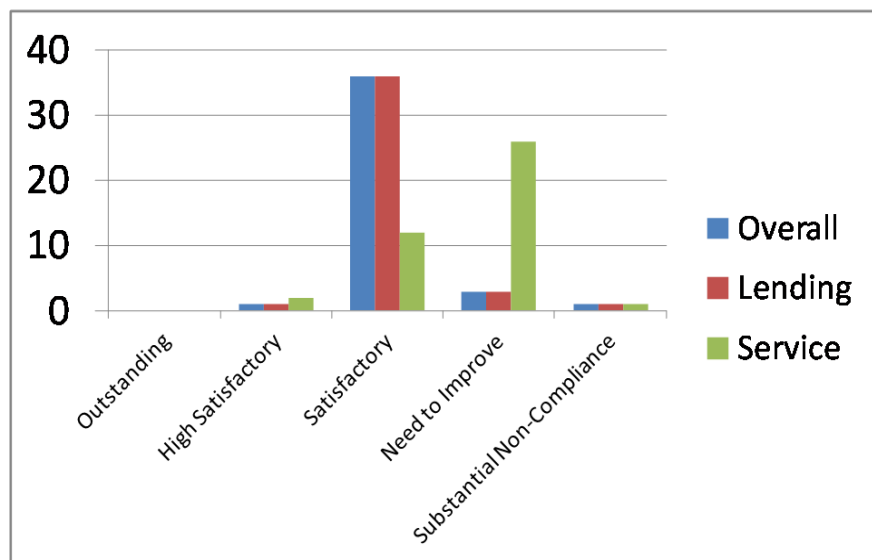
In early 2012, the Division announced it would expand its use of the NMLS, bringing efficiency and enhanced consumer protection to the regulation of consumer finance, money services businesses, and debt collector companies. Beginning on April 16, 2012, all new license applicants were required to submit their applications to the Division through NMLS. Licensed Debt Collectors, Small Loan Companies, Insurance Premium Finance Companies, Motor Vehicle Sales Finance Companies, Retail Installment Sales Finance Companies, Check Cashers, Check Sellers, and Foreign Transmittal Agencies were required to transition their licenses onto NMLS, and as of November 1, 2012, the Division became the first state agency to successfully transition all of its remaining licensees to NMLS. As of year-end 2012, a total of 1,093 Massachusetts consumer finance, debt collector, and money services businesses licenses were active in NMLS.

CRA for Mortgage Lenders

Provisions similar to the Massachusetts Community Reinvestment Act (CRA) were extended to certain mortgage lenders as part of Chapter 206 of the Acts of 2007, which require an additional evaluation in the examination of mortgage lenders that have made 50 or more home mortgage loans in the previous year and are Home Mortgage Disclosure Act (HMDA) filers. This evaluation 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 number of licensed lenders eligible for a CRA examination totaled 74, of which 8 became eligible for an examination for the first time during 2012. The number of lenders eligible for CRA has increased slightly year to year, despite the fact that there has been a significant reduction in the number of licensees.

As of December 31, 2012, the Division issued a total of 51 examinations. Additionally, 45 Public Evaluations are posted on the Division's website.



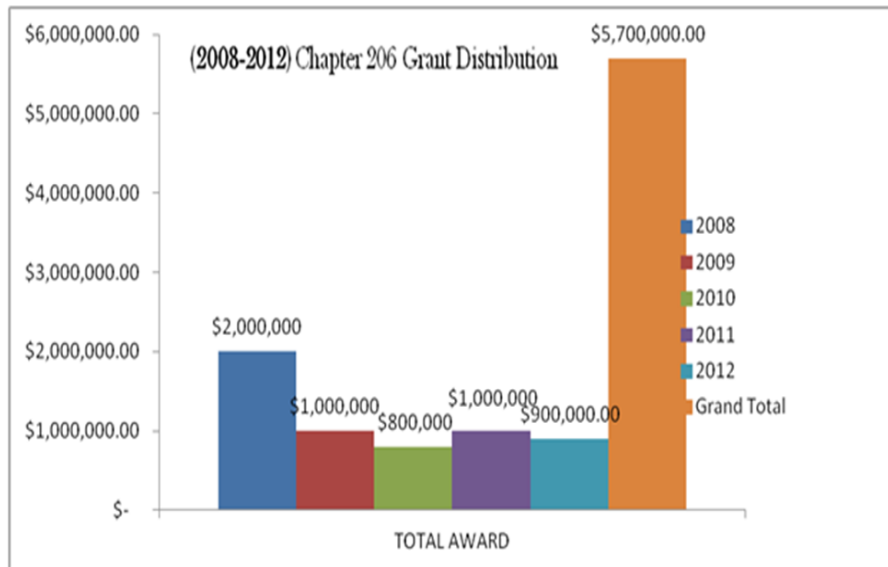
As a result of the examinations, the Division issued the following types of enforcement actions in 2012:

- ◆ 7 public Consent Orders for data integrity issues
- ◆ 3 public Consent Orders for consumer protection concerns
- ◆ 1 public Cease and Desist Order for serious compliance issues

Furthermore, the Division collected over \$250,000 in fines as a result of the Orders.

Foreclosure Relief

Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded a total of \$5.7 million to nonprofits with a focus on consumer counseling services. In 2012, \$900,000 was funded to agencies that offer foreclosure prevention counseling services, including loan modification assistance, first-time homeownership counseling, or counseling for non-traditional or high-cost loans such as subprime products.



- ◆ The Division awarded the \$900,000 in grants to 11 Regional Foreclosure Prevention and Educations Centers, and to 7 community-based consumer counseling agencies; collectively, these organizations assisted 4,955 homeowners in the Commonwealth.
- ◆ In April 2012, the Division issued Frequently Asked Questions (FAQ) on the 150/90 Day Right to Cure Notice to clarify requirements for the industry. The FAQ provides clarification in the areas of identification of parties, translations, payments due, the right to cure process, statements/notices, and compliance with the regulation.
- ◆ The Division also engages in outreach activities and workshops to educate consumers on the use of NMLS as a home-financing tool, as well as on other foreclosure-related matters. Foreclosure workshops held in New Bedford and Worcester in 2012 focused on reaching borrowers either facing a financial hardship or who have fallen behind on their mortgages. A team of volunteers from consumer counseling agencies also assisted with site coordination, as well as budgeting guidance for those attendees struggling with financial debt.



Consumer Outreach Activities

One of the Division's overarching goals is to safeguard consumers through consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections.

In January 2012, in anticipation of the upcoming tax season, the Division's Consumer Assistance Unit issued a consumer advisory encouraging low- and moderate-income taxpayers to explore the potential benefits of the federal Earned Income Tax Credit.

The Division's Consumer Assistance Unit staff also participated in several workshops held by the Office of Consumer Affairs and Business Regulation, including a consumer day held in New Bedford in July and a consumer day held in Worcester in September.

In addition, Division staff joined Governor Patrick in celebrating Hispanic Heritage Month by hosting Hispanic-American Businesses in order to recognize the success of Latino small businesses across the Commonwealth. Division staff also participated in the Patrick-Murray Administration's Hispanic Small Business Expo at the State House on October 5th.



Foreign Transmittal Agencies

On July 10, 2012, the Division provided industry guidance to foreign transmittal agencies. A significant component of a licensed foreign transmittal agency's internal control practices is to ensure adequate oversight of third party providers and exercise proper due diligence in selecting these providers. The Division's industry letter noted that a lack of adequate record keeping of all transaction documentation would place the licensee at risk of non-compliance with record retention requirements. Additionally, the Division urged licensees to review their relationships with third party providers to ensure that all risks are appropriately evaluated and addressed.

Auto Dealers

On March 6, 2012, the Division of Banks issued a joint memorandum with the MassDOT's Registry of Motor Vehicle (RMV) Division to auto dealers, announcing collaborative procedures to ensure that motor vehicle dealers that engage in financing are properly licensed by the Division as sales finance companies. The memorandum noted that if the Division of Banks has reason to believe that motor vehicle dealers are continuing to engage in unlicensed sales financing activity, it may refer the information to the applicable licensing authority for appropriate action regarding the renewal and/or continuing maintenance of the dealership license.

Since 2010, MassDOT's RMV Division has been collaborating with the Division of Banks to identify motor vehicle dealers who may be engaging in unlicensed sales finance activity. As a result, between April 2010 and March 2012, the Division issued cease-activity directives to 75 motor vehicle dealers for suspected unlicensed sales finance activities.

There were 18 major corporate transactions consummated in 2012, an increase of four such transactions from the previous year.

- ◆ 12 transactions involved mergers.
- ◆ Nine of the mergers resulted in the reduction of one savings bank, four co-operative banks, one trust company and three credit unions in the state system.
- ◆ The other three merger transactions involved a federal savings bank merging with and into a state-chartered co-operative bank and a federal savings bank and a Connecticut state-chartered bank merging with and into a state-chartered savings bank.
- ◆ Two of the transactions involved the conversion of a federally-chartered savings bank to a state-chartered savings bank and a national banking association to a state-chartered trust company.
- ◆ Two of the total transactions were the reorganization into mutual holding companies of two state-chartered savings banks.
- ◆ The remaining two major corporate transactions were the conversions of two mutual co-operative banks to stock co-operative banks.

The Board of Bank Incorporation held seven hearings during the year. In addition to the other transactions requiring Board approval that are listed on the following pages, one major corporate transaction that did not involve state chartered banks was approved and consummated and is listed below.

- ◆ United Financial Bancorp, Inc., West Springfield, Massachusetts acquired New England Bancshares, Inc., Enfield, Connecticut on November 16, 2012.

Legislation

Chapter 144 of the Acts of 2012, An Act Authorizing Certain Licensees of the Division of Banks to Participate in a Multi-State Licensing System

This law facilitated the participation of the Division of Banks in NMLS, a nationwide, multi-state licensing system for nine entities under its jurisdiction. Those entities are debt collectors, loan servicers, small loan companies, check sellers, foreign transmittal agencies, check cashers, motor vehicle finance companies, insurance premium finance companies, and retail installment sales licensees. All of the Division's mortgage licensees were previously required by the Massachusetts General Laws to be licensed through the nationwide system. Chapter 144 became effective on July 12, 2012.

Chapter 194 of the Acts of 2012, An Act To Prevent Unlawful and Unnecessary Foreclosures

This law requires that a creditor send a notice of a borrower's right to pursue a modification for certain mortgage loans. Creditors must also send a copy of this notice to the Massachusetts Attorney General. For borrowers who pursue this right, creditors must offer a loan modification if a net present value analysis shows that the cost to modify the loan is less than the cost of proceeding to foreclosure. The Division of Banks is charged with writing regulations to support portions of the law as well as producing an annual report. The law also prohibits certain conduct in connection with foreclosure, including misrepresentation, unfair costs, and imposition of fees for services not performed as well as the requirement that a mortgagee establish that it is the present record holder of the mortgage at foreclosure. The law also establishes a task force to conduct a review and evaluation of mediation programs and to study ways that the Commonwealth can encourage the prevention of unnecessary vacancies after foreclosures. Various provisions of Chapter 194 became effective on different dates. Sections 1, 2 and 5 became effective on November 1, 2012; Section 8 will become effective on December 31, 2017; and the remaining sections of the Act became effective on August 3, 2012.

Legislation

Chapter 220 of the Acts of 2012, An Act Relative to Creation of a Reserve Fund for Credit Unions

This law expands the authorized powers of the Massachusetts Credit Union Share Insurance Corporation (MSIC) in order to authorize the corporation to establish a fund of money separate from its existing Share Insurance Fund, which would be used to lend money to its regular and excess members to promote liquidity and flexibility in the resources of its members. This Reserve Fund will be funded with term and regular deposits voluntarily made by regular and excess members. No member will be allowed to deposit more than 10% of its assets in the Reserve Fund. The board of directors of MSIC will determine the terms and conditions upon which deposits by members may be accepted into the Reserve Fund. This replicates for credit unions the liquidity and excess deposit insurance available to state-chartered savings banks through the Depositors Insurance Fund and to state-chartered co-operative banks through The Co-operative Central Bank. Chapter 220 became effective on November 4, 2012.

Chapter 227 of the Acts of 2012, An Act Relative to Limited Purpose Trust Companies Subject to Supervision by the Division of Banks

This law amends the existing law governing limited purpose trust companies in the Commonwealth to authorize a state-chartered, full service trust company with deposits of less than \$51 million or fewer than 10 depositors to convert to a limited purpose trust company and to authorize a limited purpose trust company to be merged, consolidated, converted, liquidated, dissolved or its charter cease to exist as determined by the Commissioner. The law only applies to a trust company that notifies the Commissioner in writing of its intention to convert to a limited purpose trust company within 12 months of the passage of this Act and consummates such conversion within 18 months of the passage of this Act. Chapter 227 became effective on August 6, 2012.

Chapter 235 of the Acts of 2012, An Act Relative to Co-operative Banks

This law updates the Special Acts which created The Co-operative Central Bank to make significant changes to the operation and powers of The Co-operative Central Bank, and to amend the process for a federal thrift to convert to a state-chartered co-operative bank. The law amended M.G.L. ch. 170, s. 29 by expanding the types of federally-chartered institutions that may convert to a state-chartered co-operative bank, authorized such a conversion to be approved by the Commissioner of Banks and not the Board of Bank Incorporation, and authorized the Commissioner to establish the procedure for such a federal to state conversion. With this amendment, all federal thrift banks became eligible to convert to a state-chartered co-operative bank rather than just a federal savings and loan association.

This law expanded the investment authority of The Co-operative Central Bank by authorizing it to invest funds of the Bank in bankers acceptances and bills of exchange without reference to the Legal List as well as providing for a reduction of the board of directors from 19 members to “no fewer than 9 directors but no more than 15 directors.”

Chapter 235 of the Acts of 2012, An Act Relative to Co-operative Banks (continued from previous page)

The law also requires the Commissioner of Banks, to the extent permitted by federal law, to provide the treasurer of The Co-operative Central Bank a copy of the Report of Examination of any member bank as well as requiring every member bank to provide a copy of any independent report or audit made of the balance sheet of the member bank by an independent certified public accountant and filed with the Commissioner.

This law also expands the types of financial assistance that The Co-operative Central Bank may provide to a troubled institution to include: 1) making a deposit in such bank; 2) assuming liabilities of a member bank; 3) making loans or contributions to, or deposits in, or purchase of any assets of, any financial institution which will acquire control of or merge with such troubled institution or will purchase assets and assume liabilities of such bank; 4) guarantee such member bank, or any financial institution which will acquire control of or merge or consolidate with such bank, against loss by reason of such acquisition of control or merger or purchase of assets; or 5) take any other action that the board deems appropriate to carry out the purposes of this section. Chapter 235 became effective on November 4, 2012.

Regulations

209 CMR 56.00: Right to Cure a Mortgage Default

During 2012, the Division promulgated this regulation in order to establish a form of notice relative to a borrower's right to cure a default on a residential mortgage loan. The regulation establishes the required information to be included in the right to cure notice, establishes procedures to determine whether a 150-day notice or a 90-day notice is required and the method of delivery for such notice, and allows a borrower to request from the entity foreclosing on the mortgage all documentation evidencing the legal authority that it is the holder of the mortgage or is authorized by the holder of the mortgage to foreclose. This regulation was promulgated effective March 2, 2012. The Division notes that the regulation included language in 209 CMR 56.03(7) providing that the "Right to Cure Your Mortgage Default" notice form set forth in 209 CMR 56.04 could be used on a voluntary basis until May 21, 2012. The notice form became mandatory on May 21, 2012.

209 CMR 50.00: Parity with Federal Credit Unions

The primary purpose of the amendments was to update the so-called Parity Regulations to clarify the authority of state chartered credit unions regarding the purchase of and participation in certain loans. These amendments were proposed as part of an extensive review by the Division of provisions of Chapter 454 of the Acts of 2008 and the subsequent amendments to streamline and reorganize the Parity Regulations effective August 20, 2010. The following authorities were restored: purchase and sale of loan portfolios; consumer loan participations; non-residential real estate loan participations; and purchase of loan portfolios from any federally insured credit union. Various technical amendments to other provisions of the regulation were also made. The effective date of the amendments was August 31, 2012.

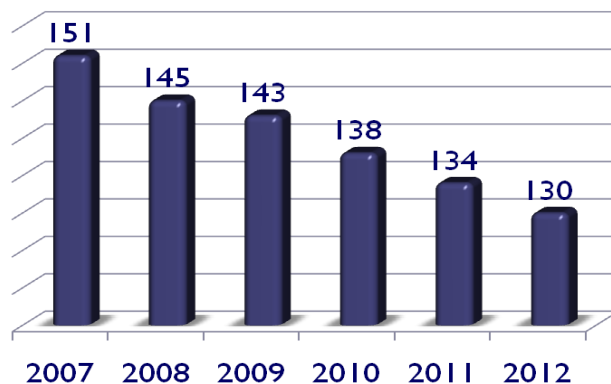
Bank Transactions

There were six merger transactions that reduced the number of state chartered banks. Since a federally chartered savings bank converted to a state chartered savings bank and a national banking association converted to a state chartered trust company, there was a net reduction of four state chartered banks. At year end, there were 62 savings banks, 51 co-operative banks, and 17 trust companies. Following is the list of the major corporate transactions that were consummated in 2012.

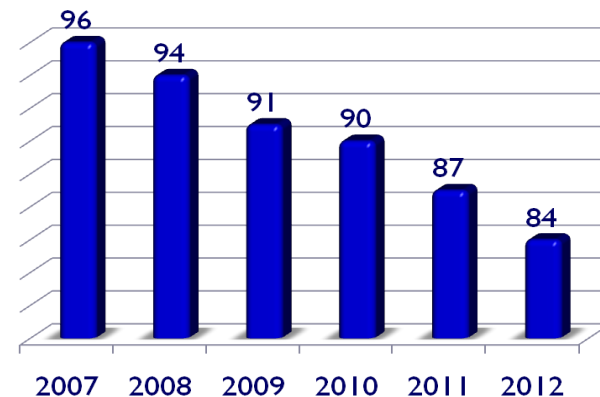
Mergers

1. Economy Co-operative Bank, Merrimac merged with and into Haverhill Bank on January 1, 2012.
2. Adams Co-operative Bank merged with and into South Adams Savings Bank under the name of Adams Community Bank on February 25, 2012.
3. The Connecticut Bank and Trust Company, Hartford, Connecticut merged with and into Berkshire Bank, Pittsfield on April 20, 2012.
4. Williamstown Savings Bank merged with and into Hoosac Bank, North Adams on June 22, 2012.
5. Natick Federal Savings Bank merged with and into Framingham Co-operative Bank under the name of MutualOne Bank on June 30, 2012.
6. Mercantile Bank and Trust Company, Boston merged with and into Commerce Bank & Trust Company, Worcester on August 24, 2012.
7. Beacon Federal, East Syracuse, New York merged with and into Berkshire Bank, Pittsfield on October 19, 2012.
8. Central Co-operative Bank, Somerville merged with and into Rockland Trust Company on November 10, 2012.
9. The Community Bank, A Massachusetts Co-operative Bank, Brockton merged with and into Eastern Bank, Boston on November 30, 2012.

of Massachusetts State-Chartered Banks



of Massachusetts State-Chartered Credit Unions



Bank Transactions

Mutual Holding Company Reorganizations

Stoneham Savings Bank reorganized into a mutual holding company, Stoneham Bancorp, MHC on February 1, 2012 and Stoneham Bancorp, MHC subsequently merged with and into Salem Five Bancorp.

Cape Cod Five Cents Savings Bank reorganized into a mutual holding company, Cape Cod Five Mutual Company on May 15, 2012.

Stock Conversions

Wellesley Bank completed its conversion from a mutual co-operative bank to a stock co-operative bank on January 25, 2012.

Meetinghouse Bank completed its conversion from a mutual co-operative bank to a stock co-operative bank on November 19, 2012.

Conversions to State Charter

Brookline Bank converted from a federally chartered savings bank to a state chartered savings bank on June 29, 2012.

First National Bank of Ipswich converted from a national banking association to a state-chartered trust company under the name First Ipswich Bank on June 29, 2012.

Name Changes

South Shore Savings Bank changed its name to South Shore Bank.

Framingham Co-operative Bank changed its name to MutualOne Bank.

Credit Union Transactions

The number of credit unions was reduced by three during the year due to the merging of two credit unions with and into other state chartered credit unions and one credit union merging with and into a federally chartered credit union. At year end there were 84 credit unions.

Mergers

Sturdy Credit Union, Attleboro merged with and into Rockland Federal Credit Union on February 1, 2012.

ValleyStone Credit Union, Wilbraham merged with and into Polish National Credit Union, Chicopee on June 30, 2012.

Massachusetts State Employees Credit Union, Boston merged with and into Metro Credit Union, Chelsea on September 1, 2012.

Name Changes

Massachusetts Postal Employees Credit Union changed its name to Massachusetts Family Credit Union.

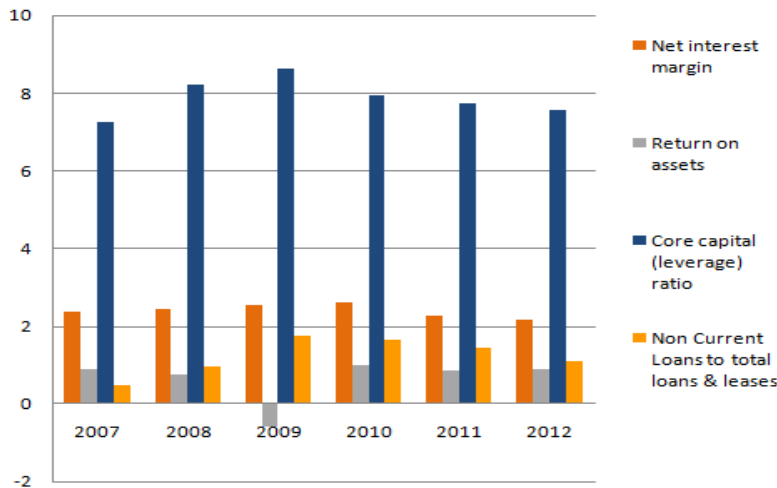
Banks Summary

Total assets for state-chartered trust companies, co-operative banks and savings banks increased from year-end 2011 by approximately \$16 billion, or 5%, to \$321 billion. The increase was funded primarily by deposit growth. Total loans increased a considerable 16% to \$83 billion, yet the percentage of non-current loans and leases to total loans and leases declined from 1.45% to 1.10%, as the institutions continued to diligently resolve problem loans. Other real estate owned also declined and is nominal at \$176 million. Deposits rose by \$14 billion or 6%, from \$237 billion to \$251 billion, even as interest rates hovered at record low levels. A modest increase in earnings contributed to a rise of 8% in total equity capital to almost \$31 billion.

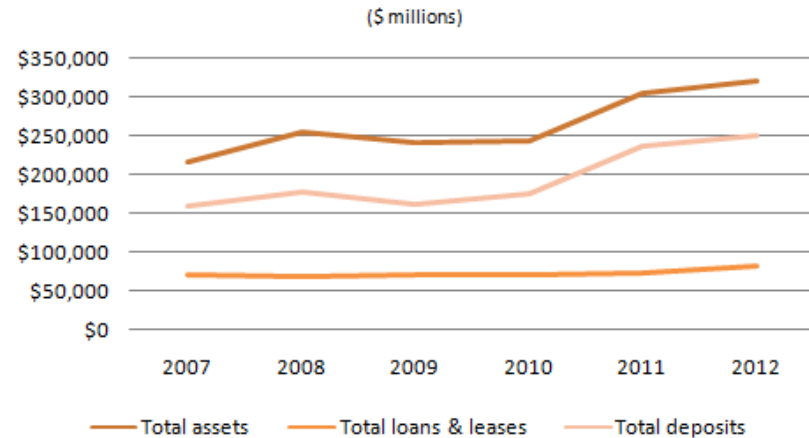
Net income increased to \$2.68 billion for the 12 months ending December 31, 2012, from \$2.41 billion for the previous year. These figures include income from State Street Bank and Trust, the largest state-chartered institution, of \$1.95 billion in 2012 and \$1.77 billion in 2011. Net interest margins continued to be impacted by the economy as they fell from 2.27% to 2.15% over the period. Loan loss provisions have been trending downward since 2010 and further reduced from \$165 million in 2011 to \$141 million in 2012. Securities gains in 2012 were \$47 million lower in 2012 than in 2011, but at \$107 million provided additional support to the earnings position.

Overall, state-chartered banks in Massachusetts have performed well and their financial condition is generally sound.

Financial Performance Ratios



Balance Sheet Composition



Banks | Balance Sheet

Years ended December 31	2011 \$ in 000's	2012 \$ in 000's	% change
Assets and Liabilities			
Cash and due from depository Institutions	66,457,366	59,052,346	-11%
Interest-Bearing Balances	63,370,325	55,382,845	-13%
Securities	128,974,662	140,658,665	9%
Federal Funds Sold & Reverse Repurchase Agreements	7,497,013	5,378,136	-28%
Net Loans & Leases	70,372,407	81,925,865	16%
Loan Loss Allowance	796,358	835,409	5%
Trading Account Assets	6,844,285	4,847,059	-29%
Bank Premises and Fixed Assets	1,963,693	2,110,824	7%
Other Real Estate Owned	220,523	176,375	-20%
Goodwill and Other Intangibles	8,441,368	8,986,663	6%
All Other Assets	14,399,821	18,286,987	27%
Total Assets	305,171,138	321,422,920	5%
Total Deposits	237,083,728	251,115,046	6%
Interest-Bearing Deposits	167,522,951	193,728,594	16%
Deposits Held in Domestic Offices	140,681,647	149,900,118	7%
Federal Funds Purchased & Repurchase Agreements	10,332,622	9,628,783	-7%
Trading Liabilities	6,430,204	5,070,894	-21%
Other Borrowed Funds	8,999,151	10,107,751	12%
Subordinated Debt	1,670,987	1,705,495	2%
All Other Liabilities	12,024,671	12,886,555	7%
Total Liabilities	276,541,362	290,514,524	5%
Total Bank Equity Capital	28,396,803	30,671,276	8%
Perpetual Preferred Stock	54,110	55,126	2%
Common Stock	147,069	130,087	-12%
Surplus	15,642,067	16,104,783	3%
Undivided Profits	12,553,557	14,381,280	15%
Noncontrolling Interests in Consolidated Subsidiaries	232,973	237,120	2%
Total Equity Capital	28,629,776	30,908,396	8%
Total Liabilities and Capital	305,171,138	321,422,920	5%

Banks | Income Statement

Years ended December 31	2011 \$ in 000's	2012 \$ in 000's	% change
Total Interest Income	6,579,861	6,672,470	1%
Total Interest Expense	1,196,467	973,203	-19%
Net Interest Income	5,383,394	5,699,267	6%
Provision for Loan and Lease Losses	164,470	141,241	-14%
Fiduciary Activities	4,746,638	4,783,243	1%
Service Charges on Deposit Accounts	167,883	166,977	-1%
Trading Account Gains & Fees	681,166	527,906	-22%
Additional Noninterest Income	1,554,589	2,087,718	34%
Total Noninterest Income	7,150,276	7,565,844	6%
Salaries and Employee Benefits	4,898,763	5,071,627	4%
Premises and Equipment Expense	1,373,169	1,453,942	6%
Additional Noninterest Expense	2,921,132	3,090,942	6%
Total Noninterest Expense	9,193,064	9,616,511	5%
Pre-Tax Net Operating Income	3,176,136	3,507,359	10%
Securities Gains (Losses)	154,905	107,471	-31%
Applicable Income Taxes	924,142	929,277	1%
Income Before Extraordinary Items	2,406,889	2,685,553	12%
Net Extraordinary Gains	0	0	0%
Net Income Attributable to Noncontrolling Interests	350	1,664	375%
Net Income Attributable to Bank and Noncontrolling Interests	2,406,899	2,685,553	12%
Net Charge-Offs	256,295	120,055	-53%
Cash Dividends	84,856	2,016,433	2276%
Net Sale, Conversion, Retirement of Capital Stock	67,807	7,584	-89%
Net Operating Income	2,296,235	2,607,611	14%
Net Income Attributable to Bank	2,406,549	2,683,889	12%

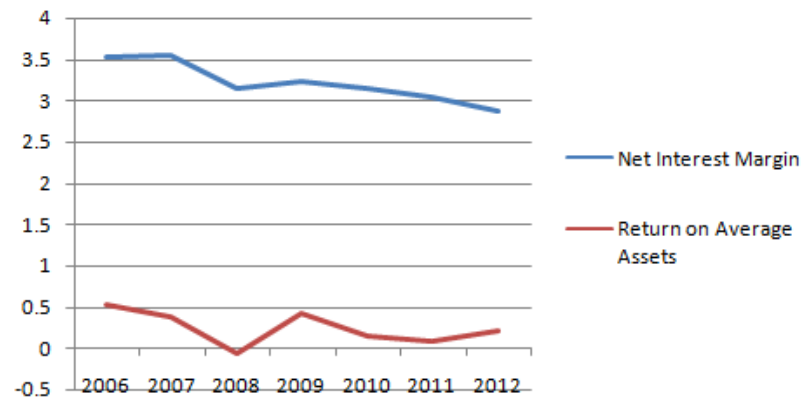
The Commonwealth's credit unions saw another year of strong growth in 2012, with total assets increasing by 3% to \$15.4 billion from \$14.9 billion in 2011. With little change in total investments, most of the asset growth was driven by strong growth in loans and leases to \$9.7 billion from \$9.3 billion, or a change of 5%. At the same time, other real estate owned declined by 35% to \$8 million from \$12.3 million. On the liability side, total borrowed funds increased by 4% throughout the industry. Credit unions continue to leverage low interest rates with the use of borrowed funds. Shares also saw a continued growth to \$12.4 billion from \$12.1 billion.

Net income from 2011 to 2012 for the Commonwealth's credit unions increased by 27% to \$66 million from \$52 million. However, net interest income fell by 4% to \$386 million from \$404 million, largely due to the continued low rate environment. Credit unions helped mitigate the decrease by increasing non-interest income, which grew by 30% to \$143 million. Some of this growth was due to gains on the sale of loans. At the same time, non-interest expense has been controlled, as it only grew by 1% from \$431 million to \$434 million. Almost all non-interest expense categories increased marginally between 2011 and 2012 due to continued expansion of branches and services; however, a 59% decrease in member insurance to \$12 million from \$30 million largely impacted the overall non-interest expense total. The reduction in member insurance is due to lower corporate credit union stabilization expenses to the National Credit Union Administration. The ongoing positive trend in the Provision for Loan and Lease Losses expense continued throughout 2012 with a 5% decrease to \$30 million from \$32 million. Higher asset quality, shown in the lower delinquency and charge-off ratios, is one of the factors driving down this expense.

Overall, Massachusetts state-chartered credit unions continued to show adequate profitability in the aggregate in 2012, with a net income of \$66 million. Aggregate equity capital increased to \$1.78 billion, growing by 3%. Although the total number of credit unions has been trending downward,* most existing credit unions continue to grow and diversify their memberships.

*Refer to Page 18 of this report for trends

Financial Performance Ratios



Credit Unions | Balance Sheet

Years ended December 31	2011 \$ in 000's	2012 \$ in 000's	% Change
Assets			
Cash and Investments	5,184,925	5,171,415	0%
Loans and Leases, Net of Unearned Income	9,293,677	9,715,806	5%
Allowance for Loan and Lease Losses	-85,454	-84,943	-1%
Net Loans and Leases	9,208,223	9,630,863	5%
Land and Building	207,876	205,356	-1%
Other Fixed Assets	51,584	52,401	2%
Other Real Estate Owned	12,379	8,027	-35%
Other Assets	301,356	320,699	6%
Total Assets	14,966,343	15,388,761	3%
Liabilities			
Total Shares and Deposits	12,121,492	12,442,367	3%
Total Borrowings	1,016,667	1,052,526	4%
Accrued Dividends and Interest Payable	725	447	-38%
Accounts Payable and Other Liabilities	96,876	107,453	11%
Total Liabilities	13,235,760	13,602,793	3%
Equity			
Regular Reserves	260,995	259,241	-1%
Appropriation for Non-Conforming investments	115	0	-100%
Undivided Earnings	1,413,816	1,461,969	3%
Net Unrealized Gain/(Loss) on AFS	52,522	53,543	2%
Other Reserves	3,135	11,215	258%
Total Equity Capital	1,730,583	1,785,968	3%
Total Liabilities + Equity Capital	14,966,343	15,388,761	3%

Credit Unions | Income Statement

Years ended December 31	2011	2012	% Change
	\$ in 000's	\$ in 000's	
Total Interest Income	555,559	520,635	-6%
Total Interest Expense	151,169	134,359	-11%
Net Interest Income	404,390	386,276	-4%
Provision for Loan and Lease losses	31,536	30,059	-5%
Fee income	72,352	73,727	2%
Other Operating Income	32,855	63,712	94%
Gain(Loss) on Investments	4,914	4,577	-7%
Gain(Loss) on Disposition of Fixed Assets	-1,187	-621	48%
Gain from Bargain Purchase (Merger)	302	1377	356%
Other Non-Operating Income/(Expense)	710	546	-23%
Total Non-Interest Income	109,946	143,319	30%
Employee Compensation and Benefits	207,839	216,640	4%
Travel and Conference Expense	4,270	4,420	3%
Office Occupancy Expense	36,052	34,487	-4%
Office Operation Expense	64,521	69,310	7%
Education and Promotional Expense	16,080	17,389	8%
Loan Servicing Expense	17,140	18,837	10%
Professional and Outside Services	42,479	46,584	10%
Member Insurance	29,873	12,190	-59%
Operating Fees	2,241	2,310	3%
Miscellaneous Operating Expenses	10,533	11,744	12%
Total Non-Interest Expense	431,028	433,911	1%
Net Income(Loss)	51,773	65,625	27%

2012 Division of Banks Staff

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