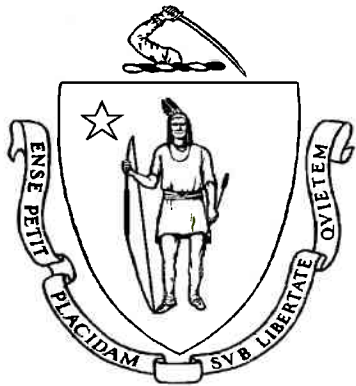




Massachusetts Division of Banks

2013
ANNUAL REPORT

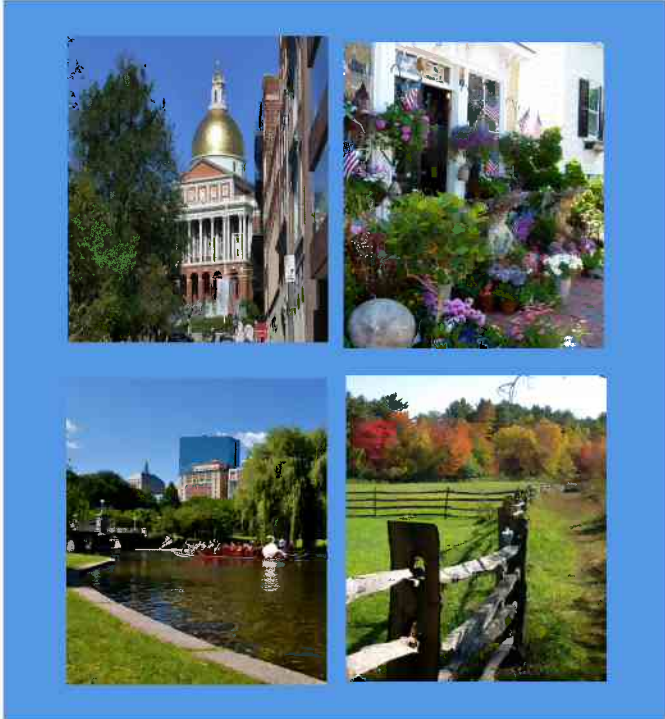


Division of Banks

Governor
Deval Patrick

Commissioner of Banks
David J. Cotney

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About the Division

Mission

The Division of Banks' (Division) mission is to ensure a sound, competitive, and accessible financial services environment throughout the Commonwealth of Massachusetts.

Vision

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.

At A Glance

Its 160 managers, examiners, and support staff are responsible for the supervision of 208 state-chartered banks and credit unions holding combined assets of approximately \$363 billion, as well as the licensing and supervision of 7,320 individual mortgage loan originators and over 4,000 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.

Brief History

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



I am pleased to present the 2013 Annual Report of the Massachusetts Division of Banks (Division). The Division continues to be a leader in maintaining a secure and sound state-chartered banking and financial services system, while also strengthening consumer protection in the financial services industry.

In 2013, the American economy continued to show signs of recovery. During the year, the Division continued in its efforts to prevent mortgage abuse and remained committed to assist foreclosure prevention programs. In 2013 alone, the Division distributed \$1.3 million in grants to foreclosure education centers and first-time home owner counselors across Massachusetts, which is an increase of \$400,000 over 2012 awards. Additionally, the Division issued expanded rules and guidelines for mortgage servicers, further enhancing consumer protection regulations.

Home ownership aid was only one of the many outreach initiatives of 2013, as the Division continued to participate in several public education events as well as a number of community development efforts. The Division also held a number of outreach meetings throughout the year with bank and credit union industry professionals, as well as hosted the 2013 North American Collection Agency Regulatory Association (NACARA) Annual Conference that was held in Boston.

One of the Division's ongoing initiatives is to reduce regulatory burden on our financial institutions and licensees. In 2013, we furthered our efforts that began in 2012 and performed a comprehensive review of all Regulatory Bulletins and regulations to determine opportunities for the agency to reduce regulatory burden. This endeavor remains our focus in the years to come.

Supporting the dual banking system also remains one of the Division's primary goals. To that end, the Division signed the Consumer Financial Protection Bureau (CFPB)-State Agency Agreement pertaining to consumer complaint sharing. This agreement helps to facilitate complaint sharing, and, in March 2013, Massachusetts became the first state to sign the agreement.

Finally, in 2013 the Division began to review several emerging topics and their potential effect on the banking arena. Specifically, payment systems, virtual currency, casino related issues, and the legalization of medical marijuana in Massachusetts were the primary focus areas. We believe these emerging issues will continue to shape the financial services industries in 2014 and beyond.

As always, the Division's successes this year were only the result of the hard work and ingenuity of the entire Division staff. Looking forward, we are excited for the challenges 2014 will bring and the ways in which the Division will continue to positively impact the lives of Massachusetts consumers.

Sincerely,

A handwritten signature in blue ink, appearing to read "David J. Cotney". The signature is fluid and cursive, written over a light blue rectangular background.

David J. Cotney
Commissioner of Banks

2013 Accomplishments

217

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

11,666

Licenses issued by the Division to mortgage companies, mortgage loan originators, money services businesses, debt collectors, loan servicers, and consumer finance companies.

344

Consumer complaints resolved by the Division, along with \$559,250 in reimbursements secured on behalf of consumers.

298

Foreclosure relief requests received by the Division, of which 166 were granted long-term stays.

588

Total number of completed bank, credit union, licensee, and other approval requests (565) and number of legal opinions issued (23).

1

Number of conversions from a federally-chartered bank to a Massachusetts-chartered bank (Mutual Bank)

1

Number of conversions from a state-chartered credit union to a state-chartered cooperative bank (HarborOne Bank)

13

Number of total major corporate transactions consummated in 2013 involving banks and credit unions

2013 Year in Review

January

The Division updated the Debt Collections consumer webpage. This new page provides consumers with updated information and resources on debt collection.

The Division filed proposed amendments to 209 CMR 56.00: Right To Cure A Mortgage Default.

The Division held a public hearing on proposed amendments to 209 CMR 56.00: Right To Cure A Mortgage Default.

The Division issued a press release, posted website materials, and sent letters to banks, credit unions, and community non-profit partners encouraging participation in America Saves Week.

The Division warned consumers about an online money transmitter in a consumer advisory issued February 14th.

February

The Division encouraged taxpayers to explore the benefits of the Federal Earned Income Tax Credit for the 2012 tax season in a February 21st press release.

Massachusetts became the first state to sign the CFPB-State Agency Agreement to facilitate complaint sharing.

March

The Division issued its third round of results from its Regulatory Review Initiative on March 24th.

On April 25th, Commissioner Cotney visited the 13th annual Credit for Life fair in Brockton -- the longest continually running financial youth fair in the country.

On April 29th, the Division issued a memorandum to all banks, credit unions, and motor vehicle finance companies recognizing and adopting the CFPB's Bulletin on indirect auto lending and compliance with the Equal Credit Opportunity Act.

April

On April 8th, the Division issued guidance to the debt collection industry relative to the collection of illegal loans in Massachusetts.

The new and improved Division website home page went live on May 3rd.

On May 21st, the Conference of State Bank Supervisors (CSBS) and the CFPB signed a supervisory coordination framework at the CSBS State-Federal Supervisory Forum.

May

The Division held a "Town Hall" Community Bank Meeting on May 15th with bankers to discuss challenges and opportunities for community banking in the Commonwealth and nationally.

The Division participated in the Patrick Administration's Housing Week events (June 10-16th) and awarded \$1.3 million in grants to 11 regional foreclosure education centers and 10 first-time homebuyer counseling centers.

The Division released the results of its 2012 Check Casher Report during the OCABR "Bank On It" event held at the Codman Square Technology Center on June 20th.

On June 7th, Consumer Assistance staff represented the Division at the Consumer Day held at South Station.

June

The Division issued loan modification regulations, effective June 21st, as a follow-up to the 2012 "Act Preventing Unlawful and Unnecessary Foreclosures" to provide additional protections for Massachusetts consumers.

The Division held an informational hearing on July 30th on certain regulations that impact banks and credit unions.

The Massachusetts Division of Banks' LinkedIn page went live on July 11th.

Staff represented the Division at Consumer Days in Barnstable on July 17th and in Revere on July 30th.

July

On August 13th, the Division held an informational public hearing regarding non depository institution related regulations.

On August 14th, staff participated in the Brockton Consumer/ Shred Day organized by the Office of Consumer Affairs.

August

2013 Year in Review



Division representatives attended the Big E on September 19th along with representatives from other Office of Consumer Affairs' agencies to provide consumers information .

On September 11th, the Division issued an industry letter on the recent HUD Changes to Home Equity Conversion Mortgage and Reverse Mortgage Mortgage Letters 2013-27 and 2013-28.

September

The Division implemented procedures to conduct multi-state examinations and enforcement actions of larger foreign transmittal agencies and debt collectors and with the CFPB and SCC joined several multi-state examinations.

The Division coordinated with the Massachusetts Credit Union League and held credit union roundtable meetings on October 15th in Chicopee and October 17th in Westborough.

October

On October 11th, the amendments to the Division's regulation 209 CMR 18.00 *et seq.* went into effect. The regulation greatly expanded the rules and guidelines for mortgage servicers and also modernized some of the debt collection aspects of the regulation.

The Division hosted the 2013 North American Collectors Agency Regulatory Association (NACARA) Annual Conference in Boston from October 6th through 8th. It was the most well attended conference in NACARA's history, with 49 attendees representing 16 state agencies, the CFPB, and CSBS.

On November 12th, Division staff provided a presentation at a Women's Financial Empowerment event in Great Barrington.

On November 6th, the Division issued a letter to small and low-income designated credit unions regarding the availability of free consulting services from the NCUA.

November

On December 23rd, the Division issued an industry letter on New Rules Addressing Qualified Mortgages and Borrower's Ability to Repay.

The Division expanded mortgage servicing examinations and trained examiners based on new regulations.

December

Study emerging topics and the impact of each on the Division's regulatory and supervisory processes. Topics include marijuana dispensaries and business deposits, casinos and gambling, and virtual currency.

Prepare industry letters or guidance on relevant topics to keep the Division's regulated entities informed on significant regulatory updates. In addition, develop consumer resources and consider potential partnerships.

Participate in America Saves Week, partner with institutions and expand consumer outreach resources, and encourage financial institutions to promote the importance of consumer savings.

Continue to coordinate with the Consumer Financial Protection Bureau (CFPB) and other federal agency counterparts on examinations as well as on consumer complaints.

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

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

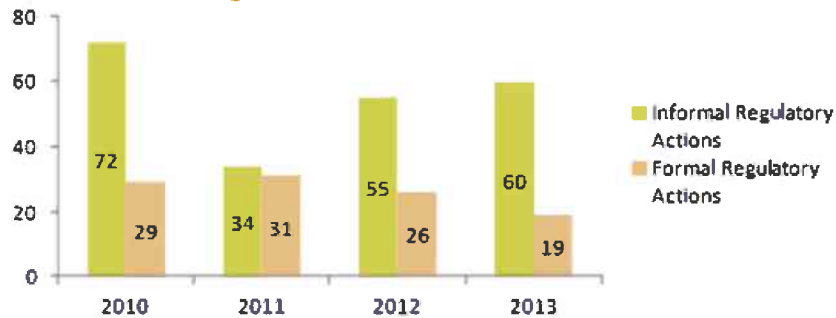
Mortgage Supervision

During 2013, the Division continued to expand its coordination and cooperation with the Consumer Financial Protection Bureau (CFPB) through the sharing of examinations and information and by participating in concurrent examinations of non-depository mortgage entities. Moreover, in May 2013, the Division, through the Conference of State Bank Supervisors, signed a supervisory coordination framework with the CFPB. This framework established the process for how state regulators and the CFPB will share supervision of non-depository financial services providers and covered depository institutions with more than \$10 billion in assets.

The Division also continued to participate in numerous multi-state examinations coordinated under the direction of the Multistate Mortgage Committee (MMC), which is a committee of state regulatory officials charged with coordinating multistate examinations of mortgage entities, developing uniform examination processes, and modernizing traditional examination procedures. Since its inception in 2008, the Division has continued to have a representative serving on the MMC. Some of the key initiatives undertaken by the MMC this year included:

- ◆ Coordinated state regulatory agency participation with a coalition of state Attorneys General and the CFPB in a joint state-federal settlement agreement with Ocwen Financial Corporation to provide \$2 billion in principal reduction to underwater borrowers. The regulatory action addresses systematic misconduct at every stage of the mortgage servicing process, and requires \$125 million in refunds to nearly 185,000 borrowers who have been foreclosed upon.
- ◆ Continued management and facilitation of a series of multistate examinations, incorporating updated examination procedures and techniques to facilitate new examination review efficiencies.
- ◆ Finalized the terms of a Settlement Agreement entered during June 2013, which resulted from the findings of a 35-state MMC examination of Amerisave, a Georgia-based mortgage lender, alleging significant violations of the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act.

**Regulatory Actions Taken by the Division
Against Brokers and Lenders**



Also, the Division's Mortgage Supervision Unit issued a reverse mortgage industry letter in September 2013 on the recent HUD Changes to Home Equity Conversion Mortgage (HECM) - reverse mortgage Mortgagee Letters 2013-27-2013-28.

The Mortgage Supervision Unit also issued an industry letter on Qualified Mortgage (QM) requirements in December 2013.

NMLS and Mortgage Licensing

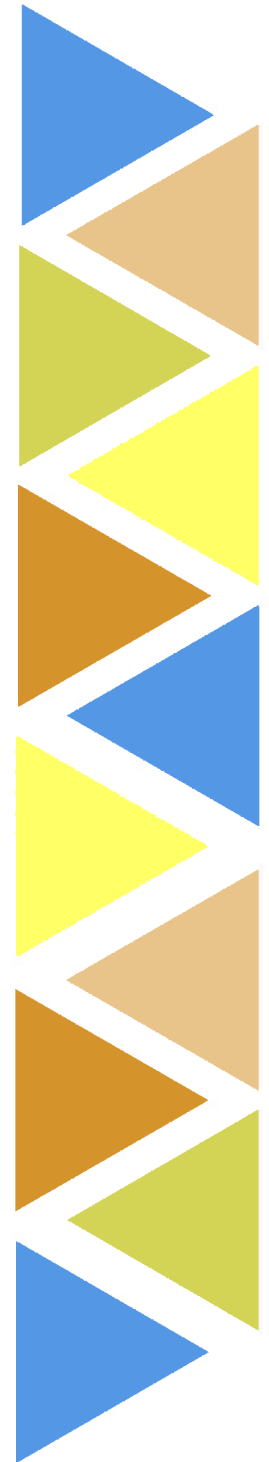
During 2013, the Division's Mortgaging Licensing Unit continued to see a heavy volume of individuals applying to be licensed as mortgage loan originators (MLO). The Unit saw 2,941 total MLO applications filed, which was an increase of 1,723 applications over 2012. Of those 2,941 applications, 2,730 were approved for a new license. As of December 31, 2013, there are 7,320 individuals licensed as MLOs through the Division of Banks.

This year, the Division approved 22 new mortgage companies, which resulted in a net increase of 17 companies from the 446 mortgage brokers and lenders licensed to do business in 2012. As of December 31, 2013, there were 215 mortgage brokers, 110 mortgage lenders, and 117 companies holding both a mortgage broker and a mortgage lender license.

The Division continued its leadership role in the Conference of State Bank Supervisors, in cooperation with the State Regulatory Registry LLC (CSBS/SRR) and the Nationwide Multistate Licensing System and Registry (NMLS), American Association of Residential Mortgage Regulators (AARMR), and other state regulatory agencies and mortgage related trade associations.

The Division attended the NMLS and AARMR annual conferences and saw several of its key personnel selected as regulator representatives on numerous national panels.

The Division also took part in its annual presentation to the Massachusetts Mortgage Bankers Association, where it continues to improve training protocols and to assure the protection of Massachusetts consumers in all mortgage transactions.



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 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.

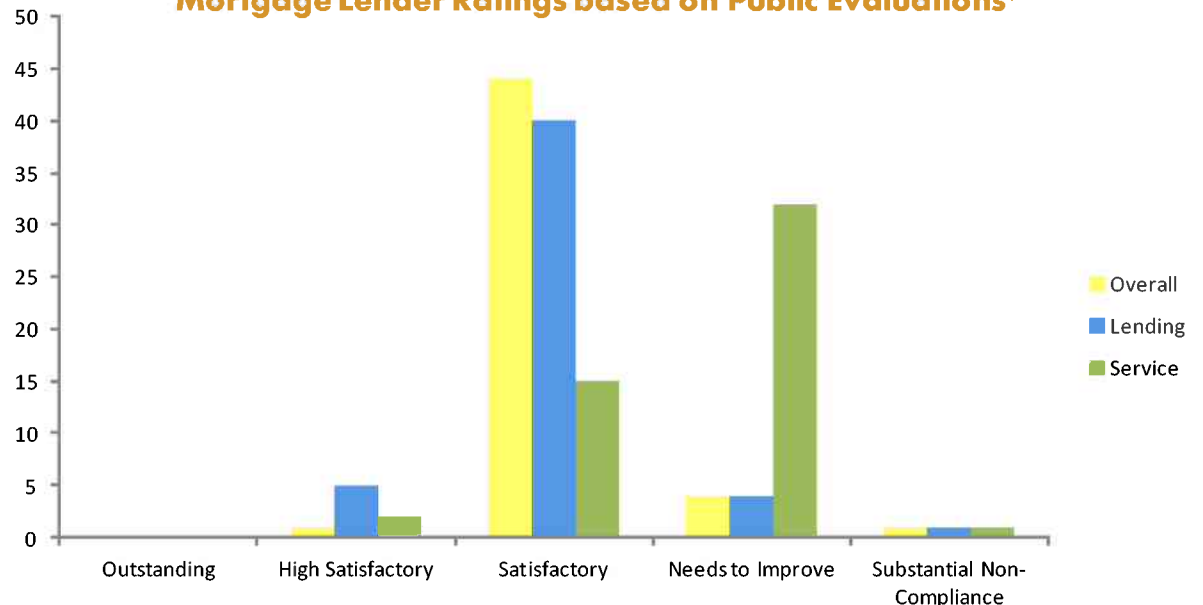
The number of licensed lenders eligible for a CRA examination totaled 88, of which 13 became eligible for an examination for the first time during 2013. The number of lenders eligible for CRA has increased year to year.

Through December 31, 2013, the Division has issued a total of 65 examinations; 14 were issued during the 2013 calendar year. Additionally, 50 Public Evaluations are posted on the Division's website.

As a result of the examinations, the Division issued 14 public Consent Orders for HMDA violations in 2013.

A total of \$112,500 was collected in fines as a result of Orders executed.

Mortgage Lender Ratings based on Public Evaluations*

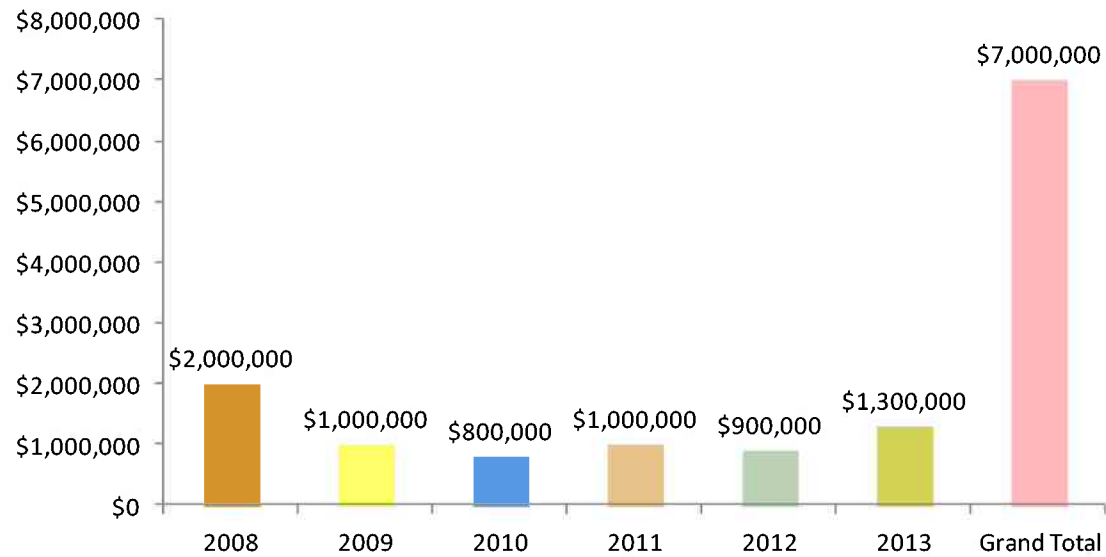


*50 Public Evaluations Available

Foreclosure Relief

Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded a total of \$7 million to nonprofits with a focus on consumer counseling services. In 2013, the Division awarded \$1.3 million in grants to agencies that offered 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 grants were provided to 11 Regional Foreclosure Prevention and Educations Centers, and to 10 community-based consumer counseling agencies. This amount was 44% higher than the 2012 funding distribution. Collectively, grantees have helped over 5,000 homeowners in the Commonwealth.

Foreclosure Prevention Grant Distribution



The Division also promulgated new regulations in the area of foreclosure prevention. As of June 2013, homeowners can rely on added protections which prevent national and state lenders from foreclosing on a property if a mortgage modification costs less than foreclosure. The regulation requires lenders to send a notice to borrowers informing them of their right to request a loan modification for certain mortgage loans.

Consumer Outreach Activities



In conjunction with the Office of Consumer Affairs and Business Regulation, the Division held a *Bank-On-It* Event on June 20th to show consumers how simply and inexpensively they can enjoy the benefits of banking in Massachusetts by opening a bank account and minimizing their check-cashing fees. The event was held at the Codman Square Technology Center in partnership with DotWell, a comprehensive community center serving the residents of Dorchester and nearby communities.

On February 21, 2013, 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 participated in the 2013 America Saves Week Campaign to encourage participation by financial institutions, and to encourage saving by consumers and non-profits in the Commonwealth. The Division has made it a point to facilitate distributing campaign information to the public by creating a website for easy access to information and materials. Collectively, with our state and community partners, we have connected with many residents and organizations across the Commonwealth.



Division representatives attended the Big E along with representatives from other OCABR agencies to provide consumers information in September.

The Division's Consumer Assistance Unit participated in several outreach initiatives held by the Office of Consumer Affairs and Business Regulation (OCABR) including Consumer Day events held in Boston, Revere, and Barnstable.

The Division's Consumer Assistance staff also spoke at a Women's Financial Empowerment Event held in Great Barrington, Massachusetts, in November.

Consumer Finance/Money Services Business Activities



In 2013, the Consumer Finance/Money Services Business Unit's many accomplishments helped promote the Division's mission of ensuring a sound, competitive and accessible finance services environment throughout the Commonwealth.

- ◆ Most notably, in April, the unit rolled out new risk-based examination procedures and a new exam template. The Division adopted the exam processes that are utilized by the CFPB.
- ◆ During the year the unit also conducted three concurrent examinations with Money Transmitter Regulators Association (MTRA) members, and three concurrent examinations with the CFPB.
- ◆ On February 14, 2013, the Division announced that the agency had shut down Doubles Building Society, an online money transmitter that was illegally offering money remittance services to Kenya, placing consumers at risk of losing their money without any recourse or source of recovery.
- ◆ On April 8, 2013, the Division issued an industry notice relative to the collection of illegal loans in Massachusetts. The notice also cited the Division's issuance of five cease and desist orders to five unlicensed payday lenders and a licensed debt collector.
- ◆ On April 10, 2013, OCABR and the Division announced an order to Saugus-based Braz Transfers, Inc., to immediately stop accepting money from Massachusetts consumers and transmitting those funds to foreign countries. The action taken by the Division resulted in many other state regulatory agencies taking action against the company, and was the catalyst for Braz Transfers ceasing business nationwide.
- ◆ Based on a flood of complaints received by the Division, on May 17, 2013, OCABR and the Division announced it had ordered Florida-based InterTransfers, Inc. and its wholly-owned subsidiary Global Money Remittance, Inc. to immediately stop accepting money from Massachusetts consumers.
- ◆ Two joint investigations with the Massachusetts Attorney General's Office resulted in an assurance of discontinuance for Merrimak ATM Group, LLC and Atlas ATM for failing to post the required disclosure on its ATM machines.
- ◆ On June 20, 2013, the Division released its 2012 Check Casher report. The report detailed the Division's review of the cost to cash checks at licensed check cashers in Massachusetts, and compared those fees to those charged by state and nationally chartered banks that offer a Basic Checking Account or an alternative low-cost checking or savings account option. The report illustrated a consistent cost savings when using a bank account.

2013 Major Corporate Transactions

There were 13 major corporate transactions consummated in 2013:

- ◆ Nine transactions involved mergers.
 - ◆ Eight of the mergers resulted in the reduction of two savings banks, one co-operative bank, and five credit unions in the state system.
 - ◆ The other merger transaction involved a federal credit union merging with and into a state-chartered credit union.
- ◆ One transaction involved the conversion of a federally-chartered savings bank to a state-chartered co-operative bank.
- ◆ Two of the total transactions involved the reorganization into mutual holding companies of two state-chartered savings banks. The last mutual holding company reorganization was the 66th such reorganization of a state-chartered mutual bank since the law's passage in 1987.
- ◆ The remaining major corporate transaction was the conversion of a state-chartered credit union to a state-chartered co-operative bank.

The Board of Bank Incorporation (Board) held five hearings during the year. Three of these matters requiring Board approval are listed on the following pages. Two of the matters that were before the Board involving the reorganization into mutual holding companies of two state-chartered co-operative banks were approved in 2013, but not consummated prior to year end.

A trust company was approved to convert to a limited purpose trust company, but the transaction was not consummated until 2014.

Bank Transactions

In 2013, a federally chartered savings bank converted into a state-chartered co-operative bank and a credit union converted into a state-chartered co-operative bank. At year end, there were 60 savings banks, 52 co-operative banks and 17 trust companies. Following is the list of the major bank corporate transactions that were consummated in 2013.

Mutual Holding Company Reorganizations

East Cambridge Savings Bank reorganized into a mutual holding company, 1854 Bancorp on March 29, 2013.

The Savings Bank, Wakefield reorganized into a mutual holding company, Wakefield Bancorp, MHC with a mid-tier holding company, Wakefield Bancorp, Inc. on April 30, 2013.

Conversions to State Charter

Mutual Federal Savings Bank of Plymouth County converted from a federally-chartered savings bank to a state chartered co-operative bank under the name Mutual Bank on September 25, 2013.

Mergers

South Coastal Bank merged with and into Hoosac Bank under the name MountainOne Bank on July 19, 2013.

Mayflower Co-operative Bank merged with and into Rockland Trust Company on November 15, 2013.

Stoneham Savings Bank merged with and into Salem Five Cents Savings Bank on November 23, 2013.

Credit Union Conversions to Banks

HarborOne Credit Union converted to a co-operative bank under the name HarborOne Bank on July 1, 2013.

Name Changes

Lowell Co-operative Bank changed its name to Sage Bank.

Credit Union Transactions

This year five credit unions merged into state-chartered credit unions and one credit union merged into a federally-chartered credit union. Additionally, another credit union converted into a cooperative bank. At year-end there were 78 credit unions, a reduction of 6 from last year.

Mergers

Fenwal Credit Union, Ashland merged with and into Metro Credit Union, Chelsea on March 2, 2013.

Worcester Postal Credit Union, Worcester merged with and into AllCom Credit Union, Worcester on March 31, 2013.

Wemelco Credit Union, Springfield merged with and into Premier Source Credit Union, East Longmeadow on April 1, 2013.

Brockton Postal Employees Credit Union, Brockton merged with and into Crescent Credit Union, Brockton on April 30, 2013.

Savage Arms Employees Credit Union, Westfield merged with and into Pioneer Valley Federal Credit Union, Springfield on September 1, 2013.

Delta-Wye Federal Credit Union, Dorchester merged with and into River Works Credit Union, Lynn on September 30, 2013.

Credit Union Conversions to Banks

HarborOne Credit Union, Brockton converted to a state chartered co-operative bank under the name HarborOne Bank on July 1, 2013.

Name Changes

Northern Massachusetts Telephone Workers Credit Union changed its name to Align Credit Union.

Regulations & Legislation

Regulations

209 CMR 18.00: Conduct of the Business of Debt Collectors and Loan Servicers

The amendments help ensure that the state regulatory requirements are consistent and do not conflict with the requirements of the mortgage servicing rules issued by the CFPB. Under the amended regulation, and consistent with the requirements of the CFPB, third-party mortgage servicers will be prohibited from initiating a foreclosure when an application for a loan modification is in process. Furthermore, additional provisions were incorporated to provide that a violation of certain CFPB servicing regulations will constitute a violation of Massachusetts regulation. Servicers must also ensure effective monitoring of third party service providers for compliance with state legislation, including foreclosure regulations. The amendments also revised the definition of “debt collector” to include active debt buyers who purchase loans in default and then directly collect that debt. In addition, the debt collection regulation was updated to recognize current communication technologies such as cell phone and text messaging. The amendments clarified that any violation of the regulation is considered an unfair or deceptive act or practice under M.G.L. chapter 93A, section 2. The effective date of these amendments was October 11, 2013.



Regulations & Legislation

Regulations

209 CMR 56.00: Foreclosure Prevention Options

The Division promulgated this regulation in 2012 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 established the required information to be included in the Right to Cure Notice, and established procedures to determine whether a 150-day notice or a 90-day notice is required. The regulations also outlined the proper method of delivery for such a notice, and outlined the borrower's right to request all documentation demonstrating the legal authority of the entity foreclosing on the mortgage. The regulation was amended in 2013 to establish the process for both borrower and creditor in connection with the right to request a mortgage loan modification as required by Chapter 194 of the Acts of 2012, An Act Preventing Unlawful and Unnecessary Foreclosures. The amendments set forth the actions which constitute a borrower's good faith response to a creditor's notice of the right to request a mortgage loan modification; defined good faith efforts by creditors to avoid foreclosure; and established safe harbors for compliance for creditors in the loan modification process. The title of the regulation was also changed from "Right to Cure a Mortgage Default" to "Foreclosure Prevention Options." Certain changes to the definitions were also made for consistency with Chapter 194. The amendments became effective on June 21, 2013.

Legislation

No legislation under the jurisdiction of the Division was signed into law during 2013.

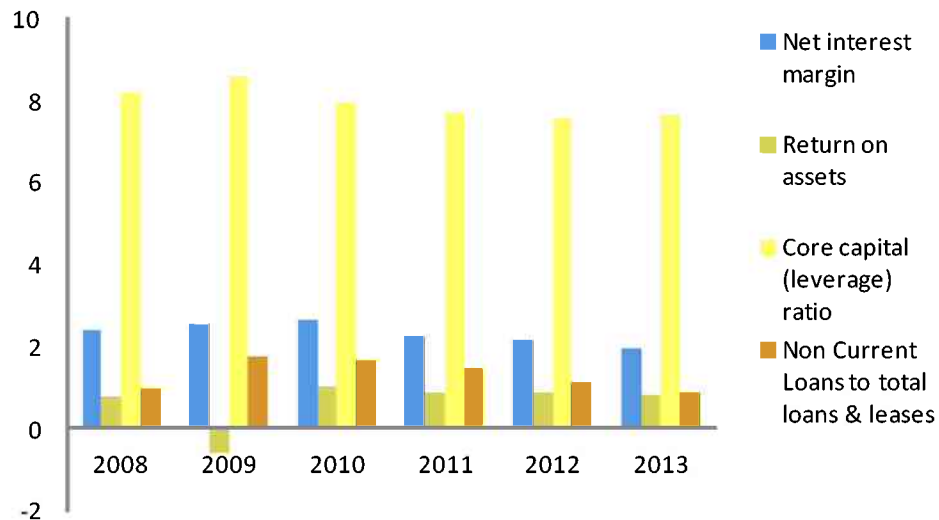
Banks Summary

Total assets for state-chartered trust companies, co-operative banks, and savings banks increased from year-end 2012 by approximately \$27 billion, or 9%, to \$349 billion. The increase was funded primarily by deposit growth. Deposits rose by \$24 billion or 9%, from \$251 billion to \$275 billion, even as interest rates continued to hover near record low levels. Total loans increased 11% to \$92 billion, yet the percentage of non-current loans and leases to total loans and leases declined from 1.10% to 0.86%, as the institutions continued to diligently resolve problem credits. Other real estate owned also declined and is nominal at \$147 million. Total equity capital rose 3%, to almost \$32 billion, even as the institutions experienced a modest decline in earnings.

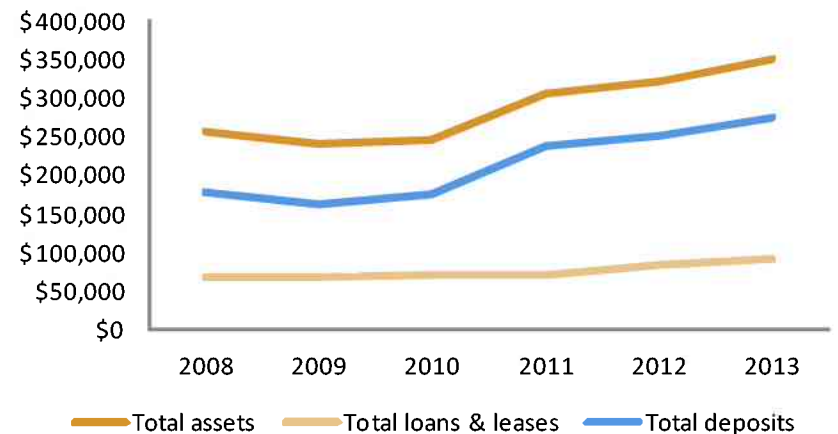
Net income decreased to \$2.64 billion for the 12 months ending December 31, 2013, from \$2.68 billion the previous year, as the prolonged low interest rate environment continued to place downward pressure on net interest income. These figures include income from State Street Bank and Trust, the largest state-chartered institution, of \$1.93 billion in 2013 and \$1.95 billion in 2012. Net interest margins continued to be impacted by the economy as they fell from 2.15% to 1.94% over the period. Loan loss provisions have been trending downward since 2010 and further reduced from \$141 million in 2012 to \$86 million in 2013. Lastly, securities gains were \$11 million lower in 2013 than in 2012, but at \$96 million provided addition support to the earnings position.

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

Financial Performance Ratios



Balance Sheet Composition (\$ millions)



Banks | Balance Sheet

Years ended December 31

	2012 <i>\$ in 000's</i>	2013 <i>\$ in 000's</i>	% change
Assets and Liabilities			
Cash and due from depository institutions	\$ 59,052,346	\$ 72,058,168	22%
Interest-Bearing Balances	\$ 55,382,845	\$ 67,901,921	23%
Securities	\$ 140,658,665	\$ 136,944,978	-3%
Federal Funds Sold & Reverse Repurchase Agreements	\$ 5,378,136	\$ 6,483,800	21%
Net Loans & Leases	\$ 81,925,865	\$ 90,715,517	11%
Loan Loss Allowance	\$ 835,409	\$ 874,348	5%
Trading Account Assets	\$ 4,847,059	\$ 5,847,591	21%
Bank Premises and Fixed Assets	\$ 2,110,824	\$ 2,258,663	7%
Other Real Estate Owned	\$ 176,375	\$ 147,266	-17%
Goodwill and Other Intangibles	\$ 8,986,663	\$ 8,909,265	-1%
All Other Assets	\$ 18,286,987	\$ 25,539,265	40%
Total Assets	\$ 321,422,920	\$ 348,904,513	9%
Total Deposits	\$ 251,115,046	\$ 274,800,741	9%
Interest-Bearing Deposits	\$ 193,728,594	\$ 194,816,562	1%
Deposits Held in Domestic Offices	\$ 149,900,118	\$ 170,263,460	14%
Federal Funds Purchased & Repurchase Agreements	\$ 9,628,783	\$ 9,269,378	-4%
Trading Liabilities	\$ 5,070,894	\$ 6,045,994	19%
Other Borrowed Funds	\$ 10,107,751	\$ 11,331,432	12%
Subordinated Debt	\$ 1,705,495	\$ 2,603,750	53%
All Other Liabilities	\$ 12,886,555	\$ 13,136,338	2%
Total Liabilities	\$ 290,514,524	\$ 317,187,633	9%
Total Bank Equity Capital	\$ 30,671,276	\$ 31,478,701	3%
Perpetual Preferred Stock	\$ 55,126	\$ 54,089	-2%
Common Stock	\$ 130,087	\$ 130,696	0%
Surplus	\$ 16,104,783	\$ 16,935,670	5%
Undivided Profits	\$ 14,381,280	\$ 14,365,777	0%
Noncontrolling Interests in Consolidated Subsidiaries	\$ 237,120	\$ 238,179	0%
Total Equity Capital	\$ 30,908,396	\$ 31,716,880	3%
Total Liabilities and Capital	\$ 321,422,920	\$ 348,904,513	9%

Banks | Income Statement

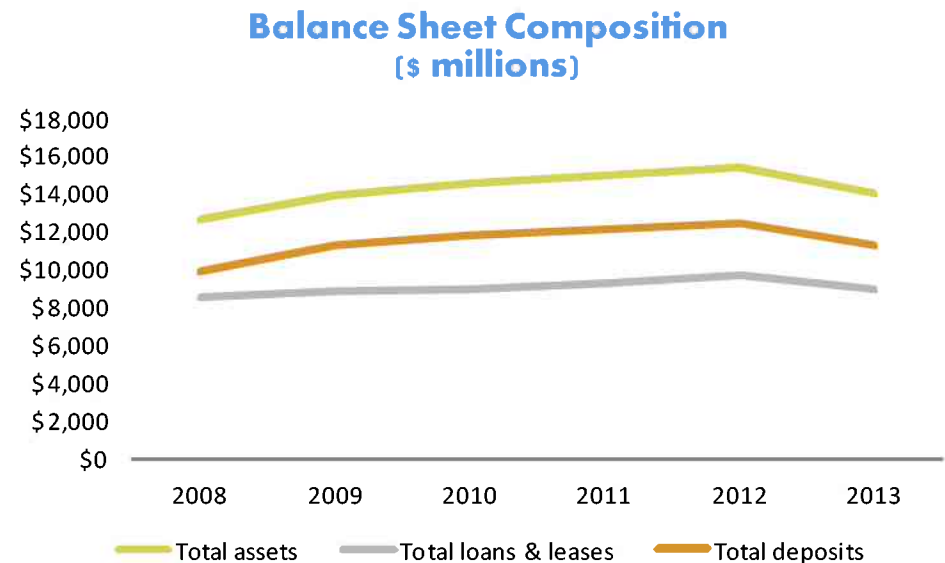
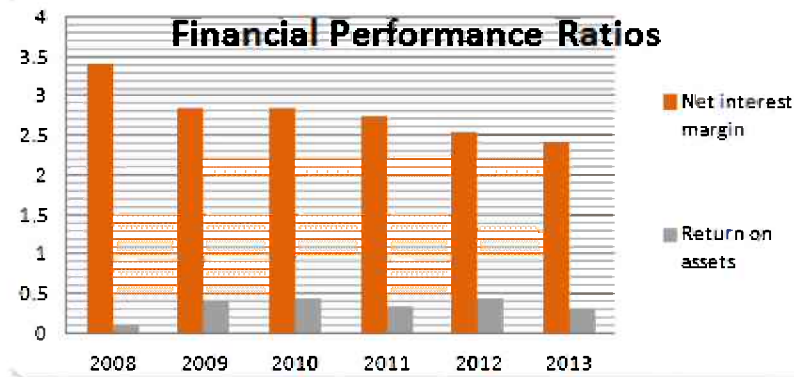
Years ended December 31	2012 \$ in 000's	2013 \$ in 000's	% change
Total Interest Income	\$ 6,672,470	\$ 6,411,006	-4%
Total Interest Expense	\$ 973,203	\$ 865,739	-11%
Net Interest Income	\$ 5,699,267	\$ 5,544,973	-3%
Provision for Loan and Lease Losses	\$ 141,241	\$ 86,256	-39%
Fiduciary Activities	\$ 4,783,243	\$ 5,063,618	6%
Service Charges on Deposit Accounts	\$ 166,977	\$ 178,562	7%
Trading Account Gains & Fees	\$ 527,906	\$ 591,398	12%
Additional Noninterest Income	\$ 2,087,718	\$ 1,908,232	-9%
Total Noninterest Income	\$ 7,565,844	\$ 7,741,809	2%
Salaries and Employee Benefits	\$ 5,071,627	\$ 5,102,099	1%
Premises and Equipment Expense	\$ 1,453,942	\$ 1,569,051	8%
Additional Noninterest Expense	\$ 3,090,942	\$ 3,101,192	0%
Total Noninterest Expense	\$ 9,616,511	\$ 9,772,342	2%
Pre-Tax Net Operating Income	\$ 3,507,359	\$ 3,428,479	-2%
Securities Gains (Losses)	\$ 107,471	\$ 96,308	-10%
Applicable Income Taxes	\$ 929,277	\$ 808,658	-13%
Income Before Extraordinary Items	\$ 2,685,553	\$ 2,716,129	1%
Net Extraordinary Gains	\$ -	\$ 2,082	0%
Net Income Attributable to Noncontrolling Interests	\$ 1,664	\$ 2,253	35%
Net Income Attributable to Bank and Noncontrolling Interests	\$ 2,687,217	\$ 2,718,211	1%
Net Charge-Offs	\$ 120,055	\$ 65,407	-46%
Cash Dividends	\$ 2,016,433	\$ 1,869,696	-7%
Net Sale, Conversion, Retirement of Capital Stock	\$ 7,584	\$ 15,218	101%
Net Operating Income	\$ 2,607,611	\$ 2,645,770	1%
Net Income Attributable to Bank	\$ 2,683,889	\$ 2,643,517	-2%

Credit Unions Summary

In 2013, state-chartered credit unions experienced an atypical decrease in assets, losing 9% of total assets or approximately \$1.38 billion. This was due predominately to the conversion of Massachusetts' largest credit union, HarborOne, into a bank. At the time of conversion in July 2013, HarborOne's assets totaled approximately \$1.9 billion. Absent the HarborOne conversion, total credit union assets actually increased by roughly \$500 million over 2012. In addition, net of HarborOne, loans increased as credit unions began to experience growth from an improving economy. Shares and deposits also increased. Further, net worth levels continue to be sound, with an overall net worth ratio of 11.50% compared to 11.34% at year-end 2012.

Net income from 2012 to 2013 decreased by 28% as net interest income fell by 8% to \$354 million from \$386 million. On the whole, credit unions experienced a decrease in loan and investment income, as evidenced by the continued decline in the average net interest margin. Non-interest income also declined, although there was a surge in income from the sales of fixed assets and investments. At the same time, provision for loan loss expenses have declined 37%, which is evidence of improved asset quality and declining delinquency levels. In addition, non-interest expenses have declined by 7% since 2012, which somewhat stemmed the decline in net income from \$65.6 million in 2012 to \$47.5 million in 2013. Excluding HarborOne, Massachusetts credit unions' net income still declined by approximately 15% between years, due mostly to lower interest income levels, as previously stated.

Overall, while some credit unions experienced difficulty in generating new loans or adequate profitability, most credit unions continue to grow and diversify their membership and are financially sound.



Credit Unions | Balance Sheet

Years ended December 31	2012	2013	% Change
	\$ in 000's	\$ in 000's	
Assets			
Cash and Investments	\$ 5,171,262	\$ 4,592,593	-11%
Loans and Leases, Net of Unearned Income	\$ 9,715,806	\$ 8,955,856	-8%
Allowance for Loan and Lease Losses	\$ -84,943	\$ -63,513	-25%
Net Loans and Leases	\$ 9,630,863	\$ 8,892,343	-8%
Land and Building	\$ 205,356	\$ 178,170	-13%
Other Fixed Assets	\$ 52,401	\$ 60,323	15%
Other Real Estate Owned	\$ 8,027	\$ 4,627	-42%
Other Assets	\$ 320,839	\$ 278,695	-13%
Total Assets	\$ 15,388,748	\$ 14,006,751	-9%
Liabilities			
Total Shares and Deposits	\$ 12,442,367	\$ 11,347,059	-9%
Total Borrowings	\$ 1,052,526	\$ 973,393	-8%
Accrued Dividends and Interest Payable	\$ 447	\$ 2,373	431%
Accounts Payable and Other Liabilities	\$ 107,453	\$ 89,335	-17%
Total Liabilities	\$ 13,602,793	\$ 12,412,160	-9%
Equity			
Regular Reserves	\$ 259,241	\$ 228,401	-12%
Appropriation for Non-Conforming investments	\$ 3	\$ 377	12467%
Undivided Earnings	\$ 1,462,005	\$ 1,361,424	-7%
Net Unrealized Gain/(Loss) on AFS	\$ 53,493	\$ -11,596	-122%
Other Reserves	\$ 11,212	\$ 15,985	43%
Total Equity Capital	\$ 1,785,954	\$ 1,594,591	-11%
Total Liabilities + Equity Capital	\$ 15,388,747	\$ 14,006,751	-9%

Credit Unions | Income Statement

Years ended December 31	2012 \$ in 000's	2013 \$ in 000's	% Change
Total Interest Income	\$ 520,635	\$ 440,551	-15%
Total Interest Expense	\$ 134,359	\$ 86,860	-35%
Net Interest Income	\$ 386,276	\$ 353,691	-8%
Provision for Loan and Lease losses	\$ 30,059	\$ 19,079	-37%
Fee income	\$ 73,727	\$ 64,046	-13%
Other Operating Income	\$ 63,712	\$ 43,422	-32%
Gain/(Loss) on Investments	\$ 4,577	\$ 8,429	84%
Gain/(Loss) on Disposition of Fixed Assets	\$ -621	\$ 526	185%
Gain from Bargain Purchase (Merger)	\$ 1377	\$ 269	-80%
Other Non-Operating Income/(Expense)	\$ 546	\$ 459	-16%
Total Non-Interest Income	\$ 143,319	\$ 117,151	-18%
Employee Compensation and Benefits	\$ 216,640	\$ 202,875	-6%
Travel and Conference Expense	\$ 4,421	\$ 4,150	-6%
Office Occupancy Expense	\$ 34,487	\$ 33,569	-3%
Office Operation Expense	\$ 69,310	\$ 70,167	1%
Education and Promotional Expense	\$ 17,389	\$ 16,059	-8%
Loan Servicing Expense	\$ 18,852	\$ 16,282	-14%
Professional and Outside Services	\$ 46,568	\$ 39,664	-15%
Member Insurance	\$ 12,190	\$ 10,147	-17%
Operating Fees	\$ 2,310	\$ 1,900	-18%
Miscellaneous Operating Expenses	\$ 11,744	\$ 9,434	-20%
Total Non-Interest Expense	\$ 433,911	\$ 404,247	-7%
Net Income/(Loss)	\$ 65,625	\$ 47,516	-28%

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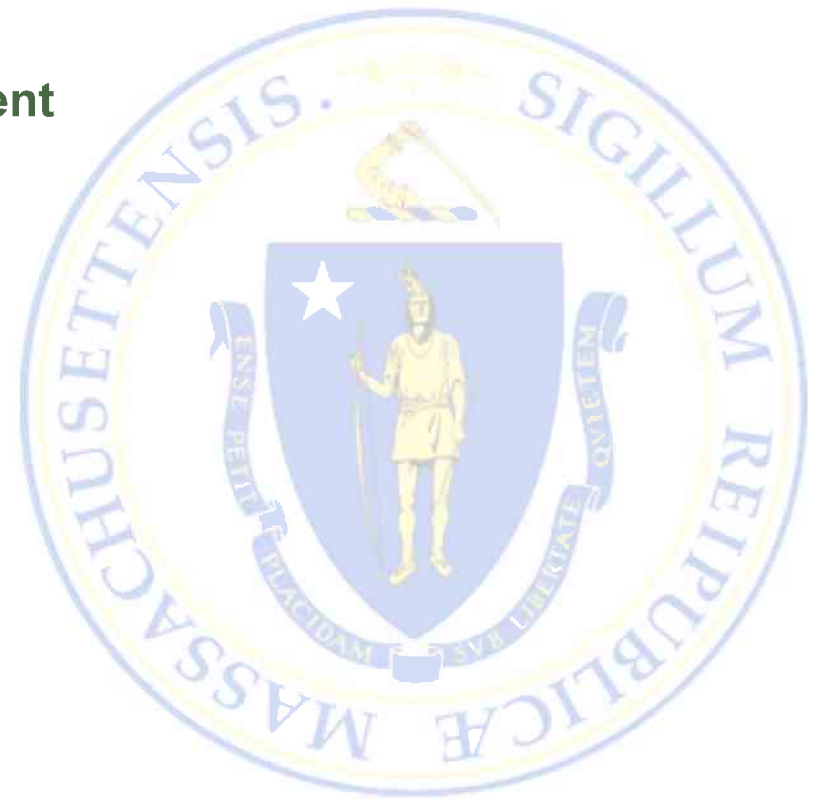
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