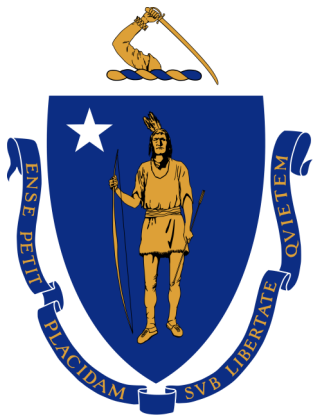




# MASSACHUSETTS DIVISION OF BANKS

2014  
ANNUAL  
REPORT





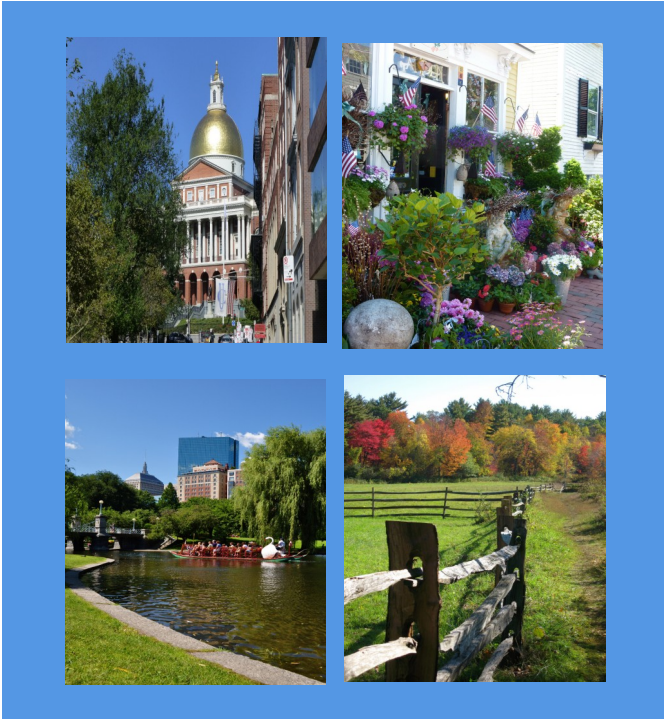
**Division of Banks**

**Governor**  
Charles D. Baker

**Office of Consumer Affairs  
& Business Regulation**  
**Undersecretary**  
John C. Chapman

**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

### 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 202 state-chartered banks and credit unions holding combined assets of approximately \$402 billion, as well as the licensing and supervision of 8,172 individual mortgage loan originators and over 4,800 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 2014 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 2014, the Division continued its efforts to assist foreclosure prevention and homeowner counseling programs in the Commonwealth. In 2014 alone, the Division distributed \$1.3 million in grants to foreclosure education centers and first-time homeowner counselors across Massachusetts, for a cumulative total of \$8.3 million distributed since 2008.

The Division also continued to participate in several public education events as well as a number of community development efforts. The Division held several outreach meetings throughout the year with community bank and credit union industry professionals, as well as participated in America Saves Week.

I am pleased to report that in 2014 the Division was subject to an onsite accreditation by the Conference of State Bank Supervisors (CSBS) for bank and mortgage supervision and National Association of State Credit Union Supervisors (NASCUS) for credit unions. CSBS, NASCUS, together with the American Association of Residential Mortgage Regulators (AARMR) awarded the Division certificates of accreditation, certifying that the Division maintains the highest standards and practices in state banking, credit union, and mortgage supervision. The Division achieved accreditation in all three programs as part of a joint pilot program between CSBS, NASCUS, and AARMR. The Division was first accredited by CSBS in 1994, by NASCUS in 1996, and by AARMR in 2008.

Another one of the Division's ongoing initiatives in 2014 was to inform the industry and consumers about developing issues and potential changes to existing payment systems and risks associated with this rapidly-evolving environment. I was pleased to be appointed in February 2014 to chair the CSBS Emerging Payments Task Force. To that end, in May the Task Force held a public hearing in Chicago, and in August the Division, in collaboration with CSBS, jointly released the results of a national survey to study consumer awareness of virtual currency. The Division remains committed to informing the public about emerging payment systems and playing a role in the regulation of these industries as needed. The Division will continue to review emerging issues and focus on developing risk areas, including payment systems, virtual currency, and cyber security risk management related issues, and their potential effect on the banking arena in 2015. We believe these emerging issues will continue to shape the financial services industries for the foreseeable future.

In closing, at the end of 2014, a comprehensive modernization of Massachusetts banking laws was enacted as Chapter 482 of the Acts of 2014, signed into law on January 7, 2015, and resulting in an enhanced regulatory environment for Massachusetts banks.

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 2015 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".

David J. Cotney  
Commissioner of Banks

## 2014 Accomplishments

121

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

13,014

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

47

New ATM registrations issued.

295

Consumer complaints resolved by the Division, along with \$448,480 in reimbursements secured on behalf of consumers.

229

Foreclosure relief requests received by the Division, of which 120 were granted long-term stays.

472

Total number of examination reports mailed to depository and non-depository institutions.

667

Total number of completed bank, credit union, licensee, and other approval requests (649) and number of legal opinions issued (18).

16

Number of total major corporate transactions consummated in 2014 involving banks and credit unions.

## 2014 Year in Review

### First Quarter

The Division promoted America Saves Week by collaborating through partnerships to hold events, including a small business fair on February 25th in Chelsea, and by encouraging state-chartered banks and credit unions to participate in the campaign.

Commissioner Cotney was appointed to chair the Conference of State Bank Supervisors (CSBS) Emerging Payments Task Force.

The Employee Satisfaction and Workplace Activities Committee kicked off the "Rally Against Cancer 2014!" charitable fundraising event. The Division raised \$1,495 to support the fight against cancer.

The Division completed preparation for and underwent the onsite accreditation process by CSBS for bank and mortgage supervision and NASCUS for credit union supervision. Accreditation was achieved in all three programs as part of a joint pilot program between CSBS, NASCUS, and the American Association of Residential Mortgage Regulators (AARMR).

### Second Quarter

The Division issued a Decision on April 4th establishing certain maximum dishonored check fees at Massachusetts state-chartered institutions.

The Division participated in the Leominster Credit for Life Fair on April 15th.

On May 1st, the Commissioner was re-elected as FFEIC State Liaison Committee Chairman.



On May 16th, the CSBS Emerging Payments Task Force, chaired by Commissioner Cotney, held a public hearing in Chicago.

Amendments to 209 CMR 48.00: Licensee Record Keeping became effective on June 6th.

On June 9th, the Division sponsored a housing counselor training program with the Consumer Financial Protection Bureau.

During the week of June 9th, the Division participated in various Housing Week events throughout the Commonwealth.

On June 19th, the Division held a Community Banking Roundtable along with the Massachusetts Bankers Association.

## 2014 Year in Review

On July 2nd, the Division issued an industry letter on Funding of Mortgage Loans, which speaks to the timely funding and disbursing of mortgage loan proceeds.

Amendments to 209 CMR 43.00: Credit Union Audits and 209 CMR 53.00: Borrower's Interest became effective on July 18th.

### Third Quarter

The Division held a School Supplies Drive, organized by the Employees Activities Committee, to help nearby children in Massachusetts to have the necessities for a successful school year. Donations were made to Horizons for Homeless Children and Cradles to Crayons.

On August 22nd, the Division issued a notice on changes to the Massachusetts Reverse Mortgage Counseling Requirements effective August 1, 2014.

The Division released a new consumer brochure which is posted on the website and will be distributed at financial education events.

The Division filed bond claims and required the reimbursement of \$865,000 to over 430 consumers financial harmed as a result of InterTransers, Inc.'s and related Global Money Remittance, Inc.'s failure to transmit funds to foreign countries during March and April 2013.

The Division participated in the Consumer/Shred Days in Revere, Lawrence, and Somerville in July and August.

On August 27th, the Division, in collaboration with CSBS, jointly released a national survey to study consumer awareness of virtual currency.

On September 11th, the Division held a public informational hearing on the new flood insurance regulations.

On October 1st, the Division held the first meeting of the New England Regional Mortgage Committee, formed to initiate coordinated examinations of mortgage lenders, mortgage brokers, and mortgage loan servicers beginning in 2015.

In collaboration with the Cooperative Credit Union Association, the Division held credit union roundtable meetings in Westford and Taunton on October 8th.

On November 16th, the Division issued Frequently Asked Questions on Chapter 177 of the Acts of 2014, An Act Further Regulating Flood Insurance.

On December 16th, the Division held a public hearing on 209 CMR 57.00: Flood Insurance.

### Fourth Quarter

The Division filed final amendments to 209 CMR 32.00: Truth in Lending, effective January 2, 2015.

On October 12th, significant changes to the Legal List of Investment for Credit Unions were signed into law under Chapter 343 of the Acts of 2014.

On December 23rd, the Division issued a Consumer Advisory on Payday Lending.



On December 18th, the Division issued a Letter to Credit Unions on the amended rating system to include the "Sensitivity" component.

## 2015 Objectives

Prepare industry letters or guidance on relevant topics to keep the Division's regulated entities informed. In addition, engage various industries and solicit feedback through a combination of roundtables, surveys, hearings, and/or internet-based crowd-sourcing.

In addition to participating in America Saves Week, expand opportunities for staff to participate in financial literacy education and consumer outreach events.

Continue to coordinate with the 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.

Coordinate and implement a regional joint supervision initiative with the New England state mortgage regulators to focus on conducting joint exams of mortgage lenders, mortgage brokers or mortgage servicers headquartered in New England.



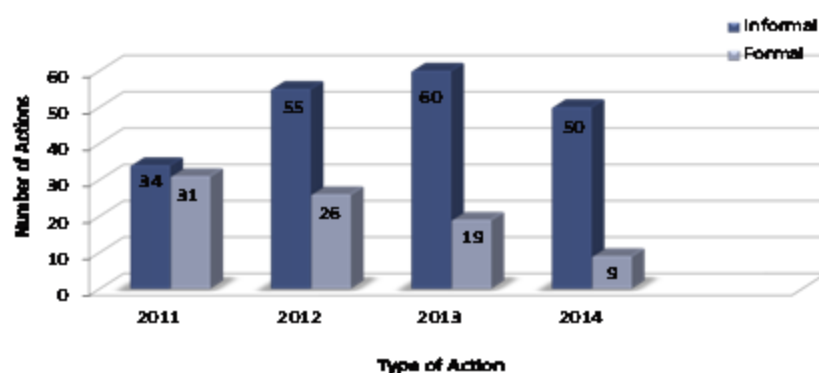
## Mortgage Supervision

During 2014, the Division continued to expand its coordination and cooperation with the CFPB through the sharing of examinations and information and by participating in concurrent examinations of non-depository mortgage entities. The Division also continued to participate in numerous multi-state examinations coordinated under the direction of the Multi-state 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.

The Division also began coordinating with the Connecticut Department of Banking and the New Hampshire Banking Department to conduct a concurrent examination of a licensee in 2014. Additionally, the Division, Connecticut Department of Banking, Maine Bureau of Consumer Credit Protection, New Hampshire Banking Department, Rhode Island Department of Business Regulation, and Vermont Department of Financial Regulation collectively formed the New England Regional Mortgage Committee and will be initiating coordinated examinations of mortgage lenders, mortgage brokers, and mortgage loan servicers in 2015. The regulators will be coordinating joint examinations of licensees that are headquartered in New England and licensed in more than one of the participating states. These coordination efforts are intended to reduce regulatory burden and minimize the imposition of duplicate efforts on regulated entities.

In addition, the Division's mortgage examination unit identified issues with the timely funding of mortgage loans by some lenders and disbursement of the funds by settlement agents during numerous examinations. These findings prompted the Commissioner to issue an *Industry Letter on Funding Mortgage Loans* on July 2, 2014, in order to clarify the requirements for the timely funding and disbursement of mortgage loan proceeds in Massachusetts. The Industry Letter also serves to remind institutions of the importance of internal monitoring and third-party oversight.

**REGULATORY ACTIONS TAKEN BY THE DIVISION  
AGAINST BROKERS AND LENDERS**



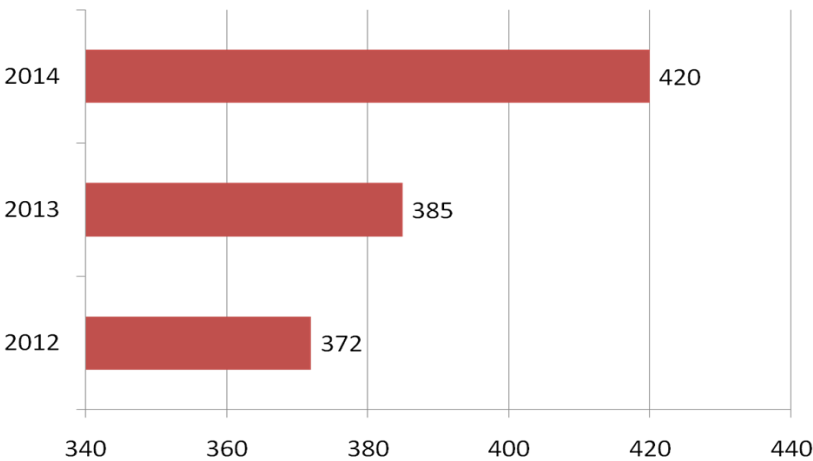
The mortgage supervision unit also issued an alert titled *Important Information on Changes to Massachusetts Reverse Mortgage Counseling Requirements Effective August 1, 2014* to remind approved reverse mortgage lenders in Massachusetts of the requirement for in-person counseling for all reverse mortgage applicants who meet the designation of a "mortgagor" as defined in the Division's regulation 209 CMR 55.00. The requirement for in-person counseling for mortgagors became effective for reverse mortgage counseling sessions conducted on or after August 1.

## NMLS and Mortgage Licensing

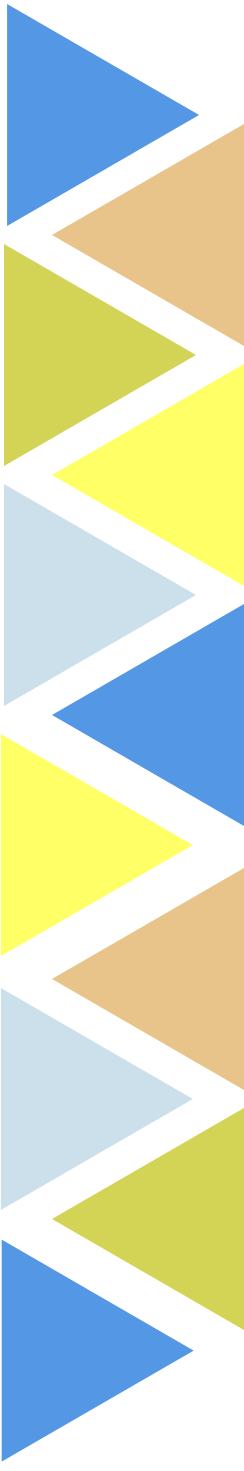
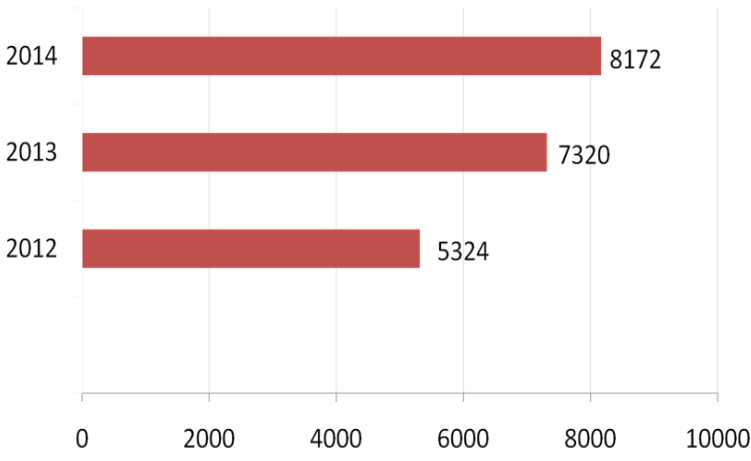
During 2014, the Division's Mortgaging Licensing Unit continued to see a heavy volume of individuals applying to be licensed as mortgage loan originators (MLO). The unit received 2,490 MLO applications, which was a decrease of 451 over 2013. Of those 2,490 applications, 2,433 were approved for a new license. As of December 31, 2014, there are 8,172 individuals licensed as MLOs which is an increase of 11% from 2013 and a nearly 54% increase since December 31, 2012.

The Division approved 24 new mortgage companies, which resulted in a total of 528 mortgage brokers and lenders licensed to do business in 2014. As of December 31, 2014, there were 311 mortgage brokers, 217 mortgage lenders, 108 companies holding both a mortgage broker and a mortgage lender license, and 82 mortgage servicers. This is an 8% increase in mortgage companies in 2014 and a nearly 12% increase since December 31, 2012.

**Approved Mortgage Licensees by Year End**



**Approved Mortgage Loan Originators**



## CRA for Mortgage Lenders

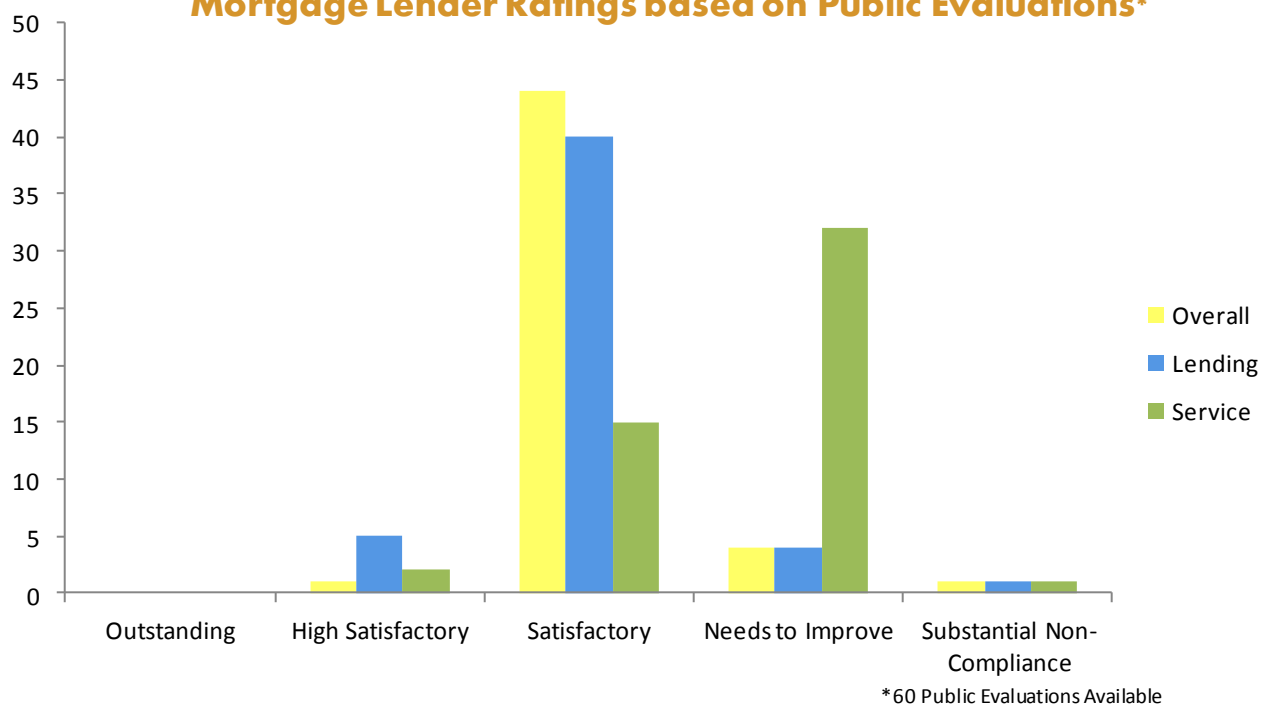
Provisions similar to the Massachusetts Community Reinvestment Act (CRA) were extended to certain mortgage lenders as part of Chapter 206 of the Acts of 2007, which require an additional evaluation in the examination of mortgage lenders that have made 50 or more home mortgage loans in the previous year 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 as of December 2014, of which 8 became eligible for an examination for the first time during 2014. The number of lenders eligible for CRA has remained the same from 2013 to 2014.

Through December 31, 2014, the Division has issued a total of 75 examinations; 10 were issued during the 2014 calendar year. Additionally, 60 Public Evaluations are posted on the Division's website. In total 30 consent orders have been issued for HMDA violations since 2009.

As a result of the examinations, the Division issued one public Consent Order for HMDA violations in 2014.

### Mortgage Lender Ratings based on Public Evaluations\*





## Foreclosure Relief

Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded over \$8 million to nonprofits with a focus on consumer counseling services. In 2014, 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. Collectively, grantees have helped over 5,200 homeowners in the Commonwealth.

## Consumer Outreach Activities

In June, in conjunction with the CFPB, MassHousing, and Citizens' Housing and Planning Association of the Department of Housing and Community Development, the Division conducted a workshop for housing counselors on the new CFPB Servicing regulations and the interplay with Massachusetts' Mortgage Servicing Regulations.

The Division celebrated Housing Week in June by presenting grant award checks across the Commonwealth to community organizations running first-time homeownership programs.

In February 2014, the America Saves Campaign was launched with a joint letter from Commissioner Cotney, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation to encourage state-chartered banks and credit unions to participate in and raise awareness about financial education and savings.



The Division further promoted America Saves Week by collaborating with various organizations and financial institutions. In February, staff participated in a Small Business Fair in Chelsea hosted by Metro Credit Union and in April Division representatives participated in the Credit 4 Reality Fair in Leominster, Massachusetts. The event was a great success with over 1,000 students in attendance.



## Consumer Finance/Money Services Businesses Activities



The CF/MSB unit conducted three joint and two concurrent examinations with Money Transmitters Regulatory Association (MTRA) members. The CF/MSB Unit conducted five concurrent examinations with the CFPB, including three conducted jointly with North American Collection Agency Regulatory Association (NACARA) members. The CF/MSB Unit also conducted one joint examination with NACARA members only.

During 2014, the Division and CSBS worked to improve regulations and consumer awareness of emerging payment systems, including virtual currency through press releases, public hearings and surveys.

On June 23, 2014, the Division's policy regarding the use of multiple trade names was amended. Entities licensed through NMLS are now permitted to use more than one DBA or trade name under certain parameters.

The 2014 MTRA Annual Conference was held at the Boston Park Plaza hotel from November 3 through 6.

On December 23, the Division issued a Consumer Advisory on Payday Lending alerting consumers to the predatory nature of these loan products, informing them of the consumer protections available to them in Massachusetts, and advertising them of alternatives to such costly short term loans.

## 2014 Major Corporate Transactions

There were 16 major corporate transactions consummated in 2014:

- ◆ Eight transactions involved mergers.
  - ◆ Four of the mergers resulted in the reduction of two co-operative banks and two credit unions.
  - ◆ One of the mergers involved a federally-chartered credit union merging with and into a state-chartered credit union.
  - ◆ Two of the mergers involved out-of-state banks merging with and into state-chartered banks.
  - ◆ One of the mergers involved a federally-chartered national bank merging with and into a state-chartered bank.
- ◆ Two of the corporate transactions included the reorganization into mutual holding companies of two state-chartered co-operative banks:
  - ◆ The last mutual holding company reorganization was the 68<sup>th</sup> such reorganization of a state-chartered mutual bank since the law's passage in 1987.
- ◆ The remaining six major corporate transaction included two charter conversions and four conversions from mutual to stock form:
  - ◆ A trust company converted to a limited purpose trust company.
  - ◆ A savings bank converted into a trust company by operation of law.
  - ◆ A mutual cooperative bank converted to a stock cooperative bank.
  - ◆ Two savings banks' mutual holding companies converted to stock holding companies.
  - ◆ A co-operative banks mutual holding company converted to a stock holding company.

The Board of Bank Incorporation (Board) held three hearings during the year. In addition to the transactions involving Massachusetts state-chartered banks which required Board approval that are listed on the following pages, one other acquisition of a bank holding company located in West Springfield, Massachusetts by a Connecticut-based bank holding company was approved by the Board and is listed below:

Rockville Financial, Inc., Rockville, Connecticut acquired United Financial Bancorp, Inc., West Springfield, Massachusetts on April 30, 2014. Rockville Financial, Inc. was the holding company for Rockville Bank, a Connecticut-based bank and United Financial Bancorp, Inc. was the holding company for United Bank, a federally-chartered savings bank.

## Bank Transactions

In 2014, there were five merger transactions, three of which reduced the number of state-chartered banks. At year end, there were 59 savings banks, 50 co-operative banks, 17 trust companies, and 1 limited purpose trust company. Following is the list of the major bank corporate transactions that were consummated in 2014.

### Mutual Holding Company Reorganizations

Equitable Co-operative Bank reorganized into a mutual holding company, Equitable Bancorp, MHC with a mid-tier holding company Equitable Bancorp, Inc. on January 16, 2014.

Hometown Bank, A Co-operative Bank reorganized into a mutual holding company, Hometown Community Bancorp, Inc. with a mid-tier holding company Hometown Community Bancorp, Inc. on March 7, 2014.

### Mergers

FamilyFirst Bank merged with and into North Brookfield Savings Bank on June 1, 2014

Berkshire Bank Municipal Bank, New York, a New York-chartered limited purpose commercial bank and wholly-owned subsidiary of Berkshire Bank, merged with and into Berkshire Bank on June 30, 2014.

Institution for Savings in the Town of Newburyport and its Vicinity acquired the assets and assumed the liabilities of Rockport National Bank through a multi-step merger transaction on August 29, 2014.

Saugusbank, A Co-operative Bank merged with and into North Shore Bank, A Co-operative Bank on September 1, 2014.

Centrix Bank & Trust, New Hampshire merged with and into Eastern Bank on October 24, 2014.

## Bank Transactions (Continued)

### Conversion to Limited Purpose Trust Company

Fidelity Management Trust Company converted to a limited purpose company charter on January 9, 2014.

### Conversion to Trust Company

Berkshire Bank converted into a trust company by operation of law on July 11, 2014.

### Mutual Bank conversion to Stock Bank

Melrose Co-operative Bank converted to a stock bank on November 21, 2014.

### Mutual Holding Companies that converted to Stock Holding Companies

Hyde Park Bancorp, MHC, the mutual holding company for Blue Hills Bank, converted to a stock holding company operating under the name Blue Hills Bancorp, Inc. on July 21, 2014.

Meridian Financial Services, Incorporated, the mutual holding company for East Boston Savings Bank, converted to a stock holding company operated under the name Meridian Bancorp, Inc. on July 28, 2014.

Conahassett Bancshares, MHC, the mutual holding company for Pilgrim Bank, converted to a stock holding company operating under the name Pilgrim Bancshares, Inc. on October 10, 2014.

### Name Changes

Beverly Co-operative Bank changed its name to Beverly Bank.



## Credit Union Transactions

In 2014, the number of credit unions was reduced by two due to the merging of one credit union with and into another state-chartered credit union, and one credit union merging with and into a federally-chartered credit union. One other merger transaction involved the merger of a federally-chartered credit union with and into a state-chartered credit union. At year end there were 76 state-chartered credit unions.

### Mergers

Newton Municipal Credit Union, Newton merged with and into Metro Credit Union, Chelsea on March 1, 2014.

Lawrence Postal Employees Credit Union, Lawrence merged with and into Merrimac Valley Federal Credit Union, Lawrence on July 1, 2014.

SJB Federal Credit Union, Fall River merged with and into Southern Mass Credit Union, Fairhaven on July 1, 2014.

### Name Changes

Cambridge Portuguese Credit Union changed its name to Naveo Credit Union.



## Legislation & Regulations

### Chapter 177 of the Acts of 2014: An Act Further Regulating Flood Insurance

Chapter 177 of the Acts of 2014 was signed into law on July 23, 2014 and took effect on November 20, 2014. Chapter 177 prohibits a creditor or creditor's representative from requiring Massachusetts homeowners living in a flood zone to purchase flood insurance on the residential property that: (a) is at a coverage amount exceeding the outstanding principal mortgage balance at the beginning of the year in which the flood insurance policy is in effect; (b) includes coverage for contents; or (c) includes a deductible of less than \$5,000. The new law also requires that creditors, creditors' representatives, and insurance producers provide a notice to the borrower at the time the requirement to obtain flood insurance is communicated. The notice informs the borrower of the limitation on required coverage and, should the borrower decide not to maintain a higher coverage amount, the risks associated with not fully insuring against a potential flood loss. SECTION 2 of Chapter 177 requires the Commissioner of Banks to promulgate regulations to implement Section 69. The Act became effective on November 20, 2014.

### Chapter 466 of the Acts of 2014: An Act Relative to Credit Union Branching

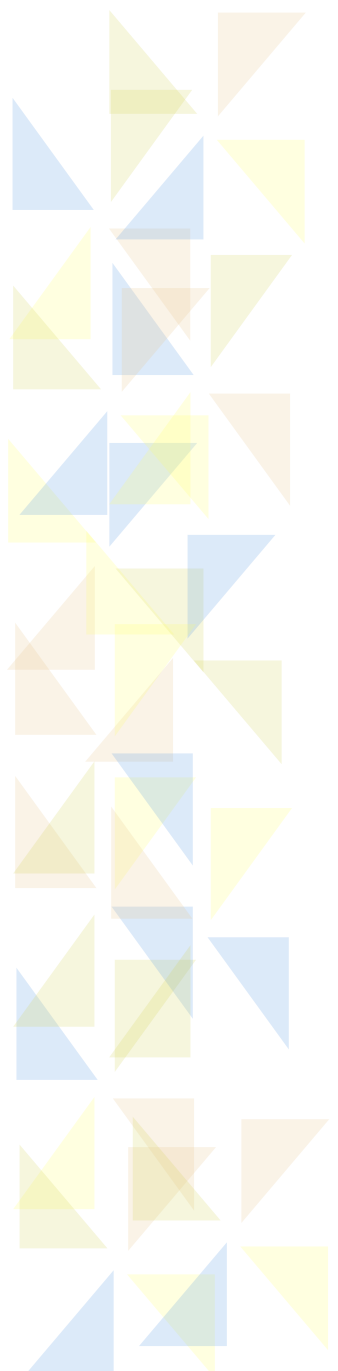
Chapter 466 of the Acts of 2014 authorizes state-chartered credit unions, subject to applicable limitations, to branch up to 100 miles from their main office, including establishing branch offices in the other New England states and New York. The Commissioner of Banks is required to promulgate rules and regulations relative to interstate branching for credit unions, including procedures for accepting applications, no later than July 1, 2015. The Commissioner's authority to promulgate rules and regulations was made effective immediately. The remainder of the Act becomes effective on October 1, 2015.



## Legislation & Regulations

### Chapter 343 of the Acts of 2014: An Act Relative to the List of Legal Investments Prepared by the Commissioner of Banks

Chapter 343 is a comprehensive rewrite and expansion of the statutory authority for the List of Legal Investments, referred to as the Legal List. The Act updates existing authority for cities and towns governing their authority to deposit certain monies in financial institutions to reflect interstate banking and updates references to federally chartered banks into which deposits can be made. This authority now includes federally chartered banks and banks chartered by other states having a main office or branch office in Massachusetts as eligible depositories provided the institution is insured by the Federal Deposit Insurance Corporation (FDIC). Chapter 343 maintains the requirements for the Division of Banks to annually prepare the Legal List; eliminates references back to the laws of the Legal List as they existed on June 30, 1983; restores the General Laws' existing Legal List categories, providing greater flexibility in defining investment authorities while eliminating antiquated calculations of eligibility criteria; and expands the authority to invest in obligations of public instrumentalities. The Act also streamlines the process to petition to add investments to the Legal List. Chapter 343 also expands the investment authority of state-chartered credit unions to include so-called "Prudent Person" authority to invest in shares of stock registered on a national securities exchange. "Prudent Person" authority would be authorized subject to the approval of the Commissioner





## Legislation & Regulations

### Chapter 482 of the Acts of 2014: An Act Modernizing the Banking Laws and Enhancing the Competitiveness of State-Chartered Banks.

Chapter 482 of the Acts of 2014 is a comprehensive modernization of the Commonwealth's banking laws, which was signed into law on January 7, 2015. Sponsored by the banking industry trade association, Chapter 482 modernizes the banking laws of the Commonwealth for the express purpose of reducing the regulatory burden on state-chartered banks and to enhance their competitiveness in relation to federally-chartered financial institutions. Some of the key components of the Act include the following:

- ◆ Authorizes the establishment of a tiered regulatory structure for the supervision and examination of state-chartered banks;
- ◆ Introduces enhanced authorities for Massachusetts banks, with advance notice to the Commissioner of Banks, to engage in activities or invest in products or services which are related to or incidental to banking, are not prohibited by law, and do not present a substantial safety and soundness risk to the bank;
- ◆ Aligns certain Massachusetts compliance requirements with comparable federal requirements in some areas while retaining certain provisions under the Massachusetts law that are deemed more protective to consumers; and
- ◆ Introduces two new chapters into the General Laws to consolidate authorities for corporate bank transactions and to streamline and modernize the corporate governance provisions for Massachusetts banks.

The Act lessens the regulatory burden on state-chartered banks by authorizing certain banking activities by notice to the Commissioner rather than by prior approval and includes many other technical amendments and eliminations of outdated requirements. The Act became effective on April 7, 2015.

### 209 CMR 43.00: Audit Requirements for Credit Unions

The Division amended 209 CMR 43.00: *Audit Requirements for Credit Unions* for clarification, setting forth the Auditing Committee's responsibilities and removing the requirement for the Auditing Committee to notify the Commissioner of Banks of their selected accountant. The amendments also raised the minimum threshold for requiring an annual audit from \$30 million to \$50 million in assets, and made other changes. The amendments became effective on July 18, 2014.

### 209 CMR 48.00: Licensee Record Keeping

The Division amended 209 CMR 48.00: *Licensee Record Keeping* to modernize the regulation that addresses electronic records and to include requirements that the licensees update and maintain books and records information in the Nationwide Multi-State Licensing System. In addition, the amendments to this regulation apply to third party loan servicers, foreign transmittal agencies, check cashers, and check sellers, so that these licensees and registrants of the Division are now covered by the regulation. The amendments became effective on June 6, 2014.



## Legislation & Regulations

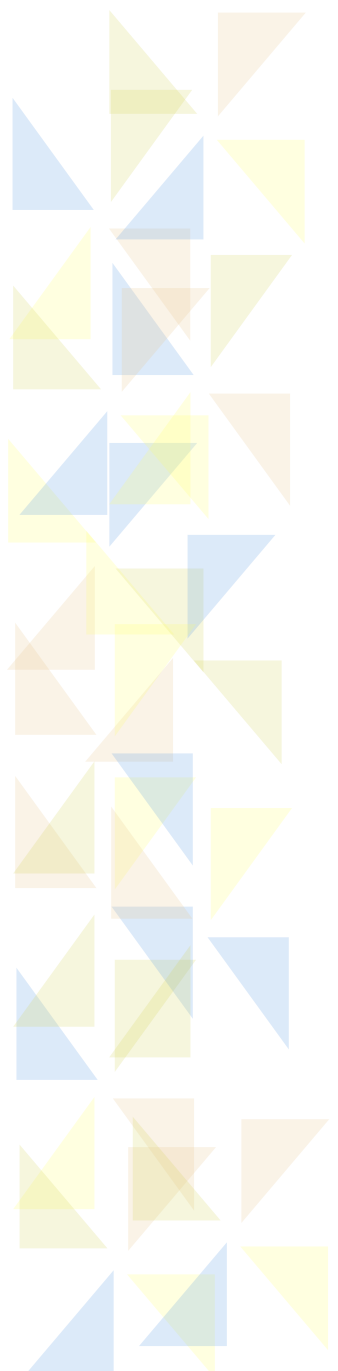
### 209 CMR 32.00: Truth in Lending

The Division amended 209 CMR 32.00: *Disclosure of Consumer Costs and Terms*, which promotes the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation also gives consumers the right to cancel certain transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. The regulation is applicable to state-chartered banks, credit unions, licensees and other creditors.

The amendments streamlined the regulation for easier compliance by providing that compliance with comparable provisions of the regulations of the federal Consumer Financial Protection Bureau (CFPB) constitutes compliance with the cited provisions of 209 CMR 32.00. The purpose of the amendments is to amend the Massachusetts regulation in a way to incorporate future changes to the federal Truth in Lending regulations while preserving the Massachusetts differences deemed more advantageous to consumers. In addition, the title of the regulation was amended to "Truth in Lending" to correspond with the title of the federal regulation. The amendments became effective on January 2, 2015.

### 209 CMR 53.00: Documentation and Determination of Borrower's Interest

The Division amended 209 CMR 53.00: *Documentation and Determination of Borrower's Interest* to establish an additional "safe harbor" for any home loan that meets the definition of a "Qualified Mortgage" under the regulations of the CFPB. The CFPB's Qualified Mortgage regulations restrict certain loan features, set maximum point and fee limitations, and impose certain underwriting requirements. A Qualified Mortgage would be deemed to be in the borrower's interest under the regulation. The amendments also clarified that the exemption under the Borrower's Interest regulation applies to all Qualified Mortgages which are eligible for safe harbor consideration under the Truth in Lending Act, including the small creditor exemption, provided that the Qualified Mortgage is not higher cost. The amendments became effective on July 18, 2014.



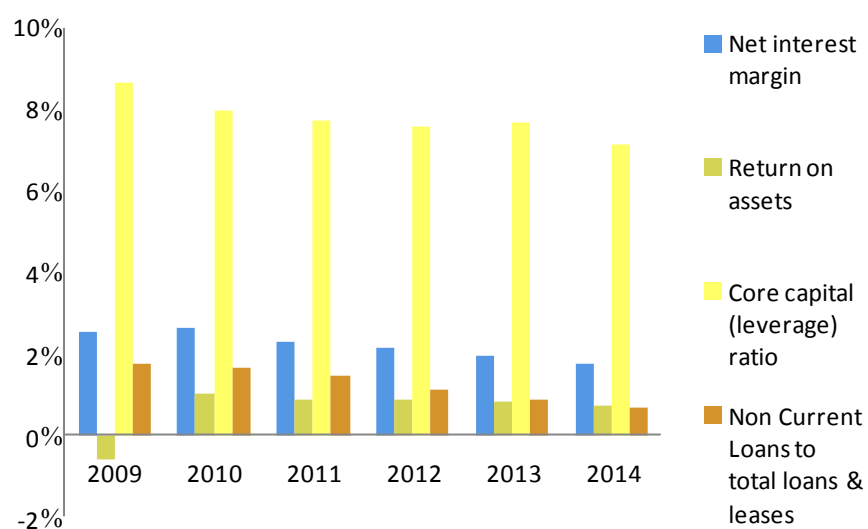
## Banks Summary

Total assets for state-chartered trust companies, co-operative banks, and savings banks increased from year-end 2014 by approximately \$39 billion, or 11%, to \$388 billion. The increase was funded primarily by deposit growth. Deposits rose by \$35 billion, or 9%, from \$275 billion to \$310 billion, even as interest rates continued to hover near record low levels. Total loans increased 15% to \$104 billion, yet the percentage of non-current loans and leases to total loans and leases declined as the institutions continued to diligently resolve problem credits. Other real estate owned also declined and is nominal at \$122 million. Total equity capital rose 3%, to almost \$33 billion, even as the institutions experienced a modest decline in earnings.

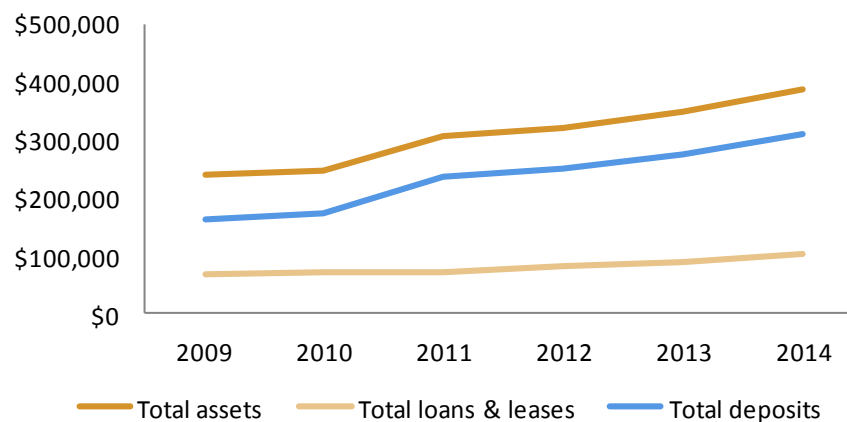
Net income decreased to \$2.59 billion for the 12 months ending December 31, 2014, from \$2.64 billion the previous year, as the prolonged low interest rate environment continued to place downward pressure on net interest income. These figures include income from State Street Bank and Trust, the largest state-chartered institution, of \$1.90 billion in 2014 and \$1.93 billion in 2013. Net interest margins continued to be impacted by the economy as they fell from 1.95% to 1.76% over the period. Loan loss provisions have been trending downward since 2010 but increased from \$86 million in 2013 to \$103 million in 2014. Lastly, securities gains were \$7 million lower in 2014 than in 2013, but at \$89 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	2013	2014	%
	<i>\$ in 000's</i>	<i>\$ in 000's</i>	Change
<b>Assets and Liabilities</b>			
Cash and due from depository institutions	\$ 72,060,168	\$ 99,427,256	38%
Interest-Bearing Balances	\$ 67,890,431	\$ 96,830,151	43%
Securities	\$ 137,016,969	\$ 132,455,574	-3%
Federal Funds Sold & Reverse Repurchase Agreements	\$ 6,483,800	\$ 2,614,781	-60%
Net Loans & Leases	\$ 90,715,517	\$ 104,130,605	15%
Loan Loss Allowance	\$ 874,348	\$ 910,780	4%
Trading Account Assets	\$ 5,849,825	\$ 8,246,190	41%
Bank Premises and Fixed Assets	\$ 2,258,662	\$ 2,298,922	2%
Other Real Estate Owned	\$ 147,101	\$ 122,414	-17%
Goodwill and Other Intangibles	\$ 8,909,265	\$ 8,540,183	-4%
All Other Assets	\$ 25,557,971	\$ 30,305,968	19%
<b>Total Assets</b>	<b>\$ 349,006,847</b>	<b>\$ 388,134,324</b>	11%
Total Deposits	\$ 274,856,241	\$ 309,553,362	13%
Interest-Bearing Deposits	\$ 194,816,562	\$ 222,694,257	14%
Deposits Held in Domestic Offices	\$ 170,263,460	\$ 200,734,344	18%
Federal Funds Purchased & Repurchase Agreements	\$ 9,269,378	\$ 10,227,881	10%
Trading Liabilities	\$ 6,045,994	\$ 6,105,428	1%
Other Borrowed Funds	\$ 11,335,806	\$ 12,286,820	8%
Subordinated Debt	\$ 2,603,750	\$ 2,642,317	1%
All Other Liabilities	\$ 13,136,472	\$ 14,447,429	10%
<b>Total Liabilities</b>	<b>\$ 317,240,065</b>	<b>\$ 355,270,881</b>	12%
Total Bank Equity Capital	\$ 31,479,972	\$ 32,631,676	4%
Perpetual Preferred Stock	\$ 54,090	\$ 16,360	-70%
Common Stock	\$ 131,696	\$ 143,554	9%
Surplus	\$ 16,956,608	\$ 17,544,943	3%
Undivided Profits	\$ 14,351,965	\$ 14,951,964	4%
Noncontrolling Interests in Consolidated Subsidiaries	\$ 238,179	\$ 239,337	0%
<b>Total Equity Capital</b>	<b>\$ 31,718,151</b>	<b>\$ 32,871,013</b>	4%
<b>Total Liabilities and Capital</b>	<b>\$ 348,958,216</b>	<b>\$ 388,141,894</b>	11%

## Banks | Income Statement

Years ended December 31	\$	2,013 \$ in 000's	\$	2,014 \$ in 000's	% Change
Total Interest Income	\$	6,410,269	\$	6,536,390	2%
Total Interest Expense	\$	865,739	\$	802,838	-7%
<b>Net Interest Income</b>	<b>\$</b>	<b>5,544,528</b>	<b>\$</b>	<b>5,733,593</b>	<b>3%</b>
<b>Provision for Loan and Lease Losses</b>	<b>\$</b>	<b>86,256</b>	<b>\$</b>	<b>104,109</b>	<b>21%</b>
Fiduciary Activities	\$	5,063,619	\$	4,898,119	-3%
Service Charges on Deposit Accounts	\$	178,562	\$	181,683	2%
Trading Account Gains & Fees	\$	591,448	\$	615,568	4%
Additional Noninterest Income	\$	1,903,825	\$	2,373,648	24%
<b>Total Noninterest Income</b>	<b>\$</b>	<b>7,737,453</b>	<b>\$</b>	<b>8,287,192</b>	<b>7%</b>
Salaries and Employee Benefits	\$	5,093,275	\$	5,414,633	6%
Premises and Equipment Expense	\$	1,569,709	\$	1,637,051	4%
Additional Noninterest Expense	\$	3,102,064	\$	3,529,591	14%
<b>Total Noninterest Expense</b>	<b>\$</b>	<b>9,765,048</b>	<b>\$</b>	<b>10,581,275</b>	<b>8%</b>
Pre-Tax Net Operating Income	\$	3,430,678	\$	3,335,360	-3%
Securities Gains (Losses)	\$	96,308	\$	88,903	-8%
Applicable Income Taxes	\$	809,648	\$	730,164	-10%
<b>Income Before Extraordinary Items</b>	<b>\$</b>	<b>2,725,135</b>	<b>\$</b>	<b>2,618,907</b>	<b>-4%</b>
Net Extraordinary Gains	\$	2,082	\$	(2,245)	-208%
<b>Net Income Attributable to Bank and Noncontrolling Interests</b>	<b>\$</b>	<b>2,708,085</b>	<b>\$</b>	<b>2,605,159</b>	<b>-4%</b>
Net Charge-Offs	\$	66	\$	65,324	-1%
Cash Dividends	\$	1,869,697	\$	1,627,132	-13%
Net Sale, Conversion, Retirement of Capital Stock	\$	15,278	\$	128,917	744%
<b>Net Operating Income</b>	<b>\$</b>	<b>2,635,658</b>	<b>\$</b>	<b>2,539,492</b>	<b>-4%</b>
<b>Total Liabilities and Capital</b>	<b>\$</b>	<b>348,958,216</b>	<b>\$</b>	<b>388,141,894</b>	<b>11%</b>



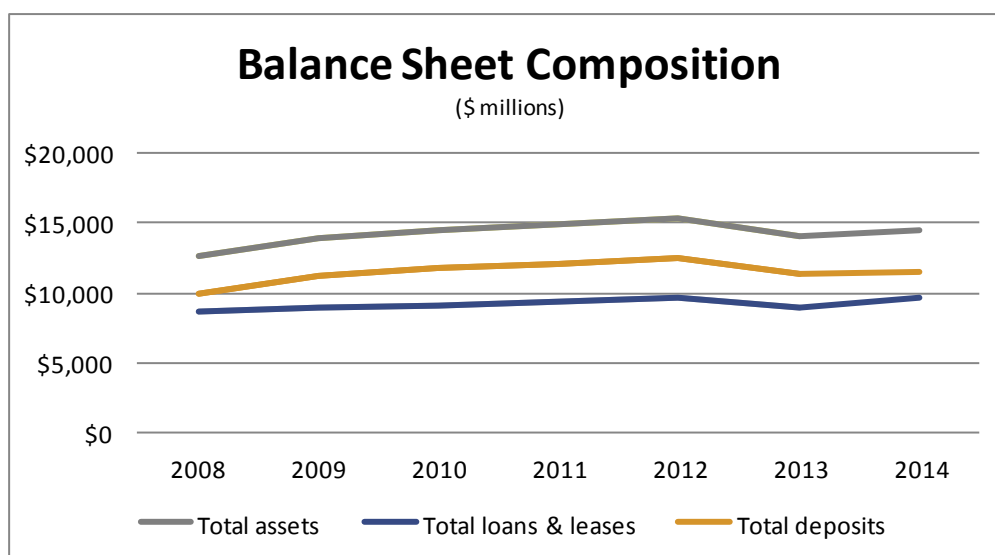
## Credit Unions Summary

In 2014, state-chartered credit unions experienced an increase in total assets, growing 4% or \$504 million. The overall financial condition of the industry appears strong, as both profitability and net worth levels have improved.

Net income from 2013 to 2014 improved by \$11 million, as interest income grew by \$13.6 million. The net interest margin stands at 2.63%, compared to 2.41% at year-end 2013. Total investments declined, but were offset by improved investment yields that generated interest income of \$66 million or 10% more than that of 2013. While investments declined, total loans grew by \$670 million generating income of \$388 million or 2% more than that of 2013. Despite growth in fee income, overall non-interest income continues to trend downward as gains on investments, mortgage sales, and other operating income have declined. Overall, overhead expenses have increased even though there was no NCUA corporate stabilization expense in 2014. Most of these increases stem from increases to salary and benefits expenses, office occupancy expense, office operating expense, and professional and outside services expenses.

Provision expenses have declined, which is indicative of the low level of delinquency.

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	2013 \$ in 000's	2014 \$ in 000's	% Change
<b>Assets</b>			
Cash and Investments	\$ 4,592,593	\$ 4,374,149	-5%
Loans and Leases, Net of Unearned Income	\$ 8,955,856	\$ 9,625,809	7%
Allowance for Loan and Lease Losses	\$ (63,513)	\$ (61,899)	-3%
Net Loans and Leases	\$ 8,892,343	\$ 9,563,910	8%
Land and Building	\$ 178,170	\$ 187,248	5%
Other Fixed Assets	\$ 60,323	\$ 67,810	12%
Other Real Estate Owned	\$ 4,627	\$ 4,307	-7%
Other Assets	\$ 278,695	\$ 313,203	12%
<b>Total Assets</b>	<b>\$ 14,006,751</b>	<b>\$ 14,510,627</b>	<b>4%</b>
<b>Liabilities</b>			
Total Shares and Deposits	\$ 11,347,059	\$ 11,520,224	2%
Total Borrowings	\$ 973,393	\$ 1,199,090	23%
Accrued Dividends and Interest Payable	\$ 2,373	\$ 398	-83%
Accounts Payable and Other Liabilities	\$ 89,335	\$ 97,662	9%
<b>Total Liabilities</b>	<b>\$ 12,412,160</b>	<b>\$ 12,817,374</b>	<b>3%</b>
<b>Equity</b>			
Regular Reserves	\$ 228,401	\$ 228,443	0%
Appropriation for Non-Conforming investments	\$ 377	\$ 350	-7%
Undivided Earnings	\$ 1,361,424	\$ 1,417,666	4%
Net Unrealized Gain/(Loss) on AFS	\$ (11,596)	\$ (26,282)	-127%
Other Reserves	\$ 15,985	\$ 20,513	22%
<b>Total Equity Capital</b>	<b>\$ 1,594,591</b>	<b>\$ 1,693,253</b>	<b>6%</b>

## Credit Unions | Income Statement

Years ended December 31	\$	2,013	\$	2,014	%
		\$ in 000's		\$ in 000's	Change
Total Interest Income	\$	440,551	\$	454,144	3%
Total Interest Expense	\$	86,860	\$	78,988	-9%
Net Interest Income	\$	<b>353,691</b>	\$	<b>375,156</b>	<b>6%</b>
<b>Provision for Loan and Lease losses</b>	<b>\$</b>	<b>19,079</b>	<b>\$</b>	<b>15,373</b>	<b>-19%</b>
Fee income	\$	64,046	\$	66,822	4%
Other Operating Income	\$	43,422	\$	36,872	-15%
Gain/(Loss) on Investments	\$	8,429	\$	4,807	-43%
Gain/(Loss) on Disposition of Fixed Assets	\$	526	\$	161	-69%
Gain from Bargain Purchase (Merger)	\$	269	\$	1,254	366%
Other Non-Operating Income/(Expense)	\$	459	\$	423	-8%
<b>Total Non-Interest Income</b>	<b>\$</b>	<b>117,151</b>	<b>\$</b>	<b>110,339</b>	<b>-6%</b>
Employee Compensation and Benefits	\$	202,875	\$	209,803	3%
Travel and Conference Expense	\$	4,150	\$	4,566	10%
Office Occupancy Expense	\$	33,569	\$	35,590	6%
Office Operation Expense	\$	70,167	\$	73,559	5%
Education and Promotional Expense	\$	16,059	\$	16,966	6%
Loan Servicing Expense	\$	16,282	\$	16,834	3%
Professional and Outside Services	\$	39,664	\$	42,656	8%
Member Insurance	\$	10,147	\$	851	-92%
Operating Fees	\$	1,900	\$	2,053	8%
Miscellaneous Operating Expenses	\$	9,434	\$	8,622	-9%
<b>Total Non-Interest Expense</b>	<b>\$</b>	<b>404,247</b>	<b>\$</b>	<b>411,500</b>	<b>-2%</b>
<b>Net Income/(Loss)</b>	<b>\$</b>	<b>47,516</b>	<b>\$</b>	<b>58,622</b>	<b>23%</b>

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