Massachusetts Division of Banks

Annual Report 2018

Charles D. Baker, Governor ■ Edward A. Palleschi, Undersecretary ■ Mary L. Gallagher, Commissioner

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

About the Division of Banks

Mission

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

Vision

The vision of the Division 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.

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.

At a Glance

The Division's 146 managers, examiners, and support staff are responsible for the supervision of 174 state-chartered banks and credit unions holding combined assets of approximately $417 billion, as well as two limited purpose trust companies with assets under management totaling $1.5 trillion. The Division is also responsible for the supervision of three excess deposit insurers, and the licensing and supervision of 10,107 individual mortgage loan originators and 3,723 non-bank financial entities, including mortgage brokers and lenders, finance companies, check cashers, money transmitters, debt collectors, and loan servicers. 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.

Letter from the Commissioner

I am pleased to present the 2018 Annual Report of the Massachusetts Division of Banks (Division). Prior to being appointed Commissioner of Banks in May 2019, I served as the Division's Chief Operating Officer since 2015. Throughout the past year, the Division has remained 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 2018, the Division continued efforts to provide consumers and those employed in the financial industry with information to make informed financial decisions and prepare to mitigate anticipated risks. In an effort to enhance our core supervisory functions, we worked in conjunction with federal agency partners to develop and participate in large bank risk management and consumer protection programs for banks exceeding the $10 billion asset threshold. The Division also continued our elder financial abuse prevention and cybersecurity initiatives by participating on various committees and awareness campaigns throughout the year. Following the gas explosions in Merrimack Valley in September, the Division encouraged regulated entities to work with homeowners and borrowers who may have been impacted by these unique circumstances. We hope that these initiatives helped to strengthen Massachusetts financial institutions and prepare consumers for countless financial decision-making processes.

To further these efforts, the Division continued to participate in public education events and community development efforts across the Commonwealth. Many members of our staff spoke at events with financial industry professionals on topics including financial technology, foreclosure prevention, and banking the legal marijuana industry. In addition to industry-focused events, our staff participated in a number of consumer education events and workshops throughout the Commonwealth, the majority of which were first-time homeowner certification classes and credit for life high school financial reality fairs.

In closing, I would like to acknowledge the hard work of the entire team at the Division. As you will see throughout this report, 2018 was an accomplished year. Our objectives for 2019 aim to continue the agency's tradition of excellence.

Sincerely,

Mary L. Gallagher

Mary L. Gallagher
Commissioner of Banks

Accomplishments

2018

65 Formal & informal regulatory orders issued by the Division.

10,107 Licenses issued or renewed by the Division to mortgage companies, mortgage loan originators, money services businesses, debt collectors, loan servicers, and consumer finance companies.

241 Consumer complaints resolved by the Division, resulting in $151,800 in reimbursements secured on behalf of consumers.

517 Foreclosure delay requests received by the Division, of which 219 were granted.

420 Total number of examination reports mailed to depository (149) & non-depository (271) institutions.

458 Total number of completed bank, credit union, licensee, and other approval requests (452) and total number of legal opinions (6) issued.

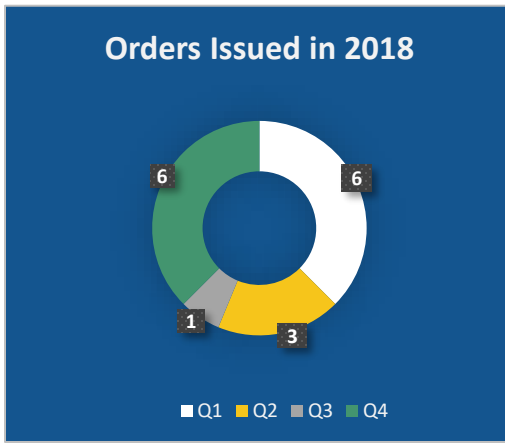
9 Total number of major corporate transactions consummated involving banks & credit unions.

Year in Review

First Quarter 2018

January

- The Division announced a joint settlement on January 3 against PHH Mortgage Corporation for significant deficiencies in mortgage loan servicing. The agreement, reached between the Division, financial regulators of 46 other states and 49 attorneys general, requires corrective actions by PHH which include consumer restitution of $31M, and a penalty of $8.8M to be distributed among the state regulators.
- The Division issued Opinion No. 17-003 regarding the small loan licensing requirement for a licensed motor vehicle sales finance company financing "negative equity" as part of motor vehicle sales finance contract on January 8.
- As part of the Elder Financial Abuse Prevention Initiative, the Division joined the Office of Consumer Affairs and Business Regulation, the Executive Office of Elder Affairs, and the Office of the Middlesex County District Attorney at a forum held on January 17 to educate MA residents on how to identify and prevent elder financial abuse.
- On January 30, the Division submitted written testimony to the Joint Committee on Financial Services regarding bills related to Domestic & Foreign Money Transmission, Uniform Confidentiality & Enforcement Provisions for Certain Licensees, and Licensing & Supervision of Finance Companies.
- The Online Annual Report System (OARS) went live for banks and credit unions to file 2017 annual reports.



February

- Commissioner McGinnis gave the keynote address at the Massachusetts Bankers Association (MBA) CEO & Management Workshop on February 2.
- On February 6, the Division joined six other state regulators in a multi-state agreement to pilot a streamlined, coordinated licensing process for Money Services Businesses.
- The Division and Treasurer's Office of Economic Empowerment announced Financial Literacy Education Innovation Fund grant recipients on February 14. The Division provided nearly $135,000 to fund Credit for Life Fairs at 43 high schools around the Commonwealth.
- The Division issued a decision on February 21 approving the merger of First Commons Bank, N.A., Newton Centre, Massachusetts with and into Brookline Bank, Brookline, Massachusetts.
- In another partnership with the Treasurer's office, the Division announced recipients of the Operation Money Wise: Financial Education Opportunity Grant on February 28. This program supports financial literacy efforts for the Military, Veteran, Family and Survivor Community around the Commonwealth.

March

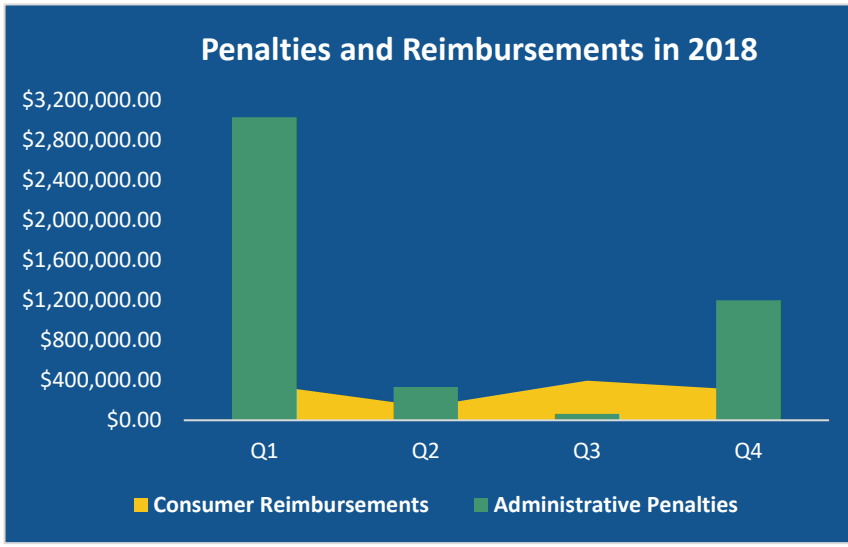
- The Division released the 2017 Chapter 206 Funding Summary highlighting grant activity from the prior year including clients served, delinquency, and outcomes of the counseling/education programs on March 1.
- The Division issued a decision on March 2 approving the merger of Colonial Co-operative Bank, Gardner, Massachusetts with and into Fidelity Co-operative Bank, Fitchburg, Massachusetts.
- The Division issued Opinion No. 18-002 regarding foreign transmittal agency licensing implications for selling cryptocurrency on March 9.
- During the America Saves Week Campaign, representatives from the Division attended the Falmouth High School Credit for Life Fair.
- The Division issued industry guidance on March 27 about banking marijuana-related businesses in Massachusetts.

Year in Review

Second Quarter 2018

April

- The Division announced a Consent Order on April 2 with Ocwen Loan Servicing, LLC requiring numerous corrective actions and a penalty of $1 million.
- The Division announced a $2 million settlement on April 2 for unlicensed loan servicing and lending activities at LendingClub Corporation.
- On April 9 The Supreme Judicial Court upheld prior Division opinions stating that passive debt buyers do not need to be licensed by the Division provided they use a licensed debt collector to conduct the actual debt collection.
- The Division announced $1.5 million in Chapter 206 Grants supporting first-time homeownership education and foreclosure counseling throughout the Commonwealth. Events supporting the announcement were held in Springfield and Worcester and were hosted by the Division, the Office of Consumer Affairs and Business Regulation (OCABR), the Executive Office of Housing and Economic Development, and grant recipients.
- The Division entered into a Consent Order with Quicken Loans, Inc. and One Reverse Mortgage, LLC on April 20 to resolve allegations of deficiencies discovered during an examination resulting in a $250,000 penalty.
- In April, the Division celebrated National Financial Literacy Month by participating in eleven consumer financial literacy events or workshops.



May

- The Division issued a decision on May 31 establishing certain maximum dishonored check fees at Massachusetts state-chartered institutions.

June

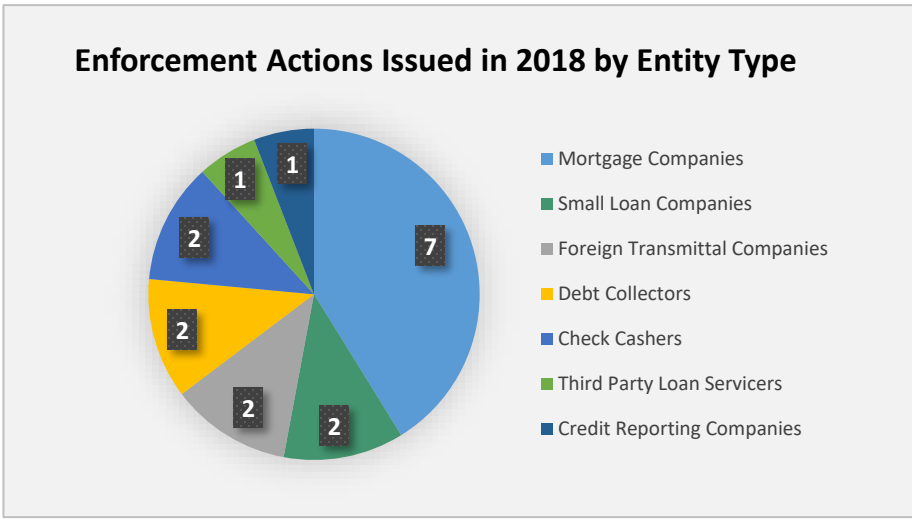
- Pursuant to Chapter 206 of the Acts of 2007, *An Act Protections and Preserving Home* Ownership, the Division published the 2017 Foreclosure Trends Report on June 6.
- The Division issued Opinion No. 18-003 on June 14 regarding business activities involving the purchase, sale, and exchange of virtual currency that require a license from the Division.
- The Division issued a Cease Directive on June 20 to Reyes Check Cashing for unlicensed activity from a second store location.
- On June 21, the Division entered into a Consent Order with Boston Common Mortgage, Inc. for unlicensed activity.
- The Division and state financial regulators from seven states entered into a Consent Order with Equifax, Inc. on June 25 requiring the company to take specific action to protect confidential consumer information in the wake of an extensive security breach in 2017.
- The Division participated in a Cradles to Crayons supply drive with OCABR agencies and organized a greeting card activity benefiting Veterans and elders.

Year in Review

Third Quarter 2018

July

- The Division held a public hearing on July 10 regarding Romero Jimenez Corporation, dba "Olympia Market", to operate as a check casher at 5 Atlantic Avenue, Revere, Massachusetts.
- On July 18, the Division issued a Consent Order against myCUmortgage, LLC for engaging in unlicensed mortgage lending activity.
- The Division provided written testimony on July 23 to both House and Senate Committees on Ways and Means regarding House 4334, An Act Relative the Mortgage Licensing and Exemptions.
- The Division joined the newly established Attorney General's Massachusetts Elder Identity Theft Coalition.



August

- The Division issued Opinion 18-004 on August 6 regarding mortgage brokers preparing and providing certain disclosures required under M.G.L. c. 140D and TRID.
- The Division hosted a school supply drive supporting students impacted by homelessness. Donations were delivered to School on Wheels Massachusetts on August 23.
- The Division issued a decision on August 7 approving the merger of Sage Bank, Lowell, Massachusetts with and into Salem Five Cents Savings Bank, Salem, Massachusetts.

September

- The Division issued Opinion 18-005 on September 4 regarding licensure requirements for the servicing activity of commercial transactions.
- The Board of Bank Incorporation held a public hearing on September 5 regarding the application of New Valley Bank & Trust, Springfield to establish a new bank.
- The Division issued a decision on September 10 approving the merger of Coastway Community Bank, Providence, Rhode Island with and into HarborOne Bank, Brockton, Massachusetts.
- The Division held a public hearing on September 13 concerning proposed amendments to 209 CMR 50.00: Parity with Federal Credit Unions.
- The Division issued an Industry Letter on September 19 regarding exemptions for certain nonprofit entities from mortgage licensing requirements.
- The Division issued an Industry Statement on September 21 regarding the Merrimack Valley gas explosions.
- The Division issued a decision on September 25 approving the conversion of Merrimack Valley Federal Credit Union to a state charter.

Year in Review

Fourth Quarter 2018

October

- In recognition of National Cybersecurity Awareness Month, the Division presented an info series distributing cybersecurity resources weekly to state-chartered banks and credit unions.
- Commissioner McGinnis spoke to credit union executives attending the annual meeting of the Cooperative Credit Union Association (CCUA) at Mohegan Sun in Connecticut on October 11.
- The Division and OCABR issued a consumer advisory on October 16 regarding shared equity.
- On October 19, the Division entered into a Consent Order with Reyes Check Cashing, Inc. for engaging in unlicensed check cashing activity.
- The Division concluded National Cybersecurity Awareness Month on October 30 with CyberCall, an informational teleconference call for the industry including a question and answer.

November

- The Division entered into a Consent Order on November 5 with PBCM of West Virginia, Inc. and Sarely Justice for engaging in unlicensed debt collection activities.
- The Division issued a decision on November 8 relative to the petition to establish New Valley Bank and Trust in Springfield, Massachusetts and issued a Certificate of Public Convenience in conjunction with the decision.
- The Division issued a decision on November 8 relative to the merger of Milford National Bank and Trust Company, Milford, Massachusetts with and into Rockland Trust Company, Rockland, Massachusetts.
- The Division issued a Consent Order on November 19 against Freedom Financial Asset Management, LLC for engaging in unregistered or unlicensed activity.
- The Division entered into a Consent Order on November 20 with MiLend, Inc. for alleged non-compliance with Massachusetts and federal statutes, rules, and regulations.
- The 2019 Chapter 206 Grant Program Request for Proposals (RFP) was posted to the Commonwealth's procurement website on November 21.
- The Division issued a decision on November 26 relative to the merger of The First National Bank of Suffield, Suffield, Connecticut with and into PeoplesBank, Holyoke, Massachusetts.
- Commissioner of Banks Terence McGinnis stepped down on November 30.

December

- The Baker-Polito Administration named Deputy Commissioner & General Counsel Gerrish as Acting Commissioner of Banks on December 3.
- Senior Deputy Commissioner Gibson participated on a panel on December 11 at an MBA FinTech Conference to discuss supervising the activities of FinTech firms.
- The Division entered into a Consent Order on December 11 against NCA Finance Partners I, LLC and New Credit America, LLC for alleged non-compliance with applicable state statutes, rules, and regulations governing the conduct of those engaged in the business of a small loan company in the Commonwealth.
- The Division issued Opinion 18-006 on December 13 about whether certain business activities require a debt collector license.
- The Division received proposals on December 20 in response to the 2019 Chapter 206 Grant RFP.
- The Division entered into a Consent Order on December 28 against Debt Management, Inc. for alleged non-compliance with applicable state statutes, rules, and regulations governing the conduct of those engaged in the business of a debt collector in the Commonwealth.
- The Division joined the City of Boston's Elder Abuse Prevention Working Group.
- The Division published enhanced CRA public evaluation, schedule, and resource webpages on December 28.

Annual Enforcement Report

The Division issued a total of 65 formal and informal regulatory Enforcement Orders which included 17 formal public orders listed below during 2018.

Mortgage Companies	
MLD Mortgage, Inc. dba The Money Store and Mortgage Lending Direct	Consent Order
Home Point Financial Corporation	Consent Order
Ocwen Loan Servicing, LLC	Consent Order
Quicken Loans, Inc. and One Reverse Mortgage, LLC	Consent Order
Boston Common Mortgage, Inc.	Consent Order
myCUmortgage, LLC	Consent Order
MiLend, Inc.	Consent Order
Small Loan Companies	
LendingClub Corporation and Springstone Financial, LLC	Consent Order
NCA Finance Partners I, LLC and New Credit America, LLC	Consent Order
Third Party Loan Servicers	
Freedom Financial Asset Management, LLC	Consent Order
Foreign Transmittal Companies	
Money in a Day, LLC and Supawadee Chauvette, individually	Consent Order
Pearl of Africa Store and Ismael N. Rajab, Individually	Consent Order
Debt Collectors	
PBCM of West Virginia, Inc. and Sarely Justice, Individually	Consent Order
Debt Management, Inc.	Consent Order
Check Cashers	
Reyes Check Cashing, Inc.	Cease Directive
Reyes Check Cashing, Inc.	Consent Order
Credit Reporting Companies	
Equifax, Inc.	Consent Order

Consent Orders Terminated/Resolved

Sun Mortgage Company | MiLend, Inc.

Norwich Commercial Group, Inc. dba Norcom Mortgage and dba Mortgage Force

Enforcement Highlights

- Equifax, one of the country's three major credit reporting agencies, disclosed a major data security breach in late 2017 which impacted the personal information of an estimated 146 million U.S. consumers. In June 2018, state financial regulators from seven states including Massachusetts, announced that they entered into a Consent Order requiring the company to remediate the deficiencies and unsafe practices that contributed to this security breach. The Division issued a joint press release with OCABR.
- Massachusetts, along with twenty-one other state regulators, issued public regulatory orders and charges in April 2017 against Ocwen Loan Servicing for violations of state and federal laws. To resolve these charges, a penalty of $1,000,000 was paid to the Commonwealth, and Ocwen agreed to numerous corrective measures including the transfer of all Massachusetts consumer loans onto a new servicing platform. The Division and OCABR issued a press release announcing the Consent Order requiring corrective action and penalty on April 2, 2018.

Objectives

2019

Supervision and Regulatory Environment

Effectively supervise and examine the Division's regulated entities through a regulatory framework which ensures consumer protection while promoting a competitive industry.

Ensure a sound, competitive, and accessible financial services environment; maintain a robust supervision program to complete our core supervisory function through examination, licensing, consumer complaint review and response; and initiate regulatory actions where appropriate.

Consumer Protection and Outreach

Implement and enforce consumer protection laws and regulations while providing consumers and/or industry with information to make informed financial decisions and be prepared to mitigate anticipated risks.

Continue staff participation in consumer outreach events by collaborating with non-profits, industry groups, and other state agencies to promote financial education throughout the Commonwealth.

Administration Staffing and Development

Update and establish operational policies and procedures to mitigate risk and ensure the Division functions effectively and efficiently.

Ensure efficient staffing by having the right people in the right roles with the right skills to perform their responsibilities and work toward achieving the Division's vision.

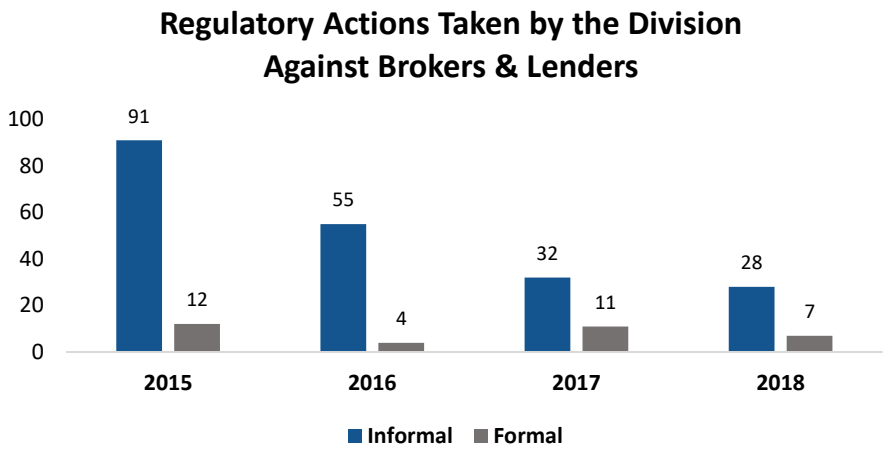
Continue to explore cross-training and collaborations to expand local and agency training opportunities on relevant and emerging topics such as virtual currency and payments systems.

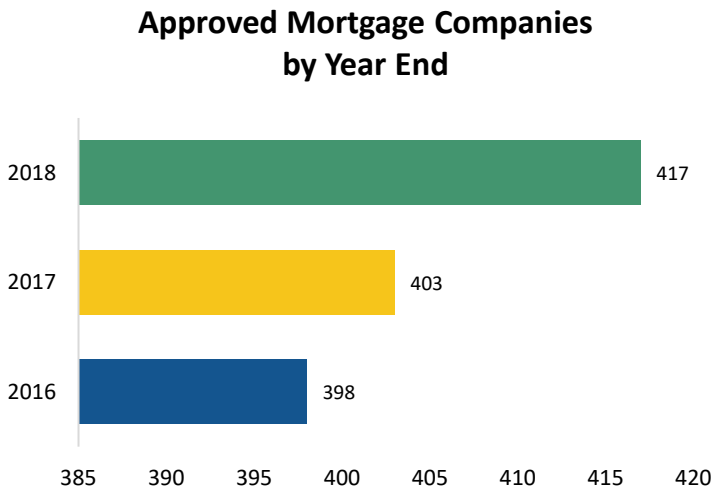
In 2018, the Division improved its mortgage exam reporting by implementing a new exam and risk scoping template in an effort to increase efficiency and effectiveness in the allocation of resources. In addition, the Mortgage Examination Unit (MEU) engaged in extensive Home Mortgage Disclosure Act (HMDA), Equal Credit Opportunity Act (ECOA), Community Reinvestment Act (CRA), and Fair Lending training in preparation for the assumption of the responsibility for conducting CRA for Mortgage Lenders (MLCI) examinations. The MEU is well versed in and regularly takes advantage of the Nationwide Multistate Licensing System and Registry (NMLS), including the analytics and mortgage call reporting functions, resulting in efficient risk scoping during the pre-exam phase of the examination.

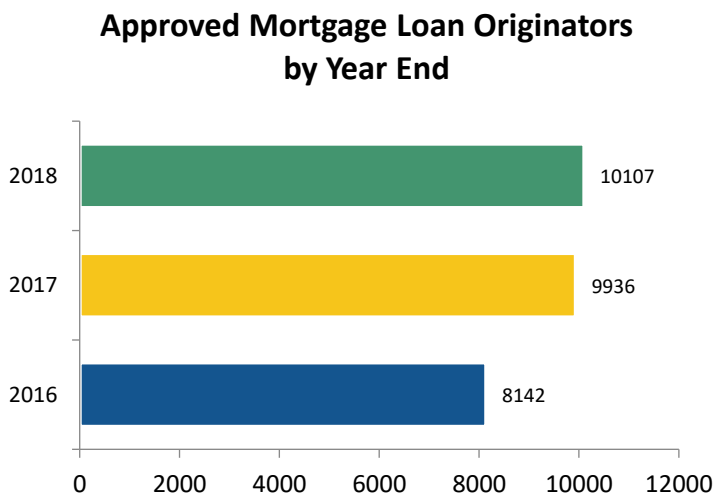
In support of the MEU's overall risk assessment, key risk indicators are regularly evaluated to ensure appropriate strategic, operational, financial, and compliance tolerances. The MEU continues to support and participate in coordinated exams with other states through the Multi-State Mortgage Committee, New England Regional Mortgage Committee, and direct organization for identified mortgage licensees, where applicable.

Mortgage lender and broker license applications continued to increase in 2018, specifically for smaller businesses (proprietors). The licensing unit regularly evaluates the overall state of the Massachusetts housing market, the rise of non-qualified mortgage license applications and other housing finance options.

The figures below include regulatory action and approved licensee information occurring with the MEU during 2018.



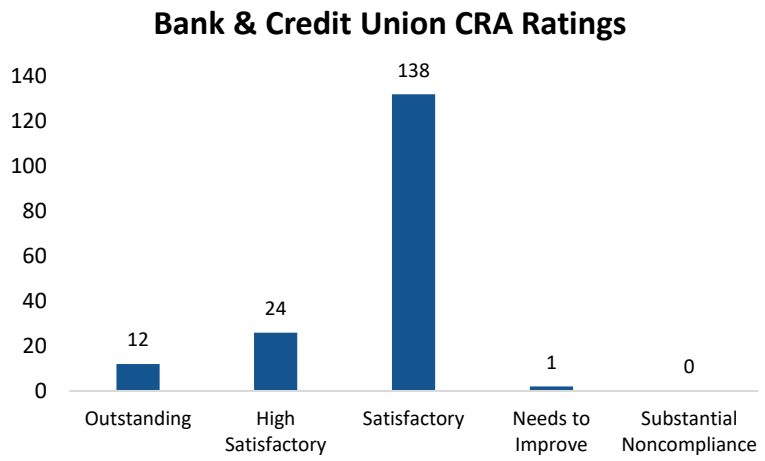




CRA for Banks and Credit Unions

Under the Massachusetts Community Reinvestment Act (CRA), the Division examines state-chartered banks and credit unions to assess the institution's record of meeting the needs of its entire assessment area, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of a CRA examination, the Division prepares a written Public Evaluation which can be obtained on the Division's website or directly through the institution.

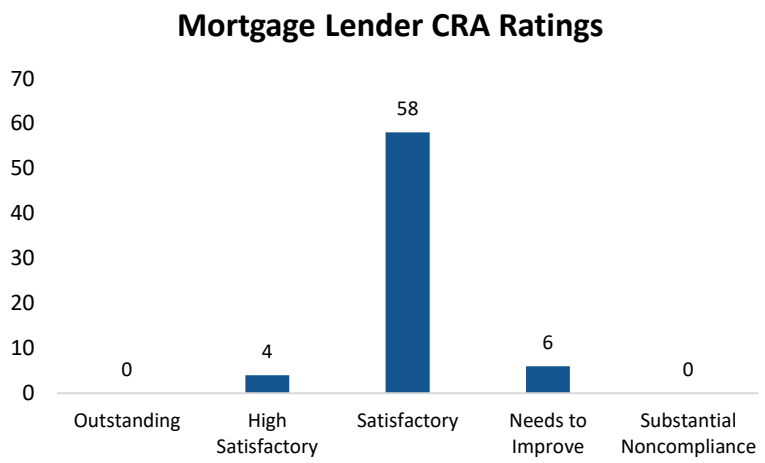
The Division conducted 39 CRA examinations of banks and credit unions during 2018. As of year-end, a total of 175 Public Evaluations of banks and credit unions were posted on the Division's website. The below figure includes a breakdown of posted CRA ratings for examined Massachusetts state-chartered banks and credit unions.



CRA for Mortgage Lenders

CRA requirements are in place for certain mortgage lenders in accordance with M.G.L. c. 255E, § 8. These provisions require a CRA evaluation of mortgage lenders that have originated 50 or more HMDA reportable mortgage loans annually in the previous two calendar years.

The Division conducted 17 CRA examinations of mortgage lenders during 2018. As of year-end, a total of 68 Public Evaluations of mortgage lenders were posted on the Division's website. The below figure includes a breakdown of posted CRA ratings for examined mortgage lenders.



Foreclosure Prevention

Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded over $13 million to nonprofits with a focus on consumer counseling and education services pursuant to Chapter 206 of the Acts of 2007, *An Act Protecting and Preserving Homeownership*. Over 48,000 consumers have been assisted thanks to these grants. Funding is possible through administrative fees associated with the licensure of loan originators according to M.G.L. c. 255F.

In 2018, the Division awarded 21 organizations a total of $1.5 million in Chapter 206 grants. Awarded organizations offer programs including, but not limited to foreclosure prevention counseling services, loan modification assistance, first-time homeownership education, or counseling for non-traditional or high-cost loans such as subprime products. Collectively, grantees helped over 7,400 consumers in the Commonwealth in the 2018 calendar year using Chapter 206 funding.

Consumer Protection and Outreach

The Division's 2018 consumer protection and outreach efforts continued to focus on elder financial abuse prevention and cybersecurity awareness. Both initiatives resulted in volunteer events and speaking engagements for Division employees. To align with these initiatives, the Division is represented on elder abuse prevention coalitions and working groups in the Commonwealth. During National Cybersecurity Month, the Division distributed cybersecurity awareness material weekly and hosted an informational teleconference call for the industry including a question and answer session with leaders from the Division, Commonwealth Fusion Center, and United States Secret Service.

Outreach event participation continued throughout 2018 with Division employees volunteering at events around the Commonwealth. A majority of these events were First-Time Homebuyer Workshops and Credit for Life Fairs at area high schools where Division staff helped to educate students about financial literacy. The Division partnered with organizations and schools to encourage and support their financial education efforts. The infographic below highlights the Division's outreach participation details.

Consumer Finance/Money Service Business Activities

In 2018, the Consumer Finance/Money Services Business (CFMSB) Unit's accomplishments helped promote the Division's mission of ensuring a sound, competitive, and accessible finance services environment throughout the Commonwealth.

The Division's CFMSB Unit participated on seven multi-state examinations in 2018: three examinations were conducted jointly with members of the National Association of Consumer Credit Administrators (NACCA), two joint examinations were conducted with the Money Transmitters Regulatory Association members, and two with the North American Collection Agency Regulatory Association (NACARA). Four of these examinations were conducted concurrently with the Consumer Financial Protection Bureau.

Throughout 2018, the Division issued cease directives against unlicensed foreign transmittal companies, check cashers, lenders, and loan servicers. Unlicensed activity was identified through examinations and the license application process, as well as information provided by other state regulators and anonymous tips. The Division entered into several Consent Orders during 2018 resolving unlicensed activity resulting in over $2 million in fines, penalties, and additional reimbursements to consumers. Almost $600,000 was reimbursed to over 7,000 Massachusetts consumers in 2018 as a result of examinations conducted on licensed finance companies and debt collectors.

The Division maintains membership in committees for the NACCA and NACARA. The CFMSB Unit's Chief Director serves as president of NACARA, and examination staff serve on the NACCA Functional Committee, and the NACARA Regulatory Supervision Committee.

CFMSB Consent Orders

In November, the Division entered into a Consent Order with a license applicant to resolve allegations that false and misleading financial and bank statements were submitted during the application process. This order included a ten year prohibition on licensure.

In December, the Division entered into a Consent Order with a licensed debt collector to resolve allegations of substantial non-compliance with applicable state statutes, rules, and regulations governing the conduct of debt collectors in Massachusetts. In particular, these allegations included falsely threatening consumers with legal action, and rude and abusive behavior by collectors. As part of the agreement, the debt collector surrendered its license, paid an administrative penalty, and agreed to a twelve month prohibition on licensure.

In December, the Division entered into a Consent Order with a licensed small loan company and its parent, a licensed debt collector, to resolve allegations they engaged in unlicensed small loan activity prior to obtaining a license and charged Massachusetts consumers illegally high interest rates. As part of the Consent Order, the companies agreed to surrender their licenses to operate in Massachusetts, They also agreed to pay an administrative penalty and reimburse consumers for all interest and fees charged on these illegal loans.

There were nine major corporate transactions consummated in 2018.

Eight transactions involved mergers:

- Three of the mergers resulted in the reduction of two co-operative banks and one credit union.
- Two of the mergers involved federally-chartered national banks merging with and into state-chartered savings banks.
- One of the mergers involved a Rhode Island state-chartered bank merging with and into a Massachusetts state-chartered co-operative bank.
- One of the mergers involved a federally-chartered national bank merging with and into a state-chartered trust company.
- One of the mergers involved a federally-chartered credit union merging with and into a state-chartered credit union.

A federally-chartered credit union converted to a Massachusetts state-chartered credit union.

Board of Bank Incorporation Approval:

The Board of Bank Incorporation (Board) approved the petition of New Valley Bank & Trust, Springfield to establish a trust company in its Decision dated November 18, 2018 and issued a Certificate of Public Convenience and Advantage (Certificate) in conjunction with that Decision. The issuance of this Certificate is the first phase of a two-step procedure required before the Board prior to commencing banking operations. As of year-end 2018, the capital raising efforts to fund the de novo bank remained in process.

Bank Transactions

In 2018, there were six bank merger transactions, two of which reduced the number of Massachusetts-chartered banks. At year end, there were 52 savings banks, 41 co-operative banks, 14 trust companies, and 2 limited purpose trust companies. Following is the list of the bank merger transactions that were consummated in 2018.

Mergers

- First Commons Bank, N.A., Newton Centre merged with and into Brookline Bank, Brookline effective March 1, 2018.
- Colonial Co-operative Bank, Gardner merged with and into Fidelity Co-operative Bank, Fitchburg effective April 1, 2018.
- Sage Bank, Lowell merged with and into Salem Five Cents Savings Bank, Salem effective August 17, 2018.
- Coastway Community Bank, Providence, Rhode Island merged with and into HarborOne Bank, Brockton effective October 5, 2018.
- The Milford National Bank and Trust Company, Milford merged with and into Rockland Trust Company effective November 16, 2018.
- The First National Bank of Suffield, Suffield, Connecticut merged with and into PeoplesBank, Holyoke effective November 30, 2018.

Name Changes

- Randolph Savings Bank changed its name to Envision Bank effective March 12, 2018.
- Melrose Co-operative Bank changed its name to Melrose Bank effective June 7, 2018.

Credit Union Transactions

The number of Massachusetts-chartered credit unions at year end was 67. A federally-chartered credit union converted to a Massachusetts state charter and a state-chartered credit union merged with and into another state-chartered credit union. A federally-chartered credit union merged with and into a Massachusetts-chartered credit union. Below is the list of credit union transactions consummated in 2018.

Conversion to State-Charter

- Merrimack Valley Federal Credit Union, Lawrence converted to a state-chartered credit union under the name Merrimack Valley Credit Union effective October 1, 2018.

Mergers

- Gorton's of Gloucester Employees Federal Credit Union, Gloucester merged with and into Luso American Credit Union, Peabody effective June 18, 2018.
- Everett Credit Union, Everett merged with and into Members Plus Credit Union, Medford effective October 1, 2018.

Name Changes

- Workers' Credit Union changed its name to Workers Credit Union effective November 2, 2018.

Legislation

Legislation Signed into Law in 2018:

Chapter 228 of the Acts of 2018, *An Act Relative to the Economic Development in the Commonwealth*

- Chapter 228 of the Acts of 2018, An Act Relative to Economic Development in the Commonwealth, (the Act) included the following three provisions relating to the banking and financial services industries under the supervision of the Division:
  - **Certain Trust Company Board Composition Waivers:** SECTION 26 of the Act amends G.L. c. 172, s. 12 to allow for a state-chartered trust company engaged in a global custody business to apply in writing to the Division for a waiver from the requirement that a majority of the directors of a state-chartered trust company must be citizens of Massachusetts and residents therein. The amendments also provide that the Commissioner of Banks may waive or modify this requirement and may take into consideration factors including, but not limited to, the impact on the safety and soundness of the bank, or the current or prospective board composition and their expertise, experience and qualifications.
  - **Licensure of Mortgage Lenders, Mortgage Brokers, and Mortgage Loan Originators:** SECTIONS 49 through 52, inclusive, amend G.L. c. 255E to authorize an application process for a Massachusetts nonprofit to apply to the Division for a determination that the nonprofit qualifies as a "bona fide nonprofit affordable homeownership organization," which would exempt such an entity from the licensure requirements for mortgage lenders and mortgage brokers. The amendments to G.L. c. 255F exempt mortgage loan originators from licensure if they are employed by a bona fide nonprofit affordable homeownership organization. The amendments also codify the Division's interpretation of the term "instrumentality created by the United States or any state," which was already exempt from licensure under the prior statute, and exempt employees of such entities from mortgage loan originator licensing requirements.
  - **Special Commission To Promote Minority-Owned Real Estate and Financial Services Corporations:** SECTION 61 of the Act establishes a Special Commission to promote minority-owned real estate and financial services corporations (Commission), consisting of the Commissioner of Banks or designee, the Director of the Division of Professional Licensure or designee, one representative of the National Association of Real Estate Brokers, and two minority business enterprise owners, as described in G.L. c. 7, s. 58. The Commission is required to develop and implement strategies to promote minority-owned real estate and financial corporations, and to identify barriers for socially or economically disadvantaged persons, particularly with regard to barriers to obtaining mortgage lending or broker licenses, state bank charters, and insurance licenses.

Written Testimony:

The Division provided written testimony to the Joint Committee on Financial Services on January 31, 2018 in support of the following three bills:

- House 2189, *An Act Relative to the Regulation of the Business of Domestic and Foreign Money Transmission by the Division of Banks*;
- House 2190, *An Act Establishing Uniform Confidentiality and Enforcement Provisions Relative to Certain Licensees under the Jurisdiction of the Division of Banks*; and
- House 2191*, An Act Relative to the Licensing and Supervision of Finance Companies by the Division of Banks*.

The Division provided written testimony to the House Committee on Ways and Means and the Senate Committee on Ways and Means on July 23, 2018 in support of the following bill, which was incorporated into St. 2018, c. 228, as described above:

- House 4334, *An Act Relative to Mortgage Licensing and Exemptions*.

Regulations

The Division held a public hearing on September 13, 2018 relative to proposed amendments to the following regulation:

209 CMR 50.00: *Parity with Federal Credit Unions*

- The purpose of 209 CMR 50.00: Parity with Federal Credit Unions is to implement G.L. c. 171, s. 6A, which authorizes the Commissioner of Banks to promulgate regulations to grant state-chartered credit unions certain expanded powers in parity with federally-chartered credit unions. The proposed amendments primarily reorganize and amend the Incidental Powers authorities, and restore them to a single section. There are two new authorities proposed under Incidental Powers. The first new proposed authority would authorize a state-chartered credit union to apply for expedited approval from the Division for certain activities that the federal regulator, the National Credit Union Administration (NCUA), has deemed approved or deemed acceptable in writing to be an Incidental Power, and which is reasonably related to an individual power as set forth in other Incidental Powers authorities in the parity regulation. The second new proposed authority would authorize a state-chartered credit union to apply for approval from the Division for activities that the NCUA has deemed approved or deemed acceptable in writing as Incidental Powers but which are not included in the other Incidental Powers authorities in the parity regulation. In addition, the proposed amendments restructure and streamline procedural requirements throughout the parity regulation by allowing state-chartered credit unions to exercise certain authorities that previously required approval or notice to do so without approval or notice. Several technical amendments are also proposed.

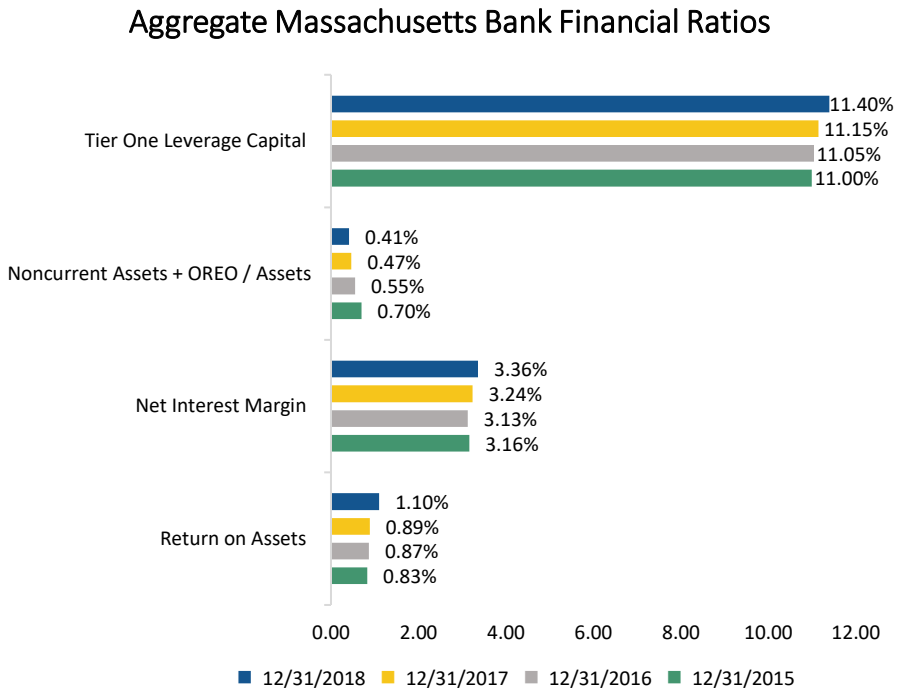
The Division has twenty-one effective regulations:

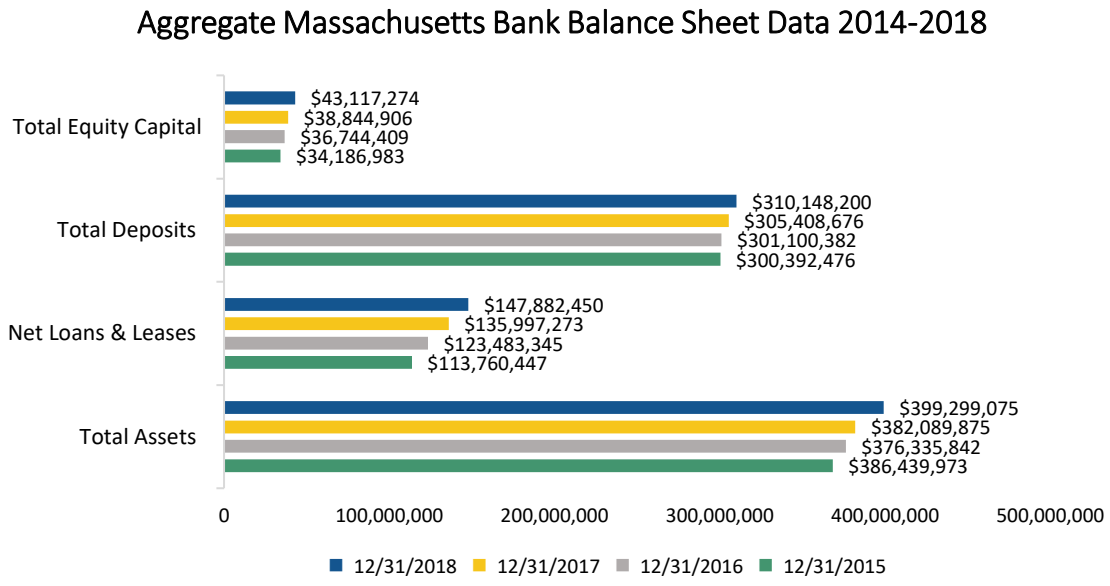
209 CMR 18.00	209 CMR 41.00	209 CMR 50.00
209 CMR 20.00	209 CMR 42.00	209 CMR 53.00
209 CMR 26.00	209 CMR 43.00	209 CMR 54.00
209 CMR 31.00	209 CMR 45.00	209 CMR 55.00
209 CMR 32.00	209 CMR 46.00	209 CMR 56.00
209 CMR 33.00	209 CMR 48.00	209 CMR 57.00
209 CMR 40.00	209 CMR 49.00	209 CMR 58.00

Massachusetts state-chartered banks had a banner year in 2018. Asset growth of approximately 5% resulted in aggregate state-chartered bank assets increasing to $399.30 billion at year-end. Growth was centered in loans which grew by approximately $11.97 billion. Funding for loan growth was done through a combination of security sales, deposit growth, and wholesale borrowings.

From an earnings perspective, the uptick in interest rates over 2018 along with an expansion in lending helped interest income expansion, leading to the average net interest margin to increase by 12 basis points year-over-year, to 3.36%. The Tax Cuts and Jobs Act of 2017 also had a major impact on state-chartered bank profitability, as, on an aggregate level, state-chartered banks paid approximately 33% less in income taxes in 2018, as compared to the prior year. These earnings allowed for net income to grow by approximately 26% or $885.19 million, to an aggregate $4.26 billion at year-end 2018. This resulted in the average ROA for Massachusetts State-chartered banks increasing by 21 basis points, to 1.10% for the year. Robust earnings levels allowed for strong capital growth, with aggregate total equity capital among state-chartered banks increasing by 11% or $4.27 billion, to $43.18 billion. As a result, the average Tier-One Leverage Capital Ratio for state-chartered banks jumped by 25 basis points to 11.40% for the year.

Overall, 2018 was a very successful year for Massachusetts state-chartered banks. Asset quality is strong, with the ratio of non-current assets and other real estate owned to total assets at 0.41%, falling six basis points from 2017. Growing margins resulting from an increasing rate environment, and reduced taxes as a result of legislation helped expand earnings. Capital levels also benefited from this increase in retained earnings. However, deposit competition remains fierce, and a reliance on alternative funding sources is trending upward.





Bank Balance Sheet

Years Ended December 31	2017	2018	% Change
	$ in 000's	$ in 000's	
Cash and balances due from depository institutions	73,263,331	80,654,309	10%
Total securities	118,645,075	108,549,115	-9%
Federal funds sold and reverse repurchase	3,456,528	4,902,751	42%
Gross loans and leases	137,061,859	149,035,604	9%
Loan loss allowance	1,064,586	1,153,154	8%
Net loans and leases	135,997,273	147,882,450	9%
Trading account assets	4,604,889	5,803,116	26%
Bank premises and fixed assets	3,114,586	3,333,112	7%
Other real estate owned	17,741	26,373	49%
Goodwill and other intangibles	8,892,361	11,277,070	27%
All other assets	34,098,091	36,870,779	8%
Total assets	**382,089,875**	**399,299,075**	**5%**
Total deposits	305,408,676	310,148,200	2%
Federal funds purchased and repurchase agreements	3,758,444	2,015,106	-46%
Trading liabilities	5,453,282	4,974,805	-9%
Other borrowed funds	15,402,523	17,398,450	13%
Subordinated debt	1,926,673	969,798	-50%
All other liabilities	11,295,371	20,675,442	83%
Total liabilities	**343,244,969**	**356,181,801**	**4%**
Perpetual preferred stock	14,097	12,133	-14%
Common stock	80,781	80,542	0%
Surplus	19,056,984	20,779,143	9%
Undivided profits	19,676,479	22,221,103	13%
Equity, minor interest in consolidated subs	16,565	24,353	47%
Total equity capital	**38,844,906**	**43,117,274**	**11%**
Total liabilities and equity capital	**382,089,875**	**399,299,075**	**5%**

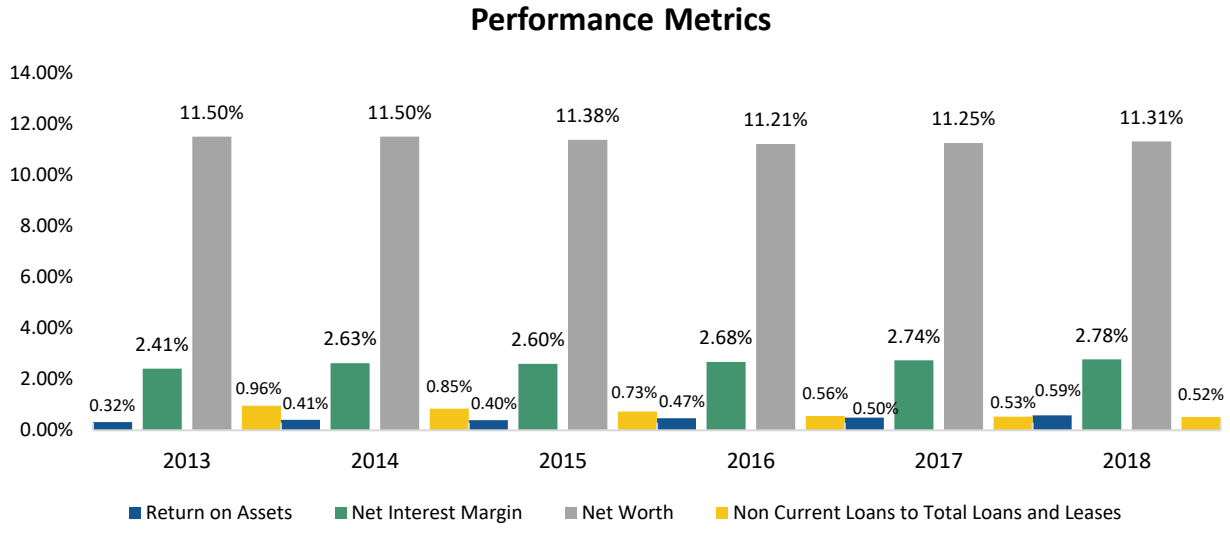
Bank Income Statement

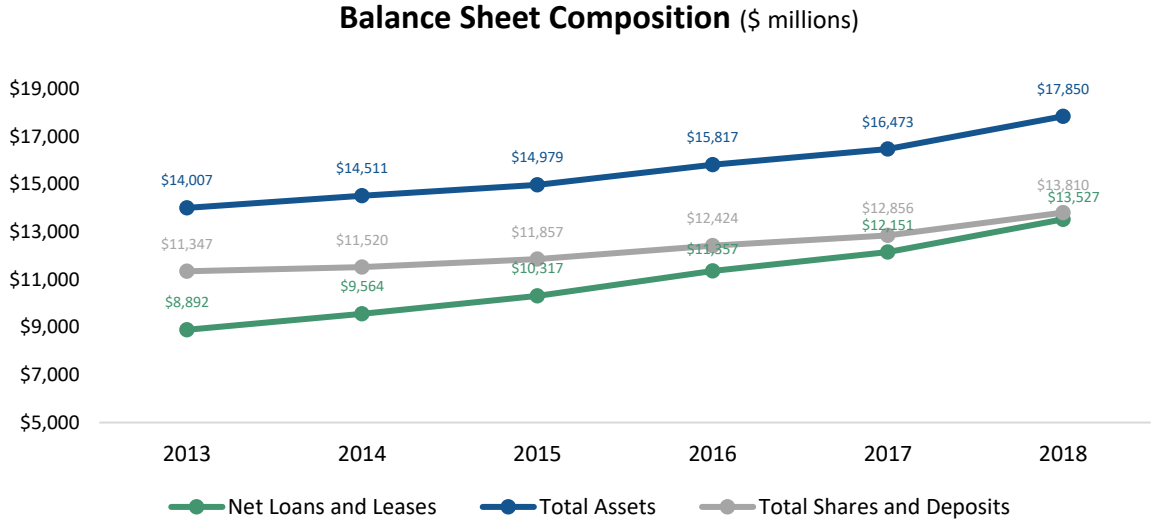
Years Ended December 31	2017	2018	% Change
	$ in 000's	$ in 000's	
Total interest income	7,852,645	9,435,999	20%
Total interest expense	1,126,732	1,830,773	62%
Net interest income	**6,725,913**	**7,605,226**	**13%**
Provision for loan and lease losses	109,565	144,996	32%
Gross fiduciary activities income	5,960,754	6,147,276	3%
Service charges on deposit accounts	178,203	185,511	4%
Trading account gains and fees	679,831	762,238	12%
Additional noninterest income	2,843,622	2,866,363	1%
Total noninterest income	**9,662,410**	**9,961,388**	**3%**
Salaries and employee benefits	6,208,910	6,689,362	8%
Premises and equipment expense	1,891,628	2,049,449	8%
Additional noninterest expense	3,592,754	3,600,515	0%
Total noninterest expense	**11,693,292**	**12,339,326**	6%
Pre-tax net operating income	4,585,466	5,082,292	11%
Securities gains (losses)	116,678	72,773	-38%
Applicable income taxes	1,324,502	892,237	-33%
Income before extraordinary items	**3,377,642**	**4,262,828**	**26%**
Extraordinary gains, net	-	-	-
Net income	**3,377,642**	**4,262,828**	**26%**

In 2018, state-chartered credit unions' assets continued to grow, reaching $17.8 billion. This represents an increase of 8% since 2017. Profitability and loan growth are also sound, leading to a strong overall financial condition of the Massachusetts credit union industry.

Net income from 2017 to 2018 improved by 27%, or $22 million, fueled by steady growth in interest income, a 29% decline in provision expenses, and continued increases in non-interest income. Interest income rose by 13% over 2017 levels, spurred by consistent loan originations and higher investment yields from the rising interest rate environment. The net interest margin stands at 2.78%, compared to 2.74% at year-end 2017. Improvement to the net interest margin was hindered by a higher cost of funds. The Cost of Funds to Average Assets ratio increased from 0.57% in 2017 to 0.73% in 2018, due to the rising interest rate environment coupled with increased borrowing costs. Offsetting the higher cost of funds were well-managed operating expenses as well as lower provision expenses as a result of decreased loan delinquency. As such, steady income sources combined with moderate expenses led to an increase in the Return on Average Assets from 0.50% in 2017 to 0.59% in 2018.

In 2018, the net worth ratio rose to 11.31% from 11.25% in 2017. Gains in income outpaced modest asset growth, which resulted in the increase in the net worth ratio. Credit union net worth continues to be robust and healthy, supporting the overwhelming majority of Massachusetts credit unions that remain financially sound.





Credit Union Balance Sheet

Years Ended December 31	2017	2018	% Change
	$ in 000's	$ in 000's	
Assets			
Cash and investments	3,680,119	3,648,649	-1%
Loans and leases, net of unearned income	12,211,147	13,591,340	11%
Allowance for loan and lease losses	-60,279	-64,748	7%
New loans and leases	12,150,868	13,526,592	11%
Land and building	210,221	213,802	2%
Other fixed assets	49,756	49,335	-1%
Other real estate owned	1,105	805	-27%
Other assets	381,390	411,282	8%
Total assets	**16,473,459**	**17,850,465**	**8%**
Liabilities			
Total shares and deposits	12,855,510	13,809,537	7%
Total borrowings	1,625,159	1,913,798	18%
Accrued dividends and interest payable	741	704	-5%
Accounts payable and other liabilities	145,512	140,327	-4%
Total liabilities	**14,626,922**	**15,864,366**	**8%**
Equity			
Regular reserves	221,881	229,118	3%
Appropriation for non-conforming investments	4	1	-75%
Undivided earnings	1,594,804	1,744,948	9%
Net unrealized gain/(loss) on AFS	-3,281	-28,323	763%
Other reserves	33,129	40,355	22%
Total equity capital	**1,846,537**	**1,986,099**	**8%**
Total liabilities + Equity capital	**16,473,459**	**17,850,465**	**8%**

Credit Union Income Statement

Years Ended December 31	2017	2018	% Change
	$ in 000's	$ in 000's	
Total interest income	534,202	602,313	13%
Total interest expense	91,448	124,733	36%
Net interest income	**442,754**	**477,580**	**8%**
Fee income	74,841	76,970	3%
Other operating income	52,507	67,171	28%
Gain(loss) on investments	1,884	506	-73%
Gain(loss) on disposition of fixed assets	-431	705	-264%
Gain from bargain purchase (merger)	0	136	100%
Other non-operating income/(expense)	1,492	1,794	20%
Total non-interest income	**130,293**	**147,282**	**13%**
Employee compensation and benefits	238,930	259,612	9%
Travel and conference expense	4,885	5,119	5%
Office occupancy expense	41,473	42,418	2%
Office operation expense	82,651	89,194	8%
Education and promotional expense	17,944	19,651	10%
Loan servicing expense	17,230	19,300	12%
Professional and outside services	47,471	51,895	9%
Member insurance	943	1,989	111%
Operating fees	2,031	2,239	10%
Miscellaneous operating expenses	10,690	11,117	4%
Total non-interest expense	**464,248**	**502,534**	**8%**
Provision for loan and lease losses	**28,784**	**20,530**	**-29%**
Net income (loss)	**80,015**	**101,798**	**27%**

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2018

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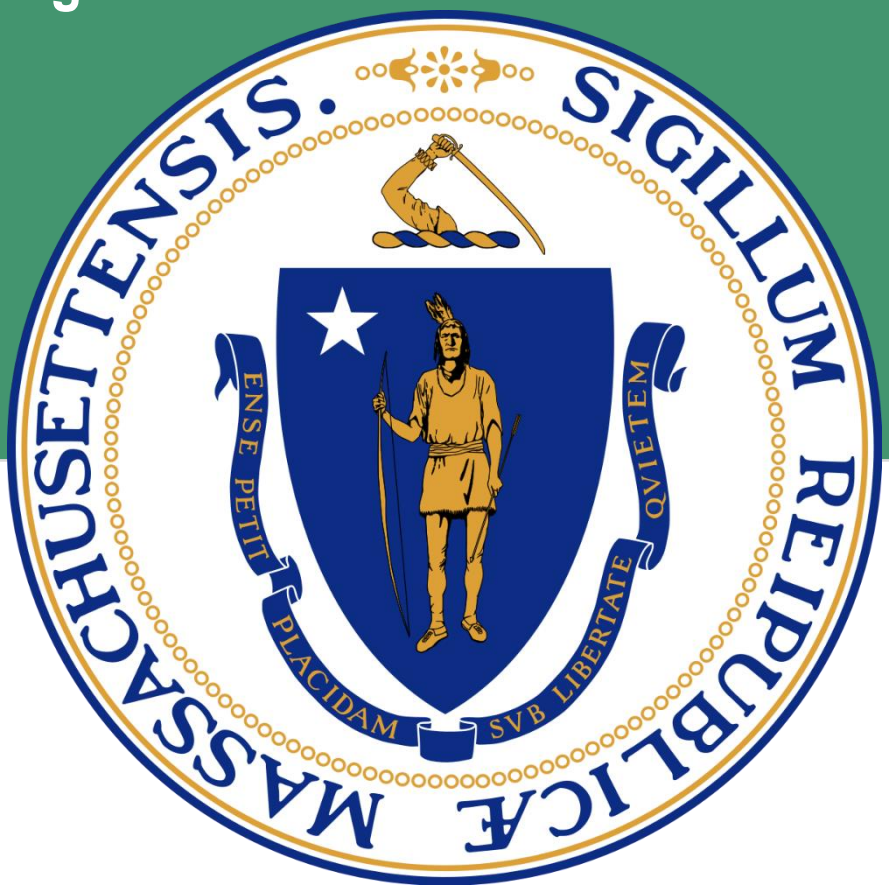

Ensuring a sound, competitive, and accessible financial services environment throughout the Commonwealth.