

# Massachusetts Division of Banks

# Annual Report 2017

Charles D. Baker, Governor  
John C. Chapman, Undersecretary  
Terence A. McGinnis, Commissioner



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# 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.

## At a Glance

The Division's 157 managers, examiners, and support staff are responsible for the supervision of 179 state-chartered banks and credit unions holding combined assets of approximately \$380 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 9,936 individual mortgage loan originators and 4,582 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.

## 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 2017 Annual Report of the Massachusetts Division of Banks (Division). The Division has been a leader in strengthening consumer protection in the financial services industry, while also maintaining a secure and sound state-chartered banking and financial services system.

In 2017, the Division continued efforts to provide consumers and those employed in the financial industry with information to make informed financial decisions and be prepared to mitigate anticipated risks. In an effort to distribute information to Massachusetts consumers and regulated entities, Division staff successfully completed two initiatives in cybersecurity and elder financial abuse prevention. The cybersecurity and elder financial abuse prevention initiatives resulted in updated training materials for the Division's regulated entities and fifteen newly launched webpages with resources for both consumers and the industry. These resources were showcased during events hosted by the Division in partnership with other state agencies including the Executive Office of Elder Affairs and Office of Consumer Affairs and Business Regulation. We hope that these initiatives helped strengthen Massachusetts financial institutions and prepare consumers for countless financial decision making processes.

To further those initiatives, the Division continues to participate in public education events and community development efforts in communities across the Commonwealth. I, along with several of my colleagues, spoke at a number of events with financial industry professionals on topics including financial technology, foreclosure prevention, and regulatory burden. In addition to industry-focused events, our staff participated in many consumer education events and workshops, the majority of which were first-time homeowner certification courses, throughout the Commonwealth.

The Division finalized an ongoing joint undertaking with the Registry of Motor Vehicles and the Division of Professional Licensure to raise awareness and investigate potential predatory lending activity at "Buy Here, Pay Here" auto dealers. The effort, which began last year, resulted in enforcement actions, cease directives, fines and penalties, and more than \$200,000 in consumer reimbursements.

In accordance with the Baker-Polito Administration's effort to modernize the state's digital infrastructure, the Division launched a new website that is better equipped to meet the needs of all online visitors. The new site is easily searchable, more responsive, and modern.

In closing, I would like to acknowledge the hard work of the Division's employees. As you will see throughout the sections of this report, 2017 was an accomplished year for the Division, and objectives for 2018 are intended to continue the agency's tradition of excellence.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald A. The Commissioner". The signature is written in a cursive, slightly stylized font.

# 2017 Accomplishments



**106**

Formal & informal regulatory orders issued by the Division.

**9,936**

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

**260**

Consumer complaints resolved by the Division, resulting in \$104,512 in reimbursements secured on behalf of consumers and a total of \$278,872.69 consumer reimbursements obtained.

**470**

Foreclosure delay requests received by the Division, of which 183 were granted.

**359**

Total number of examination reports mailed to depository (130) & non-depository (229) institutions.

**400**

Total number of completed bank, credit union, licensee, and other approval requests (394) & total number of legal opinions (6) issued.

**12**

Number of total major corporate transactions consummated involving banks & credit unions.

# 2017 Year in Review



## FIRST QUARTER

### January

- The Division went live with the Online Annual Report System on January 3 for the 2016 annual report filing period for banks and credit unions.
- Chapter 453 of the Acts of 2016 – An Act Further Regulating the Reserve Fund for Credit Unions was signed into law on January 13.
- The Division released a Self-Assessment Guide to CRA for Mortgage Lenders on January 29.

### February

- The Division issued an Industry Letter to banks and credit union on the Bank Secrecy Act Self-Assessment Tool developed by the Conference of State Bank Supervisors (CSBS) on February 24.
- The Division launched the Fair Lending & CRA Resources webpage on February 26.
- The Division released the 2016 Chapter 206 Funding Summary on February 27.
- During the America Saves Week Campaign, representatives from the Division promoted savings and financial literacy via First-Time Homebuyer Workshop in Lawrence and a Credit for Life Fair in Falmouth.

### March

- The Division established its IT Cybersecurity Committee.
- The Division established a Senior Financial Abuse and Fraud Prevention working group and formed partnerships with other state agencies.



# 2017 Year in Review



## SECOND QUARTER

### April

- In support of Financial Literacy Month, the Division issued a Consumer Alert on Overdraft Protection and press release on April 6.
- To celebrate Financial Literacy Month, representatives from the Division attended six consumer events throughout the Commonwealth.

### May

- The Division issued Opinion Number 17-001 on the use of professional employer organization services in the mortgage industry on May 10.
- In response to the new federal? Consumer Compliance Rating System, the Division's Consumer Protection & Outreach Unit implemented a new Examination Report Template on May 15.
- The Division issued industry guidance on Cyber-Threats and Attacks for Non-Depository Institutions on May 18.
- The Division issued a Decision establishing certain maximum dishonored check fees at Massachusetts state-chartered institutions on May 24.
- In partnership with the Treasurer's office, the Division announced additional funding to support high school financial literacy Credit for Life Fairs during the 2017-2018 academic school year on May 25.
- The Division announced \$1.05 million in C206 grant awards to fund 20 organizations for first-time homeownership counseling programs and foreclosure prevention education centers throughout the Commonwealth.

### June

- The Division issued an Industry Letter to individuals employed by nonprofit entities regarding the applicability of Mortgage Loan Originator licensing.
- The Division launched three new elder financial abuse web pages on June 15 in conjunction with World Elder Abuse Awareness Day.
- The Division updated the application to convert from a federally-chartered bank to a Massachusetts-chartered bank.
- The Division launched Cybersecurity resource web pages for depository and non-depository financial institutions in the Commonwealth.
- The Division, in partnership with the Texas Department of Banking, other state regulatory agencies, financial institutions, and law enforcement representatives, hosted the Cybersecurity Symposium on June 28.

# 2017 Year in Review

## THIRD QUARTER

### July

- The Division issued the 2016 Foreclosure Trends Report on July 10.
- In conjunction with the Office of Consumer Affairs and Business Regulation, the Division participated in the “Did You Know?” Tour – a series of consumer forums held around the state to engage Massachusetts residents on OCABR related matters.

### August

- In conjunction with the Office of Consumer Affairs & Business Regulation and the Division of Professional Licensure, the Division announced actions taken against illegal motor vehicle finance practices on August 7.
- The Division expanded the South Field Office in Lakeville to include a second conference room and 12 additional workstations.



*Agency heads from the five Office of Consumer Affairs & Business Regulation agencies participating in the “Did You Know?” Tour. Commissioner McGinnis pictured on far right.*

### September

- The Division, in conjunction with the Treasurer’s Office, announced the first round of the academic year Innovation Fund Grant Recipients in support of Credit for Life Fairs on September 12.
- The Division issued an Industry Letter regarding the CECL Readiness Checklist Tool on September 21.
- The Division along with many other state agencies launched its redesigned organization page using the Commonwealth’s new web content management system on September 30.



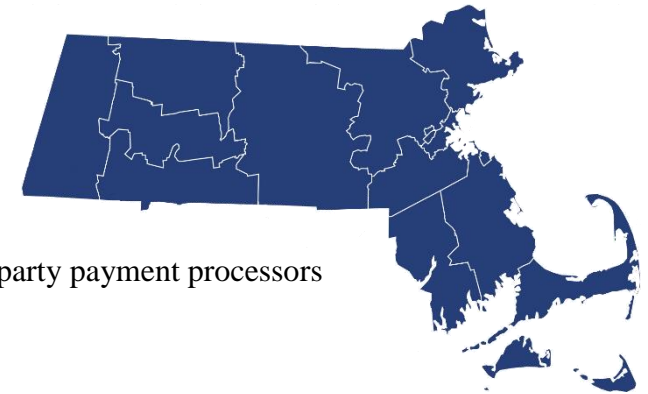
# 2017 Year in Review



## FOURTH QUARTER

### October

- The Division issued Opinion Number 17-005 on whether acquiring a mortgage as a result of a defective foreclosure requires a debt collector license on October 24.
- The Division issued Opinion Number 17-007 on whether the business of selling and buying bitcoin through kiosks requires licensure on October 24.
- The Division issued Opinion Number 17-008 on whether a service fee can be charged by third party payment processors for payments made by credit card for insurance premium payments on October 24.



### November

- In partnership with the State Treasurer's Office, the Division announced expanded eligibility to include multiple schools to apply under a single application for an Innovation Fund Award for joint Credit for Life Fairs on November 1.
- The Division's North Field Office moved from Burlington to Woburn on November 1. The new field office accommodates sufficient staff workstations and two conference rooms.
- On November 6, the Division announced findings of unlicensed loan servicing and debt collecting activities against The Money Source, Inc. This resulted in administrative fines and penalties totaling \$142,000 payable to the Commonwealth.
- In partnership with the State Treasurer's Office, the Division announced Operation Money Wise, a new financial literacy initiative for the military community, on November 8.

### December

- The Division filed an amicus letter for a matter pending before the Massachusetts Supreme Judicial Court regarding passive debt buyers engaged in debt collection.
- The Division, in conjunction with the Executive Office of Elder Affairs and local trade organizations, released an updated version of the "Preventing Elder Financial Exploitation Employee Training Manual for Financial Institutions" to assist Massachusetts banks and credit unions in detecting and preventing elder financial abuse.

# Annual Enforcement Report

The Division issued a total of 106 formal and informal regulatory Enforcement Orders which included the 20 formal public orders listed below during 2017. A complete list of all public order by year can be found on the Division's Enforcement Actions webpage.

Mortgage Companies	
PHH Mortgage	Consent Order & Settlement Agreement
American Advisors Group	Settlement Agreement
SB Accent, LLC & Susie Bee, Individually	Consent Order
Seckel Capital, LLC & John M. Seckel, Individually	Consent Order
American Neighborhood Mortgage Acceptance Co., LLC dba Anniemac Home Mortgage	Consent Order
Rick Palmer Lacoss II	Consent Order
Silva Bros. Investment, Inc.	Consent Order
Ocwen Loan Servicing, LLC	Temporary Cease and Desist Order
Direct Finance Corporation	Final Order & Decision
Motor Vehicle Sales Finance Companies	
American Credit Acceptance	Consent Order
State Road Auto Sales, Inc.	Cease Directive
Westlake Services, LLC dba Westlake Financial Services and Western Funding, Inc.	Consent Order
Cedar Auto Sales, LLC	Consent Order
New City Funding Corporation	Consent Order
Foreign Transmittal Companies	
Money in a Day, LLC & Supawadee Chauvette, Individually	Cease Directive
Pearl of Africa Store & Ismael N. Rajab, Individually	Cease Directive
Debt Collectors	
The Money Source, LLC	Consent Order
Allied Interstate, LLC; Receivable Management Services - Recovery Division, LLC (subsidiaries of Iqor Holding, Inc.)	Consent Order
Check Cashers	
Mayfair Foods, Inc.	Cease Directive
NK Market, Inc. dba Post Road Pantry Convenience	Cease Directive

## Consent Orders Terminated:

New England Regional Mortgage Corp. | National Capital Mortgage | Meetinghouse Bank  
 PayPal, Inc. | Village Mortgage Co. | Custom Financial Mortgage Corp.

# Annual Enforcement Report

*continued*

Penalties, Consumer Reimbursements, and Consumer Complaints	
Administrative penalties collected	\$1,864,600.00
Consumer reimbursements returned	\$383,384.69
<b>Total</b>	<b>\$2,247,984.69</b>
Consumer complaints processed	260

## 2017 Enforcement Highlights

- The Division, in collaboration with the Division of Professional Licensure and the Registry of Motor Vehicles, canvassed approximately 200 car dealerships statewide to identify unlicensed lending activity and/or unfair or deceptive acts or practices associated with the sales and financing of used automobiles. The effort resulted in five enforcement actions, 135 cease directives, \$170,000 in fines and penalties, and more than \$200,000 in consumer reimbursements.
- The Division reached a \$500K joint settlement over improper debt collection practices at IQor Holdings, Inc. and subsidiaries. Along with financial regulators of four other states, the Division found that two subsidiaries of IQor Holdings Inc., Allied Interstate, LLC, and The Receivable Management Services Corporation and its wholly owned subsidiary Receivable Management Services, failed to comply with state and federal consumer protection laws related to debt collection practices. The agreement requires corrective actions by the two companies and a settlement payment of \$500,000 to be distributed equally among the five states. The Division, in conjunction with over 20 other states, issued a Cease and Desist Order to Ocwen Loan Servicing, LLC. This directive addresses several years' of unresolved issues related to Ocwen's overall operations and management. Multistate examinations and monitoring revealed serious violations of consumer protection statutes and regulations as well as significant concerns with Ocwen's ability to remain a going concern.
- The Division reached a \$44 million joint settlement with 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 includes consumer restitution of \$31 Million, and a penalty of \$8.8 Million to state regulators.

# 2018 Objectives

## **SUPERVISION & REGULATORY ENVIRONMENT**

Effectively supervise and examine the Division's regulated entities through the application of 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 & 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 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 & 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.

Ensure effective recruitment and hiring strategies by recruiting a diverse pool of applicants with the appropriate skills and experience and hiring the best applicants for the position. Optimize staffing by aligning roles and responsibilities, leveraging talents, and seeking opportunities for improvements, efficiencies, and collaboration.

Continue to explore cross-training and collaborations to expand local and agency training opportunities on relevant and emerging topics.

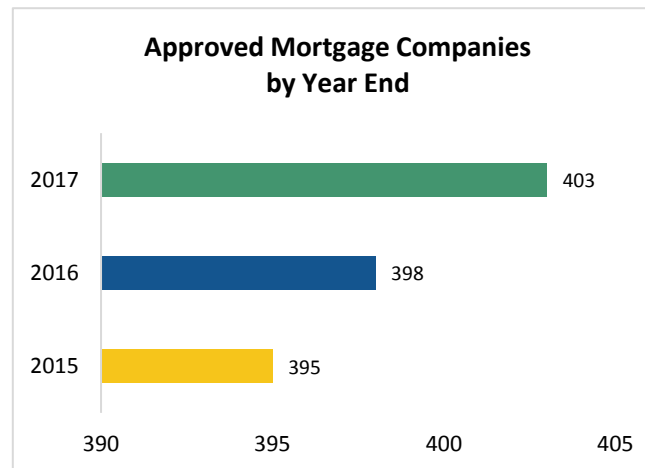
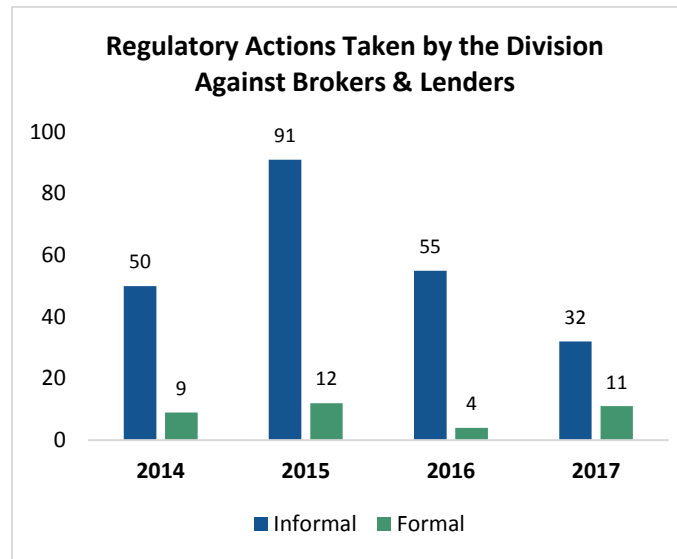
# Mortgage Supervision



In 2017, the Division continued to improve the examination reporting process which includes the mortgage report template and exam risk scoping in order to allocate resources more effectively and efficiently. As such, the mortgage examination unit is fully trained and regularly takes advantage of the Nationwide Multi-state Licensing System & Registry (NMLS) including analytics as a function of mortgage call reports which allows for a more efficient risk scope during the pre-exam phase of examinations.

In support of the overall risk assessment, the mortgage examination unit created key risk indicators: external, strategic, operational, financial, and compliance. The unit continues to participate in exams coordinated with other states through the Multi-state Mortgage Committee (4), New England Regional Mortgage Committee, and direct organization (1 – CT) for specifically identified mortgage lenders, brokers, and loan servicers.

Mortgage Lender license applications increased in 2017. Mortgage Broker applications also increased, specifically applications from smaller companies (proprietors).



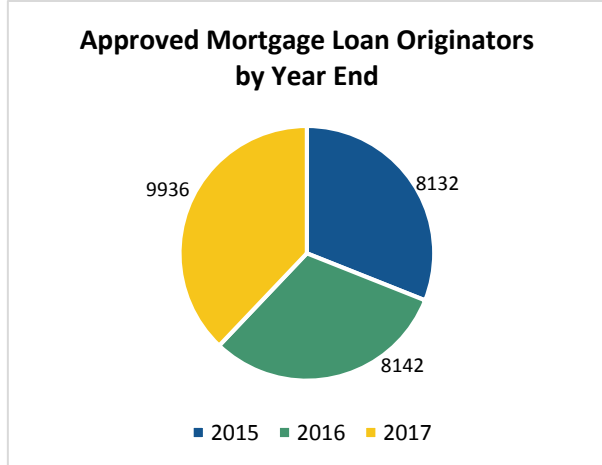
## Major Mortgage Settlements

### PHH Mortgage Corporation

In December 2017 a multi-state settlement agreement was reached requiring corrective action by PHH to address the significant loan servicing deficiencies identified, the restitution of \$31 million to up to 52,000 consumers, and the payment of an \$8.8 million penalty to the states involved.

### Ocwen Loan Servicing, LLC

As of April 2017, orders required Ocwen to immediately cease operation as a mortgage lender in the Commonwealth and to implement a plan to transfer all Massachusetts loan servicing activities to Division-approved licensed loan servicer(s).



# CRA Examination



## CRA FOR BANKS & CREDIT UNIONS

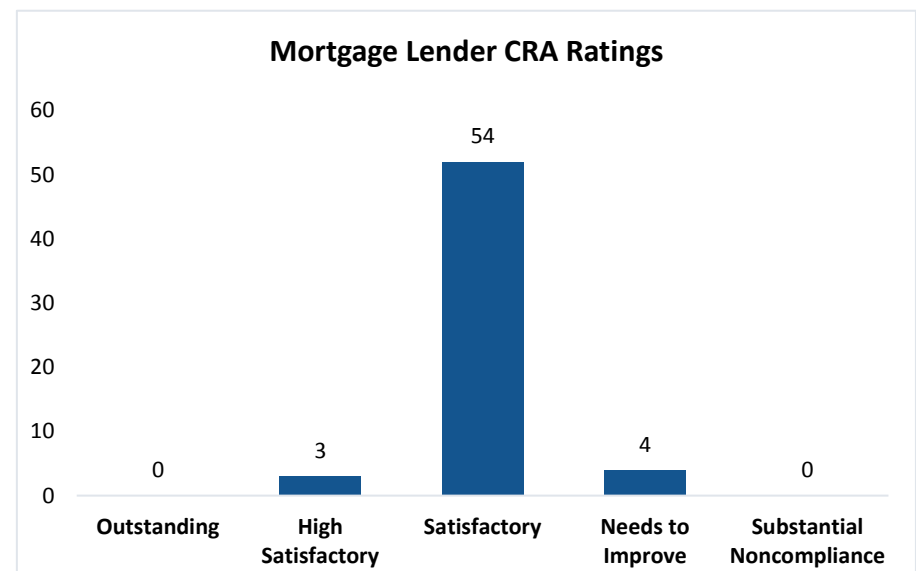
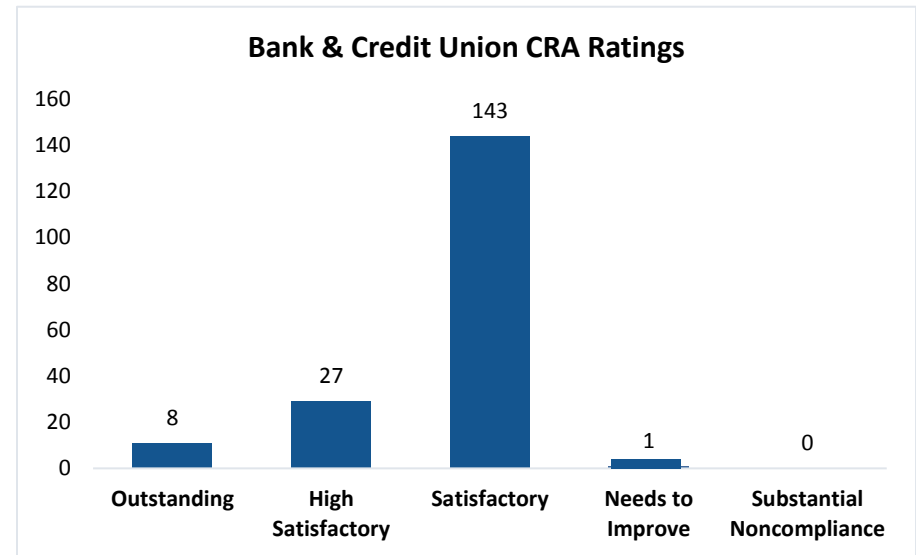
Under the Massachusetts Community Reinvestment Act (CRA), the Division examines state-chartered banks and credit unions to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with the safe and sound operation 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 44 CRA examinations of banks and credit unions during 2017. There are currently 179 Public Evaluations of banks and credit unions posted on the Division's website.

## 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 Home Mortgage Disclosure Act (HMDA) reportable mortgage loans in the previous two calendar years.

The number of mortgage lenders eligible for a CRA examination totaled 78 as of December 2017, of which 16 became eligible for a CRA examination for the first time based on 2016 HMDA data. Since the regulation's inception in 2009, the Division has conducted a total of 121 CRA examinations of mortgage lenders; 16 were issued during the 2017 calendar year. The most current Public Evaluations are posted on the Division's website.



# Foreclosure Prevention & Consumer Protection



## FORECLOSURE PREVENTION

Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded over \$12 million to nonprofits with a focus on consumer counseling and education services pursuant to Chapter 206 of the Acts of 2007. In 2017, the Division awarded \$1.05 million in C206 grants to agencies offering foreclosure prevention counseling services, including loan modification assistance, first-time homeownership education, or counseling for non-traditional or high-cost loans such as subprime products. Collectively, grantees helped over 4,700 homeowners in the Commonwealth during the 2017 calendar year.

## CONSUMER PROTECTION & OUTREACH

The Division's 2017 consumer protection and outreach efforts concentrated on two major outreach initiatives regarding elder financial abuse prevention and cybersecurity awareness. The Division partnered with various trade organizations and state agencies on both initiatives. Both initiatives resulted in volunteer events and speaking engagements for Division employees. The elder financial abuse initiative culminated in three newly launched webpages dedicated to preventing elder financial abuse and an updated training manual for banks and credit unions to help identify and stop elder financial abuse. The cybersecurity initiative concluded with twelve newly launched webpages for the financial industry to help develop and maintain cybersecurity programs and learn how to report and identify cyber-crimes. The Division also co-hosted a successful Cybersecurity Symposium as part of the initiative.

Outreach event participation continued throughout 2017 with 22 Division employees attending 37 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 22 different organizations while volunteering at outreach events. Partnering organizations included non-profit consumer counseling agencies and public high schools.



# Consumer Finance/Money Services Business Activities



Throughout 2017, the Division's Consumer Finance/Money Services Business (CF/MSB) Unit significant accomplishments helped promote the Division's mission of ensuring a sound, competitive, and accessible finance services environment throughout the Commonwealth. These accomplishments include regulatory actions, consumer reimbursements, and multi-state examinations.

The CF/MSB Unit conducted four multi-state examinations in 2017: two joint exams were conducted with Money Transmitters Regulatory Association (MTRA) members and two examinations were conducted jointly with members of the National Association of Consumer Credit Administrators (NACCA). Two of these examinations were conducted concurrently with the Consumer Financial Protection Bureau.

In 2017 the Division announced regulatory actions against motor vehicle sales finance companies to address unlicensed and illegal auto lending practices. The Division collaborated with the Division of Professional Licensure and the Registry of Motor Vehicles to investigate approximately 200 car dealerships statewide to identify unlicensed lending activity as well as other potentially predatory lending practices. The effort resulted in five enforcement actions, 135 cease directives, \$170,000 in fines and penalties, and more than \$200,000 in consumer reimbursements. These actions addressed illegal repossession practices, including one licensee's use of starter interrupt devices to automatically disable vehicles prior to the expiration of the borrower's right to cure period.

During 2017, the Division announced a joint settlement with financial regulators of four other states and two subsidiaries of IQor Holdings, Inc. for their failure to comply with state and federal consumer protection laws related to debt collection practices. The agreement required corrective actions by the two companies and a settlement payment of \$500,000 to be distributed equally among the five states.

The Division also issued a number of regulatory actions and settled actions against licensed foreign transmittal companies for infractions that include inadequate oversight of foreign paying agents in the Brazilian market, failure to develop an effective anti-money laundering program, and unlicensed activity.

Over \$175,000 was reimbursed to Massachusetts consumers throughout 2017 as the result of examinations conducted on licensed finance companies and debt collectors.

The Division maintains membership in committees for the NACCA and the North American Collection Agency Regulatory Association (NACARA). The CF/MSB Unit's Chief Director serves as president of NACARA and examination staff serve on the NACCA Functional Committee, and the NACARA Regulatory Supervision Committee.



# Depository Institution Supervision (DIS)

## SUPERVISORY INITIATIVES

- The Online Annual Report System (OARS) went live on January 3, 2017 for the 2016 annual report filing period. The OARS website allows banks and credit unions to electronically file the Annual Report to the Commissioner.
- Commissioner McGinnis gave the keynote address at the Massachusetts Bankers Association CEO Conference on January 27 and presented an update on the Massachusetts credit union industry, current issues, and areas of focus at the Cooperative Credit Union Association Annual Meeting on October 12.
- With the assistance of a diverse working group of employees from all units of the Division, the DIS Unit launched new elder financial abuse web pages on June 15 – World Elder Abuse Awareness Day. In addition, on December 19, the Division relaunched an update to the “Preventing Elder Financial Exploitation Employee Training Manual for Financial Institutions,” to assist Massachusetts banks and credit unions in detecting and preventing elder financial abuse. This was an initiative of the Office of Consumer Affairs and Business Regulation, Executive Office of Elder Affairs, and Division of Banks, with collaboration by the Office of the Attorney General, Massachusetts Bankers Association, and Cooperative Credit Union Association.
- On June 28, the Division launched a series of Cybersecurity web pages for depository and non-depository financial institutions in the Commonwealth. On that same day, in partnership with the Texas Department of Banking, other state regulatory agencies, financial institutions, and law enforcement representatives, the Division hosted a Cybersecurity Symposium for community banks and credit unions. The Symposium was the culmination of the Division’s collaboration with Texas, eleven other banking departments, and CSBS in facilitating the national Bankers Electronic Crimes Task Force. The Task Force identified key cyber threats and best practices to combat financial cybercrime, and these best practices were shared with banks and credit unions after the Symposium.
- The DIS Unit issued several industry communications to the banks and credit unions throughout the year, encompassing the topics of the CSBS BSA Self-Assessment Tool, the Current Expected Credit Losses (CECL) Readiness Checklist Tool, and security steps for online banking.

# Major Corporate Transactions



## 2017 MAJOR CORPORATE TRANSACTIONS OVERVIEW

There were twelve major corporate transactions consummated in 2017.

- Eight of the mergers resulted in the reduction of two savings banks, four co-operative banks, one trust company and one credit union.
- Two of the mergers involved federally-chartered credit unions merging with and into state-chartered credit unions.
- One of the mergers involved a federally-chartered saving bank merging with and into a state-chartered savings bank.
- One of the mergers involved a national bank merging with and into a state-chartered trust company.

# Bank & Credit Union Transactions



## BANK TRANSACTIONS

In 2017, there were nine bank merger transactions, seven of which reduced the number of Massachusetts-chartered banks. At year end, there were 52 savings banks, 43 co-operative banks, 14 trust companies, and 2 limited purpose trust companies. Below is the list of bank merger transactions consummated in 2017.

### Bank Mergers

- Holbrook Co-operative Bank, Holbrook merged with and into Abington Bank, Abington on April 1.
- North Middlesex Savings Bank, Ayer merged with and into Marlborough Savings Bank, Marlborough under the name Main Street Bank on April 1<sup>st</sup>.
- The Edgartown National Bank, Edgartown merged with and into Rockland Trust Company, Rockland on May 12.
- Georgetown Bank, Georgetown merged with and into Salem Five Cents Savings Bank, Salem on May 23.
- Southbridge Savings Bank, Southbridge merged with and into Spencer Savings Bank, Spencer under the name Cornerstone Bank on June 12.
- Avon Co-operative Bank, Avon merged with and into Abington Bank, Abington on October 1.
- Commerce Bank & Trust Company, Worcester merged with and into Berkshire Bank, Pittsfield on October 13.
- The Braintree Co-operative Bank, Braintree merged with and into South Shore Bank, Weymouth on October 31.
- Meetinghouse Bank, Dorchester merged with and into East Boston Savings Bank, East Boston on December 29.

## CREDIT UNION TRANSACTIONS

The number of Massachusetts-chartered credit unions was reduced from 68 to 67 during the year. Two federally-chartered credit unions merged with and into Massachusetts-chartered credit unions and a Massachusetts-chartered credit union merged with and into a federally-chartered credit union. Below is the list of credit union merger transactions consummated in 2017.

### Credit Union Mergers

- Landmark Credit Union, North Adams merged with and into Greylock Federal Credit Union, Pittsfield on April 30.
- Hingham Federal Credit Union, Hingham merged with and into Liberty Bay Credit Union, Braintree on May 1.
- Our Lady of Angels Federal Credit Union, Fall River merged with and into Fall River Municipal Credit Union, Fall River on October 1.

# Bank Summary

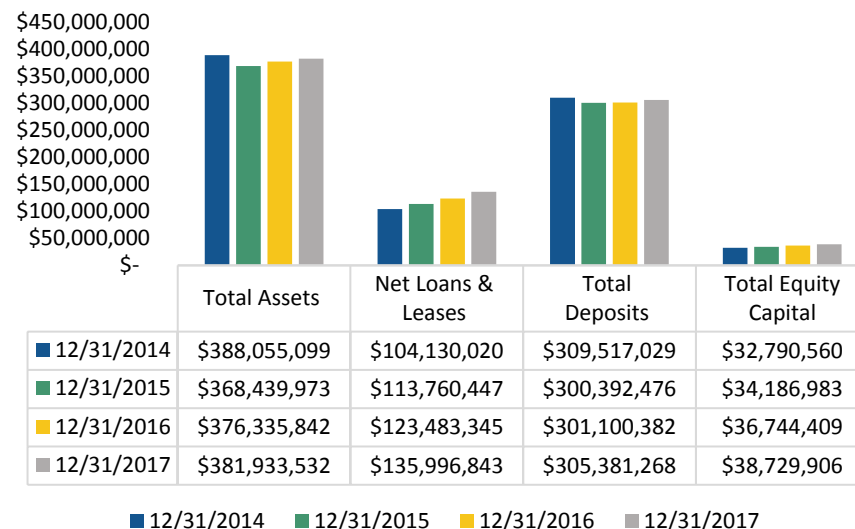


Massachusetts State-chartered banks continued to expand both their profitability and asset bases throughout 2017. Massachusetts state-chartered banks grew by approximately 2% to \$382.10 billion over the period. Growth was centered in loans, as cash and interest bearing balances were utilized to fund lending.

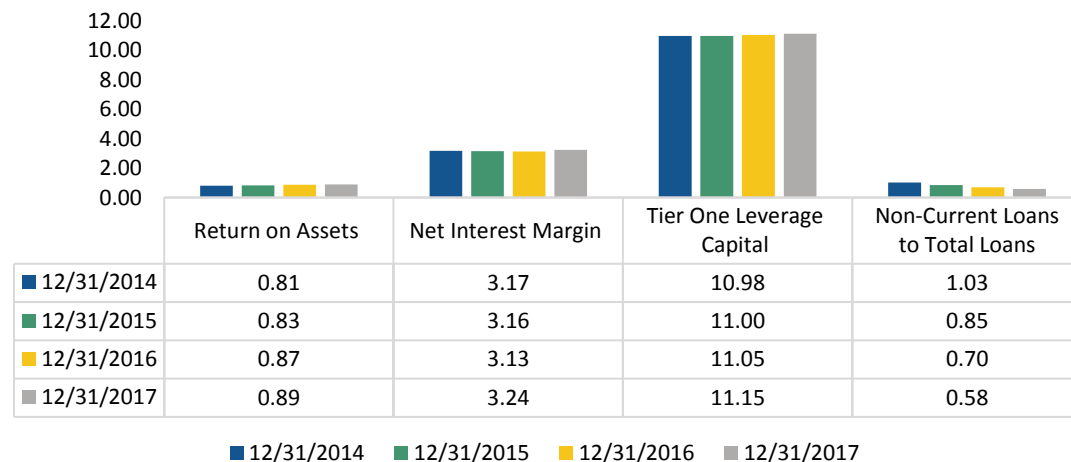
Earnings growth year-over-year was stymied by increases in interest expense and income taxes, as net income grew by \$32.16 million or 1%. This resulted in a positive, yet marginal increase in the aggregate average return on assets from 0.87% to 0.89%, since 2016. Interest rate increases over the period helped the net interest margin expand from 3.13% to 3.24%. Other positive earnings trends include a 13% increase in interest income, a 12% increase in income from fiduciary activities and a 13% reduction in provision expenses. Of note is the reduction in provision expenses, which correlates to the non-current loans to total loans ratio falling by 12 basis points, to 0.58% as of year-end 2017.

Given robust earnings, Massachusetts state-chartered banks' aggregate average Tier-1 Leverage Capital ratio grew from 11.05% to 11.15% over 2017. The Total Risk-Based Capital ratio also demonstrated a marginal increase, despite the drawdown of cash and interest bearing balances and increases to various loan holdings. Overall, Massachusetts state-chartered banks continued to enhance their financial performance in 2017, increasing earnings and capital, while reducing problem asset levels.

**Balance Sheet Trends (000)**



**Financial Performance Metrics**



# Bank – Balance Sheet



Years Ended December 31	2016	2017	% Change
	\$ in 000's	\$ in 000's	
Cash & Balances due from depository institutions	76,379,939	73,263,075	-4%
Total securities	117,649,786	118,644,105	1%
Federal funds sold and reverse repurchase	2,091,644	3,456,528	65%
Gross Loans and Leases	124,508,041	137,061,552	10%
Loan loss allowance	1,024,696	1,064,516	4%
Net loans and leases	123,483,395	135,997,036	10%
Trading account assets	7,653,845	4,604,200	-40%
Bank premises and fixed assets	2,904,862	3,114,195	7%
Other real estate owned	21,345	17,741	-17%
Goodwill and other intangibles	8,581,470	8,907,935	4%
All other assets	37,569,556	34,096,671	-9%
<b>Total assets</b>	<b>376,335,842</b>	<b>382,101,486</b>	<b>2%</b>
Total deposits	301,100,382	305,417,848	1%
Federal funds purchased and repurchase agreements	5,258,127	3,758,444	-29%
Trading liabilities	5,513,884	5,453,282	-1%
Other borrowed funds	13,279,096	15,402,523	16%
Subordinated debt	1,955,086	1,926,673	-1%
All other liabilities	12,484,858	11,305,645	-9%
<b>Total Liabilities</b>	<b>339,591,433</b>	<b>343,264,415</b>	<b>1%</b>
Perpetual preferred stock	16,361	14,097	-14%
Common stock	84,961	81,736	-4%
Surplus	18,376,838	19,049,955	4%
Undivided profits	18,022,611	19,674,718	9%
Equity, minor interest in consolidated subs	243,638	16,565	-93%
<b>Total equity capital</b>	<b>36,744,409</b>	<b>38,837,071</b>	<b>6%</b>
<b>Total Liabilities and Equity Capital</b>	<b>376,335,842</b>	<b>382,101,486</b>	<b>2%</b>

# Bank – Income Statement

Years Ended December 31	2016	2017	% Change
	\$ in 000's	\$ in 000's	
Total interest income	6,958,465	7,852,823	13%
Total interest expense	856,413	1,126,732	32%
<b>Net interest income</b>	<b>6,101,723</b>	<b>6,726,091</b>	<b>10%</b>
Gross Fiduciary activities income	5,320,918	5,960,351	12%
Service charges on deposit accounts	178,384	178,203	0%
Trading account gains and fees	646,301	679,744	5%
Additional Noninterest Income	2,752,832	2,843,694	3%
<b>Total noninterest income</b>	<b>8,898,635</b>	<b>9,661,992</b>	<b>9%</b>
Salaries and employee benefits	6,015,683	6,208,700	3%
Premises and equipment expense	1,787,757	1,889,086	6%
Additional noninterest expense	3,375,376	3,594,152	6%
<b>Total noninterest expense</b>	<b>11,178,816</b>	<b>11,691,938</b>	<b>5%</b>
<b>Provision for loan and lease losses</b>	<b>126,436</b>	<b>109,494</b>	<b>-13%</b>
Pre-tax net operating income	3,694,435	4,586,651	24%
Securities gains (losses)	58,022	115,785	100%
Applicable income taxes	441,252	1,323,585	200%
<b>Income before extraordinary items</b>	<b>3,311,205</b>	<b>3,378,851</b>	<b>2%</b>
Extraordinary gains, net	-	-	0%
Net income	3,307,317	3,374,572	2%
Minority interest net income	3,888	4,279	10%
<b>Net income of bank and minority interests.</b>	<b>3,311,205</b>	<b>3,378,851</b>	<b>2%</b>
Net charge-offs	41,940	45,967	10%
Cash dividends	934,373	2,429,650	160%
Sale, conversion, retirement of capital stock, net	36,601	39,407	8%
<b>Net operating income</b>	<b>3,266,899</b>	<b>3,299,056</b>	<b>1%</b>

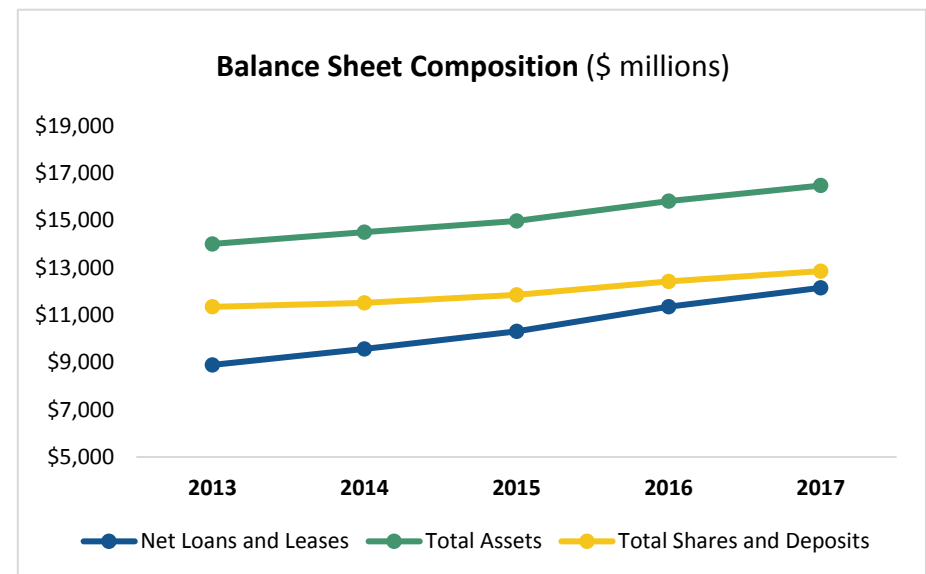
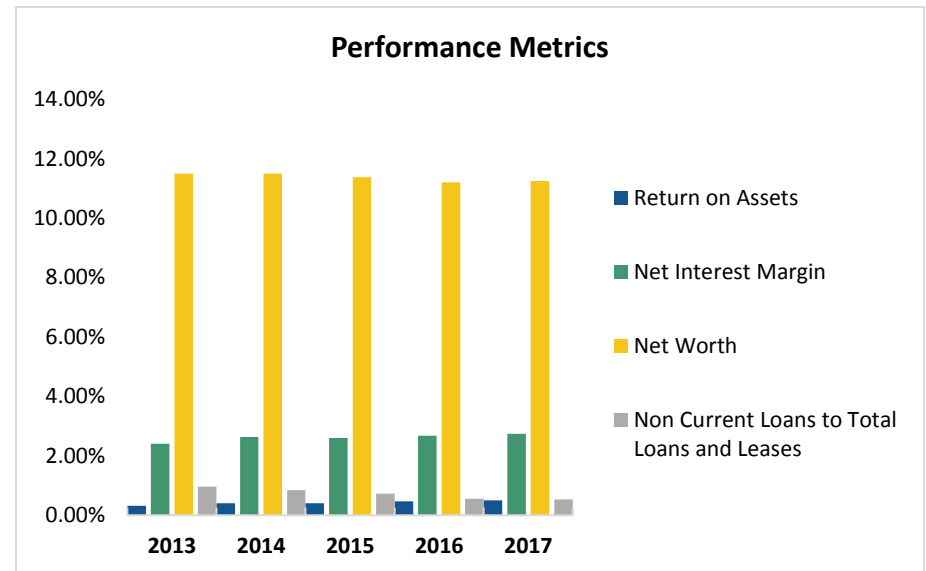
# Credit Union Summary



In 2017, state-chartered credit unions' assets continued to grow, reaching \$16.5 billion. This represents an increase of 4% since 2016. Profitability and loan growth are also sound, leading to a strong overall financial condition of the Massachusetts credit union industry.

Net income from 2016 to 2017 improved by 9%, or \$6.8 million, fueled by robust growth in interest income, modest increases in operating expenses, and continued increases in non-interest income. Interest income rose by 8% over 2016 levels, spurred by consistent loan originations and a rising interest rate environment. The net interest margin stands at 2.74%, compared to 2.68% at year-end 2016. Due to decreasing delinquency levels, provision expenses increased only marginally, while non-interest expenses rose by 5% and are well managed. Steady income sources combined with moderate expenses led to an increase in the Return on Average Assets from 0.47% in 2016 to 0.50% in 2017.

In 2017, the net worth ratio rose to 11.25% from 11.21% in 2016. Gains in income outpaced modest asset growth, which resulted in the increase in the net worth ratio. Credit union net worth is robust and healthy. While some small credit unions continue to face challenges with economies of scale and generating adequate profitability, the overwhelming majority of MA credit unions continue to remain financially sound.



# Credit Union – Balance Sheet

Years Ended December 31	2016	2017	% Change
	\$ in 000's	\$ in 000's	
<b>Assets</b>			
Cash & Investments	3,831,903	3,680,119	-4%
Loans and Leases, Net of Unearned Income	11,422,408	12,211,147	7%
Allowance for Loan and Lease Losses	(65,328)	(60,279)	-8%
Net Loans and Leases	11,357,080	12,150,868	7%
Land and Building	193,856	210,221	8%
Other Fixed Assets	65,415	49,756	-24%
Other Real Estate Owned	2,756	1,105	-60%
Other Assets	365,551	381,390	4%
<b>Total Assets</b>	<b>15,816,561</b>	<b>16,473,459</b>	<b>4%</b>
<b>Liabilities</b>			
Total Shares and Deposits	12,423,885	12,855,510	3%
Total Borrowings	1,501,064	1,625,159	8%
Accrued Dividends and Interest Payable	433	741	71%
Accounts Payable and Other Liabilities	129,651	145,512	12%
<b>Total Liabilities</b>	<b>14,055,033</b>	<b>14,626,922</b>	<b>4%</b>
<b>Equity</b>			
Regular Reserves	222,967	221,881	0%
Appropriation for Non-Conforming investments	-	4	400%
Undivided Earnings	1,517,697	1,594,804	5%
Net Unrealized Gain/(Loss) on AFS	(6,223)	(3,281)	-47%
Other Reserves	27,087	33,129	22%
<b>Total Equity Capital</b>	<b>1,761,528</b>	<b>1,846,537</b>	<b>5%</b>
<b>Total Liabilities + Equity Capital</b>	<b>15,816,561</b>	<b>16,473,459</b>	<b>4%</b>



# Credit Union – Income Sheet



Years Ended December 31	2016	2017	% Change
	\$ in 000's	\$ in 000's	
Total interest income	493,323	534,202	8%
Total interest expense	80,769	91,448	13%
<b>Net interest income</b>	<b>412,554</b>	<b>442,754</b>	<b>7%</b>
<b>Provision for loan and lease losses</b>	<b>24,321</b>	<b>28,784</b>	<b>18%</b>
Fee income	72,050	74,841	4%
Other Operating Income	47,118	52,507	11%
Gain (Loss) on Investments	7,173	1,884	-74%
Gain (Loss) on Disposition of Fixed Assets	352	(431)	-222%
Gain from Bargain Purchase (Merger)	557	-	-100%
Other Non-Operating Income (Expense)	(354)	1,492	-521%
<b>Total Non-Interest Income</b>	<b>126,895</b>	<b>130,293</b>	<b>3%</b>
Employee Compensation and Benefits	225,572	238,930	6%
Travel and Conference Expense	4,524	4,885	8%
Office Occupancy Expense	37,601	41,473	10%
Office Operation Expense	79,631	82,651	4%
Education and Promotional Expense	18,593	17,944	-3%
Loan Servicing Expense	18,421	17,230	-6%
Professional and Outside Services	43,845	47,471	8%
Member Insurance	1,036	943	-9%
Operating Fees	1,952	2,031	4%
Miscellaneous Operating Expenses	10,760	10,690	-1%
<b>Total Non-Interest Expense</b>	<b>441,935</b>	<b>464,248</b>	<b>5%</b>
<b>Net Income (Loss)</b>	<b>73,193</b>	<b>80,015</b>	<b>9%</b>

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# Massachusetts Division of Banks

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