

Commonwealth of Massachusetts

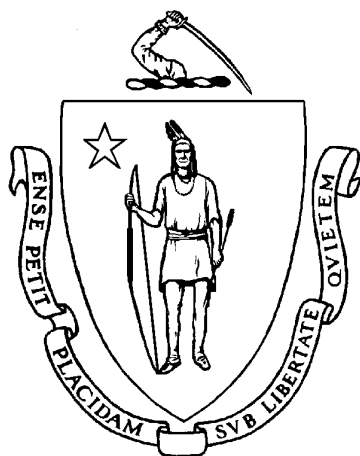
## DIVISION OF BANKS

# 2011 ANNUAL REPORT



# Division of Banks

## Annual Report For the year ending December 31, 2011



**Governor**  
Deval Patrick

**Commissioner of Banks**  
David J. Cotney

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

**The Division of Banks' (Division) mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 160 managers, examiners, and support staff are responsible for the supervision of 221 state-chartered banks and credit unions holding combined assets of approximately \$320 billion, as well as the licensing and supervision of over 4,500 individual mortgage loan originators and over 3,700 non-bank financial entities, including mortgage brokers and lenders, finance companies, check cashers, money transmitters, and debt collectors. Accordingly, the Division plays a key role in maintaining depositor confidence in the State's banking system, as well as fostering a positive impact on the Commonwealth's economy.**

**The Division traces its origins to February 7, 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston, through Chapter 25 of the Acts of 1783. This Charter, signed by Governor John Hancock and Senate President Samuel Adams, includes one of the first known provisions to require bank examinations. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of \$53 million.**

**Massachusetts was on the forefront of the banking industry as well as banking regulation. The Provident Institution for Savings in the Town of Boston was incorporated as the nation's first mutual bank in 1816.**

**On March 27, 1906, Chapter 204 of the Acts of 1906 was signed and established the current structure of the Division.**

## Letter from the Commissioner



June 29, 2012

I am pleased to present the 2011 Annual Report of the Massachusetts Division of Banks (Division). In January 2011, I was honored to be appointed Commissioner of Banks by Governor Deval Patrick. 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.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. This legislation was designed to overhaul our nation's financial system, expand consumer protections, and enhance financial regulation. The Act acknowledges the essential role of state regulators, appropriately recalibrates the balance of power between state and federal regulators, and offers the prospect of a new era of state-federal collaboration and cooperation. While enactment of the Dodd-Frank Act was a monumental achievement, implementing the provisions and requirements of the Act has taken significant time and resources for regulators and the industry during 2011.

In 2011, 92 banks failed throughout the country and Congress and state and federal regulators focused on regulatory restructuring in an effort to prevent future financial meltdowns and determine how to orderly unwind institutions which are deemed "too big to fail." As issues continue to unfold, these events will shape the financial services marketplace of the future.

The situation in Massachusetts remains very different. The vast majority of state-chartered banks and credit unions remain sound and well-capitalized. We continue to benefit from the foresight of our local institutions generally maintaining strong underwriting standards throughout this last business cycle. Nevertheless, we must ensure the diversity of our financial system including vibrant community banks and credit unions which did not cause the financial crisis, yet face enormous challenges in its aftermath.

In closing, I would like to acknowledge the hard work of the Division's 160 employees and their continued efforts in maintaining a safe and sound and accessible banking and financial services environment. As you can see by the subsequent sections of this report, 2011 was a very accomplished year for the Division, and objectives for 2012 are intended to continue the agency's tradition of excellence.

Sincerely,

A handwritten signature in blue ink, which appears to read "D. Cotney". The signature is written in a cursive, flowing style.

David J. Cotney  
Commissioner of Banks



## 2011 Accomplishments

- \* The Consumer Financial Protection Bureau and the Division signed a Memorandum of Understanding to establish a foundation of **state and federal coordination** and cooperation for supervision of providers of consumer financial products and services.
- \* **Informational public hearings** were held in response to new laws regarding right-to-cure foreclosure notices and reverse mortgages.
- \* Chapter 206 **Grant Recipients** were announced —\$1 million was issued to Regional Foreclosure Education Centers and Individual Counseling Centers.
- \* The Division conducted a **statewide survey** that found 317 non-bank ATMs operating without proper registration. The Division issued **cease-activity** notices to each location. Following these notices, the Division announced that approximately 1,500 applications for non-bank ATM registrations were filed with the Division in the six weeks following the announcement of the survey results.
- \* The Division issued an industry letter on **Truth-In-Savings regulations** pertaining to issues with financial institutions' advertising of deposit products in Massachusetts.
- \* Frequently Asked Questions were posted to the Division's website regarding **amendments to Regulation Z**. The FAQ included the Federal Reserve's Regulation Z and how the Division will evaluate compliance.
- \* A **Consumer Advisory** was issued on new rules regarding predatory debt-collection practices and improving consumer protections. Expanded consumer protections went into effect, which increased the money and personal property out of reach of a creditor seeking to satisfy a court judgment.
- \* The Division, in collaboration with the Massachusetts Bankers Association and Massachusetts Credit Union League, Inc., concluded a **series of roundtable discussions** with the Division's senior staff and industry representatives from across the state. Members of senior staff discussed a variety of issues impacting banks and credit unions.
- \* The Division participated in the Office of Consumer Affairs and Business Regulation's **Consumer Advisory Group** and participated in two foreclosure prevention workshops and two consumer protection days.
- \* The Division issued an opinion relative to **mortgage licensing requirements** for Credit Union Service Organizations.
- \* The Division completed a **successful bond claim recovery** for consumers/borrowers as a result of a mortgage company failing to fund mortgage loans.
- \* The Division announced the creation of a **new "18-65" Accounts Brochure**.
- \* **Regulatory guidance** was issued by the Division to assist institutions impacted by the tornadoes and severe weather.

## 2011 Accomplishments

- \* The Division announced that it joined other state regulators in a **10-state settlement** with Mortgage Access Corporation D/B/A Weichert Financial Services. The company agreed to remit a \$3 million penalty as part of an examination conducted under the protocols of the Multi-state Mortgage Committee.
- \* The **Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth** submitted a report with its findings and recommendations.
- \* **Cease activity directives** were issued by the Division to five entities for unlicensed marketing of reverse mortgages to Massachusetts consumers.
- \* The Division issued **209 CMR 55.00: Reverse Mortgage Loans**, effective October 14, 2011. The purpose is to implement the additional consumer protections afforded by the law to reverse mortgage borrowers which fall within a certain income and asset threshold.
- \* The **2010 Foreclosure Trends report** was released by the Division. The report noted a decrease in pre-foreclosure notices following Governor Patrick's signing of the law extending the right-to-cure period to 150 days.
- \* Commissioner Cotney was appointed to the **Financial Literacy Trust Fund**, an innovative program created by the Legislature in 2011 to provide and encourage financial literacy and education for residents, businesses, educational institutions, community organizations and other entities that will promote financial literacy.
- \* Continued the coordination of **weekly conference calls** for all state mortgage regulators regarding problem entities, regulatory issues, and examination findings to share information and coordinate solutions between state agencies.
- \* During 2011, the Division **issued 26 cease directives** against illegal payday lending practices involving Massachusetts consumers including some entities claiming affiliation with Native American tribes.
- \* Division staff actively participated in a **multi-state working group** developing framework for coordinated multi-state supervision of national money transmittal companies.
- \* Issued **over 200 formal and informal regulatory orders** against non-depository institutions and **8,000 licenses** to mortgage companies, mortgage loan originators, money services businesses, debt collectors, and consumer finance companies.
- \* Completed **254 bank and credit union examinations** and **302 examinations of non-bank licensees**.
- \* Completed 450 bank, credit union, licensee, and other **approval requests** and issued 21 **legal opinions**.
- \* Resolved 230 **consumer complaints** and secured reimbursements on behalf of consumers totaling \$24,310.
- \* Received 783 **foreclosure relief requests**, of which 358 were granted long-term stays.

## 2012 Objectives

- ⇒ Maintain a sound, competitive, and accessible banking and financial services environment by enhancing the statutory and regulatory structure and the examination and supervisory processes for regulated entities.
- ⇒ Continue to provide relief to homeowners facing foreclosure.
- ⇒ Continue to implement the NMLS in an effort to further protect consumers and bring greater accountability and transparency to the mortgage industry.
- ⇒ Advance the quality of the Division's supervision by maintaining a qualified and diverse professional staff.
- ⇒ Improve the existing regulatory and business climate by streamlining processes, refining risk-focused supervisory policies, and by expanding the use of technology.
- ⇒ Safeguard consumers through expanded financial literacy and consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections.
- ⇒ Conclude the transition of all licensees to the Nationwide Multistate Licensing System.
- ⇒ Seek passage of legislative priorities, including the licensing of debt settlement companies and money transmitters
- ⇒ Create a “DOB at a Glance” report to provide statistics on the number of entities supervised by the Division to be posted on the website quarterly.
- ⇒ Coordinate with the Consumer Financial Protection Bureau on examinations as well as on consumer complaints.
- ⇒ Reduce regulatory burden on depository institutions under the Division's supervision by reviewing ways to streamline examination reports and procedures, and by reviewing all laws and regulations applicable to banks and credit unions.

## Mortgage Supervision

During 2011, the Division continued to participate as a member of the Multistate Mortgage Committee (MMC). The MMC is a committee of ten state regulatory officials appointed by the Conference of State Bank Supervisors and American Association of Residential Mortgage Regulators for the purpose of coordinating multistate examinations of mortgage entities, developing uniform examination processes, and modernizing traditional examination procedures.

The initiatives undertaken by the MMC this year included:

- ◇ Continued management and oversight of a series of multistate examinations of several of the largest volume non-depository loan servicers to investigate alleged practices which were first reported during 2010 including so-called 'robo-signing' and other alleged misconduct in their servicing and foreclosure activity.
- ◇ Sharing examination results with a coalition of state Attorneys General, which included the Attorney General of the Commonwealth, which was investigating similar practices in the loan servicing industry.



Throughout 2011, the Division continued to monitor and enforce industry compliance with the 2009 Massachusetts Act adopting the federal Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) through examinations conducted on Massachusetts licensed mortgage lenders, mortgage brokers, and mortgage loan originators. The Division collected administrative penalties associated with non-compliance with the SAFE Act totaling \$997,883.00. These funds were allocated to the Division's grant award process for funding local nonprofit consumer counselors and foreclosure education centers in the Commonwealth. In addition to the examinations of licensed mortgage lenders and mortgage brokers which were conducted independently by the Division throughout 2011, the Division also participated in a joint, 10-state MMC examination of a New Jersey based mortgage broker which was alleged to have engaged in systemic violations of the SAFE Act. The examination resulted in a Consent Agreement with the licensee during May 2011, whereby the licensee was ordered to undertake certain remedial measures and to satisfy an administrative penalty totaling \$3.0 million, which was apportioned among the 10 participating states.



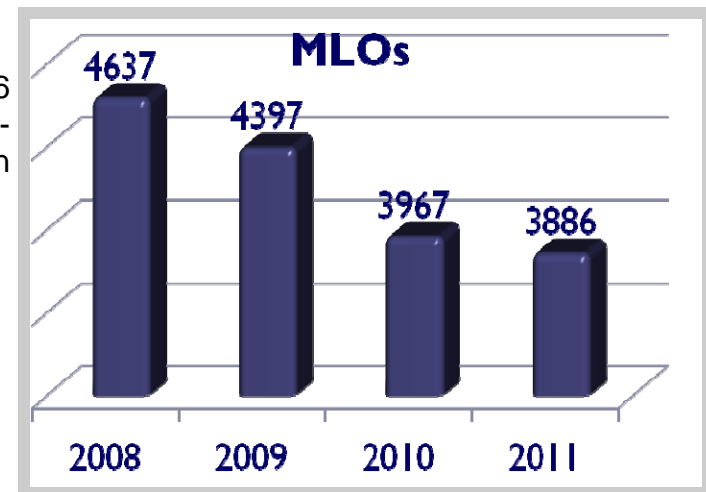
## SAFE Act and Loan Originator Licensing

The 2008 Housing and Economic Recovery Act included the SAFE Act, which recognized and built upon states' efforts by requiring all mortgage loan originators to be either state-licensed or federally-registered through the Nationwide Multistate Licensing System (NMLS) by July 31, 2010. On July 31, 2009, Governor Deval Patrick signed into law SAFE Act legislation to ensure that Massachusetts will retain oversight of mortgage loan originators and maintain funding to provide grants to regional foreclosure prevention centers located throughout the Commonwealth.

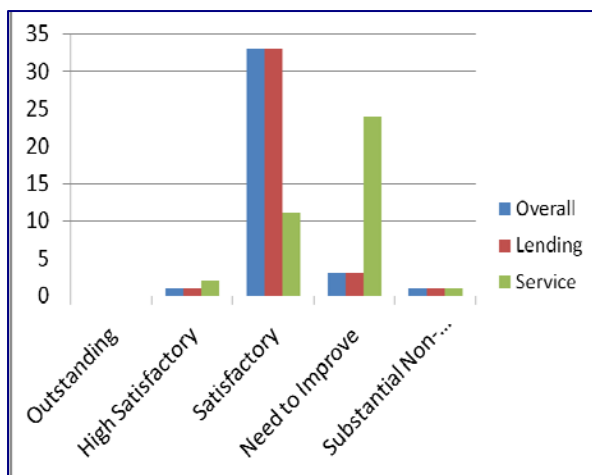
Highlights in 2011 include the following:

- ♦ Completed obligations in meeting the requirements of the SAFE Act by seeing that all mortgage loan originators be either state-licensed or federally-registered through the NMLS as all lending institutions registered their respective institution and mortgage loan originators (MLO).
- ♦ Became one of the first NMLS members in the nation to commit to the expanded use of the NMLS by requiring non-mortgage affiliated licensees to become licensed through the NMLS. This was an effort to better protect the Massachusetts consumers in literally all financial areas regulated by the Division. The Division will continue this process throughout 2012.
- ♦ Maintained a strong leadership role in the ongoing development and implemented the Enforcement Action policies and functionality within the system.

As of December 2011, the Division had approved 3,886 mortgage loan originators in NMLS. This is a slight decrease in the number of approved loan originators in NMLS as was reported in December 2010.



## CRA for Mortgage Lenders



Provisions similar to the Massachusetts Community Reinvestment Act (CRA) were extended to certain mortgage lenders as part of Chapter 206 of the Acts of 2007 which require an additional evaluation in the examination of mortgage lenders that have made 50 or more home mortgage loans in the previous year and are Home Mortgage Disclosure Act (HMDA) filers. This evaluation assesses and provides a publicly available report of the record of the mortgage lender's performance in meeting the mortgage credit needs of communities in the Commonwealth.

There are 77 licensed lenders eligible for a CRA examination, of which 16 became eligible for the first time during 2011. Although there has been significant reduction in the number of licensees, the number of lenders eligible for CRA has increased slightly year to year.

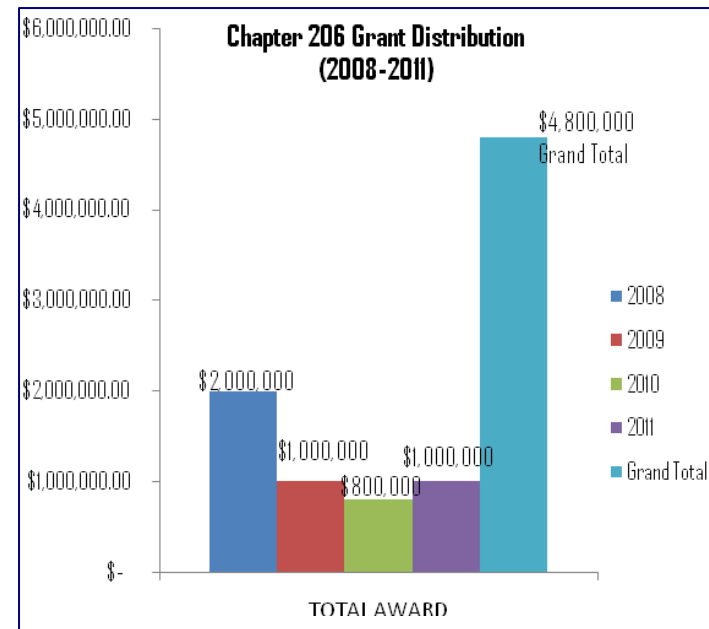
As of December 31, 2011, a total of 45 examinations have been mailed. There are 38 Public Evaluations posted to the Division's website; 5 public Consent Orders have been executed due to data integrity issues; 3 public Consent Orders were executed addressing consumer protection concerns; and, 1 public Cease and Desist Order was issued regarding serious compliance issues. Over \$200,000 in fines have been collected as a result of the Orders issued.

## Foreclosure Relief

The Division continues to have an active role in foreclosure prevention efforts. Since the inception of the foreclosure counseling and education grant initiative in 2008, the Division has awarded a total of \$4.8 million dollars to nonprofits with a focus on consumer counseling services. In 2011, \$1 million was funded to agencies with strong mortgage modification experience and with adequate resources to fulfill the counseling demand of homeowners in their communities.

Beyond our internal initiatives, the Division also engages in outreach activities and workshops to educate consumers on the use of the Nationwide Mortgage Licensing System (NMLS) as a home-financing tool, as well as on other foreclosure-related matters. The Division participated in two major foreclosure prevention workshops in July and two consumer protection outreach days in September and October, with strong attendance by many homeowners in Massachusetts.

Lastly, the Division worked diligently to finalize the Right to Cure regulation to establish a standardized process and notice relative to a borrower's right to cure a default on a residential mortgage loan. A series of focus groups, community meetings and industry hearings were held throughout the year to gather input on the content and consumer disclosures mandated by statute.



## Consumer Protection and Education Efforts

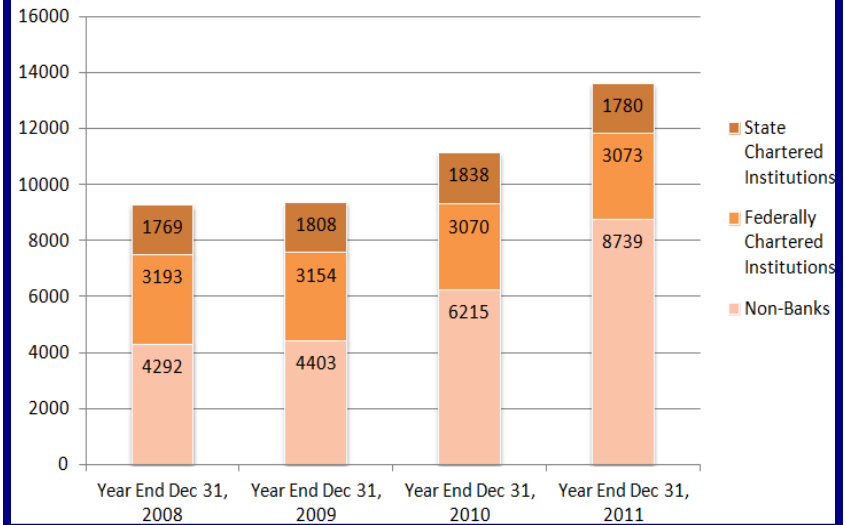
One of the Division's overarching goals is to safeguard consumers through consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections.

### ATM Authorization and Reconciliation

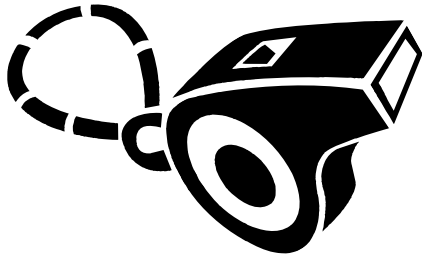
The Division of Banks continued to receive and process a large volume of applications for non-bank owned automated teller machines in 2011. This was a direct result of the investigation conducted in 2010 to identify non-bank owned automated teller machines operating without authorization in the Commonwealth. The statewide survey found 317 non-bank ATMs operating without proper registration. The Division issued cease-activity notices on December 8, 2010, to each location. Prior to the 2010 investigation, there were approximately 5,600 non-bank ATMs authorized to operate in Massachusetts. As of the end of 2011, that number had increased significantly.



ATM Reconciliation (2009-2012)



### Consumer Advisory on Predatory Debt Collection



### 18-65 Brochure

On April 7, 2011, expanded consumer protections went into effect that increased the money and personal property which is out of the reach of a creditor seeking to satisfy a court judgment via the enactment of Chapter 431 of the Acts of 2010. In advance of the effective date, the Division of Banks issued a consumer advisory entitled “New rules reduce predatory debt-collection practices, improve consumer protections.” The advisory explained that a creditor is unable to seize certain funds and property covered by the law to satisfy an outstanding debt, and also noted other protections that were enacted for consumers who are over sixty years of age or consumers who are handicapped. Examples of personal items exempted include an automobile up to \$7,500 of wholesale resale value, or \$15,000 for a handicapped person or a person age 60+; cash, savings or other deposits in a bank account of up to \$2,500; and wages equal to 85% of the debtor’s gross wages or 50 times the hourly minimum wage per week, whichever is greater. The advisory provided information on how consumers may protect themselves throughout the debt collection and small claims court processes, as well as what creditors or debt collectors can and cannot do.

The Massachusetts “18-65” law allows any person who is 18 years old or younger or 65 years old or older to have a savings and checking account at a Massachusetts state-chartered bank without having to pay a service or maintenance charge. The Division, in cooperation with the Office of Consumer Affairs and Business Regulation, created a brochure that was distributed to bring greater awareness to this banking option that comes with no maintenance fees, no minimum balance, and no fees for checks, deposits or withdrawals for eligible consumers.

## 2011 Major Corporate Transactions

There were 14 major corporate transactions involving state-chartered financial institutions consummated in 2011, an increase of four such transactions from the previous year:

- ⇒ Ten transactions involving mergers, eight of which resulted in the reduction of two savings banks, two co-operative banks, one trust company, and three credit unions in the state system.
- ⇒ The other two merger transactions were the acquisition of a holding company and its subsidiary federally-chartered bank that subsequently merged into a savings bank and the merger of three affiliated banks with and into a state-chartered trust company.
- ⇒ Three of the total transactions were the reorganization into mutual holding companies by two state chartered savings banks and one co-operative bank.
- ⇒ The last mutual holding company reorganization was the 62<sup>nd</sup> such reorganization of a state-chartered mutual bank.
- ⇒ The remaining major corporate transaction was the conversion of a savings bank from a mutual holding company to a stock holding company. At the end of the year, there were 221 state-chartered financial institutions.

The Board of Bank Incorporation (Board) held nine public hearings during the year, a marked increase from the two transactions before the Board the previous year. Public hearings are generally held in Boston. However, one transaction before the Board involved a multi-step transaction resulting in the merger of two large state-chartered financial institutions located in Berkshire County. The Board held the hearing on this transaction in Pittsfield to accommodate all interested parties in the transaction. In addition to the other transactions requiring Board approval that are listed on the following pages, one major corporate transaction not involving a state chartered bank was approved and consummated and is listed below.

Brookline Bancorp, Inc., Brookline acquired First Ipswich Bancorp, Ipswich on February 28, 2011.



### Branching

Branch office opening, closing and relocation activity remained consistent during the year on state, national and international levels. Berkshire Bank was approved to open two additional branch offices in New York. Enterprise Bank and Lowell Five Cents Savings Bank each received approvals to establish branch offices in New Hampshire. State Street Bank and Trust Company was approved to establish a branch office in the Channel Islands as well as relocate a branch in Seoul, Korea.

### Legislation: Chapter 115, An Act Relative to Derivative Activities of State Banks

There was one bill signed into law in 2011 within the Division's jurisdiction. Chapter 115 of the Acts of 2011 amended M.G.L. ch. 167E, section 6, subsection (a) by adding clause (6), relative to the calculation of the limitation of the total obligations of one borrower to a state-chartered bank. The new clause (6) now specifically requires that the calculation of that limitation include credit exposures of the borrower as a counterparty in derivative transactions with the bank. The term "derivative transaction" is defined as any transaction that is a contract, agreement, swap, warrant, note or option that is based, in whole or in part, on the value of, any interest in, or any quantitative measure or the occurrence of any event relative to one or more commodities, securities, currencies, interest or other rates, indices or other assets. The Act further sets out how "credit exposure" is to be determined by the bank.

Chapter 115, which became effective on December 14, 2011, brings state law into compliance with the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which mandates that state law relative to legal lending limits take into consideration credit exposure in derivative transactions. Effective January 21, 2013, Section 611 of the Dodd-Frank Act prohibits state-chartered banks from engaging in derivative transactions unless "the law with respect to lending limits of the State in which the insured State bank is chartered takes into consideration credit exposure to derivative transactions."

### Regulations: 209 CMR 55.00: Reverse Mortgages

During the year, the Division promulgated one new regulation, 209 CMR 55.00: Reverse Mortgages, which became effective on October 14, 2011. The purpose of this regulation is to clarify the opt-in requirement and certification process for the in-person counseling requirements for reverse mortgages, as well as to set out certain prohibited practices relative to reverse mortgages. The in-person counseling requirement will become effective on August 1, 2012.

## Bank Transactions

The number of state-chartered banks was reduced by five due to mergers. A transaction which did not affect the number of banks was the merger of three affiliated banks of Boston Private Bank & Trust Company as part of a multi-step transaction involving the internal reorganization of all subsidiary banks of its bank holding company into the Massachusetts chartered bank. At year end, there were 62 savings banks, 55 co-operative banks and 17 trust companies.

### Mutual Holding Company Reorganizations

1. Lowell Five Cents Savings Bank reorganized into a mutual holding company, Lowell Bancorp, MHC with a mid-tier holding company, Lowell Bancorp, Inc. on September 1, 2011.
2. Mechanics' Co-operative Bank, Taunton reorganized into a mutual holding company, Mechanics Bancorp, MHC with a mid-tier holding company, Mechanics Bancorp, Inc. on September 1, 2011.
3. Newburyport Five Cents Savings Bank reorganized into a mutual holding company, Newburyport Five Cents Bancorp, MHC with a mid-tier holding company, Newburyport Five Cents Bancorp, Inc. on November 30, 2011.

### Stock Conversion

Belmont Savings Bank converted its mutual holding company to a stock holding company on October 4, 2011.

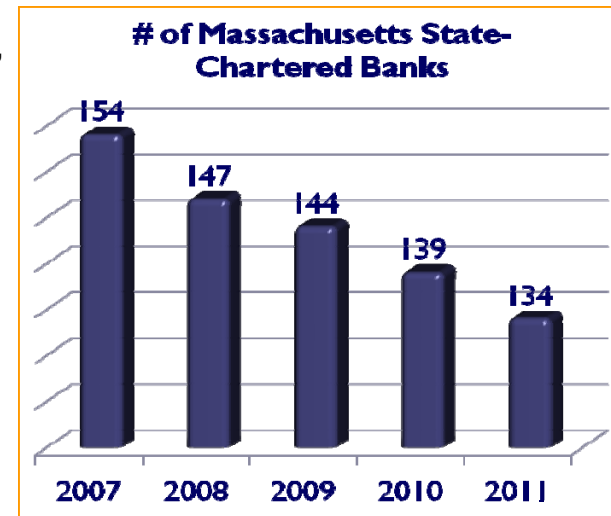
### Mergers

1. *Bank of Fall River*, Fall River merged with and into Citizens-Union Savings Bank, Fall River on January 1, 2011.
2. *Wainwright Bank and Trust Company*, Boston merged with and into Eastern Bank, Boston on March 18, 2011.
3. *Rome Savings Bank*, Rome, New York merged with and into Berkshire Bank, Pittsfield on April 1, 2011.
4. *Athol-Clinton Co-operative Bank*, Athol merged with and into Hometown Bank, Webster on April 1, 2011.
5. *Danversbank*, Danvers merged with and into People's United Bank, Bridgeport, Connecticut on July 1, 2011.
6. *Legacy Banks*, Pittsfield merged with and into Berkshire Bank, Pittsfield on July 21, 2011.

### Name Changes

Hyde Park Savings Bank changed its name to Blue Hills Bank.

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



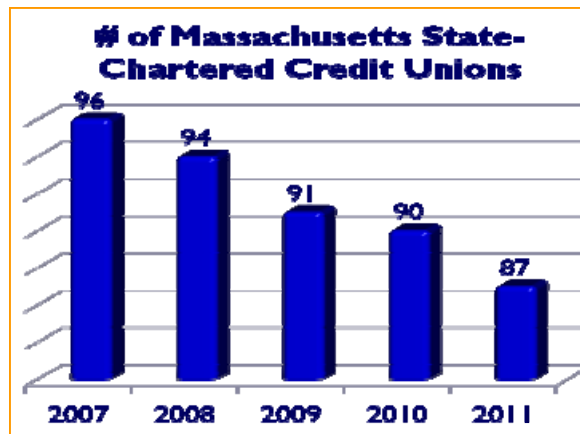
## Credit Union Transactions

The number of credit unions was reduced by three during the year due to the merging of three credit unions with and into other state-chartered credit unions. At year end, there were 87 credit unions.

A transaction involving a merger of a state-chartered credit union with and into a federal credit union received regulatory approval but was not consummated until 2012.

### Mergers

1. *Haverhill Credit Union* merged with and into Northern Mass Telephone Workers Community Credit Union, Lowell on September 30, 2011.
2. *University Credit Union*, Boston merged with and into Metro Credit Union, Chelsea on April 30, 2011.
3. *Secure Credit Union*, Melrose merged with and into Metro Credit Union, Chelsea on November 1, 2011.

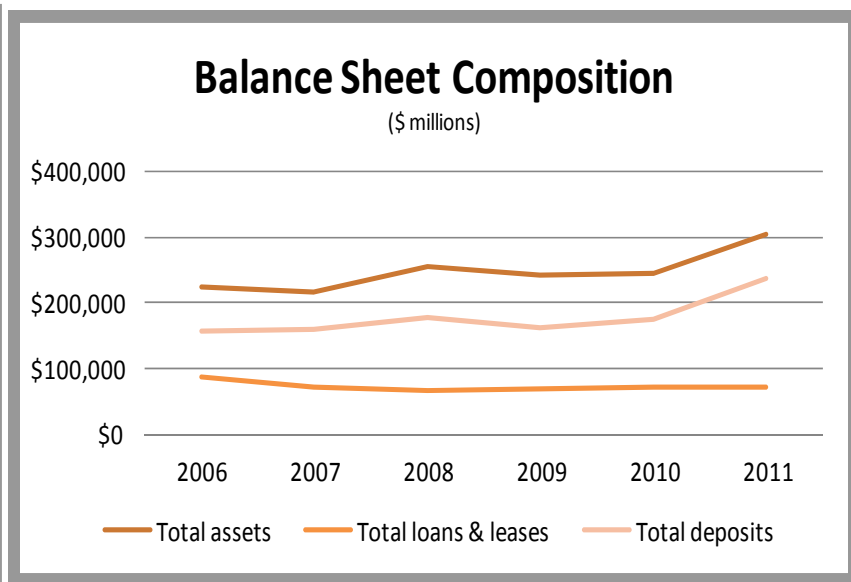
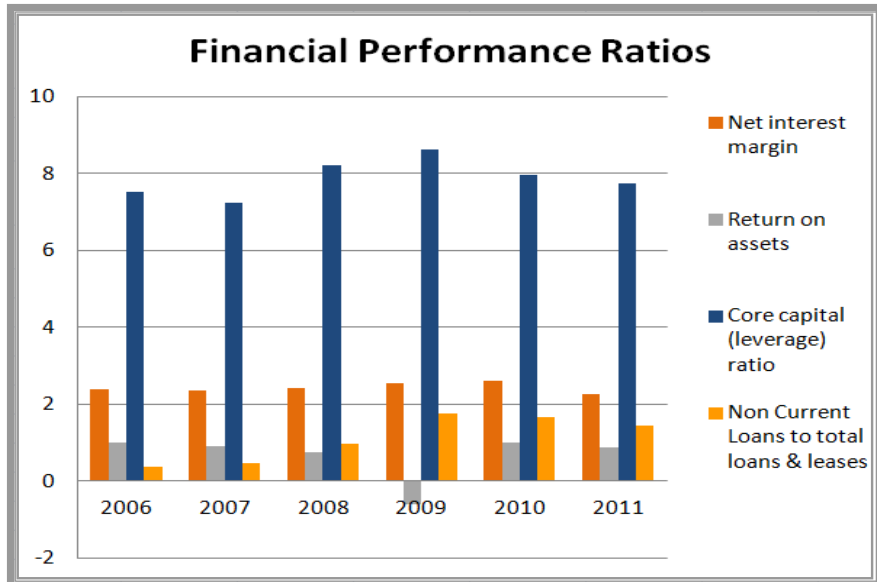


## Banks Summary

Total assets for state-chartered trust companies, co-operative banks and savings banks increased to approximately \$305 billion, an increase of 25% from year-end 2010. This increase is due in large part to continued consolidation within the industry. While the institutions continue to work through some problem assets, total loans increased minimally by 1% to \$71 billion, while other real estate owned increased to \$221 million from \$178 million in 2010 and \$176 million in 2009. However, non-performing assets as a percent of total assets has declined to 0.42% from 0.55% as of years ending 2011 and 2010, respectively. Despite a competitive market, total deposits increased by 36%, which allowed for a decrease in borrowed funds of 56%. Additionally, total equity capital increased by 10% as earnings declined by 2%.

Net income declined to \$2.41 billion for the 12 months ending December 31, 2011, from \$2.45 billion for the previous year. However, the total net income is not a good indication of the overall performance of the industry as net income includes \$1.7 billion from the largest state-chartered institution, State Street Corporation. No extraordinary items were reported for 2011 or 2010 compared to \$3.6 billion in extraordinary items in 2009, which has allowed for net income remain steady. Meanwhile, the provision for loan and lease losses, which nearly doubled from \$91 million in 2008 to \$176 million in 2009 as loan portfolios continued to be strained, decreased to \$264 million in 2010 and further to \$163 million in 2011. The industry also posted gains on the sales of securities in the amount of \$155 million.

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



## Banks | Balance Sheet

|   | 12/31/2010         | 12/31/2011         |            |
|---|--------------------|--------------------|------------|
|   | \$ in 000's        | \$ in 000's        | % change   |
| <b>Assets and Liabilities</b>                         |                    |                    |            |
| Cash and due from depository institutions             | 29,485,122         | 66,457,366         | 125%       |
| Interest-bearing balances                             | 25,395,991         | 63,370,325         | 150%       |
| Securities  | 114,750,400        | 128,974,662        | 12%        |
| Federal funds sold & reverse repurchase agreements    | 3,658,070          | 7,497,013          | 105%       |
| Net loans & leases                                    | 69,439,619         | 70,372,407         | 1%         |
| Loan loss allowance                                   | 853,481            | 796,358            | -7%        |
| Trading account assets                                | 5,627,688          | 6,844,285          | 22%        |
| Bank premises and fixed assets                        | 2,012,333          | 1,963,693          | -2%        |
| Other real estate owned                               | 177,596            | 220,523            | 24%        |
| Goodwill and other intangibles                        | 8,612,687          | 8,441,368          | -2%        |
| All other assets                                      | 11,335,441         | 14,399,821         | 27%        |
| <b>Total assets</b>                                   | <b>245,098,956</b> | <b>305,171,138</b> | <b>25%</b> |
| Total deposits  | 174,559,918        | 237,083,728        | 36%        |
| Interest-bearing deposits                             | 149,649,945        | 167,522,951        | 12%        |
| Deposits held in domestic offices                     | 95,190,394         | 140,681,647        | 48%        |
| Federal funds purchased & repurchase agreements       | 17,088,166         | 10,332,622         | -40%       |
| Trading liabilities                                   | 6,186,961          | 6,430,204          | 4%         |
| Other borrowed funds                                  | 14,039,787         | 8,999,151          | -36%       |
| Subordinated debt                                     | 1,104,174          | 1,670,987          | 51%        |
| All other liabilities                                 | 6,218,547          | 12,024,671         | 93%        |
| <b>Total liabilities</b>                              | <b>219,197,552</b> | <b>276,541,362</b> | <b>26%</b> |
| Total bank equity capital                             | 25,900,341         | 28,396,803         | 10%        |
| Perpetual preferred stock                             | 52,861             | 54,110             | 2%         |
| Common stock  | 288,644            | 147,069            | -49%       |
| Surplus   | 15,203,882         | 15,642,067         | 3%         |
| Undivided profits                                     | 10,354,954         | 12,553,557         | 21%        |
| Noncontrolling interests in consolidated subsidiaries | 1,064              | 232,973            | 21796%     |
| <b>Total equity capital</b>                           | <b>25,901,401</b>  | <b>28,629,776</b>  | <b>11%</b> |
| <b>Total liabilities and capital</b>                  | <b>245,098,956</b> | <b>305,171,138</b> | <b>25%</b> |



## Banks | Income Statement

|  | 12/31/2010       | 12/31/2011       |             |
|--|------------------|------------------|-------------|
|  | \$ in 000's      | \$ in 000's      | % change    |
| <b>Income Statement</b>                                      |                  |                  |             |
| Total interest income  | 7,231,379        | 6,579,861        | -9%         |
| Total interest expense                                       | 1,596,290        | 1,196,467        | -25%        |
| <b>Net interest income</b>                                   | <b>5,635,089</b> | <b>5,383,394</b> | <b>-4%</b>  |
| Provision for loan and lease losses                          | 264,272          | 164,470          | -38%        |
| Fiduciary activities   | 4,228,925        | 4,746,638        | 12%         |
| Service charges on deposit accounts                          | 173,661          | 167,883          | -3%         |
| Trading account gains & fees                                 | 605,301          | 681,166          | 13%         |
| Additional noninterest income                                | 1,778,713        | 1,554,589        | -13%        |
| <b>Total noninterest income</b>                              | <b>6,786,600</b> | <b>7,150,276</b> | <b>5%</b>   |
| Salaries and employee benefits                               | 4,622,427        | 4,898,763        | 6%          |
| Premises and equipment expense                               | 1,317,907        | 1,373,169        | 4%          |
| Additional noninterest expense                               | 2,710,303        | 2,921,132        | 8%          |
| <b>Total noninterest expense</b>                             | <b>8,650,637</b> | <b>9,193,064</b> | <b>6%</b>   |
| Pre-tax net operating income                                 | 3,506,780        | 3,176,136        | -9%         |
| Securities gains (losses)                                    | -240,226         | 154,905          | -164%       |
| Applicable income taxes                                      | 812,951          | 924,142          | 14%         |
| <b>Income before extraordinary items</b>                     | <b>2,453,603</b> | <b>2,406,899</b> | <b>-2%</b>  |
| Extraordinary gains - net                                    | 0                | 0                | 0%          |
| Net income attributable to noncontrolling interests          | 354              | 350              | -1%         |
| Net income attributable to bank and noncontrolling interests | 2,453,603        | 2,406,899        | -2%         |
| Net charge-offs  | 194,336          | 256,295          | 32%         |
| Cash dividends   | 1,635,044        | 84,856           | -95%        |
| Sale, conversion, retirement of capital stock, net           | 15,442           | 67,807           | 339%        |
| <b>Net operating income</b>                                  | <b>2,632,748</b> | <b>2,296,235</b> | <b>-13%</b> |
| <b>Net income attributable to bank</b>                       | <b>2,453,249</b> | <b>2,406,549</b> | <b>-2%</b>  |

## Credit Unions Summary

The Commonwealth's credit unions continued to experience sound growth in 2011, with total assets increasing 3% to \$14.9 billion from \$14.5 billion. Likewise, shares have increased to \$12.1 billion from \$11.8 billion, or 3%, despite a highly competitive deposit market and lagging economy. Asset growth has been split between loan and investment portfolios, as both experienced an approximate 3% growth during 2011. Loan growth was accompanied by a slight increase in problem assets, however, as loan reserves and OREO properties both increased marginally during 2011. Borrowed funds have increased as well throughout the industry, climbing about 3%. An increased level of borrowings is primarily the result of credit unions leveraging low interest rates.

Net income for the Commonwealth's credit unions decreased between 2010 and 2011, falling from \$63 million to \$52 million, or 19%. While net interest income remains relatively stable, declines in non-interest income coupled with increases in non-interest expense resulted in an overall lower net income level. Most of the decrease in non-interest income stems from the decline of fee income, which fell approximately \$7 million, or 9%. Historically, fee income is not a reliable income source, so swings between periods are expected. Almost all non-interest expense categories increased between 2010 and 2011, resulting in a total increase of \$14 million, or 3%, between 2010 and 2011. For several years, credit unions have been expanding branches and services in an effort to attract new members; as such, the continued increase in non-interest expense is not unusual. It should also be noted that a positive trend in the Provision for Loan and Lease Losses expense is surfacing. This expense declined in the aggregate by 24%, from \$41 million to \$32 million. The lower expense is a reflection of improvements in asset quality, as both delinquency and net charge-off ratios are lower than 2010 levels.

Overall, Massachusetts state-chartered credit unions were profitable in 2011, with a net income of \$52 million. The net income for 2011 increased aggregate equity capital by 4%, bringing it to \$1.7 billion. The industry as a whole appears strong, as credit unions continue to grow and diversify their memberships.



## Credit Unions | Balance Sheet

| CREDIT UNIONS                                |                   |                   |           |
|--|-------------------|-------------------|-----------|
| STATEMENT OF CONDITION                       |                   |                   |           |
| Years ended December 31,                     | 2010              | 2011              | % Change  |
| Dollars in thousands                         |                   |                   |           |
| <b>Assets</b>                                |                   |                   |           |
| Cash and Investments                         | \$5,052,755       | 5,184,924         | 3%        |
| Loans and Leases, Net of Unearned Income     | 9,030,677         | 9,293,343         | 3%        |
| Allowance for Loan and Lease Losses          | 84,569            | 85,620            | 1%        |
| Net Loans and Leases                         | 8,946,108         | 9,207,723         | 3%        |
| Land and Building                            | 203,711           | 207,876           | 2%        |
| Other Fixed Assets                           | 55,691            | 51,585            | -7%       |
| Other Real Estate Owned                      | 11,437            | 12,545            | 7%        |
| Other Assets                                 | 268,196           | 301,702           | 12%       |
| <b>Total Assets</b>                          | <b>14,537,897</b> | <b>14,966,355</b> | <b>3%</b> |
| <b>Liabilities</b>                           |                   |                   |           |
| Total Shares and Deposits                    | 11,803,170        | 12,121,492        | 3%        |
| Total Borrowings                             | 983,583           | 1,016,667         | 3%        |
| Accrued Dividends Payable on Shares          | 991               | 725               | -27%      |
| Accounts Payable and Other Liabilities       | 89,213            | 96,876            | 9%        |
| <b>Total Liabilities</b>                     | <b>12,876,957</b> | <b>13,235,761</b> | <b>3%</b> |
| <b>Equity</b>                                |                   |                   |           |
| Regular Reserves                             | 263,265           | 260,995           | -1%       |
| Appropriation for Non-Conforming Investments | 114               | 115               | 1%        |
| Undivided Earnings                           | 1,368,548         | 1,413,827         | 3%        |
| Net Unrealized Gain/(Loss) on AFS            | 31,637            | 52,522            | 66%       |
| Other Reserves                               | (2,624)           | 3,136             | 220%      |
| <b>Total Equity Capital</b>                  | <b>1,660,940</b>  | <b>1,730,595</b>  | <b>4%</b> |
| <b>Total Liabilities + Equity Capital</b>    | <b>14,537,897</b> | <b>14,966,355</b> | <b>3%</b> |

## Credit Unions | Income Statement

| CREDIT UNIONS<br>STATEMENT OF INCOME<br>Years ended December 31,<br>Dollars in thousands |                |                |             |
|--|----------------|----------------|-------------|
|  | 2010           | 2011           | % Change    |
| Total Interest Income  | \$ 593,177     | \$555,559      | -6%         |
| Total Interest Expense   | 188,002        | 151,169        | -20%        |
| <b>Net Interest Income</b>   | <b>405,175</b> | <b>404,390</b> | <b>0%</b>   |
| <b>Provision for Loan and Lease Losses</b>   | <b>41,493</b>  | <b>31,536</b>  | <b>-24%</b> |
| Fee Income   | 79,353         | 72,352         | -9%         |
| Other Operating Income   | 32,440         | 32,855         | 1%          |
| Gain (Loss) on Investments   | 5,202          | 4,914          | -6%         |
| Gain (Loss) on Disposition of Fixed Assets   | (767)          | (1,187)        | -55%        |
| Gain from Bargain Purchase (Merger)  | 0              | 302            |             |
| Other Non-Operating Income/(Expense)   | 667            | 710            | 6%          |
| <b>Total Non-Interest Income</b>   | <b>116,895</b> | <b>109,946</b> | <b>-6%</b>  |
| Employee Compensation and Benefits   | 204,266        | 207,839        | 2%          |
| Travel and Conference Expense  | 4,634          | 4,270          | -8%         |
| Office Occupancy Expense   | 34,246         | 36,058         | 5%          |
| Office Operation Expense   | 62,409         | 64,656         | 4%          |
| Education and Promotional Expense  | 15,705         | 16,080         | 2%          |
| Loan Servicing Expense   | 15,084         | 17,140         | 14%         |
| Professional and Outside Services  | 40,716         | 42,272         | 4%          |
| Member Insurance   | 28,370         | 29,874         | 5%          |
| Operating Fees   | 1,860          | 2,296          | 23%         |
| Miscellaneous Operating Expenses   | 9,788          | 10,531         | 8%          |
| <b>Total Non-Interest Expense</b>  | <b>417,078</b> | <b>431,016</b> | <b>3%</b>   |
| <b>Net Income (Loss)</b>   | <b>63,500</b>  | <b>51,785</b>  | <b>-19%</b> |

## 2011 Division of Banks Staff

|             |             |             |              |             |            |                       |               |
|-------------|-------------|-------------|--------------|-------------|------------|-----------------------|---------------|
| Kevin       | Adamson     | Olga        | Cuevas-Gomez | Joseph      | Leonard    | Joyce                 | Richardson    |
| Akwasi      | Agyemang    | Maureen     | Cunningham   | Michele     | Lindenmuth | Saul                  | Rivas         |
| David       | Ahern       | Andrew      | DeBaun       | Andrew      | Lowney     | Mayte                 | Rivera        |
| John        | Allen       | Rosalie     | Delucia      | Ezekiel     | Luhigo     | Olga                  | Romanova      |
| Beverley    | Ashby       | Aimee       | Desai        | Michael     | Luongo     | Nelia                 | Sales         |
| Shawna      | Avey        | Joseph      | DeStefano    | Thomas      | Maher      | Christopher           | Shea          |
| Gary        | Backaler    | Valentina   | Dimunah      | Shannon     | Mahoney    | Mark                  | Sheehan       |
| George      | Balakier    | Harkeem     | Dixon        | Ermias      | Makonnen   | Gregory               | Short         |
| James       | Barrett     | Kelly       | Donohue      | Mary Ann    | Manning    | Christine             | Snow          |
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| Benedic     | Beaulieu    | Richard     | Dumais       | Michael     | McCracken  | Theresa               | Spinosa       |
| Cynthia     | Begin       | Thomas      | Dumont       | David       | McPhillips | Gregory               | Stevens       |
| Elizabeth   | Benotti     | Stephen     | Dunn         | Ellen       | Merrill    | Christopher           | Stevens       |
| Giovanni    | Benson      | Jami        | Flynn        | Margaret    | Mezzetti   | Kristin               | Strycharz     |
| Jane        | Berger      | Tiffany     | Fowlie       | Christopher | Miles      | Gail                  | Sullivan      |
| Jay         | Bienvenu    | Sheila      | Frackleton   | John        | Milios     | Brian                 | Sweeney       |
| Betty       | Boakye      | Christine   | Frodema      | Brenda      | Miller     | Wei-Kwan              | Tam           |
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| Jean        | Boustany    | Jared       | Gordon       | Janet       | Miller     | Jennifer              | Tigano        |
| Deirdre     | Brassil     | Jennifer    | Gordon       | Jean        | Moriarty   | Neil                  | Tobin         |
| Thomas      | Brennan     | James       | Granfield    | Janet       | Mullen     | Ryan                  | Tobin         |
| Christopher | Brown       | Jamar       | Green        | Christopher | Muros      | Keith                 | Vaidya        |
| Paul        | Browne      | Anita       | Grieco       | Stephanie   | Ng         | Samuel                | Wangombe      |
| Nicole      | Bullock     | Benjamin    | Griffis      | Ales        | Norsky     | Lynn                  | Washburn      |
| Laura       | Campobasso  | Azieb       | Haile        | Stephen     | O'Brien    | Zachary               | Wermer        |
| Valerie     | Carbone     | Christopher | Hanson       | Liam        | O'Driscoll | Irene                 | Weydt         |
| Elizabeth   | Carney      | Amy         | Hassey       | Stephen     | O'Leary    | Lily                  | Wong          |
| Christina   | Casaleto    | Karen       | Henry        | Clement     | O'Malley   | Kimberly              | Wood-Grazulis |
| Marjorie    | Catanoso    | Michael     | Hensler      | Xavier      | Ortiz      | Elizabeth             | Wozniak       |
| Anthony     | Chapdelaine | Seth        | Hersey       | Nicole      | Palumbo    | Mary                  | Yang          |
| Holly       | Chase       | Matthew     | Holt         | Andrew      | Papalegis  | <i>In Memoriam:</i>   |               |
| Andrea      | Cipolla     | Jane        | Hurter       | Barbara     | Pelletier  | Michael               | Gavin         |
| Sandra      | Clarke      | Mulugheta   | Isayass      | Olga        | Perez      |                       |               |
| Margaret    | Clifford    | Martin      | Jewett       | Juan        | Pimentel   | <i>2011 Retirees:</i> |               |
| Michael     | Collins     | Hitaishi    | Jhaveri      | Anthony     | Polito     | Deborah               | Doyle         |
| Alisha      | Cooper      | Pamela      | Kaufman      | Christopher | Pope       | Peter                 | O'Beirne      |
| Adam        | Costoplus   | John        | Kelley       | Joanne      | Pope       | Richard               | Andre         |
| David       | Cotney      | James       | Kelly        | John        | Porter     | Steven                | Cofsky        |
| Maureen     | Courtenay   | Domenick    | Lasorsa      | Corwin      | Profitt    | John                  | Craven        |
| Tiffany     | Crapps      | Alexis      | Leahy        | Mary Ellen  | Quirk      |                       |               |
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