Decision of June 12, 2014

By the Division of Banks

DECISION

RELATIVE TO THE MERGER OF
SAUGUSBANK, A CO-OPERATIVE BANK, SAUGUS, MASSACHUSETTS
WITH AND INTO
NORTH SHORE BANK, A CO-OPERATIVE BANK, PEABODY, MASSACHUSETTS

North Shore Bank, a Co-operative Bank (Petitioner or North Shore), Peabody, Massachusetts has applied to the Division of Banks (Division) to merge with Saugusbank, A Co-operative Bank (Saugusbank), Saugus, Massachusetts pursuant to the provisions of Massachusetts General Laws chapter 167H, section 7, clause (2), as well as Massachusetts General Laws chapter 170, section 25. Under the terms of the Agreement and Plan of Merger (Merger Agreement) dated as of February 12, 2014, Saugusbank will merge with and into North Shore under the charter, by-laws and name of North Shore Bank, a Co-operative Bank (Continuing Institution). All of the banking offices of Saugusbank will be retained after the merger. North Shore’s parent is North Shore Bancorp (Bancorp), Peabody, Massachusetts, a mutual holding company. Although Saugusbank is in mutual form and North Shore is in stock form, the transaction is authorized under Massachusetts General Laws chapter 167H, section 7, clause (2) since Bancorp is a mutual holding company and North Shore is its subsidiary banking institution.

Notice of the Petitioner’s application was posted and published as directed by the Division thereby affording opportunity for interested parties to submit comments. The period for filing comments has expired. Accordingly, all documents and materials related to this transaction have been reviewed. The Division reviewed the application in accordance with the statutory criteria of whether competition among banking institutions will be unreasonably affected and whether public convenience and advantage as well as net new benefits would be promoted by approval of the proposed transaction. Both banks’ records of performance under the Commonwealth’s Community Reinvestment Act (CRA), Massachusetts General Laws chapter 167, section 14 and the Division's regulation, 209 CMR 46.00 et seq. also were factors considered by the Division.

North Shore was chartered as a mutual co-operative bank in 1888. It reorganized into the mutual holding company form of organization in 1998 after receiving required approvals from the Division and the Massachusetts Board of Bank Incorporation. Accordingly, North Shore is the subsidiary banking institution in stock form of a mutual holding company, Bancorp, which owns all of the stock of North Shore. As of December 31, 2013, North Shore had total assets of approximately $470 million. In addition to its main office in Peabody, Massachusetts, North Shore operates two branch offices in both Peabody and Salem, as well as branch offices in Beverly, Danvers, and Middleton. As part of this merger application, North Shore will designate its branch office at 248 Andover Street, Peabody, Massachusetts as the main office of the Continuing Institution and retain its current main office at 32 Main Street, Peabody, Massachusetts as a branch office. North Shore's deposits are insured up to allowable limits by the Federal Deposit Insurance Corporation (FDIC) and by the Share Insurance Fund of the Co-operative Central Bank for amounts in excess of the FDIC’s insurance limits.

Saugusbank was chartered as a mutual co-operative bank in 1911. As of December 31, 2013, it had total assets of approximately $206 million. In addition to its main office in Saugus, Saugusbank also operates two branch offices in Saugus. Saugusbank’s deposits are insured up to allowable limits by the FDIC and the Share Insurance Fund of The Co-operative Central Bank for amounts in excess of the FDIC’s insurance limits.

Materials have been submitted to address the issue that competition among banks will not be unreasonably affected by the proposed transaction. In analyzing the impact of a proposed transaction on banking competition, the Division considers, but does not rely exclusively upon, the guidelines used by federal authorities to review bank mergers.
Essentially, these guidelines define relevant markets and measure concentration, which is considered an important indicator of competitiveness. The starting point in the federal analysis is the Herfindahl-Hirschman Index (HHI), an arithmetic measure of market concentration that synthesizes the distribution of market shares and the number of banks in an affected market into a single value. In this case, there will be a de minimis increase in the HHI for the geographical areas analyzed. In addition to that analysis, the Division considers the competitive impact of the proposed transaction on a community-by-community basis, as well as on the overall banking structure of the Commonwealth.

There is no city or town in which both banks maintain a banking office, even though both banks operate their banking offices in Essex County. In addition, the communities included in the respective primary service areas of the merging banks are also different. Accordingly, the review of the transaction’s impact on competition does not raise concerns which would preclude its approval.

The Division has also considered the record of this application to determine whether public convenience and advantage will be promoted by this transaction. Under the proposed merger, the Petitioner states it will offer all of the deposit and credit products presently offered by both banks. The Petitioner also states that the Continuing Institution will be able to offer several products and services that have not previously been directly available to Saugusbank customers, including remote deposit capture services, cash management services, and non-deposit investment products offered through North Shore’s wholly-owned subsidiary Baystate Financial, LLC. The expanded foreign currency services and pre-paid debit card products of Saugusbank will also be available to customers of the combined bank. Additionally, customers of both banks will benefit from the larger lending limit available through the combined institution. Customers of both banks also will benefit through an expanded network of banking offices and ATMs. The Division considered these reasons and others cited in the submitted documents in determining that public convenience and advantage will be promoted by approval of this transaction.

In determining whether or not to approve a petition under the statutory criteria, the Commissioner is also required to consider a showing of “net new benefits” related to the transaction. That term includes initial capital investments, job creation plans, consumer and business services and commitments to maintain and open branch offices, among other factors, which the Commissioner may deem necessary. The Petitioner has addressed this requirement of statute. The Continuing Institution intends to make initial capital investments of approximately $250,000 in banking office renovations, new signage, and information systems improvements. Each employee of Saugusbank will be offered employment with North Shore at a position with comparable duties and compensation. It is noted that all of the current banking offices of Saugusbank will continue to be maintained as branch offices of the Continuing Institution. As described above, customers of both banks will benefit from a broader array of products and services to be offered by the combined bank than that which was previously offered by the two banks independently. Accordingly, the Division has reviewed factors related to public convenience and advantage, as well net new benefits, and has determined that they are consistent with approval of the Petitioner’s application.

Related to the issue of public convenience and advantage is the record of performance under the CRA by the banks which are parties to this transaction. Such review for state-chartered banks includes examination by personnel of the Division as well as analysis of concerns received from the bank’s community and its response to those concerns fairly raised. A publicly available descriptive rating and evaluation by a federal bank regulatory agency will also be considered. Both banks have received “Satisfactory” ratings in the most recent examinations of their performance under CRA.

The application states that, in connection with the merger, the Continuing Institution’s Board of Directors will consist of all of the individuals serving as directors of North Shore immediately prior to the consummation of the merger and six directors of Saugusbank. Similarly, Bancorp has amended its bylaws in connection with the merger to increase the number of corporators by six and to elect the six directors of Saugusbank to also become corporators of Bancorp. The management of the combined bank is also detailed in the application documents and includes personnel from both North Shore and Saugusbank. Other than fees and expenses related to the merger, there is no financing of the transaction since it is a merger with a mutual bank. Capital ratios of the Continuing Institution have been considered in the review of this transaction. Reduced corporate expenses and increased operating efficiencies resulting from the transaction are set out in the submitted documents. Upon consolidation, the Continuing Institution will meet all required
capital standards. Accordingly, upon review, financial and managerial considerations support the application.

Upon review of the complete record of the application with reference to the relevant statutory and regulatory requirements, this Division has concluded that the consummation of the proposed consolidation would be in the public interest. On the basis of these considerations, approval is granted to merge Saugusbank with and into North Shore under the charter, by-laws and name of North Shore Bank, A Co-operative Bank under the provisions of said clause (2) of section 7 of chapter 167H, and said section 25 of chapter 170 of the General Laws. Upon consummation of the merger, the charter of Saugusbank will cease to exist and the separate existence of Saugusbank shall cease and all of the rights, privileges, powers, franchises, properties, assets, liabilities and obligations of Saugusbank shall be vested in and assumed by North Shore. Approval is also granted pursuant to Massachusetts General Laws chapter 167C, section 2 for North Shore to designate its branch office at 248 Andover Street, Peabody, Massachusetts as its main office and to maintain its current main office at 32 Main Street, Peabody, Massachusetts as a branch office.

The approvals granted herein are subject to the following conditions:

1. That the proposed merger shall not become effective until a Certificate signed by the Presidents and Clerks, or other duly authorized officers of each bank, indicating that each institution has complied with the provisions of Massachusetts General Laws chapter 167H, section 7, clause (2) and chapter 170, section 25 has been returned for my endorsement thereon;

2. That the proposed merger shall not become effective until Articles of Merger with my endorsement thereon are filed with the Secretary of State; and

3. That the proposed merger shall be consummated within one year of the date of this Decision.

June 12, 2014

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Date

David J. Cotney
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Commissioner of Banks