

DECISION

Decision Relative to the Merger of Melrose Bank, Melrose, Massachusetts with and into Cambridge Savings Bank, Cambridge, Massachusetts

DATE:

05/22/2020

ORGANIZATION:

Division of Banks

Cambridge Savings Bank, Cambridge, Massachusetts (Cambridge Savings) has applied to the Division of Banks (Division) for approval to merge with Melrose Bank, Melrose, Massachusetts pursuant to the provisions of Massachusetts General Laws chapter 167H, section 7 and chapter 167I, section 3. Under the terms of an Agreement and Plan of Merger (Merger Agreement) dated as of February 18, 2020, Melrose Bank will merge with and into Cambridge Savings (Merger) under the charter, by-laws, and name of Cambridge Savings (Continuing Institution). The main office of Cambridge Savings will remain the main office of the Continuing Institution after consummation of the proposed merger, and the Continuing Institution will retain the sole banking office of Melrose Bank as a branch office.

The merger application was filed in connection with a multi-step transaction. Cambridge Financial Group, Inc. (Cambridge Financial), the mutual holding company for Cambridge Savings, will acquire the stock of Melrose Bank through a merger of Melrose Bank's holding company, Melrose Bancorp, Inc. (Melrose Bancorp) with a newly-formed Maryland corporation (Merger Subsidiary), a wholly-owned subsidiary of Cambridge Financial to facilitate this multi-step transaction. At the effective time of the merger, Merger Subsidiary will merge with and into Melrose Bancorp, resulting in Melrose Bancorp becoming a subsidiary of Cambridge Financial and with Melrose Bank becoming an indirect subsidiary of Cambridge Financial). Melrose Bancorp will then be dissolved. Simultaneously with the merger of Merger Subsidiary into Melrose Bancorp, Melrose Bank will merge with and into Cambridge Savings.

Legal and Procedural Requirements (#legal-and-procedural-requirements)

The Parties (#the-parties)

Competition (#competition)

Public Convenience and Advantage (#public-convenience-and-advantage)

Financial and Managerial Considerations (#financial-and-managerial-considerations)

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Legal and Procedural Requirements

Notice of Cambridge Savings' 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, and no comments were received. The Division reviewed the application and supplementary materials submitted by Cambridge Savings in accordance with applicable law including the statutory criteria of whether competition among banking institutions will be unreasonably affected and whether public convenience and advantage, and "net new benefits" will be promoted by approval of the proposed transaction. The Division also considered both banks' records of performance under the Community Reinvestment Act (CRA) as well as financial and managerial factors.

Pursuant to Massachusetts General Laws chapter 167A, section 3, an application to the Commonwealth's Board of Bank Incorporation was not required for this transaction because the merger of Merger Subsidiary and Melrose Bancorp will occur simultaneously with the merger of Melrose Bank into Cambridge Savings, and the bank merger requires the approval of the Commissioner of Banks. In reviewing the proposed transaction, the Division must receive notice from the Massachusetts Housing Partnership Fund (MHPF) that satisfactory arrangements have been made consistent with Massachusetts General Laws chapter 167A, section 4 and the MHPF's affordable housing loan programs. The Division received notice from the MHPF that satisfactory arrangements have been made for this transaction in a letter dated May 7, 2020.

In reviewing the proposed transaction, the Division must receive notice that satisfactory arrangements have been made with the excess deposit insurer. The Depositors Insurance Fund confirmed by letter dated March 20, 2020 that satisfactory arrangements have been made relative to the Merger.

The Parties

Cambridge Savings is a Massachusetts state-chartered savings bank and is the sole banking subsidiary of Cambridge Financial. In addition to its main office, Cambridge Savings operates 15 full-service branches in Massachusetts. As of March 31, 2020, Cambridge Savings had total assets of approximately \$4.5 billion and total deposits of approximately \$3.3 billion. Cambridge Savings offers a wide range of consumer and commercial products and services. Cambridge Savings' deposits are insured up to applicable limits by the

Federal Deposit Insurance Corporation (FDIC). Deposits in excess of the FDIC limits are insured by the Depositors Insurance Fund.

Melrose Bank is a Massachusetts state-chartered co-operative bank and is the sole banking subsidiary of Melrose Bancorp. Melrose Bank operates out of its sole office in Melrose, Massachusetts, through which it offers deposit and lending products and services to consumers and commercial customers. As of March 31, 2020, Melrose Bank had total assets of approximately \$339 million and total deposits of approximately \$275 million. The deposits of Melrose Bank are insured up to applicable limits by the FDIC. Deposits in excess of the FDIC limits are insured by the Depositors Insurance Fund (since the merger of The Co-operative Central Bank with and into the Depositors Insurance Fund on March 17, 2020).

Competition

Cambridge Savings submitted materials 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 the federal authorities to review bank mergers. These guidelines define relevant geographic markets and measure market concentrations as indicators of competitiveness in the local banking markets. 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 the affected market into a single value. Based on the information presented by Cambridge Savings, the HHI analysis demonstrates that consummation of the transaction will not cause a substantial reduction in competition or result in an undue concentration of banking resources in the relevant markets.

In addition to reviewing the HHI analysis submitted by Cambridge Savings, the Division also 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. The Merger will not affect any of the communities in which the two banks do business since Cambridge Savings is planning to maintain all of its current branches, as well as the sole banking office of Melrose Bank. Also, the significant presence of other banks, credit unions, and non-depository lenders in the relevant markets is a further indication that the proposed transaction will not result in an undue concentration of banking resources in the communities to be served by the Continuing Institution. Accordingly, the Division's analysis of the competitive impact of this transaction supports an approval.

Public Convenience and Advantage

The Division considers information provided in the application addressing whether public convenience and advantage will be promoted by the proposed merger. Cambridge Savings anticipates that the Merger will provide Melrose Bank with the opportunity to become part of a larger banking organization that possesses the financial and personnel resources necessary to maintain the continuing growth and innovation that are essential to remaining relevant within the increasingly competitive Greater Boston banking market.

Cambridge Savings maintains that the Merger will enhance several banking services offered by the Continuing Institution and will enable Melrose Bank customers to access enhanced services while maintaining their existing banking relationships. With no branch office closings anticipated as a result of this transaction, customers of Melrose Bank will benefit from access to the larger branch office network of Cambridge Savings.

In determining whether to approve a petition under the statutory criteria, the Division is required to consider a showing of “net new benefits” related to the transaction. That term as set out in Massachusetts General Laws chapter 167I, section 3, includes initial capital investments, job creation plans, consumer and business services, and commitments to maintain and open branch offices, among other factors that the Division may deem necessary. To make a determination as to the proposed transaction’s net new benefits, the Division notes the following considerations from the application submission. Cambridge Savings plans to update Melrose Bank’s one branch in the future as it updates its own current branches; in addition, Cambridge Savings plans to maintain the sole banking office of Melrose Bank as a branch office of the Continuing Institution. In terms of employment, Cambridge Savings has confirmed that there will be staffing reductions due to the merger. These reductions in staff will primarily consist of back office personnel and individuals who do not wish to join the Continuing Institution. As Cambridge Savings assimilates its new footprint in Melrose and the surrounding municipalities, it anticipates job expansion in the future. In addition, Cambridge Savings submitted information regarding its broad array of banking products and services that go beyond the services presently offered by Melrose Bank. The current additional consumer services that Cambridge Savings offers include: passbook savings accounts, a bank-at-work program, credit cards, personal loans, home improvement loans, savings bond redemptions, medallion signature guarantees, investment advisory services, and advanced relationship functionality that enables customers to use certain aggregated balances to waive transaction account fees. Cambridge Savings will bring enhanced capabilities in commercial real estate lending, commercial and industrial lending, small business, including SBA, lending and a full array of account, payment, and cash management services to the commercial and small businesses in Melrose Bank’s current market area. Cambridge Savings also offers asset-based lending and commercial letter of credit services. Melrose Bank does not currently possess such commercial lending and credit capabilities. Cambridge Savings believes the Continuing Institution will be in a better position to continue to develop additional products and services. Based upon the review of these factors, the Division finds that the submissions related to public convenience and advantage, including net new benefits, are consistent with approval of the transaction.

Another factor for consideration closely related to the issue of public convenience and advantage is the record of CRA performance by the respective banks. Such review for Massachusetts-chartered banks includes examination by personnel of the Division. A publicly available descriptive rating and evaluation by a federal bank regulatory agency may also be considered. Cambridge Savings received an “Outstanding” rating in its most recent CRA performance evaluation conducted jointly by the Division and the FDIC as of September 25, 2017. Melrose Bank received a “Satisfactory” rating in its most recent CRA performance evaluation conducted jointly by the Division and the FDIC as of February 26, 2018. Cambridge Savings highlighted in the application materials that the local communities currently served by Melrose Bank will benefit from being part of an institution with an “Outstanding” CRA rating. The Division’s review of the CRA performance of Cambridge Savings and Melrose Bank also supports the approval of the proposed Merger.

Financial and Managerial Considerations

The Division reviews and considers the financial and managerial aspects of the proposed transaction. Cambridge Savings has adequate capital and liquidity on a consolidated basis to complete the Merger without reliance on any external financing. Materials provided indicate that upon consummation of the transaction, the Continuing Institution will meet all applicable regulatory capital requirements.

At the effective time of the Merger, the boards of directors of Cambridge Financial and Cambridge Savings will be joined by one director that currently serves on the board of Melrose Bank and Melrose Bancorp. According to the application materials, the current executive officers of Cambridge Savings will remain the executive officers of the Continuing Institution, and no changes in the senior management of Cambridge Savings are proposed in conjunction with the Merger. Accordingly, upon review, the financial and managerial considerations support the Division's approval of the application.

Conclusion

Upon review of the complete record of the application with reference to the relevant statutory and regulatory requirements, the Division concludes that all such requirements have been met and that consummation of the proposed transaction is in the public interest. On the basis of these considerations and subject to the conditions set forth below, approval is granted for Melrose Bank to merge with and into Cambridge Savings under the charter, by-laws, and name of Cambridge Savings pursuant to section 3 of chapter 167I of the General Laws. Approval is also granted to maintain the sole banking office of Melrose Bank as a branch office of the Continuing Institution pursuant to Massachusetts General Laws chapter 167C, section 3.

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 167I, section 3 has been returned with my endorsement thereon;
2. That the proposed merger shall not become effective unless the 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.

Mary L. Gallagher

Commissioner of Banks

May 22, 2020

