2014, like the year before it, was a busy year for bank mergers and acquisitions in Massachusetts. This year promises more of the same. The year 2014 saw five credit union mergers, three mutual bank mergers, two acquisitions of stock banks by mutuals and three mergers of stockholder-owned banks. At the beginning of 2015, the first merger of Massachusetts mutual banks had already been announced.

Over the past year, M&A activity has been sparse elsewhere in New England. In 2014, Connecticut saw three bank mergers and New Hampshire, one, while none were reported in Vermont, Maine or Rhode Island. New Hampshire saw the first attempt in years to form a de novo bank, Bedford-based Primary Bank, in New England.

One driving force behind the credit union and mutual bank mergers was, not surprisingly, economies of scale. For the most part, the mutual bank mergers, including the acquisition of Granite Savings Bank by Cape Ann Savings Bank, the merger of Saugus Bank into North Shore Bank, FamilyFirst Bank’s merger into North Brookfield Savings Bank, and the recently announced plans of Northampton Cooperative Bank to merge into Greenfield Cooperative Bank involved small institutions in the same or adjacent communities seeking to spread the increasing costs of technology and regulatory compliance over a broader customer base. The cash acquisition of stockholder-owned Rockport National Bank falls in the same category.

Geographic Expansion

Geographic market expansion was also a significant deal-motivating factor. Last year saw two interstate acquisitions involving Massachusetts banks. In one, Boston-based mega-mutual Eastern Bank made a strategic market extension acquisition of small, Bedford, N.H.-based Centrix Bank & Trust Co. In the other, aggressive Glastonbury, C.T.-based Rockville Bank acquired the name and franchise of West Springfield, Mass.-based United Bank.

Elsewhere in Connecticut, Fairfield County-based Bankwell Bank expanded eastward into New Haven County with its acquisition of the $100 million-asset Quinnipiac Bank & Trust Co.. Salisbury Bank & Trust Co. expanded westward across the Hudson, acquiring the much smaller Poughkeepsie, N.Y.-based Riverside Bank. Both transactions resulted in community banking institutions approaching the $1 billion mark in total assets. Further north, Lebanon, N.H.-based Mascoma Savings Bank paid cash to acquire Connecticut River Bank, N.A., and extend the mutual’s Connecticut River Valley franchise south to the Massachusetts border.

The year 2014 saw two acquisitions of small, recently converted savings banks by larger stock bank acquirers: Facing serious threat of a proxy fight from activist shareholders seeking to force a sale, Springfield, Mass.-based Hampden Bank sought and found refuge in a timely, negotiated sale to “white knight” Berkshire Bank. And the ever-acquisitive Rockland Trust expanded its Boston presence with the purchase of Brighton-based Peoples Savings Bank.

With five combinations announced in 2014, the credit union side of the Massachusetts retail banking sector was just as active. Four credit union mergers involved small institutions in adjacent communities serving similar or overlapping community-, employment- or ethnically-defined fields of membership. The fifth involved the expansion of the ever-expansive Metro Credit Union into Newton with the absorption of tiny Newton Municipal Credit Union.

Stock Conversions & Holding Companies

In addition to a steady stream of bank mergers and acquisitions, 2014 saw a marked increase in stock conversion transactions by Massachusetts mutual banks. East Boston Savings Bank, Cohasset-based Pilgrim Bank, Melrose Savings Bank and Norwood-based Blue Hills Bank all completed successful stock conversions during 2014.

However, a couple of year-end developments may portend a slow-down in mutual bank conversion activity in 2015. These include an activist shareholder threat pushing converted thrift Hampden Bank into a merger with...
Berkshire Bank, the failure of Beverly Bank to secure the depositors vote required to approve management’s plan of mutual to stock conversion, and finally, adoption by Reading Cooperative Bank of a bylaw specifically removing the insider financial incentive for converting from mutual to stock form. Time will tell whether these developments mark a turning point, or are simply speed bumps on the road to conversion.

For the first time in recent memory, the Massachusetts Division of Banks did not approve any mutual holding company formations in 2014. Approval of these ownership reorganizations of mutual savings and cooperative banks had become a staple of the Division of Bank Activity Reports since 1995. Rather than disaffection, the drop-off in applications reflects the near universal adoption of this form of ownership structure by mutual banking institution since MHCs were first authorized in 1987. New legislation provides authority for mutual banks to unwind previously formed mutual holding companies that they no longer need. It will be interesting to see whether any banks take advantage of this new authority during 2015. Meanwhile, in Maine, Kennebunk Savings Bank completed its mutual holding company formation.

In Massachusetts, the bank M&A forecast is complicated somewhat by Gov. Deval Patrick’s term-ending signature of a sweeping revision of Massachusetts’ bank mergers and acquisitions laws on Jan. 7. Chapter 482 of the Acts of 2014 repeals and recodifies much of the prior statute law governing mergers and acquisitions of Massachusetts banks as new Chapter 167I of the General Laws. It remains to be seen how, if at all, these statutory changes, which go into effect in April, will affect the pace of bank M&A activity in Massachusetts.

More technically minded observers note that one of the year’s transactions involved creative transaction structuring to work around perceived regulatory obstacles. The Institution for Savings in Newburyport structured its cash purchase of Rockport National Bank as a two step transaction involving the merger of Rockport’s holding company into a newly formed “shell” subsidiary, followed by the purchase of all of Rockport’s assets and assumption of all its deposits and other liabilities by IFS, apparently to overcome the apparent absence of Massachusetts statutory authority to merge a federally-chartered stock bank directly into a mutual.

All in all, our forecast is for a continuation and perhaps a slight increase in the pace of Massachusetts and other New England bank M&A activity in 2015. Though there have been no new banks successfully formed in several years, we are fortunate to still enjoy the benefits of a large number of community banks serving the New England region. BNE