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Decision of May 14, 2007

By the [Division of Banks](#)

DECISION
RELATIVE TO THE APPLICATION OF
CHITTENDEN CORPORATION, BURLINGTON, VERMONT
TO ACQUIRE
MERRILL MERCHANTS BANCSHARES, INC., BANGOR, MAINE

Chittenden Corporation, Burlington, Vermont ("Chittenden" or the "Petitioner") has petitioned the Board of Bank Incorporation (the "Board") pursuant to the provisions of Massachusetts General Laws chapter 167A, sections 2 and 4 to acquire Merrill Merchants Bank, ("Merrill Bank") Bangor, Maine, through the acquisition of its holding company, Merrill Merchants Bancshares, Inc., ("Merrill Bancshares") Bangor, Maine. Merrill Bank is a bank chartered by the State of Maine. In the Commonwealth, Chittenden is the holding company for The Bank of Western Massachusetts, Springfield, Massachusetts and Flagship Bank and Trust Company, Worcester, Massachusetts. The Bank of Western Massachusetts and Flagship Bank and Trust Company are Massachusetts chartered trust companies. Subsequent to the merger of the holding companies, Merrill Bank will operate as a wholly-owned subsidiary of Chittenden.

Notice of the application was published and posted as directed by the Board, thereby affording opportunity for interested parties to submit comments. Other standard procedures informing the public of this matter before the Board were implemented. The Board held a public hearing on the petition on April 11, 2007. At the hearing, testimony was presented by a representative of Chittenden. The public comment period on the application ended May 11, 2007. The Board received no additional comments.

Petitioner is a Vermont bank holding company which controls five banks with banking offices in Vermont, New Hampshire, Maine and Massachusetts. In addition to The Bank of Western Massachusetts and Flagship Bank and Trust Company, the Petitioner controls Chittenden Trust Company, a Vermont chartered commercial bank with its principal office in Burlington, Vermont. Chittenden's other bank subsidiaries are Ocean National Bank, a national bank headquartered in Portsmouth, New Hampshire which operates forty-one banking offices in New Hampshire, and Maine Bank & Trust Company, a Maine-chartered bank headquartered in Portland, Maine which operates twelve banking offices in southern Maine. Petitioner had total consolidated assets of approximately \$6.4 billion as of December 31, 2006. Through these subsidiaries, Petitioner offers a wide variety of banking and financial services.

Merrill Bancshares is a bank holding company with its principal office in Bangor, Maine. Merrill Bancshares has elected to be treated as a financial holding company within the meaning of the federal Bank Holding Company Act. Its principal business is owning and managing its wholly-owned subsidiary bank, Merrill Bank. As of December 31, 2006, Merrill Bancshares had consolidated assets of approximately \$499.1 million. Merrill Bank, a Maine-chartered commercial bank, has eleven branch offices all of which are located in Maine.

The Board has reviewed the application and oral testimony received at the public hearing. That

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review focused on the statutory and administrative criteria which include, among other things, whether competition among banking institutions will be unreasonably affected; whether public convenience and advantage would be promoted; and the record of performance under the Community Reinvestment Act ("CRA") of the subsidiary banks of the parties involved in the transaction. The additional statutory requirements set out in sections 2 and 4 of said chapter 167A were also significant factors in the Board's deliberations on the matter before it. All such requirements are specifically addressed in the record of this transaction.

One such statutory provision requires the Board to have received notice from the Massachusetts Housing Partnership Fund (the "MHPF") that satisfactory arrangements have been made by Chittenden consistent with statute and the MHPF's various affordable housing loan programs. The Board received notice from the MHPF that arrangements satisfactory to it had been made for this transaction in a letter dated March 22, 2007.

The Petitioner has submitted information to address the issue that competition among banks will not be unreasonably affected by the proposed transaction. It is the position of this Board to consider a transaction in light of its impact on the citizens, communities and banking structure in the Commonwealth on a community by community basis instead of by variously grouped markets. The Board's review recognizes that there is no overlap in the banking office networks of Flagship and The Bank of Western Massachusetts with Merrill Bank or the existing operations of the Petitioner. The Board's review also recognizes that the transaction will occur outside of the Commonwealth and that Chittenden does not presently compete in any of the geographic markets in which Merrill Bank currently operates. For that reason and other factors, the Board finds that competition among banking institutions will not be unreasonably affected.

The Board has also considered the record of this application to determine whether public convenience and advantage will be promoted by this transaction. The proposed acquisition, the Petitioner states, will permit it to diversify geographically, enlarge its capital base, and continue to provide high quality community based banking services. According to the application, the transaction will permit the integration of various functional areas such as audit, legal compliance, loan review, investor relations, asset-liability management, planning, regulatory compliance, tax preparation, insurance, purchasing of forms and supplies, and merger and acquisition activities. This integration will generate cost savings that neither Chittenden nor Merrill Bancshares could realize individually, which will strengthen the financial standing of Chittenden's consolidated organization and augment Chittenden's ability to serve as a source of strength for its subsidiary banks, including its Massachusetts-based banks. The combined capital and other resources of Chittenden and Merrill Bancshares can be expected to provide Chittenden with more favorable access to the capital markets and, thus, provide a platform for future growth as well as enhanced ability to respond to changing market incentives.

In determining whether or not to approve a transaction under the statutory criteria the Board is also required to determine that the transaction will result in net new benefits. As set out herein that term includes a showing of initial capital investments, job creation plans, consumer and business services as well as commitments to maintain and open branch offices. In the Board's analysis net new benefits is a subset of the public convenience and advantage test. The Board's past consideration of these statutory criteria makes clear that such benefits may be immediate or prospective.

The proposed transaction is expected to generate certain operational advantages. For example, Petitioner cites that pursuant to certain provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, banks affiliated under a single holding company may act as agent for one another. Accordingly, Chittenden may provide its customers with the added convenience of being able to conduct certain transactions at all of the banking offices of the combined entity. The Petitioner testified in response to questions from the Board that the subsidiary banks operations and processing are consolidated and all subsidiary banks of Chittenden are on the same platform thus permitting the ability of customers to access multiple banks to conduct their business. In addition, the financial management of the organization is consolidated through the responsibilities of the Chittenden chief financial officer.

Chittenden does not anticipate closing any existing branches of any of its subsidiary banks as a result of the consummation of the proposed transaction, nor will there be any reduction in the products and services offered by Chittenden's existing subsidiary banks in Massachusetts as a result of the consummation of the transaction. Petitioner testified that the transaction would have no impact from an employment perspective in Massachusetts. Additionally, it is anticipated that small business will benefit from the transaction as Merrill Bank received the number one rating in Maine last year for small business loan origination. Chittenden has had a similar rating in Vermont as well as Bank of Western Massachusetts with a similarly favorable rating in Massachusetts.

The Board has considered the application and testimony submitted by the Petitioner and finds that

consideration of public convenience and advantage including net new benefits weighs in favor of approving the proposed transaction.

Related to the issue of public convenience and advantage is the record of performance under CRA by the banks which are parties to this transaction. Such review for a Massachusetts state-chartered bank includes examination by personnel of the Division of Banks as well as analysis of concerns received from the bank's community and its response to those concerns fairly raised. Bank of Western Massachusetts, Flagship Bank and Trust Company, Chittenden Trust Company and Maine Bank & Trust Company have received "Outstanding" ratings in last examinations of performance under the CRA provisions. Petitioner's other subsidiary bank, Ocean National Bank, received a "Satisfactory" rating in its last examination of performance under the CRA provisions. Merrill Bank also received a "Satisfactory" CRA rating.

The financial aspects and tax consequences from the structure of the transaction were also considered by the Board. Management factors reviewed were also found supportive of approval. Additionally, all other requirements of statute relating to a bank holding company transaction have been met.

CONCLUSION

The application and testimony presented at the public hearing have established the record on this petition, which has been reviewed consistent with statutory provisions and the policies of the Board. Based on the record of this matter considered in light of all relevant statutory and administrative requirements, the Board finds that public convenience and advantage will be promoted and that competition among banking institutions will not be unreasonably affected and that the records of performance under CRA by the subsidiary banks involved in this transaction are consistent with its approval. Having considered the record established on this application, the Board has found that the applicable statutory and administrative criteria have been met.

In accordance with the findings expressed herein and pursuant to statute, the Board hereby approves the application and authorizes Chittenden to acquire Merrill Bancshares and its subsidiary bank, Merrill Bank provided that the transaction is completed within one year of the date of this Decision.

May 14, 2007

Date

Board of Bank Incorporation

Steven L. Antonakes

Commissioner of Banks

Alan L. LeBovidge

Commissioner of Revenue

Timothy P. Cahill

Treasurer and Receiver-General