



ANNUAL REPORT FROM THE  
SUPERINTENDENT  
OF  
THE BUREAU OF FINANCIAL INSTITUTIONS  
TO THE LEGISLATURE

PREPARED BY THE STAFF OF THE  
MAINE BUREAU OF FINANCIAL INSTITUTIONS

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# INTRODUCTION

The Bureau of Financial Institutions is Maine's primary regulator of state-chartered financial institutions. The statutory mission of the Bureau is to ensure the strength, stability and efficiency of the financial institutions that it regulates, encourage the development and expansion of financial services, ensure reasonable and orderly competition, protect consumers against unfair practices by institutions that provide consumer credit, provide consumer education, and encourage the development of economically sound credit practices.

As of December 2008, the Bureau provided supervision to 41 state-chartered financial institutions which included 12 credit unions, 1 savings and loan association, 5 commercial banks, 14 savings banks and 9 limited purpose banks.

Calendar year 2008 will certainly be remembered for the financial crisis in both the United States and world markets. Though the root cause of the crisis continues to be a subject of debate, there is no question that factors such as low interest rates, excessive risk-taking and investor demand for mortgage-backed securities all played a role in the market upheaval. As the crisis in the financial marketplace and slowdown in the economy gripped the United States, neither Maine nor its financial institutions were immune from its effects. However, while the news focused heavily on the problems of institutions such as Lehmann Brothers, IndyMac and Washington Mutual Bank, the local media largely overlooked the relative good health of Maine's financial institutions and their continued service to Maine's citizens.

A significant portion of this Report focuses on the oversight activities of the Bureau and regulatory developments at both the State and federal level. Section 1 provides an overview of the financial crisis and the various efforts by the federal government and regulators to stabilize the financial markets. Following the signing of the Emergency Economic Stabilization Act of 2008 by President Bush, programs such as the Troubled Asset Relief Program and the temporary increase in deposit and share insurance coverage program were quickly developed and implemented to stabilize financial institutions and restore consumer confidence. In addition, Section 1 provides the most recent findings from the Bureau's quarterly survey of financial institutions in

relation to foreclosure activity as well as the results of the Bureau's data breach survey conducted in 2008.

Section II of this Report focuses on the outreach efforts of the Bureau. In 2008, the Bureau provided assistance to over 850 consumers with complaints or inquiries relating to a specific financial institution or a type of financial product. Foreclosure and mortgage related inquiries increased significantly in 2008. As a result of the financial crisis, the Bureau received numerous inquiries from consumers expressing their concerns regarding deposit insurance and the safety of their financial institution. In addition, the Bureau continued its efforts in the area of promoting financial literacy by working with both nonprofit organizations and other agencies within the Department of Professional and Financial Regulation at forums held in various parts of the State.

Section III of this Report presents "Industry Conditions" and contains aggregate information relating to Maine Banks, Maine Credit Unions and Limited Purpose Banks. In addition, Section III identifies the specific issues and challenges that these financial institutions must address in order to remain successful in the current economic environment.

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# SECTION I

## BUREAU OVERSIGHT ACTIVITIES AND REGULATORY DEVELOPMENTS

### Application Activity

Applications filed with the Bureau of Financial Institutions for the twelve-month period ending October 2008 were again concentrated in notices related to branches, either to establish new branches or to relocate existing branches. As seen in Table #1, the number of new branches continued to decline. This is attributable to a combination of the weakening economy; the concentration of offices; earnings pressure and the start-up costs of new branches; and increased capabilities and utilization of ATMs and internet banking.

Table #1 also provides information on charters, mergers, acquisitions and other applications and notices that were filed between November 1, 2007 and October 31, 2008.

TABLE #1

	11/05 – 10/06	11/06 – 10/07	11/07 – 10/08
<b>Charters – Depository Inst.</b>	0	0	0
<b>Charters – Nondepository Inst.</b>	1	1	1
<b>Charter Conversions</b>	1	0	0
<b>Mergers, Acquisitions</b>	3	5	1
<b>New Activities</b>	1	1	2
<b>Branch Establishment</b>	10	7	5
<b>Branch Relocation</b>	6	9	2
<b>Branch Closing</b>	1	0	1
<b>Internal Reorganization</b>	1	1	3
<b>Other</b>	1	1	1

Four of the applications filed related to limited-purpose banks: Ram Trust Company and TD AMERITRADE Trust Company merged with affiliated entities (Internal Reorganizations); Pentegra Retirement Services acquired RSGroup Trust Company (Other – change-in-control); and Northeast Retirement Services established a nondepository trust company, Global Trust Company. The third internal reorganization

was the filing by Sanford Institution for Savings to form a mutual holding company. The only acquisition during this period was the purchase by Machias Savings Bank of a single branch from Camden National Bank, which the latter agreed to divest as part of its 2007 acquisition of Union Trust Company. Two banks, Biddeford Savings Bank and Saco & Biddeford Savings Institution, each acquired 50% ownership of an insurance agency, Paquin & Carroll, Inc., and Gorham Savings Bank acquired a minority interest in a registered investment advisor.

In other transactions involving financial institutions operating in Maine, Chittenden Corporation of Vermont, which operated three subsidiary banks in Maine (Maine Bank & Trust, Merrill Merchants Bank and Ocean Bank), was acquired by Peoples United Financial, Connecticut and all of its subsidiary banks converted to federal thrifts; those subsidiaries have recently been approved to merge into the lead bank based in Bridgeport, Connecticut and all their offices will be operated as interstate branches. Rivergreen Bank, a state-chartered commercial bank, merged into Savings Bank of Maine, a federal savings bank, and Rockland Savings & Loan, a state-chartered savings association, converted to a federal savings bank. TD Bank moved its main office from Portland to Wilmington, Delaware.

### **Financial Developments 2008**

#### a) Overview of the financial crisis

The U.S. and world financial systems are undergoing the most significant market and credit disruptions since the Great Depression. Though economists will debate the origin of the crisis for years to come, it is apparent that the cause is due, in part, to the combination of low interest rates, excessive risk-taking and investor demand for mortgage-backed securities that existed earlier in the decade. Low interest rates and strong secondary market funding sources drove up mortgage lending volume and real estate markets throughout the U.S. Mortgages, both prime and subprime, were sold into the secondary market where they were packaged into mortgage-backed securities and purchased by investors all over the world. Maine was an early adopter of laws designed to control this increased loan activity, curb predatory lending and prevent



consumer hardship when the Maine Legislature passed the Act to Protect Maine Homeowners from Predatory Lending in 2007.

As the U.S. real estate markets decline and certain mortgage terms become onerous, many loans, particularly subprime and predatory loans, stop performing and enter foreclosure. These foreclosures are causing severe hardship and dislocation to many individuals and families. As mortgage loans continue to fail, the institutions that made or invested in the loans, as well as those institutions insuring the investments, experience significant losses and financial stress.

In reaction to the crisis, financial institutions in the U.S. have written down the value of assets, increased loan loss reserves and assumed a cautious approach to lending, including inter-bank lending. Some financial institutions around the country have experienced difficulties with liquidity, struggling to meet depositors' withdrawal requests and borrowers' credit needs. Liquidity pressure arises from a number of factors including the decline in value and marketability of mortgage-related investments, the reluctance of banks to lend to one another, and deposit flight. No deposit institutions have failed in Maine, but liquidity problems played a large role in some highly publicized failures of large banks outside the State.

These actions and economic circumstances have frozen the credit markets, and made it difficult for businesses and consumers to borrow. Given the importance of credit in the economy, the curtailment in lending has a direct impact on business activity, consumer spending and employment. The declining economic activity creates a negative spiral as more homeowners encounter financial problems and have difficulties repaying their mortgages.

#### b) Federal efforts to calm the financial system

The federal government and its agencies have taken, and continue to take, a variety of steps to thaw credit markets, restore confidence in financial institutions, and stimulate the economy. Secretary of the Treasury Henry M. Paulson remarked that there is no "playbook" for responding to the turmoil in the economy. Federal actions are by no means limited to banks and credit unions. The crisis extends to other financial organizations and other parts of the world economy due to the seemingly ubiquitous

presence in investment portfolios of mortgage-backed securities and the instruments insuring those securities, credit default swaps.

Federal stimulus programs, policies and rescue packages have come rapidly and on a grand scale. Programs have been announced and then changed or abandoned as the federal government searches for the most effective use of its resources. Though the government has done much thus far, there will be more initiatives to come as ideas are translated into action and a new U.S. President implements his own national economic policies.

The Emergency Economic Stabilization Act of 2008 (“EESA”) was passed on October 3, 2008 and is one of the most notable efforts, thus far, to stabilize the credit markets and restore investor confidence. The purpose of EESA is to restore liquidity and stability to the U.S. financial system and to ensure that the newly granted authority is used in a manner that: a) protects home values, college funds, retirement accounts, and life savings; b) preserves homeownership and promotes jobs and economic growth; c) maximizes overall returns to the taxpayers; and d) provides public accountability for the exercise of the new authority.

The most significant component of EESA is the Troubled Asset Relief Program (“TARP”). TARP permits the Treasury, through the new Office of Financial Stability, to use up to \$700 billion to purchase troubled assets from financial institutions. The Act defines “troubled assets” and “financial institution” very broadly, allowing great flexibility for the Treasurer’s activities. The financial institutions covered under EESA include banks and credit unions as well as insurance companies and securities broker-dealers. The troubled assets that are covered include residential and commercial mortgages, any securities based on the mortgages and, importantly, other financial instruments the purchase of which will promote financial market stability.

TARP was initially focused on the purchase of troubled assets such as mortgage-backed securities, but, after passage of EESA, the Treasury determined that the severity of the crisis required more powerful steps to stabilize the financial system and restore the flow of credit. The Treasury’s plan to use part of the \$700 billion to purchase troubled assets was subsequently put on hold in favor of a new plan. The Treasury enumerated three critical priorities for the TARP funds. First, use the TARP

funds to continue to strengthen the capital base of financial institutions. The Treasury indicated that banks and non-banks may need more capital given troubled asset holdings and stagnant economic conditions. Second, use the funds to reinvigorate the securitization market. The market for securitizing student loans, auto loans and other consumer credit has ceased to function and thereby reduced the availability of consumer credit. Third, explore ways to reduce foreclosures by developing a plan to maximize loan modifications. The Treasury's activities and priorities have been fluid through the summer and fall of 2008. It is unclear which programs will ultimately be fully implemented.

In keeping with its first priority, the Treasury began to use TARP funds in November to make direct investments in financial institutions. Stronger capital positions will enable financial institutions to better manage the illiquid assets on their books, such as mortgage-related investments, and remain healthy. The Treasury has set aside \$250 billion of the \$700 billion to acquire stakes in U.S. financial institutions. Characterized as a recapitalization of thin bank reserves and not as a nationalization of banks, the first investment of \$125 billion was earmarked for nine large U.S. banking institutions and the remaining \$125 billion was set aside for smaller regional institutions. The intent behind the funding is to strengthen institutions and stimulate lending. All banks, including Maine financial institutions, may apply for these funds. As of December 1, 2008, the Treasury purchased preferred shares in 52 public institutions for a total of \$150 billion. The funds are not without fees and conditions and so not all institutions will be interested in participating in the program. The Treasury and the FDIC encourage healthy banks to participate in the plan. This being so, banks that accept the investment should not be stigmatized or viewed as unsound.

In addition to TARP, EESA provides for a temporary increase in FDIC deposit insurance. This move is intended to bolster public confidence and help institutions preserve liquidity. EESA increased deposit insurance from \$100,000 to \$250,000 through 2009. Individual accounts are now insured for \$250,000 and joint accounts for up to \$500,000. The purpose of the extended coverage is to encourage account-holders to keep funds in place, thereby easing the liquidity pressure on institutions facing large withdrawals by depositors seeking the security of insured deposits or larger

institutions. For more information about the temporary increase in FDIC deposit insurance, see the Consumer Outreach Section.

As a complement to the increased deposit insurance under EESA, the FDIC used its own special authority to create the Temporary Liquidity Guarantee Program (“TLGP”). One aspect of the program is to further insure bank deposits. The FDIC determined that tight lending standards, rapid outflows of deposits from financial institutions and reduced issuances of commercial paper created sufficient systemic risk to justify additional insurance for all deposits in non-interest bearing transaction accounts (e.g., business payroll and checking accounts). This insurance is in addition to and separate from the coverage provided under the expanded FDIC deposit insurance. TLGP also guarantees new senior unsecured debt issued by banks including federal funds purchased, promissory notes and commercial paper. As with other government efforts, the goal is to build up confidence in the system, stop outflows of cash, and free up credit markets so normal lending activity will resume. All banks are covered by TLGP through 2009 unless a bank chooses to opt-out of the program.

In addition to the Treasury and the FDIC, the Federal Reserve has taken steps to ease the financial crisis. Early in the crisis, the Federal Reserve provided backup liquidity for banks unable to obtain inter-bank loans. The Federal Reserve accomplished this by providing easier terms for banks that needed to borrow at the discount window to meet short-term liquidity needs. After high-profile losses in certain money market mutual funds, massive redemptions from many money market mutual funds led the Federal Reserve to temporarily guaranty money market fund accounts. In doing so, the Federal Reserve recognized that money market mutual funds play an important role in stimulating economic activity because they purchase commercial paper from businesses seeking to finance business operations. In addition to the guaranty, the Federal Reserve implemented the Commercial Paper Facility and announced the Money Market Investor Funded Facility. The Commercial Paper Facility is intended to purchase commercial paper directly from businesses. The Money Market Investor Funded Facility is intended to purchase commercial paper from money market mutual funds. Resurrecting the commercial paper market is an important part of the strategy to get credit markets working again.

In late November 2008, the Treasury and the Federal Reserve announced a facility to finance the issuance of non-mortgage asset-backed paper in order to support lending to consumers and small businesses. The consumer asset-backed securities market offers liquidity to lenders that provide loans to small businesses and to consumers through auto loans, student loans and credit cards. Because this asset-backed market stopped functioning, it has become difficult for consumers and businesses to obtain affordable and sufficient credit. The Treasury indicated that the lack of affordable consumer credit undermines consumer spending and weakens the economy. In an effort to make credit available, the Treasury will provide \$20 billion in credit protection from EESA funds to the Federal Reserve in connection with the Federal Reserve's \$200 billion Term Asset Backed Securities Loan Facility ("TALF"). In addition, the Federal Reserve announced a program to purchase \$600 billion in mortgage-backed securities and direct obligations of Fannie Mae, Freddie Mac and Ginnie Mae. These new programs exceed the \$700 billion approved by Congress in October. The Federal Reserve's aim is to reduce the costs and increase the availability of loans for home purchases. In turn, more home purchases would support the declining real estate market.

c) Programs that assist distressed homeowners

New federal programs have been developed to assist homeowners. EESA requires the federal government to make efforts to prevent the foreclosure of assets in which it has acquired an interest. To the extent that the Treasury acquires mortgages, mortgage-backed securities, and other assets secured by residential real estate, it must implement a plan that seeks to maximize assistance for homeowners. The Treasury must also encourage the servicers of the underlying mortgages to take advantage of the HOPE for Homeowners Program or other available programs to try to minimize foreclosures. Where appropriate, the federal government must accept reasonable requests for loss mitigation measures, including term extensions, rate reductions, and principal write-downs. However, if the government does not acquire an interest in the mortgages, it has less influence over loan modifications. To date, Congress has expressed frustration that the new programs have yet to reach a significant number of struggling homeowners. The Treasury is currently under pressure to use some of the

TARP funds in a manner that more directly helps homeowners. The FDIC has offered a plan to directly help homeowners using TARP funds. However, as of the writing of this Report, the plan is still only under consideration.

One foreclosure resource that is currently operational is the HOPE for Homeowners Program, mentioned above. It is a new, temporary, FHA program created last summer to allow the FHA to insure mortgages made to distressed homeowners. The program refinances distressed loans in an amount the borrower can repay using a fixed-rate 30-year loan. The borrower's property must be reappraised and then refinanced at 90% of the new value. Lenders are expected to write down the distressed loans because the loan reductions will cost them less than expected foreclosure losses. In exchange for the more affordable loan, borrowers must share any future appreciation of the home with the FHA. This program is voluntary and, given that a lender must potentially write down a significant amount of debt, it has not been widely used to date.

Another foreclosure mitigation effort was announced in November by the Federal Housing Finance Agency ("FHLM"), the new regulator of the two largest mortgage finance companies, Fannie Mae and Freddie Mac. The FHLM is currently acting as conservator of these companies after they suffered enormous mortgage losses. As conservator, the FHLM has launched a program to cut the monthly payments of borrowers who are delinquent by 90 days or more. Loan modifications will include rate reductions, term extensions and principal reductions. The program has the ability to reach a large number of homeowners because both Fannie Mae and Freddie Mac own or control 31 million mortgages in the U.S.

The FDIC supports systematic loan modifications to avoid foreclosures and put borrowers into affordable loans. The FDIC has implemented this modification program as receiver for the failed IndyMac Federal Bank and has made it available to other lenders and servicers as a model to prevent foreclosures. The FDIC Loan Modification Program is based on two principals: first, determine an affordable payment and, second, protect lenders' interests by requiring that the cost of a modification be less than the estimated cost of foreclosure. The program targets distressed borrowers who are currently having financial difficulty with the current payment, but have the capacity to

make a loan payment. The FDIC encourages all industry participants to adopt its program as the standard approach to dealing with troubled home loans.

Recently, the National Credit Union Administration (NCUA) announced a two-year, \$2 billion program to help distressed homeowners with their mortgages. Under the Credit Union Homeowners Affordability Relief Program (CU HARP), participating creditworthy credit unions would be able to borrow funds from the Central Liquidity Facility (CLF) in order to modify at-risk mortgages primarily by lowering interest rates and corresponding monthly payments. In December 2008, the NCUA introduced a companion program, the Credit Union System Investment Program (CU SIP). CU SIP allows participating creditworthy credit unions to borrow from the CLF, invest the proceeds in participating corporate credit unions and receive a spread of 25 basis points.

In Maine, there are a number of resources for people facing foreclosure. As set forth in greater detail in the Consumer Outreach Section, within the Bureau a Consumer Outreach Specialist is available to discuss the process and direct homeowners to counseling and legal resources. A Maine Housing Counselor Network, assisted by both HUD and the Maine State Housing Authority, has begun hosting foreclosure prevention workshops in Maine. The workshops provide individuals with an overview of foreclosure prevention strategies, and an opportunity to meet with various counselors and attorneys to create action plans for keeping their homes. In addition, legal services organizations, volunteer lawyers, and community action agencies are utilizing their resources to help people understand the foreclosure process and how to avoid it. The counseling includes advice on preparing a budget and on gathering the proper documentation to effectively negotiate with, or litigate against, a lender or loan servicer. There is valuable information on-line as well. The Bureau lists many foreclosure assistance resources on its website at [www.maine.gov/pfr/financialinstitutions](http://www.maine.gov/pfr/financialinstitutions).

This discussion is by no means an exhaustive review of the many actions and proposals put forth at the state and federal level. However, it is clear that the objective to date has been to strengthen the capital foundation of the financial system and improve the overall functioning of the credit markets. The Interagency Statement on Meeting the Needs of Creditworthy Borrowers, issued in November 2008 by the federal

banking regulators, reiterates that the recent policy actions are designed to help support responsible lending by banking organizations, enhance their ability to fund such lending, and enable them to better meet the credit needs of consumers and businesses. The Interagency Statement puts pressure on banks to work with troubled borrowers to avoid preventable foreclosures. It recommends that mortgage servicing operations within an institution be sufficiently funded and staffed to handle workouts and urges lenders to adopt systematic, proactive and streamlined mortgage loan modification protocols. The Interagency Statement also encourages review of executive compensation and encourages banking organizations to fulfill their fundamental role in the economy by making loans to creditworthy consumers and businesses.

### **Foreclosure Survey**

As reported in last year's Annual Report, in October 2007 the Bureau initiated a quarterly survey (the "Foreclosure Survey") of all financial institutions headquartered or operating a branch in Maine. The Foreclosure Survey requests data on the number and dollar volume of residential mortgages, mortgages In Process of Foreclosure ("IPF") and Foreclosures Completed ("FC"). The Foreclosure Survey covers the calendar quarters ending December 2006 through September 2008. The Foreclosure Survey was simplified in March 2008 for all institutions and, for federally-chartered institutions, was further abbreviated to eliminate the separation between first mortgages and junior mortgages. All Maine-chartered financial institutions ("MSFI") have completed the Foreclosure Survey each quarter and a majority, but not all, of the federally-chartered institutions have voluntarily completed the Foreclosure Survey.<sup>1</sup>

Table #2 shows the number of mortgage loans held by the MSFI that are IPF at the end of each quarter covered by the Foreclosure Survey. As of September 2008, 204 mortgages, out of the 88,000 mortgages held by the MSFI, were IPF. The number of IPF has increased each quarter of the Foreclosure Survey, but the percentage of mortgages IPF remains very low, at 0.23%, or one IPF mortgage per every 431 mortgages. It is important to remember that not every mortgage that is IPF is ultimately foreclosed.

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<sup>1</sup> As of September 2008, the MSFI consisted of 21 banks (five commercial banks, 14 savings banks and two savings and loan associations) and 12 credit unions.



**TABLE #2**

IPF	12/06	3/07	6/07	9/07	12/07	3/08	6/08	9/08	# Loans As of 9/08
<b>1<sup>st</sup> REM</b>	63	68	72	90	120	127	129	140	49,777
<b>Jr REM</b>	20	17	22	23	35	59	58	64	38,116
<b>All REM</b>	83	85	94	113	155	186	187	204	87,893
<b>% of Quarter-End Loans</b>									
<b>1<sup>st</sup> REM</b>	0.15%	0.16%	0.17%	0.21%	0.26%	0.26%	0.27%	0.28%	
<b>Jr REM</b>	0.07%	0.06%	0.08%	0.08%	0.12%	0.16%	0.15%	0.17%	
<b>All REM</b>	0.12%	0.12%	0.13%	0.16%	0.20%	0.22%	0.22%	0.23%	

Beginning with the March 2008 Foreclosure Survey, data on the number of foreclosures initiated in the current quarter were requested. The data for the MSFI are summarized in Table #3. During the third quarter of 2008, covering July, August and September, foreclosure proceedings were commenced on 69 first mortgages, nearly double the number initiated in the prior quarter. While the increase is significant, it also is not unexpected given the accelerating deterioration in the residential mortgage port-

**TABLE #3**

<b>Foreclosures Initiated</b>	<b>3/08</b>	<b>6/08</b>	<b>9/08</b>	<b>9/08 YTD</b>
<b># 1<sup>st</sup> REM</b>	46	35	69	150
<b>% 1<sup>st</sup> REM</b>	0.10%	0.07%	0.14%	0.31%
<b># Jr. REM</b>	26	14	27	67
<b>% Jr. REM</b>	0.07%	0.04%	0.07%	0.18%

folios of the MSFI, the economy in general and, more specifically, the real estate markets. It is noted that, for the Maine-chartered banks, the dollar IPF as a percentage of noncurrent loans decreased in each of the two most recent quarters (June and September), suggesting that the banks are initiating foreclosure proceedings on fewer seriously delinquent mortgages.<sup>2</sup> However, because the IPF Call Report data and the Survey number of foreclosures initiated have only been collected for three quarters and since various foreclosure mitigation programs have recently been implemented, it is premature to forecast foreclosure patterns, other than that foreclosures can be expected to trend upward over the foreseeable future.

<sup>2</sup> Each bank submits a Call Report quarterly to the Bureau and the FDIC which provides voluminous data, including IPF and past due loans, in dollars; the Call Report does not collect data on the number of accounts. The credit unions also submit a quarterly report, but it does not include IPF data.

Not surprisingly, the number of FC has also increased, as demonstrated in Table #4. In calendar 2006, the MSFI reported 52 FC, which increased to 67 in calendar 2007; in the first nine months of 2008 the number of FC jumped to 122, triple that for the comparable period of 2007. The rate of FC has increased from one per every 833 first mortgage loans in 2007 to one per every 514 first mortgage loans year-to-date September 2008.

**TABLE #4**

<b>FC</b>	<b>2006 *</b>	<b>2007 **</b>	<b>3/08</b>	<b>6/08</b>	<b>9/08</b>	<b>YTD 2008 **</b>
<b>1<sup>st</sup> REM</b>	<b>50</b>	<b>52</b>	23	32	38	<b>93</b>
<b>Jr REM</b>	<b>2</b>	<b>15</b>	5	11	13	<b>29</b>
<b>All REM</b>	<b>52</b>	<b>67</b>	28	43	51	<b>122</b>
<b>% of Prior Quarter-End Loans</b>						
<b>1<sup>st</sup> REM</b>	<b>0.12%</b>	<b>0.12%</b>	0.049%	0.066%	0.079%	<b>0.20%</b>
<b>Jr REM</b>	<b>0.01%</b>	<b>0.05%</b>	0.016%	0.029%	0.034%	<b>0.08%</b>
<b>All REM</b>	<b>0.07%</b>	<b>0.09%</b>	0.036%	0.050%	0.059%	<b>0.15%</b>

\* 2006 percentage is based on number of loans outstanding at 12/31/06.

\*\* 2007 and YTD 2008 percentage is based on YTD average number of loans outstanding.

The Foreclosure Survey also requested data on residential mortgages serviced by the MSFI.<sup>3</sup> All MSFI serviced mortgages are first mortgages (See Table #5). Between March 2007 and June 2008 the number of IPF serviced mortgages was steady at either 12 or 13. As of September 2008, the number of IPF jumped to 18, or one per every 644 mortgages serviced. The number of serviced FC increased from nine in 2006 and 2007 to 15 through September 2008, or one per every 773 mortgages serviced. Both the IPF and FC ratios are nominally lower for serviced loans than for first mortgages held by the MSFI; the IPF start ratio for the serviced loans is approximately one-half the rate for first mortgages held by the MSFI.

<sup>3</sup> Serviced mortgages are not owned by the MSFI but are owned by a third-party for whom the MSFI acts as the servicer, which usually involves, but is not limited to, the collection of principal, interest and escrow payments from the borrower.

**TABLE #5**

	12/06	12/07	3/08	6/08	9/08	YTD 9/08
# 1 <sup>st</sup> REM	11,865	11,694	11,763	11,641	11,600	N/A
# IPF	17	13	12	12	18	N/A
% IPF	0.15%	0.11%	0.10%	0.10%	0.16%	N/A
# IPF Start	N/A	N/A	4	4	9	17 *
% IPF Start	N/A	N/A	0.034%	0.034%	0.078%	0.146%
# FC	9 *	9 *	5	7	3	15 *
% FC	0.076%	0.077%	0.043%	0.061%	0.026%	0.129%

\*Year-to-date

As previously stated, most of Maine's federally-chartered financial institutions have voluntarily submitted the Foreclosure Survey. However, several of the institutions have not reported the number of mortgages outstanding and, therefore, percentages of IPF and FC to mortgages cannot be accurately calculated. Table #6 summarizes the data submitted by the federally-chartered institutions. The federally-chartered institutions have experienced a similar pattern in IPF, IPF starts and FC, particularly in the first three quarters of 2008.

**TABLE #6**

	12/06	12/07	3/08	6/08	9/08	YTD 9/08
# Institutions	50	54	60	62	61	N/A
# IPF	60	90	119	112	124	N/A
# FC	16 *	31 *	7	18	23	48
# FC-Start	N/A	N/A	51	26	51	128

\* Year-to-date.

Maine's financial institutions have not been immune to the real estate crisis and are experiencing increased delinquencies and net loan losses in their residential mortgage portfolios, as noted in the Industry Condition Section of this Report. However, past due and net loan loss ratios continue to compare favorably to national averages and to Maine averages reported by various national organizations. As the economy continues to worsen, the Bureau anticipates that Maine's financial institutions will continue to closely scrutinize their residential real estate portfolios.

## **QUADS Trust Company**

In 2002, the Bureau approved a charter for QUADS Trust Company (QTC) of Frederick, Maryland. QTC's application was essentially a conversion from a Maryland charter to a Maine charter. QTC was a wholly-owned subsidiary of QUADS Financial Group, Inc. (QFG), which also owned a small broker-dealer and service company known as Qualified Investors Management Corporation. Collectively, the QUADS<sup>4</sup> organization was a third-party administrator of retirement plans, including 401(k), 457, 403(b) plans, optional retirement plans (ORPs) and individual retirement accounts (IRAs). QTC was custodian of over \$500 million in assets on behalf of more than 10,000 retirement plan participants when the Bureau approved the charter.

The financial condition of QUADS deteriorated significantly between 2004 and 2006 primarily because two key business relationships did not produce the anticipated increase in assets and accounts under custody. Despite additional capital funding and management changes, financial stability could not be achieved. All attempts at increasing business or forming strategic partnerships failed.

QFG management informed the Bureau in late January 2007 that pressure from creditors would force the company to seek bankruptcy protection soon. Superintendent LaFountain issued an Order placing QTC in conservatorship and appointed Deputy Superintendent Groves as Conservator, effective January 31, 2007. The next day, QFG filed for Chapter XI bankruptcy protection. Deputy Superintendent Groves and a Senior Bank Examiner spent most of the next four months at the QUADS building in Frederick, Maryland working on the conservatorship.

There was a very short-lived effort to restructure QTC's business to enable QTC to operate safely and profitably. However, plan sponsor and account-holder concerns about the conservatorship and QFG's Chapter XI bankruptcy filing combined with loss of fidelity bond coverage, computer system issues, and other factors caused the Conservator, with the approval of Superintendent LaFountain, to use the conservatorship as a vehicle for the orderly transfer of QTC's retirement plan accounts to other custodians or the account-holders themselves. Once the transfer of the

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<sup>4</sup> The term "QUADS" refers to the organization as whole and not a particular QUADS entity.

retirement plan accounts was more or less complete, then QTC would be closed and a receiver appointed.

On March 1, 2007, Retirement System Group, Inc. of New York, New York, through its subsidiary, RSGroup Trust Company (RSGroup), purchased the bulk of QTC's retirement plan business. Plans and accounts purchased by RSGroup included 401(k), 403(b), 457, ORP, and IRA plans, except for IRAs with non-traditional assets. The plans sold to RSGroup included approximately 6,900 participant accounts with approximately \$450 million of assets.

Starting on April 1, 2007, the Conservator worked with various entities to transfer the IRAs with non-traditional assets, comprising approximately 400 accounts with \$100 million in assets. Because of the illiquid nature of the assets, the lack of recent account-holder contact by QTC, and missing asset documents such as stock certificates and notes, the transfer of these accounts took much longer than anticipated. The last accounts were not transferred until December 2007, though the Conservator could do most of this work from the Bureau's office beginning in June 2007 with trips to Maryland as and when needed until March 2008.

As QTC was no longer responsible for any retirement accounts, Superintendent LaFountain terminated the conservatorship in favor of a receivership, closed QTC effective January 31, 2008, and appointed Deputy Superintendent Groves as Receiver.

During the next few months, the Receiver took steps to preserve records, destroyed unnecessary records, filed tax returns, addressed claims, and continued to assist RSGroup with the re-registration of mutual funds in retirement plans purchased by RSGroup, which proved to be a more time-consuming and tedious process than originally envisioned. Although this work was complete by the end of May 2008, the Receiver's counsel advised him not to make a final distribution of assets until later in the year in case issues involving retirement accounts or other matters arose. From May 2008 through November 2008, some issues did arise, including claims by the IRS for inaccurate 1099 returns in 2006 and the U.S. Employee Benefit Security Administration for alleged ERISA violations in the QTC's own 401(k) plan. However, these issues were satisfactorily resolved by the Receiver.

Superintendent LaFountain issued an Order of Final Disposition on October 21, 2008, which was published in a newspaper in Frederick, Maryland on October 24, 2008. The Order instructed the Receiver to fully terminate the affairs of QTC and to make a final distribution of assets to the Chapter VII Trustee of QFG upon expiration of the period for appeal of the Order to Maine Superior Court. Pursuant to this Order, the Receiver distributed to the Chapter VII Trustee \$340,791.48 in cash and a note receivable of \$165,000 on December 18, 2008.

The closure and disposition of QTC was a difficult undertaking for the Bureau and greatly strained the Bureau's staff, particularly during the first six months. However, the Bureau was successful in transferring over 7,000 participant accounts to competent and solvent custodians using the \$444,000 of cash pledged by QTC to the Bureau and QTC's other available cash of \$22,000. During the period of the conservatorship and receivership, QTC recorded revenue of approximately \$668,000 and recorded expenditures of approximately \$830,000 for a net loss of \$162,000.<sup>5</sup> QTC's reimbursements to the Bureau for conservatorship/receivership expenses were approximately \$209,000, not including legal fees of approximately \$67,000.

### **Data Breach Summary**

During the 123<sup>rd</sup> legislative session, the Maine Legislature directed the Bureau to study the impact of data security breaches on Maine banks and credit unions, including financial institutions' response to data breaches and the actual costs and expenses incurred by financial institutions as a result of such breaches, pursuant to Resolve 2007, chapter 152.

The Bureau's study focused on those breaches that have been reportable under Maine's data breach law known as the Notice of Risk to Personal Data Act, 10 M.R.S.A. §1346. As required by the Resolve, the Bureau prepared its study in consultation with the Maine Credit Union League, Maine Association of Community Banks, Maine Bankers Association, and the New England Financial Services Association. The Bureau submitted its report to the Insurance and Financial Services Committee on December 1, 2008.

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<sup>5</sup> The loss on cash basis was approximately \$115,000.

The Bureau, working with the industry associations, formulated a list of data breach survey questions, which also included a spreadsheet to be completed, showing the direct and indirect costs incurred by each financial institution in relation to each breach. The Bureau then sent the survey to Maine's financial institutions for them to complete and return to the Bureau.

The Bureau's Report was divided into two parts. Part I reviewed federal and state laws and regulations that help prevent identity theft by requiring or encouraging safekeeping of personal information by financial institutions and other businesses. In addition, Part I discussed those laws that help individuals avoid liability for unauthorized charges and reclaim their identity.

Part II of the Bureau's Report summarized responses provided by Maine's financial institutions to incidents of data breach. The summaries of these responses provided a useful, overall picture of the manner in which Maine's financial institutions have been affected by data breaches and how they have responded to them.

Since January 1, 2007, there have been two major data breaches affecting Maine's financial institutions: the TJX data breach which became known to banks and credit unions in January 2007, and the Hannaford Bros. Co. data breach which became known to banks and credit unions in March 2008. Only one financial institution reported a data breach that occurred internally.

Part II of the Report discussed how data breaches were detected by Maine's financial institutions, the types of personal information breached, the number of accounts breached, whether and how audits were conducted following each breach, how customers were notified of each breach, the number of accounts that were subject to unauthorized or fraudulent activity, and any media communications. Part II also provided a summary of the economic impact of data breaches on Maine's financial institutions, including the number of account-holders affected and the types of costs that have been incurred by Maine's financial institutions due to incidents of data breach.

A total of 75 financial institutions responded to the survey (50 credit unions and 25 banks). Of the 75 financial institutions responding, 71 reported being affected by at least one data breach since January 1, 2007 and incurring combined expenses totaling approximately \$2.1 million. The Hannaford breach had the largest impact, affecting the

greatest number of institutions (71), impacting the highest number of affected account-holders (243,599), and having the largest dollar cost (\$1.6 million).

The major expenses incurred by Maine's financial institutions related to reissuing cards, investigating the breach, communicating to customers about the breach, and net fraud costs. The number of accounts, customers or cards affected at each financial institution was generally proportionate to the financial institution's total assets.

A copy of the Report may be found on the Bureau's website at [www.maine.gov/pfr/financialinstitutions](http://www.maine.gov/pfr/financialinstitutions).

### **Legislative updates**

#### a) Anti-predatory lending law

In early January 2008, the Bureau, together with the Bureau of Consumer Credit Protection, worked closely with the Legislature and interested parties in drafting an emergency bill to clarify "An Act to Protect Maine Homeowners from Predatory Lending." This emergency bill, called "An Act Relating to Mortgage Lending and Credit Availability," became law in January 2008 with retroactive effect to January 1, 2008. Apart from making several technical corrections, amending several definitions in "An Act to Protect Maine Homeowners from Predatory Lending" and restricting civil liability in certain cases, this new law narrowed the restriction on "flipping" to apply only when a subprime mortgage loan has been made, and specified alternatives that a creditor may use to verify a borrower's income.

Furthermore, the Bureau, together with the Bureau of Consumer Credit Protection, issued a number of Joint Advisory Rulings to clarify certain aspects of the new anti-predatory lending law. While four Joint Advisory Rulings had been issued by the Bureaus in December 2007, an additional three were issued in 2008.

On January 17, 2008, the Bureaus issued Joint Advisory Ruling #114. This Joint Advisory Ruling clarified that references to the term "residential mortgage loan," which had been subject to the tangible net benefit analysis found in Rule 144, should be changed to "subprime mortgage loan." Thus, this Joint Advisory Ruling modified Rule 144 so that it would be consistent with "An Act Relating to Mortgage Lending and Credit Availability" which, as stated above, narrowed the restriction on "flipping" to apply only



when a subprime mortgage loan has been made. This Joint Advisory Ruling also modified the Tangible Net Benefit form so that it, too, applies only when subprime mortgage loans are being made.

On April 25, 2008, the Bureaus issued Joint Advisory Ruling #115. Pursuant to this Joint Advisory Ruling, the Bureaus determined that construction-to-permanent loans are not subprime mortgage loans provided that (a) the only “subprime” attribute of the construction phase of such loans is the payment of interest only, and (b) there are no “subprime” attributes to the permanent phase of these loans.

On June 17, 2008, the Bureaus issued Joint Advisory Ruling #116. Pursuant to this Joint Advisory Ruling, the Bureaus determined that “convenience” HELOCs should not be classified as subprime mortgage loans. The Bureaus further determined that simultaneous second-lien HELOCs shall be regarded as “convenience” HELOCs under the Interagency Guidance on Nontraditional Mortgage Product Risks if (a) the “convenience” HELOC is not drawn at closing to satisfy the first mortgage lender’s equity requirements for granting the first mortgage loan, or to avoid payment of private mortgage insurance; and (b) the combined loan-to-value ratio of the first residential mortgage loan and the line amount of the second lien “convenience” HELOC is 90% or less.

Furthermore, in an effort to provide additional clarity to the industry, the Bureaus created an FAQ Guide relating to Maine’s new anti-predatory lending laws which may be found on the Bureau’s website.

#### b) Student loan rule

The Bureau, in conjunction with the Bureau of Consumer Credit Protection, promulgated a new Student Loan Rule (Rule 145). This Rule allows lenders to provide loans to student-borrowers that provide for a schedule of payments of principal and/or interest pursuant to which payments are not substantially equal to all other payments or pursuant to which the intervals between consecutive payments differ substantially. This Rule also allows lenders to provide loans to student-borrowers that provide for the deferral of periodic payments and the accrual of interest and cost during the deferral period.

The Bureaus recognized that, given the academic commitments and financial burdens faced by students attending institutions of higher education, the payment schedule restrictions and the deferral restrictions in the Consumer Credit Code had created an obstacle to credit access.

c) Right to know

During the Second Session, the Legislature passed “An Act Concerning Public Records Exceptions,” following recommendations of the Right to Know Advisory Committee. Pursuant to this Act, a number of confidentiality exceptions in State law were either repealed or narrowed. In this effort, the Banking Code confidentiality exceptions were modified so that non-sensitive information is no longer confidential.

d) Equity stripping

During the Second Session, the Legislature also passed “An Act to Protect Homeowners from Equity Stripping during Foreclosure.” This Act enacts measures designed to protect homeowners from equity stripping during foreclosures. Equity stripping may be considered a predatory lending practice because the transactions involve companies that take title to or other mortgage interest in foreclosed properties in exchange for allowing homeowners to remain in the properties as tenants as long as payments are made. The Act requires a business that engages in these transactions as a foreclosure purchaser to be licensed as a supervised lender before conducting business in Maine and to meet other statutory requirements. The Act also clarifies that the Superintendent of the Bureau of Financial Institutions is responsible for regulating banks and credit unions to the extent that they engage in the business of foreclosure purchasing. Furthermore, the Act requires the Superintendent of the Bureau of Consumer Credit Protection to consult with the Superintendent of the Bureau of Financial Institutions when making recommendations to the Legislature regarding any statutory changes that may be needed.

## SECTION II

### CONSUMER OUTREACH ACTIVITIES AND DEVELOPMENTS

#### Outreach Program

The Bureau strives to meet the needs of Maine consumers through its Consumer Outreach Program. A Consumer Outreach Specialist is on staff and available to answer questions and help resolve complaints related to the business of financial institutions. Complaints are taken by phone, mail, encrypted email and in person. The Bureau's website contains a library with links to a variety of financial topics, provides answers to frequently asked questions and allows consumers to inquire or file a complaint about a financial institution on-line. A teacher's page was added to the website this year. This web page brings together a number of resources that are available for teachers, parents and students to help them find out more about money management and personal finance.

During the fiscal year ending June 30, 2008, the Bureau responded to 864 consumer complaints and inquiries (16% more than last year). Of these, 139 required Bureau intervention. The Bureau is most successful when intervening in disputes involving state-chartered financial institutions. When a federally-chartered financial institution is involved, complaints are often forwarded to the appropriate federal regulatory agency. Table #7 lists the Bureau's consumer contacts by account type in fiscal years 2007 and 2008.

**TABLE #7**

Type of Account	Number of Contacts		% of Total	
	FY07	FY08	FY07	FY08
Credit Cards	301	323	41%	37%
Checking Accounts	157	172	21%	20%
Installment Loans	58	54	8%	6%
Mortgage Loans	85	128	11%	15%
Other*	140	187	19%	22%
Total	741	864	100%	100%

\*Included in "Other" are the following: credit report problems, fees to cash checks, forgery, funds availability, gift cards, identity theft and telemarketing.

Credit card debt continues to be a major complaint issue for consumers, representing 37% of the inquiries received. Consumers frequently contact the Bureau to determine if there is a limit in Maine on the interest rate that can be legally charged on credit cards. Consumers have contacted the Bureau to complain when a bank has increased the interest rate on a card when the consumer's payment was late. Since the majority of credit cards are issued by federally-chartered or out-of-state, state-chartered financial institutions, the Bureau's authority over these institutions is limited. Fortunately for consumers, new federal regulations place some limits on credit card practices. Rates must be disclosed when an account is opened and, generally, may not be increased for a 12-month period. Once an account has been open for 12 months, and is not in default, a lender may only increase rates on new account transactions. The new regulations cover other activities including the provision of adequate time to make payments to avoid late fees and allocations of payments between balances with different interest rates (cash/purchase). The effective date for the new regulations is July 1, 2010, but credit card lenders are encouraged to conform to the new regulations immediately.

The Bureau provides explanations and advice on all inquiries. However, the majority of credit card and mortgage complaints received by the Bureau are referred to the Office of Comptroller of the Currency (OCC), the regulatory agency for national banks. In the past, the Bureau received very little feedback regarding the resolution of inquiries referred to the OCC. However, as a result of a Memorandum of Understanding (MOU) between the Bureau and the OCC, the Bureau receives a quarterly report containing the status, resolution and actions taken by the OCC on behalf of Maine citizens. These quarterly reports allow the Bureau to explore alternatives if a resolution may be unsatisfactory to the consumer.

The Conference of State Bank Supervisors (CSBS) and the OCC created a model complaint form in fiscal year 2008. This form is currently on the Bureau's website for use by consumers. This form has standardized inquiries information making it easier to forward inquiries to the OCC.

## **Foreclosure**

In fiscal year 2008, mortgage inquiries increased more than any other inquiry. Foreclosure-related inquiries have more than doubled from the previous year. In 2006, the Bureau received ten inquiries regarding foreclosure, none of which involved state-chartered financial institutions. In 2007, two of the 12 foreclosure inquiries involved state-chartered institutions. This year, five of 28 foreclosure inquiries involved state-chartered financial institutions.

Many consumers are concerned about foreclosure or possible foreclosure. Based on calls received by the Bureau, both prime and subprime mortgagors are subject to foreclosure proceedings. The job market, volatile oil and gas prices, and declining real estate values have many consumers struggling to make ends meet. Consumers wishing to refinance or sell their homes are finding that their homes have diminished in value.

In Maine, there are several community programs that offer help to consumers facing foreclosure. NeighborWorks Center for Foreclosure Solutions was established in 2006 and continues to provide counseling to help preserve homeownership. The Bureau often refers consumers to NeighborWorks for assistance. Also available throughout Maine are community development organizations and legal assistance organizations to help consumers that are in danger of foreclosure. These organizations offer budgeting, counseling, financial education, and litigation assistance.

## **Deposit Insurance**

With the news of banks failing and banks at risk of failing in other parts of the country, the Bureau received numerous calls from consumers in September regarding the safety of their financial institution here in Maine. The Bureau was able to ease some fears by reviewing the new deposit insurance limits.

Typically, deposits at banks are covered by the FDIC and deposits at credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF). As a result of the Emergency Economic Stabilization Act of 2008, insurance limits were increased to \$250,000 per depositor per bank or credit union. In addition, all non-interest bearing transaction accounts (such as personal and business checking or share

draft accounts that do not earn interest) are fully insured. The increased insurance coverage is temporary and will remain in effect for participating institutions until December 31, 2009.

Deposit insurance can be expanded by opening accounts in different categories of ownership at the same financial institution. The FDIC and NCUSIF provide separate insurance coverage for accounts held in single names, joint names, trust accounts and retirement accounts. It is possible for an individual and their spouse to be insured for \$250,000 each in individual accounts with an additional \$500,000 (\$250,000 each) insured in a joint account at the same financial institution. More coverage is provided when the accounts are held in trust accounts and retirement accounts. The insurance limits apply per institution, not per customer.

Both the FDIC and NCUSIF provide on-line calculators to help consumers determine the amount of coverage they have on their deposits. EDIE (Electronic Deposit Insurance Estimator) is the FDIC's on-line tool that provides customized information about insured deposits at banks. It can be found at [www.fdic.gov/EDIE/](http://www.fdic.gov/EDIE/). The NCUSIF maintains E-SIC (Electronic Share Insurance Calculator) to determine an individual's deposit insurance coverage at a credit union. It can be found at <http://webapps.ncua.gov/ins/>.

### **Outreach Efforts**

The Bureau was involved in a number of public outreach programs this year. The Bureau participated in a Financial Fitness Fair, sponsored by the Maine Credit Union League, at which high school students were taught money management skills. The Bureau also participated in the Lifestyle Expo which was held in Augusta. At this event, the Bureau discussed credit reports, security freezes and fraud with members of the public. The Bureau was also present at a panel discussion for seniors held at the Rockland Public Library. At this event, the Bureau discussed the variety of ways a check is processed today including electronic conversion and Check 21. The Bureau also discussed how to detect and avoid various financial scams. Furthermore, the Bureau continues to be an active participant in the Maine chapter of the Jump\$tart Coalition. This national program raises public awareness on financial literacy and acts as a clearing house on financial information.

## SECTION III

### INDUSTRY CONDITIONS

Based on September 30, 2008 data, Maine's financial institutions, though weakened by the ongoing turmoil in the financial markets, remain in satisfactory condition. Capital, earnings and asset quality have all been adversely impacted and further negative movement is anticipated. Each of the three main sectors — banks and thrifts, credit unions, and limited purpose banks — is discussed separately below.

#### **Maine Banks**

As of September 30, 2008, there were 30 banks and thrifts headquartered in Maine, a decrease of two from September 30, 2007.<sup>6</sup> In addition to the Maine Banks, there are four banks headquartered outside Maine that operate branches in Maine: TD Bank, Bank of America, KeyBank and Ocean Bank. While these four out-of-state banks continue to hold a substantial, but declining, portion of Maine loans and deposits, 29% and 36%, respectively, the majority of their operations are conducted outside of Maine and Maine-specific data, other than total loans and total deposits, are not available.

Calendar year 2007 performance for the Maine Banks, while very favorable to current and anticipated final 2008 performance, compared unfavorably to prior years as a number of key ratios showed weakening performance. Asset and loan growth slowed; earnings and capital ratios declined; and loan delinquencies and net loan losses increased. On the positive side, core deposit growth increased sharply for the first three quarters of 2007 before decreasing in the fourth quarter, but still producing a net increase of nearly 7%. As a consequence, reliance on noncore funding was lower at yearend 2007 than at the beginning of the year for the first reduction in this ratio in many years. These trends were generally consistent with trends for all insured banks nationwide and for banks in the same asset-size category (\$100 million to \$1 billion) as most of the Maine Banks. Compared to similarly-sized banks nationwide, the Maine

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<sup>6</sup> The 30 banks and thrifts consisted of seven commercial banks, 17 savings banks, and six savings and loan associations ("thrifts"); 21 are state-chartered and nine are federally-chartered. These 30 banks are referred to as the "Maine Banks." None of the Maine Banks operates a branch outside of Maine.

Banks reported stronger asset quality indicators but weaker earnings, capital and liquidity ratios.

The deterioration in performance for the first three quarters of 2008, through September 30, accelerated, due largely to securities writedowns, which totaled \$44 million for the three quarters and \$46 million in the third quarter alone, and increased loan problems.<sup>7</sup> Net income was also negatively impacted by increased provisions for loan losses (“PLL”) and increased overhead (“OVHD”), primarily higher writedowns and amortization of intangibles. Core operating income (“COI” – income before securities gains/losses and taxes), however, was able to hold flat due to strong gains in revenues, as both net interest income (“NII”) and noninterest income (“OI”) increased sharply. Table #8 summarizes the dollar earnings performance of the Maine Banks for 2007 and year-to-date September 2008.

**TABLE #8**

	2006	2007	% Chg	9/07	9/08	% Chg
<b>NII</b>	536	533	(0.6)	394	433	9.9
<b>OI</b>	129	136	5.4	101	107	5.9
<b>OVHD</b>	447	486	8.7	348	382	9.8
<b>PLL</b>	20	23	15.1	12	23	91.7
<b>COI</b>	198	160	(19.2)	135	135	(0.0)
<b>Securities Gains/Losses</b>	4	8	100.0	8	(44)	(650.0)
<b>Taxes</b>	63	54	(14.3)	44	33	(25.0)
<b>Net Income</b>	139	114	(18.0)	99	58	(41.4)

Amounts are in millions of dollars.

Table #9 shows the same data as Table #8, but as a percentage of average assets instead of in dollars. Note the September 2008 positive performance in NII and COI by the Maine Banks relative to that by the National Peer. The Maine Banks continue to generate lower revenue, but also operate with lower expenses.

<sup>7</sup> Banks are required to value marketable securities held as “Available for Sale” at the lower of amortized cost or fair value with the difference reported either as an adjustment to equity or, in the event of a permanent impairment, a charge to earnings. The majority of the securities losses relate to a permanent impairment writedown of Fannie Mae and Freddie Mac securities.



**TABLE #9**

	12/05		12/06		12/07		9/07		9/08	
	ME	Natl	ME	Natl	ME	Natl	ME	Natl	ME	Natl
<b>NII</b>	3.51	3.97	3.31	3.96	3.13	3.83	3.11	3.85	3.26	3.62
<b>OI</b>	0.75	0.71	0.79	0.69	0.80	0.68	0.80	0.68	0.81	0.65
<b>OVHD</b>	2.82	3.10	2.76	3.13	2.85	3.15	2.75	3.09	2.87	3.07
<b>PLL</b>	0.10	0.16	0.12	0.16	0.14	0.21	0.09	0.15	0.17	0.31
<b>COI</b>	1.34	1.50	1.22	1.44	0.94	1.21	1.07	1.34	1.03	0.93
<b>Securities Gains/Losses</b>	0.06	N/A	0.02	N/A	0.05	N/A	0.06	N/A	-0.33	N/A
<b>ROA</b>	0.96	1.09	0.86	1.05	0.67	0.89	0.78	0.99	0.44	0.54

National Peer consists of more than 7,100 commercial banks and more than 400 savings banks as of September 30, 2008.

Table #10 details some key balance sheet numbers (in millions of dollars) for the Maine Banks and compares their growth rate between September 2007 and September

**TABLE #10**

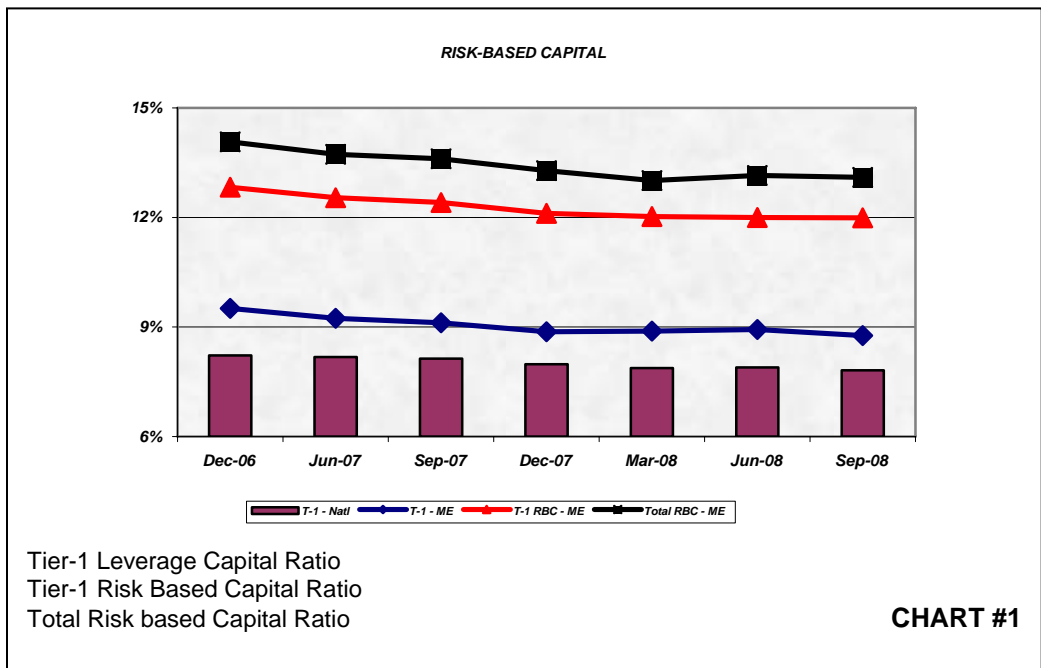
	9/07	9/08	% Chg – MB	% Chg - Natl
Assets	17,419	18,258	4.8	6.8
Core Deposits	10,323	10,292	(0.3)	2.7
Non-Core Funding	5,176	5,927	14.5	9.2
Equity	1,754	1,868	6.5	-1.5
Loans	13,239	13,873	4.8	2.8
Commercial RE (CRE)	3,253	3,459	6.3	11.1
1 <sup>st</sup> Residential REM	5,704	5,998	5.2	-6.1
Home Equity (HE)	1,054	1,146	8.7	10.3
Total Real Estate	10,878	11,565	6.3	1.1
Commercial & Industrial (C&I)	1,199	1,248	4.1	8.3
Individual	904	803	(11.2)	6.8
Non-Current Loans (NCL)	87	138	58.6	121.9
PD Loans < 90 Days	138	175	25.8	31.4
Net Loan Losses (NLL)	8.2	24.7	204.2	156.4

Amounts are in millions of dollars.

2008 with that of all FDIC-insured institutions. Loans and assets increased each quarter since last year's Annual Report. Core deposits, however, decreased for three consecutive quarters before increasing in the third quarter of 2008 and noncore funding increased in each quarter except for the third quarter. Loan growth continues to be

concentrated in real estate, as all major subcategories increased both in dollars and as a percentage of total loans. First residential mortgages accounted for nearly one-half the increase in total real estate loans, but this growth rate was the slowest at 5.2%; construction and development loans increased the fastest, at 11.7%, accounting for 5.9% of total real estate loans and 4.9% of total loans. Overall, total real estate loans increased to 83.4% of total loans; Commercial & Industrial loans (C&I) also increased, but fell slightly to 9.0% of total loans; Individual loans continued a downward trend, dropping to 5.8% of total loans. Compared to all federally-insured institutions, the Maine Banks continue to hold twice the concentration in residential real estate (including home equity loans), 52% to 25%.

The combination of depressed earnings, asset growth and decline in unrealized securities gains has resulted in decreased capital ratios. Each of the three risk-based capital ratios has declined in recent quarters, as seen in Chart #1. Nevertheless, capital ratios for the Maine Banks continue to compare favorably to those of banks nationwide. Additionally, each of the Maine Banks remains “well-capitalized” under federal guidelines.



Nearly all loan quality measures have deteriorated and most are at or near their worst level in several years. However, as also seen in Table #11, those measures

**TABLE #11**

	Maine Banks							Nat'l
	12/90	12/06	9/07	12/07	3/08	6/08	9/08	9/08
PD - %	3.70	1.01	1.05	1.40	1.44	1.19	1.26	1.52
NCL - %	4.92	0.62	0.65	0.82	0.93	1.03	0.99	2.31
NPA/TA - %	4.90	0.53	0.56	0.70	0.79	0.89	0.91	1.54
NLL - %	2.18	0.08	0.10	0.11	0.17	0.16	0.25	1.18
ALL/Lns - %	2.35	1.11	1.09	1.12	1.11	1.11	1.07	1.95
ALL/NCL - X	0.48	1.78	1.67	1.36	1.19	1.08	1.07	0.85
PLL/NLL - X	1.33	1.96	1.30	1.58	1.21	1.23	0.91	1.82
REO - \$	164	9	11	13	15	19	29	N/A

Amounts are in millions of dollars.

generally compare favorably to those of all federally-insured banks and are also well below levels reached in the early 1990s. While the decrease in loans Past Due less than 90 days ("PD") and Noncurrent Loans ("NCL" – loans past due more than 90 days and loans not accruing interest) in at least one quarter of 2008 is positive, the decrease is most likely due to a combination of seasonal factors, an increase in Other Real Estate Owned ("REO") and increased net loan losses ("NLL"). REO and NCL comprise nonperforming assets ("NPA"), which explains the increase in the NPA/TA ratio. The allowance for loan losses ("ALL") coverage of both total loans and NCL has fallen, due to increased NLL and a PLL which has not kept pace with NLL (through September 2008, the PLL was only 91% of NLL).

Table #12 segregates the PD, NCL and NLL by the three major categories of loans, Real Estate, C&I, and Individual. The September 2008 ratios, especially NLL, for the Maine Banks are up from one year ago but generally compare very favorably to the national peer (except for the C&I PD and C&I NCL).

**TABLE #12**

	Maine Banks							Nat'l
	12/90	12/06	9/07	12/07	3/08	6/08	9/08	9/08
RE PD - %	3.46	0.91	1.00	1.30	1.37	1.15	1.20	1.78
C&I PD - %	5.10	1.45	1.34	1.95	2.01	1.38	1.38	0.69
Indiv PD - %	4.26	1.58	1.34	2.09	1.78	1.74	1.80	2.22
PD - \$	317	129	138	187	194	164	175	N/A
RE NCL - %	5.4	0.59	0.64	0.81	0.94	1.01	0.99	3.12
C&I NCL - %	5.90	1.13	1.11	1.31	1.28	1.65	1.50	1.01
Indiv NCL - %	1.38	0.33	0.28	0.45	0.48	0.50	0.49	1.50
NCL - \$	421	80	87	111	126	141	138	N/A
RE NLL - %	2.42	0.03	0.03	0.05	0.09	0.09	0.15	0.91
C&I NLL - %	1.48	0.16	0.31	0.33	0.45	0.43	0.74	0.86
Indiv NLL - %	1.62	0.51	0.54	0.60	0.75	0.76	0.88	3.29

Amounts are in millions of dollars.

As stated previously, residential real estate loans are the largest asset category for the Maine Banks, accounting for 39.1% of total bank assets as of September 2008, a percentage which is slowly rising. Mortgages on 1 – 4 family residential homes account for 84% of all residential loans (and 33% of all assets) with home equity loans accounting for the remaining 16% (6% of all assets). Table #13 tracks the performance of residential mortgages, by 1 – 4 family homes and home equity loans, over the five most recent quarters, as well as yearend 2006 and 2005. The amount of (1) Restructured residential loans, (2) residential properties In Process of Foreclosure (“IPF”) and (3) residential real estate owned (“Res REO”) are also shown for those periods in which they were reported.<sup>8</sup>

<sup>8</sup> Thrift institutions do not report Restructured and IPF data, thus the amounts shown are only from 21 of the 30 Maine Banks. While all banks and thrifts report residential REO, residential REO is shown from only the same institutions as reported Restructured and IPF.

TABLE #13

	Maine Banks							Nat'l
1 – 4 Family	12/05	12/06	9/07	12/07	3/08	6/08	9/08	9/08
Balance - \$	4,841	5,400	5,704	5,763	5,790	5,867	5,998	2,102.1
PD < 90%	0.80	0.89	0.84	1.41	1.19	0.99	0.93	2.45
NCL - %	0.34	0.43	0.47	0.59	0.73	0.81	0.91	3.64
NLL - %	0.02	0.01	0.03	0.06	0.05	0.02	0.11	0.86
<b>HE</b>								
Balance - \$	1,144	1,101	1,054	1,064	1,060	1,088	1,146	652.1
PD < 90%	0.57	0.81	0.74	1.00	0.71	0.54	0.62	1.17
NCL - %	0.17	0.22	0.36	0.39	0.50	0.47	0.58	1.19
NLL - %	0.03	0.04	-0.01	0.08	0.05	0.07	0.12	1.55
Restructured - \$	N/A	N/A	N/A	N/A	6.7	7.5	8.4	N/A
IPF - \$	N/A	N/A	N/A	N/A	14.6	14.7	10.4	N/A
Res REO - \$	N/A	N/A	N/A	2.6	3.2	3.8	13.7	N/A

Dollars are in millions, except for National, which is in billions.

The IPF amount is included in NCL. Only a few institutions have reported restructured loans (0.14% of outstanding 1 – 4 family mortgage loans at September 2008, but up from 0.12% at March 2008) and the delinquency rate on those loans is high (21.6% at September 2008). Approximately two-thirds of the institutions reported IPF. Based on the sharp increase in residential REO and ongoing increase in both 1 – 4 family NCL and home equity NCL, it is premature to anticipate that the decrease in IPF will continue over the next couple of quarters.

Securities have held steady in the 15% range of total assets over the past two years, but mortgage-backed securities (“MBS”) have steadily increased, climbing from 49% of securities to 59%. Nearly all of the MBS held by the Maine Banks are pass-through securities issued by or guaranteed by Government-Sponsored Enterprises, which generally are less risky and have maintained their market values much better than private-label MBS. While detailed information on the securities holdings of all of the Maine Banks is not available, detailed information is available for the commercial banks and the savings banks, which covers more than 90% of the total dollar amount. These data are summarized in Table #14. For this subset of banks, MBS represent 62% of total securities and have an unrealized loss (the difference between amortized cost (“AC”) and fair value (“FV”)) of \$3 million as of September 30, 2008, 0.18% of the

amortized cost and 0.22% of Tier 1 leverage capital. All equities are carried as Available for Sale, as are most of the MBS and Other Bonds, and therefore most securities are reported on the banks' books at the lower FV amount.

**TABLE #14**

	<b>AC - \$</b>	<b>FV - \$</b>	<b>Unreal</b>	<b>% AC</b>	<b>% T-1</b>
MBS	1,647	1,644	-3	-0.18	0.22
Equities	158	143	-15	-9.49	1.10
Other Bonds	861	822	-39	-4.53	2.87
Total Securities	2,666	2,609	-57	-2.14	4.20

Amounts are in millions of dollars.

Core deposits, after declining for three consecutive quarters from the end of September 2007 through June 2008, regained most of the loss during the third quarter of 2008. However, as seen in Table #15, core deposit growth has not kept pace with asset growth, resulting in increased reliance on noncore funding (borrowings, brokered deposits and certificates of deposits in excess of \$100,000). Nearly all borrowings are from the Federal Home Loan Banks ("FHLB"), which to date have maintained sufficient liquidity to continue to make advances to banks.

**TABLE #15**

	<b>12/05</b>	<b>12/06</b>	<b>6/07</b>	<b>9/07</b>	<b>12/07</b>	<b>3/08</b>	<b>6/08</b>	<b>9/08</b>
Core Dep - \$	9,245	9,514	9,980	10,323	10,160	10,035	9,963	10,292
% TA	59.2	57.0	58.4	59.3	57.9	56.3	55.2	56.4
Brokered - \$	776	1,015	1,060	975	931	943	1,011	1,055
% Tot Dep	6.8	8.3	8.6	7.8	7.5	7.7	8.2	8.4
Borrowings	2,621	2,748	2,887	2,977	3,222	3,431	3,591	3,585
% TA	16.8	16.5	16.9	17.1	18.4	19.3	19.9	19.6
Noncore Fdg - \$	4,737	5,397	5,244	5,176	5,490	5,719	6,018	5,927
% TA	30.3	32.3	30.7	29.7	31.3	32.1	33.3	32.5

Amounts are in millions of dollars.

While the economy and its affect on loan quality is the major challenge to Maine Banks today, it is not their only concern. Other issues include declining core profitability, intense competition, technology changes and regulatory burdens. These issues increase the importance of a strong risk management process.

### **Maine Credit Unions**

Maine Credit Unions consist of the 68 credit unions headquartered in Maine as of September 30, 2008: 12 are Maine-chartered and 56 are federally-chartered. This represents a decrease of one credit union in the first nine months of 2008. Calendar

year 2007 performance compared unfavorably to prior years and year-to-date September 30, 2008 performance showed further weakening in most key qualitative areas. The Maine Credit Unions do, however, continue to experience continued growth in loans, shares and assets. Notwithstanding the ongoing deterioration, capital ratios remain strong; earnings, though weakened, are sufficient to support moderate asset growth; and loan quality is passable. The ratios in the key areas of net worth, earnings and loan quality for the Maine Credit Unions remain in line with those for credit unions nationally. As with the Maine Banks, further deterioration over the near-term is expected due to the expected worsening economy.

Calendar year 2007 net income fell \$5 million, representing 15%. Overhead was up \$10 million, representing 6%, and the PLL was up \$3 million which more than offset the nominal \$2 million, representing 1%, increase in NII, and the strong increase in noninterest income, \$6 million, representing 12%. The cost of funds increased 1.5 times faster than the yield on assets, resulting in a 13 basis point decline in NII, which was the major, but not sole, factor in Return on Assets dropping from 0.82% to 0.66%, the lowest in more than 14 years. For the first nine months of 2008, compared to the same period of 2007, dollar net income was down \$4 million, 17%, as NII was flat; noninterest income was up a strong \$5 million, 13%; overhead was up \$7 million, 5%; and the PLL was up \$3 million. Noninterest income continues to gain in importance, climbing from 23% of net revenues in 2006 to 27% for the first nine months of 2008. At the same time, the shortfall between NII and overhead is increasing, rising from 4% in 2006 to 13%. Table #16 summarizes the dollar earnings performance.

**TABLE #16**

	<b>2006</b>	<b>2007</b>	<b>% Chg</b>	<b>9/07</b>	<b>9/08</b>	<b>% Chg</b>
<b>NII</b>	156	158	1.4	119	119	0.2
<b>OI</b>	47	53	12.3	39	44	12.9
<b>OVHD</b>	162	172	6.2	128	135	5.2
<b>PLL</b>	7	10	34.5	6	9	44.1
<b>NI</b>	33	29	-14.5	24	20	-17.0

Amounts are in millions of dollars.

Table #17 presents the same data as in Table #16, but as a percentage of average assets instead of in dollars. The Maine Credit Unions maintain positive variances in NII, though significantly smaller year-to-date 2008, and PLL; however, the Maine Credit Unions have lower other income, though the gap is narrowing, and higher

overhead. Table #17 also shows the trend in the net worth-to-asset ratio (“NW/TA”) for the Maine Credit Unions and credit unions nationally. The trend had been upward for several years, before holding flat in 2007 and falling slightly during the first nine months of 2008.

**TABLE #17**

	<b>96 - 00</b>	<b>04 – 06</b>		<b>12/07</b>		<b>9/08</b>	
	<i>ME</i>	<i>ME</i>	<i>NATL</i>	<i>ME</i>	<i>NATL</i>	<i>ME</i>	<i>NATL</i>
<b>NII</b>	4.32	3.77	3.24	3.68	3.11	3.48	3.16
<b>OI</b>	0.72	1.05	1.21	1.22	1.36	1.28	1.36
<b>OVHD</b>	3.87	3.84	3.26	4.02	3.39	3.93	3.36
<b>PLL</b>	0.27	0.18	0.36	0.23	0.44	0.26	0.71
<b>ROA</b>	0.89	0.83	0.86	0.66	0.64	0.58	0.51
<b>NII/REV</b>	85.6	77.7	72.4	75.1	69.6	73.1	69.9
<b>NW/TA</b>	10.53	10.97	11.24	11.34	11.43	11.06	11.16

In 2007 and year-to-date September 2008, asset and share growth exceeded loan growth, resulting in moderately lower loan-to-asset and loan-to-share ratios, 71% and 85%, respectively; both, however, continue to exceed the average for all credit unions nationally. The “excess” shares have been used to increase investments, which have risen from 14% of asset at December 2006 to 19% at September 2008. Borrowings have also increased, rising from 4% of assets to 5% during this same period.

Loan growth continues to be concentrated in residential real estate loans, up 8% through September 2008 and accounting for 100% of the net increase in loans. Used automobile loans increased slightly, but not enough to offset the decrease in new auto loans; overall, auto loans, once the mainstay of credit union lending, decreased \$11 million, representing 1%. Table #18 compares the loan mix for the Maine Credit Unions with that of credit unions nationally and shows the change in mix between 2000 and 2008. Credit unions report each quarter the dollar amount of new real estate loans granted. In 2007, the Maine Credit Unions granted \$326 million of first real estate mortgage loans and \$282 million of “Other Real Estate loans” (loans secured by junior



liens on residential property); this compares to \$300 million and \$300 million, respectively, for 2006. For the nine months through September 2008, the Maine Credit Unions granted \$293 million first real estate mortgage loans and \$232 million other real estate loans, compared to \$247 million and \$216 million, respectively, for the same nine months of 2007.

**TABLE #18**

LOAN MIX	6/00		9/08	
	ME	NAT'L	ME	NAT'L
<b>Auto</b>	32%	40%	26%	31%
<b>1<sup>st</sup> RE</b>	32%	26%	39%	36%
<b>Other RE</b>	13%	13%	22%	17%
<b>Unsecured</b>	12%	14%	6%	10%
<b>Other</b>	11%	7%	7%	6%

Dollar past due loans increased 25% between September 2007 and September 2008 and rose from 1.01% of total loans to 1.20%. During this same period, foreclosed real estate and repossessed assets (“FC”) increased 228%, rising from 0.03% of loans to 0.11%, and increasing nonperforming assets (“NPA” – loans past due more than six months plus FC) from 0.26% of total assets to 0.34% and from 2.3% of net worth to 3.1%. As seen in Table #19, each of these ratios is in line with those for all credit unions nationally.

**TABLE #19**

	Maine Credit Unions						Nat'l
	12/06	9/07	12/07	3/08	6/08	9/08	9/08
PD - \$	31,345	32,269	36,556	31,956	36,139	40,307	N/A
PD - %	1.02	1.01	1.14	1.00	1.10	1.20	1.13
PD > 6 - \$	9,580	10,442	10,088	11,700	12,068	12,516	N/A
PD > 6 - %	0.31	0.33	0.31	0.37	0.37	0.37	0.32
FC - \$	1,243	1,134	1,620	2,408	3,802	3,727	N/A
NPA - \$	10,823	11,576	11,708	14,108	15,870	16,243	N/A
NPA/TA - %	0.26	0.26	0.26	0.31	0.34	0.34	0.33
NPA/NW - %	2.3	2.3	2.3	2.8	3.1	3.1	3.0

Amounts are in millions of dollars.

The rise in loan delinquencies has been accompanied by increased net loan losses, up \$2.5 million, representing 34%, in 2007, or from 0.24% of loans to 0.31%.

NLL increased \$1 million, representing 15%, from September 2007 to September 2008, or from 0.26% of loans to 0.29%. While the NLL ratio has declined slightly from December 2007 to September 2008, the fourth quarter historically has the highest loan losses and therefore it would not be unexpected if the NLL ratio for 2008 exceeded that for 2007. In 2006 and 2007, the PLL nominally exceeded NLL, but due to loan growth the ALL-to-loan ratio declined, dropping from 0.41% to 0.38%. As of September 2008, the ratio had increased back to 0.41% as the PLL significantly exceed NLL. With the increase in loans past due six months or more (“NPL”), ALL coverage of NPL has declined, dropping to 110%. Similarly, ALL coverage of annualized NLL has dropped, to 145%. The ALL-to-loan ratio and the ALL/NPL ratio compare unfavorably to those for credit unions nationally, 0.87% and 273%, respectively; the ALL/NLL ratio compares favorably to the 119% for credit unions nationally. See Table #20.

**TABLE #20**

	<b>Maine Credit Unions</b>				<b>Nat'l</b>
	<b>12/06</b>	<b>12/07</b>	<b>9/07</b>	<b>9/08</b>	<b>9/08</b>
NLL - \$ (000)	7,300	9,767	6,200	7,154	3,072,679
NLL - %	0.24	0.31	0.26	0.29	0.75
ALL/Lns - %	0.41	0.38	0.38	0.41	0.87
ALL/NPL - %	127.2	122.1	116.6	110.4	273.0
ALL/NLL - %	165.3	126.0	147.3	144.9	118.6

Amounts are in thousands of dollars.

Credit unions report outstanding and past due first residential real estate mortgage loans by fixed rate and adjustable rate. Fixed rate first mortgages have steadily increased from 84% of outstanding mortgages as of December 2005 to 87% as of September 2008 and the fixed rate past due has increased from 0.61% to 1.12%; past due for adjustable rate first mortgages has increased from 0.74% to 1.73%. Nationally, 68% of first residential mortgages are fixed rate; fixed rate mortgages have a significantly lower PD rate than the adjustable rate mortgages, 0.74% vs. 1.54%. Overall past due has increased from 0.63% to 1.19%; the national past due rate is 1.00%. Table #21 compares the past due rates for fixed rate and adjustable rate first mortgages and compares the September 2008 rates for the Maine Credit Unions with those for credit unions nationally. NLL for first mortgages declined slightly in 2007 and doubled year-to-date September 2008 for both the Maine Credit Unions and credit unions nationally, but the level still remained very low, 0.04% and 0.08%, respectively.

**FIRST MORTGAGES**

**TABLE #21**

	Maine Credit Unions				Nat'l
	12/05	12/06	12/07	9/08	9/08
2 - < 6 Mos	0.50	0.74	0.86	0.84	0.61
6 - < 12 Mos	0.04	0.14	0.22	0.21	0.25
> 12 Mos	0.09	0.10	0.12	0.14	0.13
<b>Total PD</b>	<b>0.63</b>	<b>0.98</b>	<b>1.20</b>	<b>1.19</b>	<b>1.00</b>
<b>FIXED RATE - %</b>	83.5	84.3	86.7	87.2	67.5
2 - < 6 Mos	0.47	0.72	0.81	0.84	0.45
6 - < 12 Mos	0.04	0.08	0.20	0.15	0.18
> 12 Mos	0.11	0.09	0.11	0.12	0.10
<b>Total PD</b>	<b>0.61</b>	<b>0.89</b>	<b>1.13</b>	<b>1.12</b>	<b>0.74</b>
<b>ADJ RATE - %</b>	16.5	15.7	13.3	12.8	32.5
2 - < 6 Mos	0.67	0.87	1.16	0.84	0.94
6 - < 12 Mos	0.05	0.45	0.33	0.61	0.40
> 12 Mos	0.02	0.16	0.16	0.28	0.20
<b>Total PD</b>	<b>0.74</b>	<b>1.48</b>	<b>1.65</b>	<b>1.73</b>	<b>1.54</b>
NLL - \$ (000)	2,057	300	198	406	115,261
<b>NLL - %</b>	<b>0.20</b>	<b>0.03</b>	<b>0.02</b>	<b>0.04</b>	<b>0.08</b>

Amounts are in thousands of dollars.

Table #22 compares the same data as shown in Table #21, but for “Other Real Estate” loans (loans secured by junior liens on residential property) instead of first mortgages. Open-end lines of credit accounted for 53% of Other Real Estate loans for the Maine Credit Unions and 43% of such loans for credit unions nationally. Unfortunately, past due data are reported on the basis of interest rate (fixed vs. adjustable) and not on the basis of maturity (open-end vs. closed-end). For both the Maine Credit Unions and credit unions nationally, more than 94% of the adjustable rate loans are open-end lines of credit. A comparison of the past due rates for both first mortgages and Other Real Estate at September 2008 shows little difference in total past due and past due 6 months or more. Other Real Estate NLL increased significantly in 2007 for both the Maine Credit Unions and credit unions nationally, with both ending the year at 0.19%. Maine Credit Unions were able to lower their NLL through September 2008, whereas NLL continued to escalate for credit unions nationally. Credit unions nationally do have a much lower level of loans past due more than 12 months which may partially explain the difference in the NLL experience (*i.e.*, they may write-down loans more quickly).

## OTHER REAL ESTATE

TABLE #22

	Maine Credit Unions				Nat'l
	12/05	12/06	12/07	9/08	9/08
2 - < 6 Mos	0.27	0.30	0.58	0.67	0.60
6 - < 12 Mos	0.05	0.14	0.14	0.18	0.19
> 12 Mos	0.06	0.10	0.07	0.19	0.07
<b>Total PD</b>	<b>0.38</b>	<b>0.54</b>	<b>0.79</b>	<b>1.04</b>	<b>0.86</b>
<b>FIXED RATE - %</b>	33.9	42.4	45.7	46.4	56.3
2 - < 6 Mos	0.23	0.32	0.36	0.48	0.57
6 - < 12 Mos	0.08	0.13	0.10	0.11	0.17
> 12 Mos	0.13	0.12	0.07	0.13	0.06
<b>Total PD</b>	<b>0.43</b>	<b>0.57</b>	<b>0.52</b>	<b>0.72</b>	<b>0.80</b>
<b>ADJ RATE - %</b>	66.1	57.6	54.3	53.6	43.7
2 - < 6 Mos	0.30	0.28	0.77	0.84	0.64
6 - < 12 Mos	0.03	0.14	0.17	0.24	0.23
> 12 Mos	0.02	0.09	0.07	0.24	0.08
<b>Total PD</b>	<b>0.35</b>	<b>0.51</b>	<b>1.01</b>	<b>1.32</b>	<b>0.94</b>
NLL - \$ (000)	155	241	1,281	809	397,459
<b>NLL - %</b>	<b>0.03</b>	<b>0.04</b>	<b>0.19</b>	<b>0.15</b>	<b>0.57</b>

Amounts are in thousands of dollars.

As stated above, share growth in recent years has outpaced loan growth, resulting in a larger percentage of assets being held as investments, which have increased from 14% of assets at yearend 2006 to 19% as of September 2008. Table #23 shows the growth in investments as well as the change in mix, most significantly the decrease in investments in corporate credit unions ("CCU").<sup>9</sup> CCUs are owned by natural-person credit unions to which they provide financing, investment and clearing services; CCUs do not conduct business with the general public. CCUs take deposits from natural-person credit unions and invest those deposits in longer-term assets. Those investments have included mortgage-backed securities which have suffered sizeable decreases in fair value, resulting in lower capital ratios and tightened liquidity for the CCUs. The problems at the CCUs have in turn caused many credit unions to withdraw or curtail their deposits at the CCUs. The Maine Credit Unions reduced their investments at CCUs from \$221 million to \$187 million between December 2007 and September 2008, a reduction of 15%; they reduced their cash on deposit at CCUs from

<sup>9</sup> CCUs are regulated by the NCUA (and the appropriate state regulator if the CCU is state-chartered). The NCUA recently announced a plan to shore up the finances of some of the CCUs.

\$237 million to \$158 million during this same period. These reductions have decreased the percentage of total CCU assets of the Maine Credit Unions to 7% of total Maine Credit Union assets and to 67% of total Maine Credit Union net worth. Table #23 summarizes investment data, including investments in CCUs, for the Maine Credit Unions.

**TABLE #23**

	12/06		12/07		9/08	
	\$	%	\$	%	\$	%
Securities	151	25.2	186	27.2	269	30.6
Bank Deposits	244	40.7	246	36.0	388	44.0
CCU	163	27.2	221	32.3	187	21.2
Other	41	6.9	31	4.5	37	4.2
TOTAL	599	100.0	684	100.0	881	100.0
% TA	14.3		15.4		18.7	
Cash @ CCU - \$	213		237		158	
Invest CCU/TA - %	3.9		5.0		4.0	
Invest CCU/NW - %	34.5		44.2		36.1	
CCU Assets/TA - %	9.0		10.3		7.3	
CCU Assets/NW -	79.5		91.6		66.6	

Dollar amounts in millions.

Credit union assets in Maine continue to grow, but the number of Maine Credit Unions continues to decline due to mergers, dropping from 77 at yearend 2004 to the current 68. The average assets have increased from \$50 million to \$69 million, just over one-tenth the average assets of a Maine Bank, \$609 million.

The Maine Credit Unions face the same challenges as the Maine Banks, and in fact the same issues that all depository institutions in the U.S. are facing: the economy, loan quality, competition, technology, core profitability and regulatory burden. For many, the challenges are exacerbated by their relatively small size which limits their ability to install more sophisticated risk management processes that would assist them in identifying, measuring and monitoring their risks.

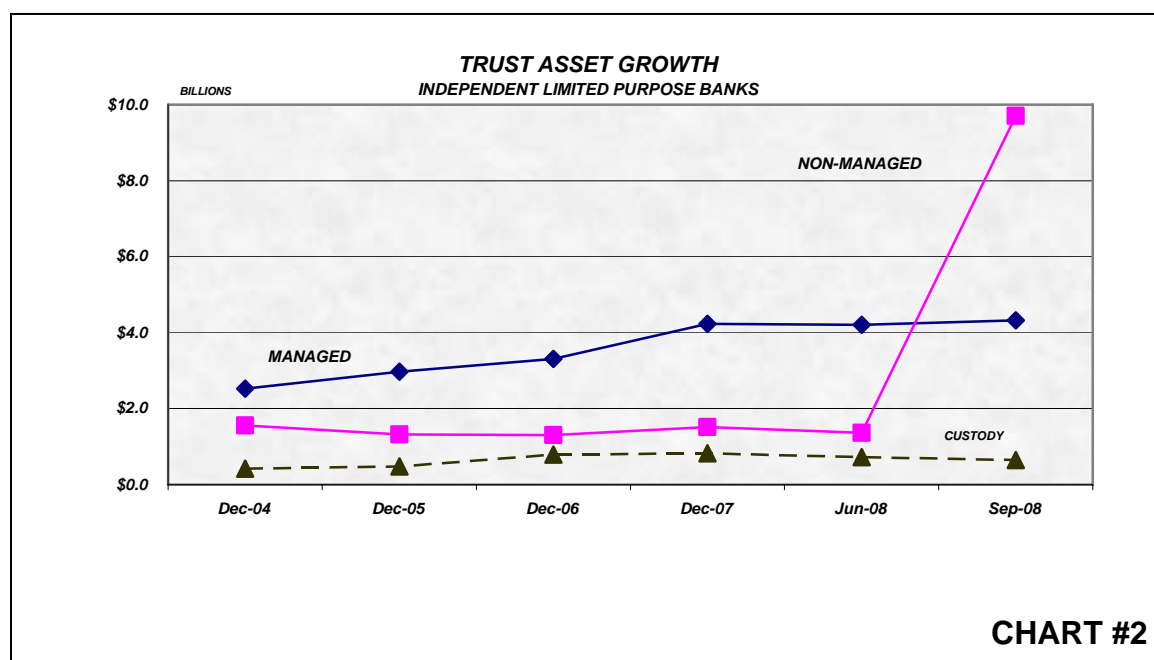
## **Limited Purpose Banks**

The number of Maine-chartered limited purpose banks decreased by one with the cessation of operations by QUADS Trust Company, more particularly discussed previously in the QUADS Trust Company Section. The eight banks in operation in 2007 continue in business and the Bureau approved one application to establish a nondepository trust company (Global Trust Company), which is expected to commence operations during the first quarter of 2009. The application approved by the Bureau in May 2007 (cited in last year's Report) did not commence operations within one year of the effective date and consequently the approval was forfeited. Seven of the limited purpose banks are chartered as nondepository trust companies and one is chartered as a merchant bank. One of the nondepository trust companies remains largely inactive and the merchant bank functions primarily as a nondepository trust company. Four of the active limited purpose banks focus on "traditional" trust, investment management, advisory and custodial services to individuals, and the other three focus on custodial and administrative services to retirement plans. None of these niche banks is authorized to accept deposits and only the merchant bank is authorized to make loans. Each of the niche banks has capital in excess of that required by the Bureau.

There were several significant structural changes among Maine-chartered limited purpose banks in 2008, as noted above in the Application Section and the QUADS Trust Company Section. Ram Trust Company merged with its affiliated SEC-registered investment advisor and in the process acquired a NASD-registered broker-dealer. This transaction led to a significant increase in its fiduciary assets. TD AMERITRADE Trust Company (formerly, International Clearing Trust Company) merged with its affiliate, Fiserv Trust Company, located in Denver, Colorado, and retained the latter's institutional retirement plan services businesses, which significantly increased its fiduciary assets (its non-managed assets increased more than \$8 billion in the third quarter of 2008). Pentegra Services, Inc., which provides a full range of employee benefit plan services and whose parent is one of the largest providers of pension services to community banks, acquired RSGroup Trust Company. While both Pentegra and RSGroup have a similar focus, the transaction is expected to produce a stronger company with increased capabilities and efficiencies. Global Trust Company was

established by Northeast Retirement Services, Inc. (“NRS”) to expand its business to enable it to act as a trustee for collective investment funds. NRS provides trust administration for approximately \$70 billion in assets for retirement plans, collective and common funds, endowments and foundations.

Chart #2 shows the growth in fiduciary assets of the seven continually operating limited purpose banks. Total fiduciary assets decreased at five of the seven institutions through September 30, 2008, which is consistent with the decline in the stock market. The year-to-date growth in managed and non-managed assets is primarily attributable to the merger of TD AMERITRADE with an affiliate.



**Summary**

Given the breadth of the current financial crisis, all financial institutions in Maine are being adversely affected, some to a greater degree than others. And, the longer and deeper the recession, the greater will be the impact. Fortunately, however, Maine’s institutions entered the downturn with a strong capital base, solid core earnings and adequate liquidity. Maine’s lending institutions – the Maine Banks and the Maine Credit Unions – also entered the downturn with sound asset quality which, despite the current increasing loan problems and falling home values, remains generally acceptable.

Based on available evidence, Maine's institutions did not participate to any measureable degree in subprime or other highly risky lending or investments. These positive factors have enabled the Maine Banks and the Maine Credit Unions to continue to be in a position to meet the legitimate needs of creditworthy borrowers. Both groups continue to grow their loans and have historically maintained above average loan-to-deposit/loan-to-share ratios. These institutions do, however, also have a fiduciary responsibility to their stockholders, depositors and members to make prudent loans. A major cause of the current national crisis was the granting of loans to borrowers without proper evaluation of their capacity to repay; a continuation of such weak underwriting would only serve to exacerbate and prolong the crisis. Unfortunately, because credit risk intensifies in recessionary periods, credit underwriting standards rise, but that should not mean that credit is not available to creditworthy borrowers. The Bureau will closely monitor the state-chartered banks and credit unions it supervises to ensure that they fulfill their responsibilities in meeting the credit needs of Maine's citizens and businesses.



# EXHIBITS



**SUMMARY OF FINANCIAL INSTITUTIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

June 30, 2008

	No.	<u>ASSETS</u>		<u>DEPOSITS/SHARES</u>		<u>LOANS</u>	
		Dollars (000's)	% of Total	Dollars (000's)	% of Total	Dollars (000's)	% of Total
Commercial Banks Chartered by the State of Maine	6	2,324,363	10.16%	1,597,101	6.82%	1,640,416	7.25%
National Banks	5	3,548,077	<sup>1</sup> 15.51%	9,102,622	38.84%	7,918,395	34.94%
State Limited Purpose Banks	9	121,697	0.53%	0	0.00%	663	0.00%
Federal Limited Purpose Banks	1	13,578	0.06%	0	0.00%	0	0.00%
State Savings Banks	14	9,815,406	42.90%	6,910,877	29.50%	7,769,211	34.28%
Federal Savings Banks	5	1,985,635	8.68%	1,538,290	6.56%	1,607,701	7.09%
State Savings and Loans	2	101,162	0.44%	77,745	0.33%	91,686	0.40%
Federal Savings and Loans	3	278,106	1.21%	211,789	0.90%	242,248	1.07%
Credit Unions Chartered by the State of Maine	12	1,292,834	5.65%	1,080,994	4.61%	901,632	3.98%
Credit Unions Chartered by Other States	1	N/A	<sup>1</sup> N/A	9,930	0.04%	8,622	0.04%
Federal Credit Unions	57	3,399,344	<sup>1</sup> 14.86%	2,906,505	12.40%	2,480,451	10.95%
<b>TOTAL</b>	<b>115</b>	<b>22,880,202</b>	<b>100.00%</b>	<b>23,435,853</b>	<b>100.00%</b>	<b>22,661,025</b>	<b>100.00%</b>
Commercial Banks Limited Purpose Banks	11	5,872,440	<sup>1</sup> 25.66%	10,699,723	45.65%	9,558,811	42.19%
Savings Banks	10	135,275	0.59%	0	0.00%	663	0.00%
Savings and Loans	19	11,801,041	51.58%	8,449,167	36.05%	9,376,912	41.38%
Credit Unions	5	379,268	1.66%	289,534	1.24%	333,934	1.47%
<b>TOTAL</b>	<b>70</b>	<b>4,692,178</b>	<b>1</b> 20.51%	<b>3,997,429</b>	<b>17.06%</b>	<b>3,390,705</b>	<b>14.96%</b>
Chartered by the State of Maine	43	13,655,462	59.68%	9,666,717	41.25%	10,403,608	45.91%
Chartered by Other States	1	N/A	<sup>1</sup> N/A	9,930	0.04%	8,622	0.04%
Federally Chartered	71	9,224,740	<sup>1</sup> 40.32%	13,759,206	58.71%	12,248,795	54.05%
<b>TOTAL</b>	<b>115</b>	<b>22,880,202</b>	<b>100.00%</b>	<b>23,435,853</b>	<b>100.00%</b>	<b>22,661,025</b>	<b>100.00%</b>
In-State Ownership	107	21,851,738	95.51%	15,762,204	67.26%	16,315,753	72.00%
Out-of-State Ownership	8	1,028,464	<sup>1,2</sup> 4.49%	7,673,649	32.74%	6,345,272	28.00%
<b>TOTAL</b>	<b>115</b>	<b>22,880,202</b>	<b>100.00%</b>	<b>23,435,853</b>	<b>100.00%</b>	<b>22,661,025</b>	<b>100.00%</b>

<sup>1</sup> **Maine assets are unavailable for the following multi-state banks and credit unions:**

Bank of America, N.A.	Northeast Credit Union
KeyBank, National Association	Ocean Bank
Navy Federal Credit Union	TD Banknorth

<sup>2</sup> **Out of State Ownership:**

	<b>Assets</b>	<b>Deposits</b>	<b>Loans</b>
Bank of America, N.A.	N/A	1,542,950	995,388
KeyBank, National Association	N/A	2,571,466	1,256,894
Maine Bank & Trust	430,309	280,1226	300,426
Merrill Merchants Bank	598,155	302,155	365,596
Navy Federal Credit Union	N/A	32,787	106,840
Northeast Credit Union	N/A	9,930	8,622
Ocean Bank	N/A	204,105	124,166
TD Banknorth	N/A	2,730,134	3,187,340
<b>TOTAL:</b>	<b>1,028,464</b>	<b>7,673,649</b>	<b>6,345,272</b>

**ASSETS, DEPOSITS/SHARES, AND LOANS BY FACILITY TYPE  
(IN THOUSANDS)**

	06/30/04	06/30/05	06/30/06	06/30/07	06/30/08
<b>Commercial Banks Chartered by the State of Maine</b>					
Number of Institutions	10	11	11	10	6
Number of Offices	82	94	93	93	54
Assets	2,610,874	3,336,620	3,659,000	3,698,233	2,324,363
Deposits	1,845,199	2,363,406	2,607,078	2,597,012	1,597,101
Loans	1,778,851	2,454,152	2,650,729	2,640,283	1,640,416
<b>Commercial Banks Chartered by Other States</b>					
Number of Institutions				1	
Number of Offices				7	
Assets	<i>Information not available.</i>			N/A	
Deposits				201,315	
Loans				115,827	
<b>National Banks</b>					
Number of Institutions	7	6	7	6	5
Number of Offices	198	202	199	207	214
Assets	1,778,091	2,025,228	2,283,783	2,874,213	3,548,077
Deposits	8,462,889	8,625,754	8,921,400	8,857,274	9,102,622
Loans	7,311,140	7,741,273	7,517,154	7,715,431	7,918,395
<b>State Chartered Savings Banks</b>					
Number of Institutions	15	15	15	14	14
Number of Offices	168	177	178	170	176
Assets	7,851,486	8,374,049	9,112,567	9,109,810	9,815,406
Deposits	5,678,939	6,141,686	6,595,416	6,622,160	6,910,877
Loans	5,895,263	6,326,358	7,148,026	7,271,436	7,769,211
<b>Federal Savings Banks</b>					
Number of Institutions	2	1	1	2	5
Number of Offices	32	21	21	30	63
Assets	1,194,426	699,776	751,574	1,038,867	1,985,635
Deposits	847,584	514,003	594,530	849,142	1,538,290
Loans	982,150	572,988	572,571	760,616	1,607,701
<b>State Chartered Savings &amp; Loan Associations</b>					
Number of Institutions	3	3	3	2	2
Number of Offices	3	4	5	3	3
Assets	153,515	160,612	165,092	98,495	101,162
Deposits	112,302	117,200	114,745	71,244	77,745
Loans	129,987	137,108	143,928	86,915	91,686
<b>Federal Savings &amp; Loan Associations</b>					
Number of Institutions	4	4	4	3	3
Number of Offices	8	9	9	7	8
Assets	291,554	306,466	316,746	271,492	278,106
Deposits	223,857	230,012	231,630	204,916	211,789
Loans	231,426	259,367	285,736	240,284	242,248

**ASSETS, DEPOSITS/SHARES, AND LOANS BY FACILITY TYPE  
(IN THOUSANDS)**

	06/30/04	06/30/05	06/30/06	06/30/07	06/30/08
<b>State Chartered Credit Unions</b>					
Number of Institutions	14	12	12	13	12
Number of Offices	31	32	34	44	48
Assets	956,141	1,007,522	1,042,126	1,197,684	1,292,834
Shares	806,457	847,813	874,877	1,002,378	1,080,994
Loans	686,535	728,196	747,784	851,852	901,632
<b>Credit Unions Chartered by Other States</b>					
Number of Institutions			1	1	1
Number of Offices			1	1	1
Assets	<i>Information not available.</i>		N/A	N/A	N/A
Shares	<i>Information not available.</i>		9,623	10,688	9,930
Loans	<i>Information not available.</i>		10,267	10,074	8,622
<b>Federal Credit Unions</b>					
Number of Institutions	64	63	62	59	57
Number of Offices	131	124	135	135	138
Assets	2,840,541	2,967,293	3,077,238	3,203,968	3,399,344
Shares	2,430,151	2,526,081	2,645,217	2,752,028	2,906,505
Loans	2,024,802	2,168,932	2,366,452	2,379,849	2,480,451
<b>State Chartered Merchant Banks</b>					
Number of Institutions	1	1	1	1	1
Assets	40,397	42,334	45,098	46,313	45,093
Deposits	N/A	N/A	N/A	N/A	N/A
Loans	21,269	21,000	22,585	0	663
<b>State Chartered Nondepository Trust Companies</b>					
Number of Institutions	8	9	9	9	8
Assets	50,748	54,231	42,891	94,089	76,604
Deposits	N/A	N/A	N/A	N/A	N/A
Loans	N/A	N/A	N/A	N/A	N/A
<b>Federal Nondepository Trust Companies</b>					
Number of Institutions			1	1	1
Assets	<i>Information not available.</i>		8,560	9,513	13,578
Deposits	<i>Information not available.</i>		N/A	N/A	N/A
Loans	<i>Information not available.</i>		N/A	N/A	N/A
<b>State Totals</b>					
Number of Institutions	128	125	127	122	115
Number of Offices	653	663	675	697	705
Assets	17,767,773	18,974,131	20,504,675	21,642,677	22,880,202
Shares & Deposits	20,407,378	21,365,955	22,594,516	23,168,157	23,435,853
Loans	19,061,423	20,409,374	21,465,232	22,072,567	22,661,025

**Note:** Maine deposits, shares, and loans for the following banks and credit unions operating in a multi-state environment are included in this exhibit; however, Maine assets are not available for:

Bank of America, National Association, Charlotte, North Carolina

KeyBank National Association, Cleveland, Ohio

Navy Federal Credit Union, Merrifield, Virginia

Northeast Credit Union, Portsmouth, New Hampshire

Ocean Bank, Portsmouth, New Hampshire

TD Banknorth, Portland, Maine

**Note:** "Number of Offices" includes main and branch offices that grant loans and accept deposits/shares.

**Source of data:** Calls reports and FDIC's Summary of Deposits Report.

EXHIBIT III

**STATE CHARTERED  
COMMERCIAL BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	<u>06/30/08 \$ in (000's) Deposits</u>	<u>Loans</u>
Joseph Murphy, CEO <b>BAR HARBOR BANKING AND TRUST COMPANY</b> 82 Main St. Bar Harbor, ME 04609	915,003	576,552	613,635
Earle Harvey, President <b>BORDER TRUST COMPANY</b> 227 Water St. Augusta, ME 04330	92,279	73,504	65,217
Thomas Finn, Jr., President <b>DAMARISCOTTA BANK &amp; TRUST</b> 25 Main St. Damariscotta, ME 04543	150,471	124,466	110,389
Jon Prescott, President <b>KATAHDIN TRUST COMPANY</b> 11 Main St. Patten, ME 04765	472,999	364,931	356,587
James Delamater, President <b>NORTHEAST BANK</b> 500 Canal Street Lewiston, ME 04240-6594	595,676	364,714	409,194
Noel Graydon, President <b>RIVERGREEN BANK<sup>10</sup></b> 36 Portland Rd. Kennebunk, ME 04043	97,935	92,934	85,394
<b>TOTAL: 6</b>	2,324,363	1,597,101	1,640,416

<sup>10</sup> Acquired by Savings Bank of Maine on September 19, 2008

**STATE CHARTERED  
LIMITED PURPOSE BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Daniel Hurley, III, President <b>BAR HARBOR TRUST SERVICES</b> 135 High St., PO Box 1100 Ellsworth, ME 04605	1,676	N/A	N/A
G. West Saltonstall, President <b>EATON VANCE TRUST COMPANY</b> 255 State Street Boston, MA 02109	3,539	N/A	N/A
John Keffer, President <b>FORUM TRUST, LLC</b> Two Portland Sq., PO Box 446 Portland, ME 04112	59,077	N/A	N/A
John Walker, President <b>H. M. PAYSON AND COMPANY</b> 1 Portland Sq., PO Box 31 Portland, ME 04101	4,402	N/A	N/A
Joseph Yohlin, President <b>MAINE MERCHANT BANK</b> 977 Congress St., Suite 1100 Portland, ME 04101	45,093	0	663
John Higgins, CEO <b>RAM TRUST COMPANY</b> 45 Exchange St. Portland, ME 04101	1,352	N/A	N/A
William Dannecker, President <b>RSGROUP TRUST COMPANY</b> 317 Madison Ave. New York, NY 10017	2,678	N/A	N/A
Richard Curran, Jr., President <b>SPINNAKER TRUST</b> 5 Milk St., PO Box 7160 Portland, ME 04112-7160	799	N/A	N/A
Warren Eastman, President <b>TD AMERITRADE</b> 6940 Columbia Gateway Drive, Suite 200 Columbia, MD 21046	3,081	N/A	N/A
<b>TOTAL: 9</b>	<b>121,697</b>	<b>0</b>	<b>663</b>

EXHIBIT III

**STATE CHARTERED  
SAVINGS BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Steven Closson, President <b>ANDROSCOGGIN SAVINGS BANK</b> 30 Lisbon St., PO Box 1407 Lewiston, ME 04240	615,158	411,534	500,520
James Conlon, CEO <b>BANGOR SAVINGS BANK</b> 99 Franklin St., PO Box 930 Bangor, ME 04402-0930	2,284,134	1,594,949	1,693,797
Glen Hutchinson, President <b>BATH SAVINGS INSTITUTION</b> 105 Front St., PO Box 548 Bath, ME 04530-0548	482,583	348,849	359,931
Wayne Sherman, President <b>BIDDEFORD SAVINGS BANK</b> 254 Main St., PO Box 525 Biddeford, ME 04005-0525	308,638	203,635	213,861
Peter Judkins, President <b>FRANKLIN SAVINGS BANK</b> 197 Main St., PO Box 825 Farmington, ME 04938-0825	304,526	222,304	258,642
Christopher Emmons, President <b>GORHAM SAVINGS BANK</b> 10 Wentworth Dr., PO Box 39 Gorham, ME 04038	782,163	489,774	572,154
Mark Johnston, President <b>KENNEBEC SAVINGS BANK</b> 150 State St., PO Box 50 Augusta, ME 04330	651,746	393,706	547,831
Kendall Reed, President <b>KENNEBUNK SAVINGS BANK</b> 104 Main St., PO Box 28 Kennebunk, ME 04043-0028	763,841	586,803	651,955
Edward Hennessey, Jr., President <b>MACHIAS SAVINGS BANK</b> 4 Center St., PO Box 318 Machias, ME 04654-0318	898,968	760,656	802,803
Rick Vail, President <b>MECHANICS SAVINGS BANK</b> 100 Minot Ave., PO Box 400 Auburn, ME 04210	266,408	198,829	232,312



**STATE CHARTERED  
SAVINGS BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Robert Harmon, President <b>NORWAY SAVINGS BANK</b> 261 Main St., PO Box 347 Norway, ME 04268	877,046	660,773	731,564
Kevin Savage, President <b>SACO AND BIDDEFORD SAVINGS INSTITUTION</b> 252 Main St., PO Box 557 Saco, ME 04073	723,090	444,596	568,493
Mark Mickeriz, President <b>SANFORD INSTITUTION FOR SAVINGS</b> 900 Main St., PO Box 472 Sanford, ME 04073	452,650	314,263	371,208
John Witherspoon, President <b>SKOWHEGAN SAVINGS BANK</b> 13 Elm St., PO Box 250 Skowhegan, ME 04976	404,455	280,206	264,140
<b>TOTAL: 14</b>	9,815,406	6,910,877	7,769,211

**STATE CHARTERED  
SAVINGS AND LOAN ASSOCIATIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
William Weir, President <b>BAR HARBOR SAVINGS AND LOAN ASSOCIATION</b> 103 Main St. Bar Harbor, ME 04609	35,529	30,109	32,546
Harry Mank, Jr., President <b>ROCKLAND SAVINGS AND LOAN ASSOCIATION<sup>11</sup></b> 582 Main St., PO Box 585 Rockland, ME 04841	65,633	47,636	59,140
<b>TOTAL: 2</b>	101,162	77,745	91,686

<sup>11</sup> Converted to federal charter on November 1, 2008

EXHIBIT III

**STATE CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Matthew Griffiths, CEO <b>COAST LINE CREDIT UNION</b> 333 Cottage Rd. South Portland, ME 04106	38,567	27,843	26,556
Donna Steckino, CEO <b>COMMUNITY CREDIT UNION</b> 144 Pine St., PO Box 7810 Lewiston, ME 04240	42,124	37,735	38,100
Eugene Ardito, CEO <b>cPORT CREDIT UNION</b> 50 Riverside Industrial Pkwy., PO Box 777 Portland, ME 04101-0777	116,650	104,933	72,173
David Tozier, CEO <b>DOWN EAST CU</b> 23 Third Ave., PO Box 130 Baileyville, ME 04694	78,794	61,762	62,114
H. Tucker Cole, CEO <b>EVERGREEN CREDIT UNION</b> 225 Riverside St. Portland, ME 04103	194,613	177,129	160,701
Richard Dupuis, CEO <b>FIVE COUNTY CREDIT UNION</b> 765 Washington St., PO Box 598 Bath, ME 04530-0598	163,549	137,604	118,173
Richard LaChance, CEO <b>MAINE EDUCATION CREDIT UNION</b> 23 University Dr., PO Box 1096 Augusta, ME 04330-1096	23,108	20,273	14,858
Normand Dubreuil, CEO <b>MAINE STATE CREDIT UNION</b> 200 Capital St., PO Box 5659 Augusta, ME 04332-5659	245,118	207,566	147,105
Luke Labbe, CEO <b>PEOPLESCHOICE CREDIT UNION</b> 35 Bradbury St., PO Box 463 Biddeford, ME 04005	127,071	106,322	67,108

**STATE CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Charles Hinkley, CEO <b>SABATTUS REGIONAL CREDIT UNION</b> 2 Middle Rd., PO Box 250 Sabattus, ME 04280	32,640	29,735	17,275
Carrie Shaw, CEO <b>SACO VALLEY CREDIT UNION</b> 312 Main St., PO Box 740 Saco, ME 04072-0740	67,890	61,368	47,457
Matthew Walsh, CEO <b>UNIVERSITY CREDIT UNION</b> Rangeley Rd. University of ME Orono, ME 04469-5779	162,710	108,724	130,012
<b>TOTAL: 12</b>	<u>1,292,834</u>	<u>1,080,994</u>	<u>901,632</u>

**STATE CHARTERED  
CREDIT UNIONS  
CHARTERED BY OTHER STATES**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Peter Kavalauskas, CEO <b>NORTHEAST CREDIT UNION</b> 100 Borthwick Ave. Portsmouth, NH 03801 1 Maine branch	N/A	9,930	8,622
<b>TOTAL: 1</b>	<u>N/A</u>	<u>9,930</u>	<u>8,622</u>

*Note: Maine shares and loans for Northeast Credit Union, which operates in a multi-state environment, are included in this exhibit; however, Maine assets are not available.*

EXHIBIT III

**FEDERALLY CHARTERED  
NATIONAL BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Elizabeth Greenstein, Regional CEO <b>BANK OF AMERICA, N.A.</b> 2 Portland Sq. Portland, ME 04101	N/A	1,542,950	995,388
Gregory Dufour, President <b>CAMDEN NATIONAL BANK</b> 2 Elm St., PO Box 310 Camden, ME 04843	2,293,631	1,415,058	1,526,959
Richard Lucas, District President <b>KEYBANK, NATIONAL ASSOCIATION</b> One Monument Sq., PO Box 678 Portland, ME 04112	N/A	2,571,466	1,256,894
Larry Wold, Maine President TD Bank, N.A. d/b/a/ <b>TD BANKNORTH</b> One Portland Sq., PO Box 9540 Portland, ME 04112	N/A	2,730,134	3,187,340
Daniel Daigneault, President <b>THE FIRST, N.A.</b> 223 Main St., PO Box 940 Damariscotta, ME 04543	1,254,446	843,014	951,814
<b>TOTAL: 5</b>	3,548,077	9,102,622	7,918,395

*Note: Maine deposits and loans for the following banks authorized to do business in a multi-state environment are included in this exhibit; however, Maine assets are not available for:*

*Bank of America, N.A.*

*KeyBank, National Association*

*TD Bank, N.A.*

**FEDERALLY CHARTERED  
NONDEPOSITORY TRUST COMPANIES  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Lawrence Blaisdell, President <b>ACADIA TRUST, NATIONAL ASSOCIATION</b> 511 Congress St. Portland, ME 04101	13,578	N/A	N/A
<b>TOTAL: 1</b>	<u>13,578</u>	<u>N/A</u>	<u>N/A</u>

**FEDERALLY CHARTERED  
SAVINGS BANKS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
Allen Sterling, President <b>AUBURN SAVINGS BANKS, FSB</b> 256 Court St., PO Box 3157 Auburn, ME 04210	66,335	46,174	57,015
Samuel Ladd, III, President <b>MAINE BANK &amp; TRUST COMPANY</b> 467 Congress St., PO Box 619 Portland, ME 04104	430,309	280,122	300,426
William Lucy, President <b>MERRILL MERCHANTS BANK</b> 201 Main St., PO Box 925 Bangor, ME 04402-0925	598,155	302,155	365,596
Danny O'Brien, President <b>OCEAN BANK</b> 325 State St. Portsmouth, NH 03801 7 Maine branches	N/A	204,105	124,166
Arthur Markos, President <b>SAVINGS BANK OF MAINE</b> 190 Water St., PO Box 190 Gardiner, ME 04345-0190	890,836	705,734	760,498
<b>TOTAL: 5</b>	<u>1,985,635</u>	<u>1,538,290</u>	<u>1,607,701</u>

*Note: Maine deposits and loans for Ocean Bank, which operates in a multi-state environment, are included in this exhibit; however, Maine assets are not available.*

EXHIBIT III

**FEDERALLY CHARTERED  
SAVINGS AND LOAN ASSOCIATIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Deposits</u>	<u>Loans</u>
John Swanberg, President <b>AROOSTOOK COUNTY FEDERAL SAVINGS AND LOAN ASSOCIATION</b> 43 High St., PO Box 808 Caribou, ME 04736-0808	89,425	81,019	77,598
Andrew Perry, President <b>FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF BATH</b> 125 Front St., PO Box 488 Bath, ME 04530	109,736	84,136	95,063
Allen Rancourt, President <b>KENNEBEC FEDERAL SAVINGS AND LOAN ASSOCIATION</b> 70 Main St., PO Box 488 Waterville, ME 04903-0497	78,945	46,634	69,587
<b>TOTAL: 3</b>	278,106	211,789	242,248

**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
David Desjardins, CEO <b>ACADIA FEDERAL CU</b> 9 East Main St. Fort Kent, ME 04743-1398	77,646	64,378	53,794
Judith Griffin, CEO <b>ALLIANCE OF MAINE</b> 44 Edison Dr., PO Box 1056 Augusta, ME 04332-1056	30,293	23,849	14,498
Roger Sirois, CEO <b>ATLANTIC REGIONAL FEDERAL CU</b> 55 Cushing St., PO Box 188 Brunswick, ME 04011-0188	223,739	184,819	154,718
Stephen Clark, CEO <b>BANGOR FEDERAL CU</b> 339 Hogan Rd., PO Box 1161 Bangor, ME 04401-1161	89,551	81,698	73,073
Darla King, CEO <b>BANGOR HYDRO FEDERAL CU</b> 193 Broad St. STE 3 Bangor, ME 04401-6323	17,655	15,470	14,223
Cynthia Burke, CEO <b>BLUE CROSS AND BLUE SHIELD OF ME FEDERAL CU</b> 2 Gannett Dr. South Portland, ME 04106-6911	6,158	4,899	3,659
Richard Kaul, CEO <b>BREWER FEDERAL CU</b> 77 N. Main St., PO Box 189 Brewer, ME 04412-0189	39,931	36,330	30,575
Diana Winkley, CEO <b>CAPITAL AREA FEDERAL CU</b> 10 North Belfast Ave., PO Box 2626 Augusta, ME 04438	18,384	16,650	12,746
James Stone, CEO <b>CASCO FEDERAL CU</b> 375 Main St., PO Box 87 Gorham, ME 04038-0087	35,472	30,960	22,643

EXHIBIT III

**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Vicki Stuart, CEO <b>CENTRAL MAINE FEDERAL CU</b> 1000 Lisbon St., PO Box 1746 Lewiston, ME 04241-1746	76,061	65,954	39,185
Scott Harriman, CEO <b>CUMBERLAND COUNTY FEDERAL CU</b> 101 Gray Rd. Falmouth, ME 04105-2514	99,205	85,196	64,003
Ralph Ferland, CEO <b>EASTERN MAINE MEDICAL CENTER FEDERAL CU</b> 489 State St. Bangor, ME 04401-6616	34,229	30,423	24,117
Daniel Byron, CEO <b>EASTMILL FEDERAL CU</b> 60 Main St. East Millinocket, ME 04430-1128	55,849	46,059	16,283
Cass Hirschfeld, CEO <b>FRANKLIN SOMERSET FEDERAL CU</b> 485 Wilton Rd., PO Box 5061 Farmington, ME 04938-9600	55,182	48,980	33,424
Philip Bergeron, CEO <b>GARDINER FEDERAL CU</b> 8 Brunswick Rd. RR 5 PO Box 105 Gardiner, ME 04345-9006	24,831	22,419	18,822
Nancy Bard, CEO <b>GREAT FALLS REGIONAL FCU</b> 34 Bates St. Lewiston, ME 04240	22,699	18,341	11,866
Peter Prinz, CEO <b>HANNAFORD ASSOCIATES FEDERAL CU</b> 145 Pleasant Hill Rd., PO Box 1440 Scarborough, ME 04104-5034	29,762	24,516	20,596
Deborah Pomeroy, CEO <b>HEALTHFIRST FEDERAL CU</b> 9 Quarry Rd. Waterville, ME 04901	13,400	12,453	11,307
Kathleen Smith, CEO <b>HOULTON FEDERAL CU</b> 13 Market Sq. Houlton, ME 04730-1775	13,665	11,229	8,364



**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Gary Bragdon, CEO <b>HOWLAND ENFIELD FEDERAL CU</b> 4 Coffin St., PO Box 405 Howland, ME 04448-0405	8,976	8,120	6,581
Kenneth Williams, CEO <b>INFINITY FEDERAL CU</b> 202 Larrabee Rd., PO Box 9742 Westbrook, ME 04104-5060	188,161	115,366	123,518
Beverly Beaucage, CEO <b>KV FEDERAL CU</b> 316 Northern Ave., PO Box 2108 Augusta, ME 04338	51,061	45,835	29,777
Donald Casco, CEO <b>KATAHDIN FEDERAL CU</b> 1000 Central St. Millinocket, ME 04462-2193	69,951	58,129	45,655
Deseree Gilman, CEO <b>KSW FEDERAL CU</b> 222 College Ave. Waterville, ME 04901	30,331	26,744	20,913
Kerry Hayes, CEO <b>LEWISTON MUNICIPAL FEDERAL CU</b> 291 Pine St., PO Box 60 Lewiston, ME 04243-0060	14,406	12,575	9,184
David Brilliant, CEO <b>LINCOLN MAINE FEDERAL CU</b> 171 W Broadway, PO Box 220 Lincoln, ME 04457-0220	30,325	27,523	24,586
George Roy, CEO <b>LISBON COMMUNITY FEDERAL CU</b> 325 Lisbon Rd., PO Box 878 Lisbon, ME 04240-0878	67,920	59,181	47,733
Ronald Fournier, CEO <b>MAINE FAMILY FEDERAL CU</b> 555 Sabattus St. Lewiston, ME 04240-4195	94,654	83,959	63,452
Rhonda Taylor, CEO <b>MAINE HIGHLANDS FEDERAL CU</b> 73 Main St., PO Box 233 Dexter, ME 04930-0233	59,384	52,714	44,469

EXHIBIT III

**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Jennifer Hartel, CEO <b>MAINE MEDIA FEDERAL CU</b> 390 Congress St., PO Box 7702 Portland, ME 04112-7702	4,385	3,216	3,351
John Reed, CEO <b>MAINE SAVINGS FEDERAL CU</b> 1101 Western Ave., PO Box 347 Hampden, ME 04444-0347	195,316	173,665	160,206
Gail Richardson, CEO <b>MIDCOAST FEDERAL CU</b> 831 Middle St., PO Box 780 Bath, ME 04530-0780	108,879	95,831	71,117
Marguerite Gagne, CEO <b>MONMOUTH FEDERAL CU</b> 1176 Main St., PO Box 150 Monmouth, ME 04259-0150	9,934	9,068	6,953
Cutler Dawson, CEO <b>NAVY FEDERAL CU</b> P. O. Box 3000 Merrifield, VA 22119 1 Maine branch	N/A	32,787	106,840
Ryan Poulin, CEO <b>NEW DIMENSIONS FEDERAL CU</b> 61 Grove St. Waterville, ME 04901-5826	43,453	39,179	25,005
Shelly Page, CEO <b>NEW ENGLAND UNITED METHODIST FEDERAL CU</b> PO Box 245 Westbrook, ME 04098	3,364	3,008	1,828
David Rossignol, CEO <b>NORSTATE FEDERAL CU</b> 78 Fox St. Madawaska, ME 04756	121,043	99,527	93,242
Joseph Chapin, CEO <b>OCEAN COMMUNITIES FEDERAL CU</b> 1 Pool St., PO Box 1961 Biddeford, ME 04005-1961	130,945	112,750	104,865

*Note: Maine shares and loans for Navy Federal Credit Union, which operates in a multi-state environment, are included in this exhibit; however, Maine assets are not available.*

**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Roland Poirier, CEO <b>OTIS FEDERAL CU</b> 170 Main St., PO Box 27 Jay, ME 04329-0027	101,178	81,970	71,437
Matthew Kaubris, CEO <b>OXFORD FEDERAL CU</b> 225 River Rd., PO Box 252 Mexico, ME 04257-0252	121,816	106,138	98,162
Steve Baillargeon, CEO <b>PENOBSCOT COUNTY FEDERAL CU</b> 191 Main St., PO Box 434 Old Town, ME 04468-0434	41,567	37,289	31,506
Hosea Carpenter, CEO <b>PORTLAND MAINE POLICE DEPARTMENT FEDERAL CU</b> 109 Middle St. Portland, ME 04101	7,722	7,106	5,976
Robert Hill, CEO <b>PORTLAND ME TRANSIT FEDERAL CU</b> 2 Frank Savage Rd. Hollis, ME 04042	300	270	206
Lillian Turner, CEO <b>R.C.H. FEDERAL CU</b> 420 Franklin St. Rumford, ME 04276	391	297	139
Philippe Moreau, CEO <b>RAINBOW FEDERAL CU</b> 391 Main St., PO Box 741 Lewiston, ME 04243-0741	139,235	111,839	78,419
Kyle Casburn, CEO <b>SEABOARD FEDERAL CU</b> 177 Main St., PO Box G Bucksport, ME 04416-1207	85,899	76,188	61,542
James Lemieux, CEO <b>SEBASTICOOK VALLEY FEDERAL CU</b> 14 Seabasticook St., PO Box 10 Pittsfield, ME 04967-0010	53,506	41,669	44,541

EXHIBIT III

**FEDERALLY CHARTERED  
CREDIT UNIONS  
AUTHORIZED TO DO BUSINESS IN MAINE**

	<u>Assets</u>	06/30/08 \$ in (000's) <u>Shares &amp; Deposits</u>	<u>Loans</u>
Diana Garcia, CEO <b>SEMICONDUCTOR OF ME FEDERAL CU</b> 333 Western Ave. South Portland, ME 04106-0022	10,919	9,254	6,790
Susan Thurlow, CEO <b>SHAW'S EMPLOYEES FEDERAL CU</b> 205 Spencer Dr. Wells, ME 04090-5553	7,431	5,467	3,512
MaryAnn Chamberlain, CEO <b>ST. AGATHA FEDERAL CU</b> 315 Mason St., PO Box 130 Saint Agatha, ME 04772-0130	15,811	14,280	7,953
Sidney Wilder, CEO <b>TACONNET FEDERAL CU</b> 60 Benton Ave. Winslow, ME 04901-6798	36,946	34,070	25,407
Kenneth Hensler, CEO <b>THE COUNTY FEDERAL CU</b> 82 Bennett Dr., PO Box 939 Caribou, ME 04736-1944	107,096	95,567	74,968
Chris Daudelin, CEO <b>TOWN &amp; COUNTRY FEDERAL CU</b> 557 Main St., PO Box 9420 South Portland, ME 04106-9420	172,742	152,448	118,969
Kenneth Acker, CEO <b>TRUCHOICE FEDERAL CU</b> 272 Park Ave., PO Box 10659 Portland, ME 04104-6059	68,305	55,656	56,229
Cathy Bond, CEO <b>WINSLOW COMMUNITY FEDERAL CU</b> 12 Monument St., PO Box 8117 Winslow, ME 04901	22,561	20,101	12,392
Jeffrey Seguin, CEO <b>WINTHROP AREA FEDERAL CU</b> 22 Highland Ave., PO Box 55 Winthrop, ME 04364	45,094	39,887	31,442
James Nelson, CEO <b>YORK COUNTY FEDERAL CU</b> 1516 Main St. Sanford, ME 04073-3530	164,625	133,209	133,690
<b>TOTAL: 57</b>	<b>3,399,344</b>	<b>2,906,505</b>	<b>2,480,451</b>

**DEPARTMENT OF PROFESSIONAL & FINANCIAL REGULATION  
MAINE BUREAU OF FINANCIAL INSTITUTIONS**

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624-8570

**MISSION**

The mission of the Bureau of Financial Institutions is to assure the strength, stability and efficiency of all Maine-chartered financial institutions, and to assure their reasonable and orderly competition, thereby encouraging the development and expansion of those financial services advantageous to the public welfare.

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## EXHIBIT IV

### Bureau of Financial Institutions Advisory Committee

In March, 1994, the Bureau established the Financial Institutions Advisory Committee. The role of that Committee, which meets semiannually, is to review the financial issues relating to the Bureau's operation. Over the past twelve years, the Bureau has benefited from the discussions and guidance of this advisory group. The following is a list of the current members of the Bureau of Financial Institutions Advisory. Special thanks for dedication and interest of these individuals serving in this advisory capacity to the Bureau.

Thomas Finn, Jr., President, Damariscotta Bank & Trust Company  
Mark L. Johnston, President, Kennebec Savings Bank  
John Murphy, President, Maine Credit Union League  
Joseph J. Pietroski, Jr., President, Maine Bankers Association  
Christopher W. Pinkham, President, Maine Association of Community Banks  
Kevin P. Savage, President, Saco and Biddeford Savings Institution  
Donna Steckino, President, Community Credit Union

\* \* \* \* \*

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