

OFFICE OF THRIFT SUPERVISION

Approval of Applications for Permission to Organize Six Federal Savings Banks and Related Applications

Order No.: 2007-64

Date: December 14, 2007

**OTS Nos.: H-4359, H-4453, 18027,
18078, 18079, 18080, 18081,
18082, and 18083**

People's United Financial, Inc., Bridgeport, Connecticut (Holding Company), and People's United Bank, Bridgeport, Connecticut (Savings Bank) have applied for the Office of Thrift Supervision's (OTS) approval under sections 5(e) and 10(e) of the Home Owners' Loan Act (HOLA) and 12 C.F.R. §§ 552.2-1 and 574.3 to establish and acquire six federal stock savings associations (Associations). The Savings Bank proposes to hold each of the Associations as an operating subsidiary. Each of the Associations has applied under 12 U.S.C. § 1828(c) (the Bank Merger Act) and 12 C.F.R. § 563.22(a) to acquire a commercial bank subsidiary of Chittenden Corporation (BHC) in six separate merger transactions in which each of the Associations survives.¹ The Savings Bank and the Holding Company have applied for each of the Associations to exercise fiduciary powers pursuant to section 5(n) of the HOLA and the OTS Trust Regulations, 12 C.F.R. Part 550. In addition, the Savings Bank has applied under 12 U.S.C. § 1828(m) and 12 C.F.R. Part 559 for approval for certain of the Associations to hold former subsidiaries of the Banks as operating subsidiaries or service corporations.

The Associations will exceed their commercial lending limitations under section 5(c) of the HOLA as a result of the acquisition of a Bank. The Savings Bank has requested that OTS permit the Associations to achieve compliance with the HOLA commercial lending limits following consummation of the acquisition. In addition, the Savings Bank has requested that OTS grant each of the Associations an exception from the qualified thrift lender (QTL) test for one year following the transaction.

The Proposed Transaction

In the proposed transaction, the Savings Bank will charter six federal stock savings associations as wholly owned subsidiaries. In connection with the Holding Company's acquisition

¹ The BHC has six commercial bank subsidiaries (collectively, Banks): Chittenden Trust Company, Burlington, Vermont (Chittenden); Flagship Bank & Trust Company, Worcester, Massachusetts (Flagship); Maine Bank & Trust Company, Portland, Maine (Maine); Merrill Merchants Bank, Bangor, Maine (Merrill); Ocean Bank, Portsmouth, New Hampshire (Ocean); and The Bank of Western Massachusetts, Springfield, Massachusetts (Western).

of the BHC, each Association will acquire one of the Banks in a merger transaction in which the Association will survive.

Permission to Organize Application

OTS may grant a federal savings association charter only: (1) to persons of good character and responsibility; (2) if, in OTS's judgment, a necessity exists for such association in the community to be served; (3) if there is a reasonable probability of the association's usefulness and success; and (4) if the association can be established without undue injury to properly conducted existing local thrift and home financing institutions. In addition, OTS regulations require that OTS consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association. OTS also takes into account an applicant's description of how it will meet Community Reinvestment Act (CRA) objectives when considering the application.

With respect to character and responsibility, OTS is familiar with the management of the Holding Company and the Savings Bank and concludes that the management of the Holding Company and the Savings Bank are consistent with approval. The Associations' management will include the individuals who currently manage the Banks. OTS has reviewed the backgrounds and regulatory history of the management of each of the Banks and concludes that the character and responsibility of these individuals is consistent with approval. Thus, OTS concludes that this approval criterion is satisfied.

With respect to the two standards regarding the necessity for each Association in its respective community, and undue injury to properly conducted existing local thrift and home financing institutions, each Association will be continuing each Bank's current business activities, which, in the case of each Bank, includes home financing. Each Bank has been operating profitably. Accordingly, OTS concludes that there is a necessity in each community for each Association, and that the existence of each Association will not result in harm to existing home financing institutions.

With respect to the reasonable probability of usefulness and success, each Bank has been operating profitably, and each Association's financial projections, proposed capital levels and managerial resources are acceptable. Accordingly, OTS concludes that the probability of usefulness and success of each Association is consistent with approval.

With respect to the provision of credit for housing, each Bank currently engages in residential mortgage lending, and each Association will continue to do so after the mergers of the Banks into the Associations. OTS has concluded that the managerial resources of the Associations are consistent with approval. Based on the foregoing, OTS concludes that each application for a charter to organize an Association satisfies this approval criterion.

With respect to compliance with the CRA, given that each Bank has a successful operating history, a CRA rating of at least "Satisfactory," and given the lack of any adverse public comment

regarding the transactions, OTS concludes that there is no basis for objection under the CRA to the establishment of the Associations.

Holding Company Application

The Holding Company and the Savings Bank have requested OTS approval to acquire the Associations. Section 10(e)(2) of the HOLA and the Acquisition of Control Regulations thereunder provide that OTS, in reviewing proposed acquisitions of more than one savings association by a savings and loan holding company or other company, must consider the financial and managerial resources and future prospects of the company and the associations involved, whether the acquisition would be detrimental to the associations or the insurance risk of the DIF, and the convenience and needs of the community to be served.² OTS must also consider the impact of the acquisition on competition.³ Finally, OTS must take into account assessments under the CRA when considering holding company applications.⁴

For the reasons set forth above, OTS concludes that the managerial resources of the Holding Company, the Savings Bank, and the Associations are consistent with approval.

With regard to financial resources, OTS reviewed the financial positions of the Holding Company and the Savings Bank, each of the Association's proposed capitalization and financial projections, and the regulatory history of the Banks. Based on the foregoing, OTS concludes that the financial resources of the Holding Company, the Savings Bank and the Associations are consistent with approval of the holding company application.

Based on the factors discussed above regarding the managerial and financial resources of the Associations, the Savings Bank and the Holding Company, the character and responsibility of the officers and directors, the probability of each Association's usefulness and success, OTS concludes that the future prospects of the Holding Company, the Savings Bank and the Associations, and the risks to the DIF, are consistent with approval, subject to the imposition of the conditions set forth below.

The Associations will operate in the same manner that the Banks have operated. Accordingly, the proposed acquisitions will not be detrimental to the convenience and needs of the relevant communities. The Savings Bank will continue its existing operations. Neither the Savings Bank nor the Associations propose to close any branches in connection with this transaction. Therefore, there is an adequate legal basis to conclude that approval of the holding company application is consistent with the convenience and needs of the communities to be served.

The proposed acquisitions will cause the Savings Bank to acquire six insured depository institutions. Five of the six Associations will operate in markets separate from the markets in which the Savings Bank operates, and the proposed transaction will have no effect upon

² 12 U.S.C. § 1467a(e)(2); see also 12 C.F.R. § 574.7(c) (2007).

³ 12 U.S.C. § 1467a(e)(2) and 12 C.F.R. § 574.7(c)(2) (2007).

⁴ 12 C.F.R. § 563e.29 (2007).

competition in any market where the Savings Bank or the any of the five Associations will operate. The sixth Association, Western, will have a branch in Enfield, Connecticut, where the Savings Bank has two branches. Combining the market shares of the deposits of Savings Bank and Western within the Enfield, Connecticut, market would increase the Herfindahl-Hirschman Index (HHI) for that market by approximately 29 points. Under Department of Justice horizontal merger guidelines, an increase in the HHI of less than 100 points in a moderately concentrated market such as Enfield's, which has a total HHI of approximately 1364, is deemed unlikely to have an adverse effect on competition. Accordingly, the proposed transaction will not result in a monopoly or lessening of competition. Based on the foregoing, OTS concludes that the transaction is not objectionable on competitive grounds.

With respect to the CRA, the Savings Bank has been rated "Outstanding." No comments have been received objecting to the transaction on CRA grounds. Accordingly, OTS concludes that CRA considerations are consistent with approval.

The proposed acquisitions and mergers would cause the Holding Company and the Savings Bank to control six savings associations in four states, Maine, Massachusetts, New Hampshire and Vermont, in addition to Connecticut, where the Savings Bank currently operates. Section 10(e)(3) of the HOLA⁵ generally prohibits an acquisition that would result in any company forming a multiple savings and loan holding company that controls savings associations in more than one state. OTS has reviewed the relevant facts, and concludes that the proposed acquisitions are excepted from the general prohibition by virtue of section 10(e)(3)(C) of the HOLA.

Merger Applications

The proposed mergers of the Banks into the Association require OTS approval under the Bank Merger Act and 12 C.F.R. § 563.22(a). The Associations have the authority under 12 C.F.R. § 552.13 to engage in the proposed mergers. Section 552.13(c) provides that, subject to certain requirements that are met in these instances, federal savings associations, such as the Associations, may combine with any "depository institution," which includes DIF insured, state-chartered, nonmember banks, such as the Banks.

The Banks have commercial and small business loans that exceed the limits of § 5(c)(2)(A) of the HOLA. The applicants have requested that OTS, consistent with 12 C.F.R. § 552.13(c)(3), allow the respective Associations a phase-in period to achieve compliance with § 5(c)(2)(A). In this case, the Associations, upon consummation of the mergers, will need to conform their assets to those permitted for federal savings banks, and it is prudent to permit the Associations to restructure their assets in a manner that does not raise supervisory concerns. Accordingly, OTS hereby requires the Associations to meet the limitations of section 5(c)(2)(A) of the HOLA within three years of the date of the merger of the Banks into the Associations.

The Savings Bank, consistent with 12 C.F.R. § 552.13(c)(3), has requested that each of the Associations be excepted from the QTL test during the first year following the mergers. OTS may

⁵ 12 U.S.C. § 1467a(e)(3).

grant exceptions from the QTL test if it determines that “extraordinary circumstances” exist.⁶ OTS has granted waivers when the circumstances necessitating the waiver were not wholly within the control of the institution, and where compliance with the QTL test would have given rise to supervisory issues.⁷ A one-year exception is prudent to permit the Associations to achieve and maintain QTL compliance in an orderly manner. Accordingly, OTS grants the Associations exceptions from the QTL test for one year following the Associations’ mergers. However, in order to ensure that the Associations achieve and maintain QTL compliance in a timely manner, OTS is imposing condition 9, below.

The Bank Merger Act and the OTS merger regulations⁸ impose approval standards that are substantially similar to those applicable under § 10(e)(2) of the HOLA. In addition, the Bank Merger Act requires that OTS review each depository institution’s record of compliance with money laundering statutes in analyzing any Bank Merger Act transaction.⁹ The CRA requires that OTS consider the CRA record of each depository institution in evaluating the merger application.¹⁰ In addition, 12 C.F.R. § 563.22(d) requires OTS to consider whether the transaction conforms to applicable laws, regulatory policies, and factors relating to fairness and disclosure.

The Associations, prior to the mergers, are interim savings associations as defined under OTS’s regulations, and will not engage in any business activities. The management and operations of the resulting institutions will be the management and operations of the Banks. Based on OTS’s review of the Banks, OTS concludes that managerial and financial resources and future prospects considerations are consistent with approval. In addition, for the reasons discussed above, the mergers of the Banks into the Associations will have no material adverse effect on competition.

Given the Savings Bank’s and Banks’ CRA ratings and the lack of any adverse public comment regarding the transactions, OTS concludes that CRA considerations are consistent with approval. With respect to convenience and needs of the community, all of the currently operating offices of the Banks will remain in operation following the transactions. Accordingly, OTS concludes that the mergers are consistent with the convenience and needs standard.

OTS has reviewed the compliance records of the Banks, and is aware of no significant deficiencies with regard to compliance with the Bank Secrecy Act and anti-money laundering practices by the Banks. The Associations, as interim savings associations, will not engage in business operations before the mergers. Therefore, OTS concludes that approval of the merger application is consistent with the anti-money laundering standard.

⁶ 12 U.S.C. § 1467a(m)(2).

⁷ See, e.g., OTS Order No. 97-43 (April 30, 1997), and Op. BTD (April 28, 1997) (Ameribank, Inc., Welch, West Virginia); OTS Order No. 96-56 (June 15, 1996), and Op. BTD (June 14, 1996) (Capital One, Federal Savings Bank, Falls Church, Virginia); and OTS Order No. 95-192 (Nov. 26, 1995), and Op. BTD (Nov. 17, 1995) (Pan American Bank, FSB, San Mateo, California).

⁸ 12 U.S.C. § 1828(e)(5), and 12 C.F.R. § 563.22(d) (2007).

⁹ 12 U.S.C. § 1828(e)(11).

¹⁰ 12 U.S.C. §§ 2901 *et seq.*

OTS has reviewed equitable treatment, disclosure, and compensation considerations, and has concluded that these considerations are consistent with approval under section 563.22(d).

Trust Applications

Each of the Associations has applied to OTS to continue to provide the fiduciary services currently offered by the Banks, upon the Associations' acquisition of the Banks. Section 5(n) of the HOLA authorizes OTS to grant federal savings associations the power to act as trustee, executor, administrator, guardian or in any other fiduciary capacity permitted for state banks, trust companies, or other corporations that compete with such associations in the state where the federal association is located.

OTS regulations set forth the factors that OTS considers in reviewing trust powers applications: (1) the association's financial condition; (2) the association's capital and whether that capital is sufficient under the circumstances; (3) the association's overall performance; (4) the fiduciary powers the association proposes to exercise; (5) the association's proposed supervision of those powers; (6) the availability of legal counsel; (7) the needs of the community to be served; and (8) any other facts or circumstances that OTS considers proper.

With respect to financial condition, capital sufficiency and performance of the Associations, each of the Associations will be well capitalized, and each Bank meets applicable state trust company capital requirements. Further, each of the Banks has been conducting a trust business in a safe and sound manner under applicable state law. Accordingly, OTS concludes that financial condition, capital and performance considerations are consistent with approval.

The Associations will supervise their respective trust activities using methods the Banks currently use to supervise the same trust operations. Upon consummation of the transaction, each depository institution's management will be unchanged. Accordingly, OTS concludes that management's supervision of trust powers is consistent with approval. The Associations will retain experienced trust counsel to advise it with respect to fiduciary matters, and therefore the legal counsel criterion is consistent with approval.

For the reasons discussed in connection with our review of the application for a federal charter, OTS concludes that there is need in the community for each Association's trust services.

Subordinate Organizations

The Savings Bank's establishment of the six Associations as operating subsidiaries, and the Associations' operation of the Banks' existing subsidiaries as operating subsidiaries or service corporations, must be consistent with 12 C.F.R. Part 559.

Operating Subsidiaries

Generally, a federal savings association may invest in an operating subsidiary only if: (1) the federal association owns, directly or indirectly, more than 50 percent of the voting shares of the operating subsidiary; (2) no person or entity other than the federal association exercises effective operating control over the operating subsidiary; and (3) the operating subsidiary engages only in activities permissible for federal associations to engage in directly.¹¹ In addition, the OTS Subordinate Organization Regulations provide that OTS may, at any time, limit a savings association's investment in any subordinate organization, or refuse to permit activities in a subordinate organization, for supervisory reasons.¹²

With respect to the ownership and operating control criteria in § 559.3(c)(1), the Savings Bank will hold all of each Association's outstanding stock, and there is no information indicating that the Savings Bank will not have sole operating control over any of the Associations' operations.

With respect to the § 559.3(e)(1) requirement that an operating subsidiary engage only in activities permissible for federal associations, the Associations will, because they are federal savings associations, engage only in activities that are permissible for federal savings associations. Section 559.3(e)(1) explicitly provides that an operating subsidiary may be an insured depository institution.

With respect to operating subsidiaries of the Associations, Chittenden proposes to establish one operating subsidiary, Chittenden Commercial Finance (Canadian subsidiary), which will be located in Montréal, Québec, and which will engage in commercial finance activities in Canada. Flagship and Western each have subsidiaries that hold their respective investment portfolios. Ocean has a subsidiary that holds real estate on which seven of its branches are located.

With respect to the ownership and operating control criteria in § 559.3(c)(1), the Associations will hold all of each of their respective subsidiaries' outstanding stock or other ownership interest, and there is no information indicating that the Associations will not have sole operating control over any of their respective subsidiaries' operations.

With respect to the § 559.3(e)(1) requirement that an operating subsidiary engage only in activities permissible for federal associations, each Association's proposed operating subsidiaries, including the Canada subsidiary, will engage only in activities that are permissible for federal savings associations, subject to limits applicable to such activities.

Federal savings banks, under § 5(c) of the HOLA and 12 C.F.R. Part 560, are authorized to hold investments of the types that Flagship and Western propose to hold, and are also authorized to hold real estate for offices of the savings association, in the manner that Ocean proposes.

¹¹ 12 C.F.R. §§ 559.2, 559.3(c)(1) and (e)(1) (2007).

¹² 12 C.F.R. § 559.1(a) (2007).

The Canadian subsidiary provides commercial finance in Canada. The HOLA and OTS regulations thereunder (including, among others, 12 C.F.R. Part 560, which addresses permissible investments, and 12 C.F.R. Part 559, which addresses subordinate organizations) neither explicitly prohibit, nor explicitly authorize federal savings associations to engage in foreign activities. OTS has concluded that foreign activities that are neither explicitly prohibited nor explicitly authorized may be engaged in when those activities are otherwise permissible for a federal savings association, can be conducted in a safe and sound manner, and are incidental to the clearly permissible activities of a federal savings association.¹³ Commercial lending is permissible under section 5(c)(2)(A) of the HOLA, and 12 C.F.R. § 560.30. Moreover, because the Canadian subsidiary's assets are less than one percent of the total assets of its parent Bank, the Canadian subsidiary's operations are incidental to those of the parent Bank.

Foreign operations entail different risks than domestic operations. In order to address issues that may arise from foreign operations, OTS is imposing conditions 5 through 8 below, in order to ensure that establishment of the Canadian subsidiary as an operating subsidiary will not raise supervisory issues.

Service Corporations

The Holding Company and the Savings Bank have requested that two of Chittenden's subsidiaries be authorized as service corporations: Chittenden Securities, LLC (Securities), and Chittenden Insurance Group, LLC (Insurance). Both subsidiaries are located in Vermont, and, respectively, engage in securities brokerage and insurance agency activities.

In considering whether a proposed investment in a service corporation by a federal savings association is permissible, OTS must consider whether the activity is permissible, whether the amount of the investment is permissible, the state of incorporation of the proposed service corporation and the nature of the investors, and whether there are any supervisory or safety and soundness reasons to limit or refuse to permit the investment.

The OTS Subordinate Organization Regulations, at 12 C.F.R. § 559.4(i), establish insurance agency activities as a preapproved service corporation activity. Section 559.4(f) provides that securities brokerage and riskless principal activities are preapproved service corporation activities. Securities' and Insurance's activities are within the scope of §§ 559.4(f) and (i). Accordingly, Securities' and Insurance's activities are permissible for service corporations.

The proposed investment in Securities and Insurance is consistent with the statutory and regulatory provisions addressing incorporation and ownership. Chittenden will own all of the ownership interests of Securities and Insurance, which are organized under the laws of Vermont.¹⁴

¹³ See, e.g., OTS Order No. 2007-61 (Dec. 6, 2007).

¹⁴ Securities and Insurance are organized as LLCs rather than corporations. OTS has concluded that a service corporation may be organized in a non-corporate structure if, as is the case here, the liability of equity holders is substantially identical to that associated with a corporation. See 61 Fed. Reg. 66564 (December 18, 1996).

Section 559.5(a) provides that federal savings associations may invest up to three percent of assets in service corporations, provided that any investment in excess of two percent of assets must “serve primarily community, inner city, or community development purposes.” Chittenden’s proposed service corporation investments in Securities and Insurance are well within its investment limits.

Conclusion

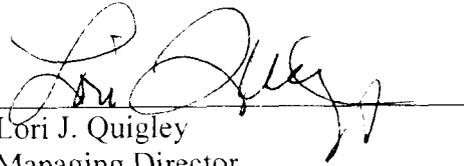
Based on the information provided with the applications, OTS’s analysis of such information, and the representations provided by the Holding Company and the Savings Bank, OTS concludes that the applications satisfy the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the Northeast Regional Director or his designee (Regional Director). Accordingly, the applications are hereby approved, subject to the following conditions:

1. The Holding Company and the Savings Bank must receive all required regulatory approvals and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transactions;
2. The proposed transactions must be consummated no earlier than fifteen calendar days after, and no later than 120 calendar days after, the date of this Order;
3. On the business day prior to the date of consummation of the proposed transactions, the chief financial officers of the Holding Company, the Savings Bank, and each of the Banks must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operations of the Holding Company, the Savings Bank, or the Banks as disclosed in the applications. If additional information having a material adverse bearing on any feature of the applications is brought to the attention of the Holding Company, the Savings Bank, the Banks, or OTS since the date of the financial statements submitted with the applications, the transaction shall not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;
4. The Holding Company and the Savings Bank must: advise the Regional Director in writing within 5 calendar days after the effective date of the proposed transaction (a) of the effective date of the proposed transaction, and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Applications and this Order;
5. Chittenden and the Canadian subsidiary must make available to OTS such information as OTS deems necessary from time to time to monitor the activities of the Canadian subsidiary and the effect of its activities on the safe and sound operation of Chittenden. Chittenden must maintain a duplicate set of records of the Canadian subsidiary in the U.S. in a location accessible to OTS examiners. Such records must be in the English language and in U.S. dollars;

6. Chittenden, the Canadian subsidiary and each senior executive officer and director of the Canadian subsidiary who is or will be a resident in Canada must consent in writing in a form acceptable to the Regional Director to: (i) the jurisdiction of the U.S. and OTS over, and the applicability of U.S. law to, Chittenden, the Canadian subsidiary and such senior executive officer or director for purposes of all claims made by, proceedings initiated by, or obligations to, the U.S., OTS, and any U.S. governmental agency, department, or division and (ii) the jurisdiction of OTS over the Canadian subsidiary and such senior executive officer or director for purposes of examination, supervision, and enforcement. Chittenden and all senior executive officers and directors of the Canadian subsidiary must further agree in writing in a form acceptable to the Regional Director not to challenge the authority of any conservator/receiver appointed for Chittenden to control the Canadian subsidiary and all assets associated with the Canadian subsidiary;
7. Chittenden must agree in writing to terminate the operations of the Canadian subsidiary if OTS, in its sole discretion, determines that such operations present undue risk;
8. The documents required by the following items must be submitted to the Regional Director prior to Chittenden's commencement of operation of the Canadian subsidiary as an operating subsidiary of a federal savings bank:
 - a. Chittenden must submit a reasoned opinion of counsel in a form acceptable to OTS indicating that there are no Canadian laws that would restrict OTS access to, or enforcement authority over, the operations of the Canadian subsidiary or the senior management officials of the Canadian subsidiary; and
 - b. Chittenden and the Canadian subsidiary must consent in writing to the disclosure by the relevant Canadian governmental authorities, to OTS of such information on the operations of the Canadian subsidiary that OTS deems necessary from time to time to determine and enforce compliance with applicable U.S. laws and regulations; and
9. Within 90 calendar days of the effective date of the transactions, the Savings Bank must submit to the Regional Director for review and non-objection a plan for the Associations to achieve and maintain compliance with the QTL test within one year of the mergers.

The Regional Director may, for good causes, extend any time period set forth herein for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or his designee, effective
December 14, 2007.

A handwritten signature in black ink, appearing to read "Lori J. Quigley", is written over a horizontal line.

Lori J. Quigley
Managing Director
Examinations and Supervision - Operations