

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
DIVISION OF BANKING
1511 PONTIAC AVENUE
CRANSTON, RI 02920

DECISION AND ORDER

INRE:

APPLICATION BY HARBORONE BANK TO ACQUIRE COASTWAY
COMMUNITY BANK PURSUANT TO R.I. GEN. LAWS §§19-1-1 *ET SEQ.* AND 19-7-
1 *ET SEQ.*,

DBR No. 18 BK 017

HarborOne Bancorp, Inc.
HarborOne Bank
68 Legion Parkway
Brockton, MA 02301

Coastway Bancorp, Inc.
Coastway Community Bank
One Coastway Boulevard
Warwick, RI 02886

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I. INTRODUCTION

A. Jurisdictional Statement

This matter came before the Department of Business Regulation ("Department"), Division of Banking ("Division") pursuant to R. I. Gen. Laws §§ 19-7-1 *et seq.* upon the April 11, 2018, application ("Application") of HarborOne Bancorp. Inc. ("HarborOne" or the "Buyer"), a Massachusetts corporation, is a majority-owned subsidiary of HarborOne Mutual Bancshares ("MHC"), a Massachusetts mutual holding company seeking to acquire and merge with Coastway Bancorp, Inc. ("Coastway" or the "Company"), a Maryland corporation and a publicly traded bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHC Act") and thereby acquire and merge Coastway Community Bank ("Coastway Bank" or the "Company Bank"), a Rhode Island chartered stock savings bank, with HarborOne Bank (HarborOne Bank" or the "Buyer Bank"), the "Buyer Bank", a Massachusetts-chartered stock co-operative bank pursuant to applicable chapters and sections of Title 19 of the Rhode Island General Laws.

B. Travel of the Matter

HarborOne Bank entered into an Agreement and Plan of Merger dated as of March 14, 2018 ("Merger Agreement") with Coastway Bank. Pursuant to the Merger Agreement (the "Merger" or the "Proposed Transaction"), the Company, Massachusetts Acquisitions, LLC ("Merger LLC"), a Maryland limited liability company and the Buyer will be merged with and into Merger LLC with Company as the surviving entity, and then Company will be merged with and into Buyer with Buyer as the surviving entity. Company Bank shall be merged with and into Buyer Bank with Buyer Bank being the surviving bank of the Merger. As a result of the Merger, each share of common stock of Company Bank issued and outstanding immediately prior to the date the Merger becomes effective, shall be cancelled and each share of common stock off Buyer Bank issued and outstanding immediately prior to the date the Merger becomes

effective shall remain issued and outstanding and shall constitute the only shares of capital stock of the surviving bank issued and outstanding immediately after date of Merger. Each share of Company common stock issued and outstanding immediately prior to the effective date of merger, shall become and be converted into, the right to receive \$28.25 in cash, without interest.

Pursuant to R. I. Gen. Laws § 19-1-3, notice of the Application was published for three (3) consecutive weeks, June 4, June 11, and June 18, 2018, in the *Providence Journal*, and continuously on the Department's website from June 4, 2018 through June 22, 2018, which notice provided a process for all persons wishing to review the Application and/or comment on the application by June 22, 2018. No requests to view the Application or comments regarding the Application were received by the Department. A public hearing was held on June 25, 2018 at the Department's office, at which time there was no public opposition or comments made that were unfavorable of the Application.

On June 26, 2018, Counsel for HarborOne provided Coastway's Inspector of Election Certificate, attested by the Secretary, which stated that the Shareholders of Coastway voted at a special meeting held on June 21, 2018 to approve the Merger Agreement. The vote was in compliance with R.I. Gen. Laws § 19- 7-3.

C. Related Regulatory Applications

HarborOne and Coastway are both registered as bank holding companies under the BHC Act and subject to regulation by the Federal Reserve. HarborOne filed an application with the Board of Governors of the Federal Reserve System (the "Board") under Section 3(a) of the BHC Act seeking approval to consummate the Merger of Coastway.

On August 31, 2018, the Federal Deposit Insurance Corporation (the "FDIC") approved the Application subject to certain standard conditions.

HarborOne also petitioned the Massachusetts Division of Banks (the "MA DOB") pursuant to Massachusetts General Laws, Title XXII, Chapter 167I, Section for approval to

acquire ownership of and merge Coastway. The notice of the application and opportunity for interested parties' comments was posted in the *Boston Herald* on June 6, 2018 and the *Providence Journal* on June 13, 2018 with the comment period ending June 27, 2018. The MA DOB did not receive any comments. The MA DOB has not approved the petition as of this date.

II. DISCUSSION

A. Transaction Details

As referenced above, Coastway will merge with and into HarborOne pursuant to the Merger Agreement, with HarborOne being the surviving entity. The Proposed Transaction will occur in a three-step process including (i) merger; (ii) upstream merger; and (iii) bank merger. The surviving entity HarborOne holding directly and operating one wholly-owned depository institution, HarborOne Bank.

- i. **Merger.** Pursuant to merger agreement, a wholly-owned subsidiary of HarborOne, Merger, LLC, will merge with and into Coastway, with Coastway as the surviving company in accordance with the Maryland General Corporation Law (“MGCL”) and the Maryland Limited Liability Company Act as amended (“MLLCA”). As a result of the merger, Coastway and its subsidiary Coastway Bank, will become direct and indirect subsidiaries, respectively, of HarborOne, and all of the issued and outstanding shares of Coastway common stock will become converted into the right to receive \$28.25 in cash per share, for an aggregate consideration amount of approximately \$125 million.
- ii. **Upstream Merger.** Immediately following the merger, Coastway will merge with and into HarborOne in accordance with the Massachusetts Business Corporation Act (“MBCA”) and the MGCL, and the separate existence of Coastway will cease. Because Coastway will be a wholly-owned subsidiary of HarborOne at the time the upstream merger is effectuated, no consideration will be paid in connection with the upstream

merger.

- iii. **Bank Merger.** Simultaneously with the upstream merger, HarborOne will merge Coastway Bank with and into HarborOne Bank, with HarborOne Bank as the surviving institution. The corporate existence of Coastway Bank will cease and all property owned and contract rights possessed, as well as liabilities will be vested in the surviving institution. Each share of Coastway Bank stock issued and outstanding immediately prior to the bank merger shall immediately be cancelled and retired and shall cease to exist.

B. Entity Details

1. HarborOne Bancorp, Inc.

HarborOne, the Buyer, a Massachusetts corporation, is a bank holding company under the BHC Act, as amended, and is subject to regulation by the Board. HarborOne is a majority-owned subsidiary of MHC, both of which have their corporate offices in Brockton, Massachusetts. HarborOne's principal asset is 100% of the outstanding capital stock of HarborOne Bank, its sole subsidiary. As of December 31, 2017, HarborOne had consolidated assets of approximately \$2.68 billion.

a. HarborOne Bank

HarborOne Bank, Buyer Bank, is a Massachusetts chartered co-operative originally chartered in 1911 as Brockton Credit Union, later changing its name to HarborOne Credit Union in 2004. On July 1, 2013, HarborOne converted its charter to become a Massachusetts chartered co-operative bank, and in 2016 received approval from the MA DOB to reorganize into a mutual holding company and to issue stock. HarborOne Bank has 17 full-service banking offices in the communities of Bristol, Norfolk and Plymouth Counties in Massachusetts. The deposits of HarborOne Bank are insured by the Deposit Insurance Fund of the FDIC to the maximum extent permitted by law and by the Massachusetts Share Insurance Fund in excess of FDIC limits.

As of December 31, 2017, HarborOne Bank had consolidated assets of approximately \$2.65 billion and total deposits of approximately \$2.05 billion. As of the same date, its common equity Tier 1 risked-based capital ratio was 11.4%, total risked-based capital ratio was 12.3% and Tier 1 leverage ratio was 9.6%. Accordingly, HarborOne is deemed to be a “well-capitalized” institution pursuant to applicable law.

b. HarborOne Mortgage, LLC

HarborOne Mortgage owns 100% of HarborOne Mortgage, LLC (“HM”), a Massachusetts limited liability company. HM is licensed in Rhode Island as a Lender and Third-Party Loan Servicer as well as in California, Maine, Maryland, New Hampshire, New Jersey, and Vermont. HM operates at 35 licensed locations, two of which are in Rhode Island.

2. Coastway Bancorp, Inc.

Coastway is a Maryland corporation that is a bank holding company under the BHC Act, and subject to regulation by the Board. Coastway has its corporate offices in Warwick, Rhode Island. Coastway’s principal asset is 100% of the outstanding capital stock of Coastway Bank, its sole banking subsidiary. As of December 31, 2017, Coastway had consolidated assets of approximately \$738.9 million.

a. Coastway Community Bank

Coastway Bank, Coastway Bancorp's sole banking subsidiary, is subject to regulation by the Rhode Island Department of Business Regulation, Division of Banking (the "RI Division") and the FDIC. The deposits of Coastway Bank are insured by the Deposit Insurance Fund of the FDIC to the maximum extent permitted by law. Coastway Bank accepts deposits and provides a broad range of retail and commercial banking services to its customers. Coastway Bank is headquartered in Warwick, Rhode Island and was originally organized in 1920 as The Telephone Workers Credit Union, later changing its name to Coastway Credit Union. In 2009 the RI Division approved a charter conversion to become a community bank.

In 2012 the RI Division approved Coastway Bank's application to form a mutual holding company and later in 2016 approved Coastway Bank's application to reorganize into the capital stock form of organization.

Coastway Bank has eleven (11) full-service branches. All of Coastway Bank's branches are located in Rhode Island with six (6) in Providence County, and five (5) in Kent County.

As of December 31, 2017, Coastway Bank had consolidated assets of approximately \$741.3 million. As of the same date, its Tier 1 risk-based capital ratio was 12.5%, total risk-based capital ratio was 13.1% and Tier 1 leverage capital ratio was 8.6%, each determined under guidelines established by the FDIC. Coastway Bank is a "well capitalized" institution pursuant to applicable law.

Coastway Bank owns 50% of one (1) direct subsidiary, Coastway Insurance Connection, LLC, ("CIC"). CIC is a Rhode Island limited liability company. Starkweather & Shepley Insurance Brokerage Incorporated owns the other 50% of CIC. CIC offers insurance services and engages in the business of an insurance producer in Rhode Island. The ownership interest in CIC will be divested by Coastway Bank in connection with the merger, such that CIC will not be maintained as a subsidiary of the resulting institution.

III. APPLICABLE LAW

A. Merger and Acquisition Standard

HarborOne seeks approval of the Merger resulting in HarborOne remaining as the surviving institution. The Proposed Transaction is subject to compliance with R.I. Gen. Laws § 19-7-1 *et seq.*

1. Analysis of Massachusetts Law

The Department is required under R.I. Gen. Laws § 19-7-3(a)(2) to review the laws of the Commonwealth of Massachusetts to determine whether Massachusetts laws expressly

authorize, under conditions not substantially more restrictive than those imposed by the laws of Rhode Island, a financial institution to be the successor bank of a merger or consolidation.

Based on a review of Massachusetts General Laws Title XXII, Chapter 1671, Section 3, the Department has determined that Massachusetts laws are substantively no more restrictive than Rhode Island law with respect to this Proposed Transaction.

2. Public Interest

Once the reciprocity of interstate laws has been reviewed and approved, then a second-tier review is focused on the criteria in R.I. Gen. Laws § 19-7-2(a)(2) which requires the Department to determine whether the acquisition is in the public interest. As stated in this section:

In determining whether the approval of a proposed acquisition by an out-of-state bank or bank holding company is in the public interest, the director or the director's designee shall consider, in addition to any other factors he or she may in his or her discretion determine, whether the acquisition shall promote the safety and soundness of the financial institution whose voting stock is to be acquired and the convenience and advantage of communities served by that financial institution, and whether the acquisition is likely to have a significant impact upon the state's economy, employment levels, and tax base.

a. Safety and Soundness

Based on a review of the details of the Proposed Transaction as detailed in the Application, the Proposed Transaction will expand HarborOne's regional footprint and will allow for greater access to products and services, as well as an expanded network of branches and ATMs, for both HarborOne Bank and Coastway Bank customers. The Merger will also allow HarborOne to enhance its small business lending and mortgage banking business lines, while also adding depth to its team of banking professionals. The combined institution will benefit from efficiencies of scale due to its increased asset size and deposit base, which will allow for further expansion of investment and lending activities. For these reasons, the Department finds that the Proposed Transaction will promote the safety and soundness of the

combined institutions.

b. Public Convenience and Advantage Standard

Coastway Bank will be merged into HarborOne, who has indicated that it is maintaining all current Coastway Bank offices and branches as Harbor One branch offices, each considered an interstate branch pursuant to R.I. Gen. Laws § 19-7-9; therefore, the public convenience will be preserved. HarborOne Bank has also indicated that it intends to offer the current products and services that Coastway Bank offers the communities it serves. The Proposed Transaction will result in a combined institution with greater resources to carry out lending and other investment activities in the communities served and with lower fixed costs and more flexibility for expanded lending and community investment activities. HarborOne's increased capital position, management resources, and other benefits incorporated through the Proposed Transaction will also promote the public convenience and advantage of the communities served by Coastway Bank.

c. Impact upon State's Economy, Employment Levels, and Tax Base

According to the Application submitted by HarborOne, the Proposed Transaction will have no significant impact on Rhode Island's economy, employment levels, and tax base. HarborOne asserts that HarborOne Bank and Coastway Bank do not share any markets or have any market overlap, and HarborOne does not intend to close any of the Coastway Bank's current offices; therefore, the Proposed Transaction will be increasing HarborOne's geographical footprint. HarborOne intends to retain all customer-facing employees, and recognizes that there may be some duplication in staffing in back office support areas, however, has stated that a significant percentage of employees will be retained following the Proposed Transaction. Any Coastway Bank employee that is terminated for any reason other than cause within one year of the consummation of the Proposed Transaction, will receive severance benefits.

The Department has evaluated the proposed post-merger structure of HarborOne Bank

(including the substance/function of the proposed job eliminations). The information provided by HarborOne underscores that there will be a net benefit to Rhode Island consumers through increased access to branch and ATM services, capital (therefore increased residential mortgage and commercial lending which affects the Rhode Island economy and jobs), and efficiencies in operations.

The Department has determined that job elimination will result in no impact on the safety and soundness of HarborOne Bank and no impact on the convenience and advantage to any Rhode Island depositors or consumers. The impact of the modest proposed job elimination on the State of Rhode Island's economy, employment levels, and tax base is off-set by the expansion of access to capital and enhanced lending opportunities for Rhode Island businesses and consumers. Additionally, given the totality of facts detailed above (including no opposition, objection or comment to the Application nor any request to review the Application) there does not exist sufficient basis upon which this application may be denied.

B. Community Reinvestment Act Standard

It has been the policy of the Department, in reviewing applications of regulated institutions, to determine whether an applicant will adhere to the federal and state Community Reinvestment Act ("CRA") standards as codified in 12 U.S.C. § 2901 *et seq.* and R.I. Gen. Laws § 19-9-4, respectively. The principles inherent in CRA require institutions to address the credit needs of the communities they serve. It is the position of the Department that CRA factors are relevant and important in determining whether to approve an application. In its latest CRA Performance Evaluation dated December 18, 2017, HarborOne Bank received a rating of "Outstanding". Coastway Bank received a rating of "Outstanding" in its latest CRA Performance Evaluation dated May 30, 2017.

C. Findings of Fact

Evidence was submitted to the Division in support of the Application, which included

various documents attached as exhibits to the Application. Specifically, the Merger Agreement, pertinent financial information, market analysis, and corporate filings were provided along with information on the background of HarborOne, the benefits of the proposed transactions to the communities served by Coastway Bank and HarborOne Bank, and evidence of the safety and soundness of HarborOne Bank following the Proposed Transaction. Approval of the Application will not impact the convenience and advantage of the communities served by Coastway Bank. Based upon the documentary evidence filed with the Division, the Director hereby makes the following additional findings of fact:

1. On April 11, 2018, the Division received the Application, in duplicate. Supplemental information was requested and received subsequent to the initial Application.
2. Notice of the Application was published in the *Providence Journal* on June 4, 11, and 18, 2018 and on the Department's website from June 4, 2018 through June 22, 2018.
3. The public inspection and comment period for the Application extended from June 4, 2018 through to and including June 22, 2018, during which time the Application was available for public inspection and comment in the office of the Division. No requests to view the Application or comments or letters of objection to the Application were received by the Department.
4. On June 25, 2018 a public hearing was held at the Department offices. There were no objections stated or filed at the hearing.
5. On June 21, 2011, the Shareholders of Coastway voted to approve the Merger Agreement pursuant to R.I. Gen. Laws § 19-7-3.
6. On June 26, 2018, Coastway provided the Department the Secretary's Certificate confirming the Coastway Shareholder approval of the Merger Agreement.

7. The Proposed Transaction is in the public interest and will have no adverse impact on the safety and soundness of HarborOne Bank and will promote the convenience and advantage of the community.
8. The Proposed Transaction will not substantially affect the nature of the banking services available or the customers currently serviced and the Proposed Transaction is expected to have no significant adverse impact on the state's employment level, the state's economy or the state's tax base.
9. In each of their respective most recent CRA Performance Evaluations, HarborOne Bank and Coastway Bank each received a rating of "Outstanding".
10. The competence, experience, integrity of HarborOne and its proposed management personnel indicates that it would be in the interest of the depositors of Coastway Bank, and in the best interest of the public to approve the Proposed Transaction.
11. Upon approval of the Application, HarborOne will merge with Coastway, with HarborOne being the surviving entity, and thereby acquiring ownership of Coastway Bank pursuant to the Merger Agreement.
12. As a result of the Proposed Transaction, HarborOne Bank will merge with Coastway Bank with HarborOne Bank being the surviving entity.

D. Conclusions of Law

Based on the evidence presented, including documentary evidence filed with the Division, the Director makes the following conclusions of law:

1. R.I. Gen. Laws §§ 19-7-1 *et seq.* authorize the Department to consider, review and approve interstate bank holding company mergers and acquisitions of its regulated institutions.

2. The Director has jurisdiction over the Application in this matter pursuant to R.I. Gen. Laws §§ 19-7-1 *et seq.*
3. The Notice of Application published in the *Providence Journal* on June 4, 11, and 18, 2018, and on the Department's website on June 4, 2018 through June 22, 2018 satisfies the requirements of R.I. Gen. Laws § 19-1-3 with respect to publication of notice for the Proposed Transaction.
4. The laws of the State of Massachusetts with respect to the Proposed Transaction are no more restrictive than those imposed by the laws of Rhode Island.
5. The Proposed Transaction is in the public interest, will promote the safety and soundness of HarborOne Bank, will have no adverse impact on HarborOne's ability to promote the convenience and advantage of the communities it serves and will not have a significant impact on the state's economy, employment levels, and tax base consistent with the criteria set forth in R.I. Gen. Laws § 19-7-2(a)(2).
6. The Proposed Transaction complies with the spirit and intent of R.I. Gen. Laws § 19-9-4 regarding the credit needs of local communities.

IV. DECISION AND ORDER

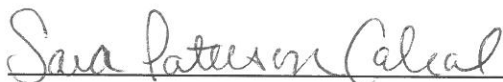
Upon review and consideration of the documentary evidence in the record in this matter, it is hereby ORDERED:

That the Application be approved and that HarborOne be authorized to merge with Coastway, with HarborOne being the surviving entity, and thereby merge HarborOne Bank and Coastway Bank consistent with the terms of the Merger Agreement and provided that the Proposed Transaction is completed within one (1) year from the date of this Decision and Order; subject to the following conditions:

- a. Applicant receives all required regulatory approvals, including those outstanding from the MA DOB and the Board.

- b. That the Applicant confirm in writing at least fifteen (15) days prior to consummation that it has complied with all terms of the Merger Agreement and that the Proposed Transaction will be consummated;
- c. That the Applicant confirm in writing that it has complied with all applicable terms of the Rhode Island Business Corporation Act, R.I. Gen. Laws §§ 7-1.2-101 *et seq.*;
- d. That the Applicant confirm in writing that it is in compliance with all applicable federal and state statutes and regulations including but not limited to: i) all requirements under Massachusetts law and regulation; ii) all applicable sections of Title 19 of the Rhode Island General Laws; iii) and all applicable requirements of R.I. Gen. Laws §§ 19-2-7, 8, and 19-4-10 (specifically pertaining to the insurance of deposits); and 19-7-3(c)(2), (e), and (g).
- e. That the Applicant provide notice of any and all regulatory actions taken by any other state or federal regulator with respect to the Proposed Transaction or the parties to the Proposed Transaction within forty-eight (48) hours of receiving that notice.

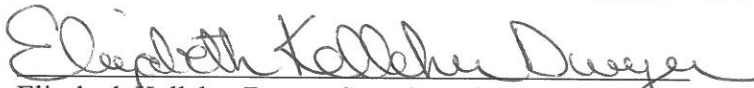
RECOMMENDED BY:



Sara Paterson Cabral, State Chief Bank Examiner
Division of Banking

Date: September 11, 2018

ENTERED AS ADMINISTRATIVE ORDER 18BK017 **BY:**



Elizabeth Kelleher Dwyer, Superintendent of Banking
Rhode Island Department of Business Regulation

Date: September 11, 2018

CERTIFICATION

I hereby certify that on the 11th day of September 2018 a copy of the above Decision was sent by first class mail and certified mail, postage prepaid to:

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