

BERKSHIRE HILLS BANCORP INC
Form 10-K
March 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2010

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-51584

BERKSHIRE HILLS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3510455
(I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts
(Address of principal executive offices)

01201
(Zip Code)

Registrant's telephone number, including area code: (413) 443-5601
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Exchange on which registered
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Common stock, par value \$0.01 per share	NASDAQ Stock Market LLC
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$257 million, based upon the closing price of \$19.48 as quoted on the NASDAQ Global Select Market as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's common stock as of March 10, 2011 was 14,115,328.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of Berkshire Hills Bancorp, Inc. ("Berkshire Hills Bancorp" or the "Parent"), Berkshire Bank (the "Bank") and Berkshire Insurance Group, Inc. ("Berkshire Insurance Group" or "BIG"), collectively (the "Company"). This document may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "seek," "strive," "target," "will," "would," "should," "could," "may," or similar expressions. Although we believe that our plans, intentions and expectations, as reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or realized. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise forward-looking statements except as may be required by law.

GENERAL

The Company is headquartered in Pittsfield, Massachusetts. Berkshire Hills Bancorp, Inc. is a Delaware corporation and the holding company for the Bank and BIG. Established in 1846, the Bank is one of Massachusetts' oldest and largest independent banks and is the largest banking institution based in Western Massachusetts. At year-end 2010, the Bank had \$2.9 billion in assets. BIG is one of the largest independent insurance agencies in Western Massachusetts. BIG's 2010 revenues totaled \$11.1 million.

The Company's common shares are traded on the NASDAQ Global Select Market under the symbol "BHLB". At year-end 2010, the Company's closing stock price was \$22.11 and 14.1 million common shares were outstanding.

The Company is the largest locally headquartered regional bank and financial services company serving its markets. The Company seeks to distinguish itself based on the following attributes:

- Strong growth from organic, de novo, product and acquisition strategies
- Solid capital, core funding and risk management culture
- Experienced executive team focused on earnings and stockholder value
- Distinctive brand and culture as America's Most Exciting BankSM
- Diversified integrated financial service revenues

— Positioned to be regional consolidator in attractive markets

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The Company profiles its growing regional franchise as follows:

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The Bank operates under the brand America's Most Exciting BankSM and portrays its brand and culture as follows:

The Bank operates 42 full-service banking offices serving communities throughout Western Massachusetts, Northeastern New York and in Southern Vermont. The Bank operates in four regions:

- The Berkshire County Region, with twelve offices in Berkshire County. Berkshire County is the Company's traditional market, where it has a leading market share in many of its product lines. Berkshire County is renowned for its combination of nature, culture, and harmony which makes it a leisure and tourism destination and an attractive location for an emerging creative economy. Berkshire County is within commuting range of both Albany, New York and Springfield, Massachusetts and is also part of a mountain recreational area shared with Southern Vermont. Berkshire is an attractive second home and vacation area for New York City and Boston. The Pittsfield metropolitan statistical area ("MSA") 2009 GDP was \$5 billion. In 2010, this region had average gross loans of \$867 million and average deposits of \$880 million. In 2009, this region had average gross loans of \$957 million and average deposits of \$868 million. The decrease in average loans in 2010 reflected planned runoff of indirect auto loans, along with elevated prepayments of residential mortgage loans, together with writedowns and workouts of commercial loans in accordance with the Company's risk management initiatives.
- The Springfield Region, in the Pioneer Valley area with eleven offices along the Connecticut River valley in Springfield, Massachusetts, and north and west of Springfield. The Company entered this region through the acquisition of Woronoco Bancorp in June 2005 and also manages other New England commercial business through this region. The Company opened its new regional headquarters in Springfield, along with a new branch in the fourth quarter of 2009. This region is the metropolitan hub of Western Massachusetts and part of the Hartford/Springfield economic region; centrally located between Boston and New York City at the crossroads of Interstate 91 which traverses the length of New England and Interstate 90 which traverses the width of Massachusetts. This region also has easy access to Bradley International Airport, which is a major airport serving central New England. The Springfield MSA 2009 GDP was \$23 billion. In 2010, this region had average gross loans of \$592 million (including loans in other New England markets) and average deposits of \$517 million. In 2009, this region had average gross loans of \$545 million and average deposits of \$517 million.

- The Albany New York Region, with twelve offices serving Albany and the surrounding area in Northeastern New York. This region represents a de novo expansion by the Company begun in 2005. In 2009, the Company recruited a prominent New York Chairman and an experienced commercial banking team to serve this market. Albany is the state capital and is part of New York's Tech Valley which is gaining prominence as a world technology hub including leading edge nanotechnology initiatives representing a blend of private enterprise and public investment. In the latter part of 2010, the Company opened two new branches in this region in the towns of Albany and Latham. Additionally, the Bank plans to open another two new branches in this region in 2012. The Albany/Schenectady MSA 2009 GDP was \$40 billion. In 2010, this region had average gross loans of \$293 million and average deposits of \$297 million. In 2009, the Company's Albany region had average gross loans of \$251 million and average deposits of \$234 million. Growth of loans and deposits in 2010 reflected ongoing growth of recently opened branches and business development by the commercial banking team.
- The Vermont Region, with seven branches serving Southern Vermont. The Company entered this region through the acquisition of Factory Point Bancorp in September 2007. The Southern Vermont region is contiguous to Berkshire County and shares similar characteristics, with a more pronounced focus on recreation activities in Vermont's Green Mountains. Additionally, this region shares commerce with both the Berkshire and Albany markets, and provides the Company with access to selected accounts in Northern Vermont. In 2010, the Vermont region had average loans of \$229 million and average deposits of \$313 million. In 2009, this region had average loans of \$229 million and average deposits of \$303 million.

These four regions are viewed as having favorable demographics and provide an attractive regional niche for the Bank to distinguish itself from larger super-regional banks and smaller community banks while serving its three state market area. The Company's markets have experienced less exposure to speculative development, real estate inflation, and subprime lending activities compared to many other regions of the country. The Company believes it has attractive long term growth prospects because of the Bank's positioning as the largest locally headquartered regional bank which can serve the retail and commercial markets with a strong product set and responsive local management. The Company also has a goal to deepen its wallet share as a result of its focused cross sales program across its various business lines including insurance and wealth management.

The Company is pursuing expansion through organic growth, de novo branching, product development, recruitment of banking teams, and through acquisitions. The Bank promotes itself as America's Most Exciting BankSM. It has set out to change the financial service experience. Its vision is to excel as a high performing market leader with the right people, attitude, and energy providing an engaging and exciting customer and team member experience. This brand and culture statement is expected to drive customer engagement, loyalty, market share and profitability.

The Company offers a wide range of deposit, lending, insurance, wealth management, and insurance products to retail, commercial, not-for-profit, and municipal customers in its market areas. The Company's product offerings also include retail and commercial electronic banking, commercial cash management, and commercial interest rate swaps. The Company's traditional commercial banking products are offered within its regions and to commercial relationships in Massachusetts, Connecticut, and Rhode Island. The Company stresses a culture of teamwork and performance excellence to produce customer satisfaction to support its strategic growth and profitability. The Company utilizes Six Sigma tools to improve operational effectiveness and efficiency.

The Company has recruited executives with experience in regional bank management and has augmented its management team as it has expanded into a three state diversified regional financial services provider. The Company has invested in its infrastructure in order to position itself for further growth as a regional consolidator with an objective of filling in and expanding its footprint in its New England and New York markets. Its acquisitions of banks, insurance agencies, and wealth management companies have resulted in initial dilution to book value and tangible book value per share but position the Company to achieve the scale and momentum to support future

beneficial growth. In 2008 and 2009, the Company conducted successful common stock offerings to obtain capital for growth opportunities and to strengthen its capital base to support its markets.

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The Company has sought opportunities to participate in regional consolidation in its markets and made several offers to acquire other institutions during the year, resulting in merger agreements with two institutions – Rome Bancorp in New York and Legacy Bancorp in Berkshire’s hometown of Pittsfield. The Company plans to complete the Rome acquisition early in the second quarter of 2011 and the Legacy acquisition in the following quarter. These acquisitions are anticipated to enhance the Company’s positioning as a major regional provider.

COMPANY WEBSITE AND AVAILABILITY OF SECURITIES AND EXCHANGE COMMISSION FILINGS

On the Company’s Internet website in the Investor Relations section at www.berkshirebank.com, the Company makes available free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with the Securities and Exchange Commission. Information on the website is not incorporated by reference and is not a part of this annual report on Form 10-K.

COMPETITION

The Company is subject to strong competition from banks and other financial institutions and financial service providers. Its competition includes national and super-regional banks such as Bank of America, TD Bank, Citizens Bank, Sovereign Bank, and Key Bank which have substantially greater resources and lending limits. Non-bank competitors include credit unions, brokerage firms, insurance providers, financial planners, and the mutual fund industry. New technology is reshaping customer interaction with financial service providers and the increase of Internet-accessible financial institutions increases competition for the Company’s customers. The Company generally competes on the basis of customer service, relationship management, and the fair pricing of loan and deposit products and wealth management and insurance services. The location and convenience of branch offices is also a significant competitive factor, particularly regarding new offices. The Company does not rely on any individual, group, or entity for a material portion of its deposits. Recent economic and financial events have significantly impacted the competitive environment. The Federal Reserve System reduced short-term interest rates to close to zero and numerous financial companies converted to bank charters and began accepting deposits insured by the Federal Deposit Insurance Corporation (“FDIC”). A number of nonbank sources of competition have withdrawn from the market, and national competitors have reduced their commitment to some activities in the region.

LENDING ACTIVITIES

General. The Bank originates loans in the four basic portfolio categories discussed below. Lending activities are limited by federal and state laws and regulations. Loan interest rates and other key loan terms are affected principally by the Bank’s asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. These factors, in turn, are affected by general and economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and governmental budgetary matters. Most of the Bank’s loans are made in its market areas and are secured by real estate in its market areas. Lending activities are therefore affected by activity in these real estate markets. The Bank does not engage in subprime lending activities targeted towards borrowers in high risk categories. The Bank monitors and limits the amount of long-term fixed-rate lending volume. Adjustable-rate loan products generally reduce interest rate risk but may produce higher loan losses in the event of sustained rate increases. The Bank retains most of the loans it originates, although the Bank generally sells its longer-term, fixed-rate, one- to four-family residential loans and sometimes buys and sells participations in some commercial loans.

Loan Portfolio Analysis. The following table sets forth the year-end composition of the Bank's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

(In millions)	2010			2009			2008			2007			2006		
	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
Residential mortgages	\$645.0	30	%	\$609.0	31	%	\$677.2	34	%	\$657.0	33	%	\$599.2	36	%
Commercial mortgages	925.6	43		851.8											