



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF BANKING
HARRISBURG

THE SECRETARY

April 1, 2003

To: Pennsylvania state-chartered banks, bank and trust companies, savings banks, and savings and loan associations

In response to recent enforcement actions initiated by Federal banking regulators against federally-chartered banks, payday lenders have indicated that they will seek partnerships with state-chartered banks in order to continue engaging in payday lending activity.¹ Payday loans are defined as small-dollar, short-term unsecured loans that borrowers promise to repay out of their next paycheck or regular income payments.²

This letter is to advise you that the Pennsylvania Department of Banking (the "Department") will be as aggressive as the Federal banking regulators in addressing the safety and soundness issues associated with state-chartered banks engaging in payday lending activity, whether directly or through third party relationships with payday lenders. Accordingly, the Department will take any enforcement action it deems necessary to protect the integrity of the Pennsylvania state banking system.

The Department shares the views of the FDIC that payday lending presents insured banks with significant risks, such as exposure to substantial legal, reputational, and operational risks. The Department is aware that recent bank examinations conducted by the Federal banking regulators have disclosed that a number of institutions involved in payday lending failed to properly assess and control the risks associated with the activity.³

As a general matter, Pennsylvania state-chartered banks are not involved in payday lending activities. However, in order to fulfill its legislative mandate to oversee the safe and sound operation of Pennsylvania state-chartered banking institutions, the Department is requesting that state-chartered banks proposing to enter into the payday lending business, whether directly or through a third party relationship, provide prior written notification to the Department. Such notification should include an analysis of the risks associated with the proposal and the measures taken by the institution to monitor and control the identified risks. The written notices should be sent to Joseph Moretz, Manager Corporate Applications, 333 Market St., 16th Floor, Harrisburg, PA, 17101.

¹ *American Banker* (February 3, 2003, page 1).

² *FDIC Draft Guidelines for Payday Lending* (January 24, 2003).

³ *An Update on Emerging Issues in Banking*, FDIC (January 29, 2003).

Please contact the Department's Bureau of Supervision and Enforcement at (717) 783-8240 or the Office of Chief Counsel at (717) 787-1471 if you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink that reads "A. William Schenck III". The signature is written in a cursive style with a distinct flourish at the end.

A. William Schenck III
Acting Secretary of Banking