



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF BANKING  
333 MARKET STREET, 16TH FLOOR  
HARRISBURG, PENNSYLVANIA 17101-2290

RICHARD C. RISHEL  
SECRETARY OF BANKING

May 26, 1999

TELEPHONE  
717-787-6991

To All Pennsylvania State-Chartered Banks, Bank and Trust Companies, and Savings Banks:

This letter is to notify you that the Pennsylvania Department of Banking (the "Department") interprets section 1414 of the Banking Code of 1965 as permitting Pennsylvania state-chartered banks, bank and trust companies, and savings banks (collectively referred to as "Pennsylvania Banking Institutions") to charge interest on loans to their executive officers<sup>1</sup> to the same extent as permitted under Federal Reserve "Regulation O,"<sup>2</sup> for member banks, and the corresponding Federal Deposit Insurance Corporation regulation at 12 C.F.R. § 337.3, for nonmember banks, subject to the conditions and discussion stated herein.

Under the Department's interpretation of section 1414, a Pennsylvania Banking Institution may charge interest on loans to executive officers consistent with the revisions to Regulation O, which provide that a member bank<sup>3</sup> may not extend credit to any insider of the member bank or insider of its affiliate on favorable terms unless the extension of credit is made pursuant to a benefit or compensation program:

- 1) that is widely available to employees of the member bank and, in the case of extensions of credit to an insider of its affiliates, is widely available to employees of the affiliates at which that person is an insider; and
- 2) that does not give preference to any insider of the member bank over other employees of the member bank and, in the case of extensions of credit to an insider of its affiliates, does not give

---

<sup>1</sup> For purposes of section 1414, an "executive officer" of a Pennsylvania Banking Institution or its affiliate is defined in 10 Pa. Code § 21.51.

<sup>2</sup> 12 C.F.R. Part 215.

<sup>3</sup> Regulation O is made applicable to Pennsylvania state-chartered banks, bank and trust companies, and savings banks by the Federal Deposit Insurance Corporation regulations which provide that, with the exception of 12 C.F.R. § 215.5(b), 215.5(c)(3), 215.5(c)(4), and 215.11, insured non-member banks are subject to the restrictions contained in Regulation O to the same extent and in the same manner as though they were member banks. 12 C.F.R. § 337.3(a).

preference to any insider of its affiliates over other employees of the affiliates at which that person is an insider.<sup>4</sup>

In consideration of the comments to section 1414 of the Banking Code, it is the position of the Department that a Pennsylvania Banking Institution may extend credit to an executive officer pursuant to a benefit or compensation plan and grant the same favorable rate of interest which is offered to other employees, provided that the rate reflects the lower cost of placing and administering the loan to executive officers than to customers who are not employees.

Please be advised that Pennsylvania Banking Institutions must continue to comply with the provisions of section 1415 of the Banking Code when extending credit to their executive officers.

The conclusions stated in this letter regarding section 1414 are notwithstanding any previous Department interpretation of the Banking Code of 1965 to the contrary. In addition, these conclusions are consistent with section 103 of the Banking Code of 1965 in that they reflect a reasonably modern interpretation of law that maintains the competitiveness of the Pennsylvania Banking Institutions with banking and financial organizations existing under the laws of the United States.

Please refer any questions regarding this issue to the Department's Legal Office at (717) 787-1471.

Sincerely,

*Richard C. Nichel*

---

<sup>4</sup> 12 C.F.R. § 215.4(a).