January 27, 2011

TO CHIEF EXECUTIVE OFFICERS OF ALL PENNSYLVANIA STATE-CHARTERED BANKS, BANK AND TRUST COMPANIES AND SAVINGS BANKS:

The Commonwealth of Pennsylvania Department of Banking (the “Department”) has recently received a number of inquiries from Pennsylvania state-chartered financial institutions interested in participating in the Small Business Lending Fund (“SBLF”) program established by the United States Department of the Treasury (the “Treasury”). A description of the SBLF program can be found here: http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF_Getting_Started_Guide_Final.pdf.

Among other things, the SBLF program requires participating financial institutions to issue preferred stock to the Treasury and pay dividends on the newly-issued preferred shares.

The SBLF program, although separate from the Capital Purchase Program (the “CPP”) previously established by the Treasury, presents the same regulatory issues with respect to the issuance of preferred shares and the payment of dividends out of accumulated net earnings that were discussed in the October 31, 2008, Secretary’s Letter regarding the CPP, which is available on the Department’s website at www.banking.state.pa.us. In summary, the October 31, 2008, Secretary’s Letter regarding the CPP indicated that, notwithstanding Section 1302(a) of the Banking Code which only permits the payment of dividends out of accumulated net earnings, the Department would, for the exclusive purpose of permitting institutions to participate in the CPP, permit the dividend payment required by the CPP as an incidental power for all qualified institutions participating in the CPP under Sections 315(i) and 502(h) of the Banking Code, 7 P.S. §§ 315(i), 502(h), notwithstanding the requirements of Section 1302(a) of the Banking Code, consistent with the Department’s discretionary authority under Section 103(b) of the Banking Code, 7 P.S. § 103(b) (through 7 P.S. § 103(a)(iv), (v), (vi) and (x)). All other dividend payments made by institutions without holding companies would remain subject to the requirements of Section 1302 of the Banking Code.

For institutions interested in participating in the SBLF program that do not have accumulated net earnings with which to pay dividends on preferred stock, the Department intends to utilize the same discretionary authority to permit the payment of dividends on preferred shares as described in the October 31, 2008, Secretary’s Letter for the exclusive purpose of permitting institutions to participate in the SBLF program. Therefore, institutions interested in participating in the SBLF program may do so in the following manner:

1. The institution may refinance the full dollar amount of the preferred shares it currently has issued for the CPP to the SBLF program and can continue to pay dividends on those shares under the authority granted in the October 31, 2008, Secretary’s Letter;
2. The institution may increase the dollar amount of the preferred shares it currently has issued under the CPP by refinancing the current amount issued under the CPP to the SBLF program and increasing the issued preferred shares up to the maximum amount...
allowable under the SBLF program, provided the Department individually approves the payment of dividends on the newly-issued preferred shares consistent with the authority contained in the October 31, 2008, Secretary’s Letter and the requirements of this letter; or

3. If the institution is not currently participating in the CPP, the institution may participate in the SBLF program by issuing preferred shares in an amount up to the maximum allowable under the SBLF program, provided the Department individually approves the payment of dividends on the newly-issued preferred shares consistent with the authority contained in the October 31, 2008, Secretary’s Letter and the requirements of this letter.

Any institution that proposes to participate in the SBLF program under scenarios 2 and 3 described above must submit a written request to the Department which includes the following information:

1. Pro forma financial information covering the entire period the institution intends to be actively involved in the SBLF program which specifically details the financial impact of the SBLF program on the institution.
2. A revised business plan which includes the detailed strategy of the institution’s proposed small business lending program.
3. A description of the personnel that will operate and oversee the SBLF program at the institution, including a description of professional background and experience in small business lending.
4. Revised loan policies detailing all limitations and controls regarding the small business lending program.
5. An exit strategy for replacing the SBLF capital with a more permanent source of capital.
6. Any additional information deemed pertinent to the institution’s small business lending program as determined by the Department.

As noted above, the SBLF program is being offered by the Treasury, which holds the ultimate approval authority in regard to the eligibility of institutions for participation. The SBLF program contemplates Treasury will consider the views of the Department with respect to Pennsylvania state-chartered institutions that apply for the SBLF program. Please note the Department’s determination in regard to a particular institution’s ability to pay dividends on preferred shares as described in this letter will be issued contemporaneously with the Treasury’s determination that the institution is eligible for the SBLF program.

Please contact Joseph A. Moretz, Manager of Corporate Applications at (717) 783-2253, if you should have any questions regarding this letter.

Sincerely,

Wendy S. Spicher
Deputy Secretary for
Financial Institutions

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