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July 11, 2008

TO ALL DEPOSITORY AND NON-DEPOSITORY INSTITUTIONS REGULATED BY THE COMMONWEALTH OF PENNSYLVANIA DEPARTMENT OF BANKING:

I am pleased to announce to you that on July 8, 2008, Governor Rendell signed into law as Act 56 of 2008, House Bill 2179 (P.N. 4020), the new consolidated mortgage licensing bill (the "Mortgage Act"), Act 57 of 2008, Senate Bill 483 (P.N. 2163), which amends the Loan Interest and Protection Law (the "LIPL"), and Act 58 of 2008, Senate Bill 484 (P.N. 2251), which amends the Department of Banking Code (the "DOB Code") (together, the "Acts").

The Acts, together with Act 59 of 2008, Senate Bill 485 (P.N. 2252), which amends the Real Estate Appraisers Certification Act, and Act 60 of 2008, Senate Bill 486 (P.N. 1752), which amends the Housing Finance Agency law, are the culmination of the legislative recommendations made by the Commonwealth of Pennsylvania Department of Banking (the "Department") in its 2005 Report on Residential Mortgage Foreclosures and Abusive Lending Practices in Pennsylvania, which was requested by the Pennsylvania General Assembly in House Resolution 364 of 2003.

While the Acts are primarily related to the mortgage loan business, certain parts of the Acts will affect every entity regulated by the Department. For the mortgage loan industry, the Acts, especially the Mortgage Act, will create significant changes in the way you conduct your business in Pennsylvania. Below you will find highlights regarding each of the new acts which fall under the Department's jurisdiction. The Department of State and the Pennsylvania Housing Finance Agency will be issuing guidance regarding Acts 59 and 60, respectively. With regard to Act 60, there are new requirements regarding foreclosure notices that you must comply with starting September 6, 2008.

This letter contains generalizations regarding the Acts and is therefore not inclusive of all of their provisions, conditions, exceptions, and details. It is vitally important for you to familiarize yourself with the Acts themselves and seek guidance from your legal counsel and trade association regarding the effects of this new legislation on your business operations.

The Mortgage Act

The Mortgage Act, which will be located at Chapter 61 of Title 7 of the Pennsylvania Consolidated Statutes (7 Pa.C.S. § 6101 *et seq.*), creates, for the first time, a consolidated mortgage loan industry licensing and regulatory scheme in Pennsylvania, which will replace the existing Chapter 3 of the Mortgage Bankers and Brokers and Consumer Equity Protection Act (the "MBBCEPA") and the

Secondary Mortgage Loan Act (the “SMLA”). The Mortgage Act will be **effective November 5, 2008**. On this date, Chapter 3 of the MBBCEPA and the entire SMLA will be repealed by operation of law. The Mortgage Act does not repeal Chapter 5 of the MBBCEPA, which addresses consumer equity protection and will remain in force.

The Mortgage Act primarily accomplishes two things: (1) it combines the separate licenses required to conduct the first mortgage loan business under Chapter 3 of the MBBCEPA and the secondary mortgage loan business under the SMLA into one license under which both mortgage businesses can be conducted; and (2) it requires the licensure of all “mortgage originators” employed by licensees under the Mortgage Act and the Consumer Discount Company Act (the “CDCA”).

The Department will be issuing a detailed explanation of the Mortgage Act in the next few weeks. Additionally, there will be much more information regarding the new Mortgage Act licensing procedures distributed in the months to come. Particularly noteworthy is the Department’s adoption of the Conference of State Bank Supervisors/American Association of Residential Mortgage Regulators Nationwide Mortgage Licensing System (“NMLS”) for mortgage license processing. All mortgage licensees, including the new mortgage originators, will be required to use the NMLS for all licensing-related transactions. The Department will begin to accept transitional and new mortgage licensing applications through the NMLS on November 5, 2008.

Amendments to the LIPL

Act 57 of 2008, which is **effective on September 6, 2008**, primarily amends the LIPL in three ways.

First, it increases the dollar threshold for LIPL coverage on residential mortgage loans from \$50,000 to \$217,873, which will be adjusted annually for inflation by the Department by notice published each February in the *Pennsylvania Bulletin*. This means that the consumer protection provisions in the LIPL, such as the prohibition on prepayment penalties, will apply to residential mortgage loans of \$217,873 or less consummated after September 5, 2008, to the extent not preempted by federal law. Please note that this increase in coverage of residential mortgage loans does not apply to non-mortgage consumer loans. The LIPL will continue to generally apply to non-mortgage consumer loans of \$50,000 or less.

Second, it eliminates the interest rate restriction on business loans of \$10,000 or less. Business loans, as defined in 10 Pa. Code § 7.2, are now completely exempt from the LIPL.

Finally, the Department is provided with enforcement authority under the LIPL. This includes the ability to: (1) examine and investigate entities for compliance with the LIPL; (2) suspend, revoke or refuse to renew a license held under any act regulated by the Department due to a violation of the LIPL; (3) issue orders to compel compliance with the LIPL; and (4) issue fines of up to \$10,000 per offense and seek restitution for consumers harmed by violations of the LIPL.

Amendments to the DOB Code

Act 58 of 2008, which amends the DOB Code, was **effective immediately on July 8, 2008**, with the exception of the new depository institution application procedures, which are **effective August 7, 2008**.

The following three provisions of Act 58 of 2008 are immediately effective and apply to non-depository licensees only.

First, new subsection E of Section 202 of the DOB Code allows the Department to require licensees to use the NMLS and pay licensing processing fees associated with the NMLS. As mentioned above, all mortgage licensees, including the new mortgage originators, will be required to use this system for all licensing transactions starting November 5, 2008. Further information will be sent to you in the coming months from the Department's Licensing Division regarding the NMLS and its requirements.

Second, Section 302.A(5) of the DOB Code has been amended to expand the Department's ability to share information with the public regarding licensees by permitting the Department to disclose whether a licensee is subject to an issued fine or order. The Department will now be able to disclose the following information regarding licensees: (1) the type of license and the license status, i.e., current, suspended, revoked, or denied; (2) whether and for what time period an individual has been suspended or prohibited from a licensed industry; and (3) whether an individual or licensee is subject to a fine, order or any final adjudication issued by the Department. Please be aware that the Department intends to publish issued fines and orders against licensees on its website pursuant to this new authority.

Third, Section 405 of the DOB Code has been amended to expand the Department's ability to request and receive criminal background history information regarding licensees.

The final amendment to the DOB Code contained in Act 58 of 2008 creates, in new subsection E to Section 503 of the DOB Code, a statutory framework for protest hearings regarding depository institution applications and certain notices similar to those procedures applicable to federally-chartered depository institutions. This provision is **effective August 7, 2008**, and only applies to depository institutions, such as banks and credit unions, and non-depository trust companies.

The amendment now requires the Department to publish notice in the *Pennsylvania Bulletin* of the receipt of most corporate applications from banks, bank and trust companies, savings banks, savings associations, trust companies and credit unions subject to the Department's supervision, with the exception of branch applications, as well as notices related to credit union charter issuances, amendments or conversions. This requirement codifies the Department's current voluntary practice.

However, a new 30-day comment period will run from the later of when the notice is published in the *Pennsylvania Bulletin* or in a newspaper of general circulation. During this comment period, anyone is allowed to review non-confidential portions of such applications and notices and provide comments to the Department within the 30-day comment period. As such, it is extremely important for all depository institutions to carefully review their application submissions and mark as "confidential" any sensitive information that should not be in the public domain. While many depository institutions are familiar with this procedure due to joint application filings with the Department and federal regulators, those that are not will need to understand this procedure by August 7, 2008. It is strongly suggested that all depository institutions seek legal counsel regarding the effect of this amendment to your application procedures.

Further provisions of this amendment require the Department to publish notice of any final action regarding subject applications or notices in the *Pennsylvania Bulletin* and allow a depository institution directly affected by the Department's action that has filed comments regarding a subject application or notice to request a hearing to review the Department's action within 14 days of the publication of the notice of final action. Any hearing held under this provision will not automatically stay the Department's action, but the Department may for good cause stay the action.

Conclusion

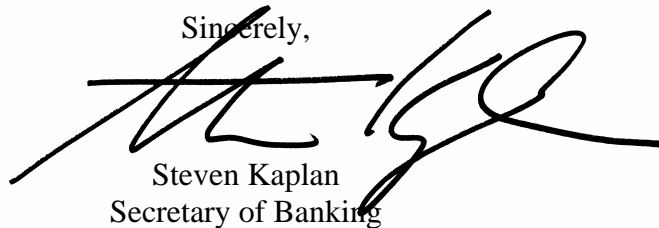
The enactment of the Acts creates significant change for Department-regulated licensees and depository institutions. The Department is committed to working with you to ensure the smoothest-possible transition to operation under the new Mortgage Act and the amended versions of the LIPL and DOB Code. To that end, the Department will be offering several outreach programs, with a particular focus on the new Mortgage Act and the transition to the NMLS. Please watch your mail carefully for communications from the Department and be sure to check the Department's website, www.banking.state.pa.us, for updates.

This letter is not intended as and does not constitute legal advice. Please keep in mind that this letter contains generalizations regarding the Acts and is therefore not inclusive of all of their provisions, conditions, exceptions, and details. It is critically important for you to read the actual Acts and seek guidance from your legal counsel and trade association regarding the effects of this new legislation on your business operations.

Licensee questions regarding these new laws should be addressed to the Licensing Division of the Bureau of Compliance, Investigation and Licensing at (717) 787-3717. Depository institutions with questions regarding these new laws, especially the new application procedures, should contact the Corporate Applications Division at (717) 783-2253. Inquiries to both areas may also be submitted via the Department's website at www.banking.state.pa.us.

We here at the Department look forward to working with you in order to seamlessly implement this new and important legislation.

Sincerely,

A handwritten signature in black ink, appearing to read 'SK', is written over the typed name and title.

Steven Kaplan
Secretary of Banking