



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF BANKING
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SECRETARY OF BANKING

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To All Chief Executives Officers of Pennsylvania State-Chartered Financial Institutions:

As we enter the new millennium, the Internet is emerging as a new medium for the delivery of various goods and services including financial products. The Pennsylvania Department of Banking ("Department") is aware that numerous Pennsylvania state-chartered financial institutions are now utilizing the Internet to service their customer's needs. I take this opportunity to advise you that the Department supports Internet banking initiatives as a continuation of the ongoing technological evolution of the banking industry.

The Department recognizes the conduct of Internet banking as an important emerging issue for the entire financial services industry. Internet banking involves new risk factors to institutions. More specifically, operational issues that financial institutions must consider due to the additional risks associated with engaging in Internet banking include but are not necessarily limited to: capital level, management and staff technological experience, adequacy of computer systems, security, firewalls, website quality, liquidity risk, product mix, and product risk. Regarding these issues, the Department stands ready to work with financial institutions on a cooperative basis before, during, and after financial institution implementation of Internet banking features in order to facilitate the safe and sound conduct of such business activity. In addition, the Department will be working with federal and other state banking regulatory agencies to support the conduct of safe and sound Internet banking in the Commonwealth of Pennsylvania.

Internet banking represents a new frontier of possible enhanced service that financial institutions may provide to their customers. The Department looks forward to working with you and your staff as you develop the Internet capability of your institution.

Please feel free to contact me, Deputy Secretary of Banking James B. Kauffman, Jr., or Bureau of Supervision and Enforcement Director Richard S. DeMartino, to discuss your proposed or existing Internet banking activity.

Sincerely,

/s/ David E. Zuern