November 29, 2000

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

I am pleased to announce to you that on November 22, 2000, Governor Ridge signed into law as Act 89 of 2000, the Bank Parity Bill, HB 2533 of 2000 (P.N. 4073), which was approved by both chambers of the Pennsylvania General Assembly by unanimous votes. The new law became effective on November 22, 2000.

The new law modernizes and amends the Banking Code of 1965 ("Banking Code") in a manner consistent with the November 1999 federal Gramm-Leach-Bliley Act in order to ensure the ongoing utility, competitiveness, and viability of the Pennsylvania state bank charter in today's modern banking world. This is done by expanding and clarifying legal authority in order to permit Pennsylvania state-chartered banks, bank and trust companies, savings banks and trust companies ("Pennsylvania State-Charters") to be able to better serve present and future customers.

Act 89 provides Pennsylvania State-Charters parity with the powers of national banks, federal thrifts, and state-chartered institutions in other states as authorized by the Federal Deposit Insurance Corporation, subject to a limited written notice process with the Department. Pennsylvania thus joins the majority of states that provide parity authority with national banks and federal savings banks to their state-chartered banking institutions and a select group of states that provide parity authority with other states as authorized by the Federal Deposit Insurance Corporation.

As a general matter and subject to the section 201 notice procedure with the Department, the new law through parity expands in two ways the authority for Pennsylvania State-Charters to engage in activities. First, new activities not previously permitted under the Banking Code may be conducted to the extent those activities are permitted for the financial institutions with which Pennsylvania State-Charters have been provided parity. Second, activities permitted under the Banking Code prior to Act 89 may be conducted under rules applicable to financial institutions with which Pennsylvania State-Charters have been provided parity. In either case, Pennsylvania State-Charters that engage in activities or own subsidiaries authorized under the new parity authority may do so subject generally to conditions and restrictions not more restrictive than those imposed upon the financial institutions with which the Pennsylvania State-Charters have been provided parity, unless for reasons related to safety and soundness considerations the Department prohibits such parity-related activities or subsidiary ownership.
Other amendments in the new law also were made to ensure that Pennsylvania State-Charters have the legal authority to operate on a level playing field with federally chartered banking institutions. The amendments include but are not limited to expanded real estate lending authority; reciprocal interstate branching for trust companies; authorization of direct pickup and delivery of customer cash and other valuables relating to financial services; simplification of rules applicable to loans to directors, trustees, and executive officers through adoption of Federal Reserve Regulation O; and other amendments listed in the Summary document enclosed with this letter.

I recommend that you review the attached Summary as well as the sample Bank Parity and Subsidiary Notice and consider how the new law may be beneficial to your institution’s banking business.

Additionally, I want you to know that we at the Pennsylvania Department of Banking remain committed to providing Pennsylvania State-Charters the highest possible quality supervisory services. We note important advantages of the Pennsylvania state banking charter including open access to the Department, other State Agencies, and the General Assembly to affect bank legislation and regulations; prompt Department responses to institution issues; and a reasonably priced, comparatively low cost examinations program.

With Governor Ridge’s signing of Pennsylvania Act 89 of 2000 into law, Pennsylvania State-Charters have been provided significant statutory support to take advantage of the new federal financial modernization law and separate non-parity-related provisions of the Act. This modernization of the Banking Code ensures a level playing field on which Pennsylvania State-Charters can continue to successfully compete in the banking market.

In our supervisory and regulatory role, we at the Pennsylvania Department of Banking look forward to working with you under the new statutory amendments provided by Act 89 of 2000.

Sincerely,

[Signature]

James B. Kauffman, Jr.
Acting Secretary of Banking

cc: National Banks and Federal Savings
    Associations in Pennsylvania

Enclosures:
    Summary of Act 89 of 2000
    Sample Bank Parity and Subsidiary Notice
SUMMARY OF ACT 89 OF 2000 (HB 2533 OF 2000 (P.N. 4073))

Pennsylvania state-chartered banks, bank and trust companies, savings banks, and trust companies ("Pennsylvania State-Charters") are provided expanded authority under Act 89 of 2000 which amends the Banking Code of 1965 ("Banking Code"). That authority includes substantive powers generally stated below.

- **Parity with Powers of Federal and State Banking Institutions:** Pennsylvania State-Charters are provided parity in activities or ownership of subsidiaries as permitted national banks, federally chartered savings and loan associations, and state-chartered banks located in other states when the type of activity or ownership of subsidiaries has been approved by the Federal Deposit Insurance Corporation. In addition to authorizing certain new activities not previously permitted for Pennsylvania State-Charters, the parity provision expands the ability of Pennsylvania State-Charters to engage in activities that the Banking Code previously authorized by allowing them to be engaged in under rules applicable to financial institutions with which Pennsylvania State-Charters have been provided parity. Pennsylvania State-Charters are required to provide the Department thirty days prior written notice if through parity they intend to exercise a new activity, engage in a previously authorized activity, or own a subsidiary. The Department may place conditions, limitations, and restrictions on the proposed activity or ownership of a subsidiary through parity that are not more restrictive than those imposed upon the financial institutions with which Pennsylvania State-Charters have been provided parity. Also, the Department may prohibit the activity or subsidiary ownership for reasons related to anticipated significant safety and soundness impact on the institution.

- **Reciprocal Interstate Branching for Trust Companies:** The authority of Pennsylvania nondepository trust companies to branch on an interstate basis was expanded by removing restrictions on the ability of out-of-state trust companies to branch into Pennsylvania. Reciprocity with other states is established by this amendment so that Pennsylvania trust companies may branch into other states that require reciprocal interstate branching authority for their own trust companies. Out-of-state state-chartered depository and nondepository institutions with fiduciary powers would be required to meet minimum capital requirements, be regulated as a fiduciary by another state regulator, demonstrate through their state regulator that there is reciprocity for Pennsylvania institutions with fiduciary powers to conduct trust business in their State, and submit relevant documentation to the Department pursuant to a thirty days prior written notice process before engaging in fiduciary activities in Pennsylvania.

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1. Section 1, 4, and 5 of Act 89 of 2000, 7 P.S. §§ 102(ii), 201, 203(d).
2. Section 4 of Act 89 of 2000, 7 P.S. § 201(f).
4. Section 2 of Act 89 of 2000, 7 P.S. § 106(b).
Real Estate Lending Authority: Restrictions related to the loan to value ratio ("LTV") and term of the loan were amended regarding real estate loans originated by banks, bank and trust companies, and savings banks, and are listed below.

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>New LTV Maximum</th>
<th>New Term Max.</th>
<th>Old LTV Max.</th>
<th>Old Term Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved real estate, including farm land, if unamortized.</td>
<td>90%. But may be 100% if loan amount is not above $100,000 or loan is made in reliance upon private mortgage insurance (&quot;PMI&quot;) or guarantee acceptable to the Department.</td>
<td>10 years.</td>
<td>66 and 2/3%.</td>
<td>10 years.</td>
</tr>
<tr>
<td>Improved real estate, including farm land, if loan requires substantially equal payments at successive intervals of not more than one year each in an amount sufficient to pay all principal and interest within the loan term.*</td>
<td>Same as above.</td>
<td>40 years.</td>
<td>80%.</td>
<td>30 years.</td>
</tr>
<tr>
<td>Unimproved real estate to be acquired with the loan proceeds.</td>
<td>Same as above.</td>
<td>5 years.</td>
<td>75%.</td>
<td>5 years.</td>
</tr>
</tbody>
</table>

* A loan to a commercial or industrial borrower is exempted from the substantially equal payments requirement, and the date of the initial payment on a loan to such borrower may be deferred for a period not in excess of 5 years (formerly, the deferral maximum was 3 years) from the date of such loan.

Delivery Service: Banks, bank and trust companies, savings banks, and trust companies may pick up from and deliver to customers cash or other valuables relating to financial services provided by such institution using a contract carrier or employees or affiliates of the institution. No application is required to be filed with the Department but the institution must comply with any other laws applicable to such delivery service activity.

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5 Section 6 of Act 89 of 2000, 7 P.S. § 310; Section 9 of Act 89 of 2000, 7 P.S. § 505.

6 Section 4 of Act 89 of 2000, 7 P.S. 202(k).
Affiliate Stock as Loan Collateral; Transactions with Affiliates; Investment Limit Calculations for Owning Other Bank Stock: Banks and bank and trust companies may accept securities issued by an affiliate as collateral security for a loan and otherwise may engage in covered transactions with an affiliate if the institution complies with 12 U.S.C. § 371c (restrictions on transactions with affiliates). Transactions with affiliates are permissible for a bank provided the bank complies with 12 U.S.C. § 371c-1 requirements. A bank may determine its surplus as provided by 12 U.S.C. § 24 for purposes of complying with limitations upon the ownership of shares of banks and holding companies stated in section 311 of the Banking Code.7

Loans to Directors, Trustees, and Certain Other Banking Officers: Pennsylvania State-Charters may make loans to their directors, trustees, executive officers, attorneys, or principal shareholders, or to any related interest of such a person, to the extent permissible pursuant to the Federal Reserve Act at 12 U.S.C. §§ 375a and 375b. The Department may for good cause suspend the effect of future Federal Reserve regulations, orders, or interpretations regarding such type of loans for a period of up to one year and may implement administrative regulations contrary to such a Federal Reserve interpretation of 12 U.S.C. §§ 375a and 375b. If the Department takes no action to suspend such a Federal Reserve regulation, order, or interpretation, then it becomes effective within thirty days of promulgation by the Federal Reserve, but it may become effective at an earlier time if approved by the Department.8

Simplified Audit and Report Standards: Audits and related reports that are required to be conducted annually by a certified public accountant or by an internal auditor approved by the Department, satisfy section 1407 of the Banking Code if they conform to federal accounting standards and principles applicable pursuant to 12 U.S.C. § 1831n to reports or statements required to be filed with federal banking agencies.9

Holding Company Ability to Acquire Institutions: To the fullest extent permissible under federal law and regulations, a bank holding company and a savings and loan holding company may acquire and own federal and state-chartered banks and thrifts.10

Expansion of Subsidiary Definition: The term subsidiary was expanded to encompass not only corporations but also limited liability companies and other entities to the extent consistent with the federal Bank Holding Company Act.11

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7 Section 7 of Act 89 of 2000, 7 P.S. §§ 311(c.1)(collateral loans with affiliates), 311(c.1)(transactions with affiliates), 311(f)(determination of surplus).
8 Sections 5 and 13 of Act 89 of 2000, 7 P.S. §§ 306(d) and 1414.
9 Section 12 of Act 89 of 2000, 7 P.S. § 1407(d).
10 Section 2 of Act 89 of 2000, 7 P.S. § 115.
11 Sections 1, 4, and 5 of Act 89 of 2000, 7 P.S. §§ 102, 201, 203(d).
Repealed Sections: The following sections of the Banking Code are repealed by Act 89 of 2000, 7 P.S. §§ 117 (authorization of reciprocal interstate operations of savings banks); 403(g) (loans of fiduciary monies to officers, directors, and employees); 1415 (loans to and agreements for the payment of money of, directors, trustees, and executive officers of institutions and affiliates); 2102(c) (violations of section 403(g) of the Banking Code of 1965). The following sections of the Savings Association Code of 1967 are repealed by Act 89 of 2000, 7 P.S. §§ 6020-14 (authorization of reciprocal interstate operations of savings associations) and 6020-32.1 (prohibition against certain acquisitions).

THIS SUMMARY DOCUMENT IS NOT INTENDED AS AND DOES NOT CONSTITUTE LEGAL ADVICE. It is recommended that you seek legal advice regarding Act 89 of 2000 from your institution’s legal counsel. This Summary is intended simply to facilitate your consideration of Act 89 of 2000. This Summary is not inclusive of all provisions and details in Act 89 of 2000 and may contain inaccuracies due primarily to generalizations necessary to issue a Summary document. Notwithstanding any statement made herein, the Department retains and may exercise any enforcement authority under Pennsylvania law and to the extent applicable federal law to affect any particular institution within the Department’s supervisory jurisdiction.
BANK PARITY AND SUBSIDIARY NOTICE

I. Type of Notice Under Banking Code of 1965 ("Banking Code"), 7 P.S. § 101 et seq. (Check One):

[ ] Direct conduct of an activity by Banking Institution under Section 201(c) (7 P.S. § 201(c))
[ ] Conduct of an activity through a Subsidiary of a Banking Institution (Check One Below):
    [ ] Section 201(c) (7 P.S. § 201(c) parity-based Subsidiary (Provide information requested in the
       Addendum; Section IX does not apply)
    [ ] Section 203(d) (7 P.S. § 203(d)) non-parity-based Subsidiary (Provide information requested in the
       Addendum; Sections VII and VIII do not apply)

II. Type of Activity (Check One):

[ ] New Activity
[ ] Expansion or Modification of Existing Activity

III. Name of Banking Institution and (if applicable) the Subsidiary:

IV. Address of Principal Place of Business in Pennsylvania:

V. Type of Banking Institution (Check One):

[ ] Bank and Trust Company
[ ] Bank
[ ] Savings Bank
[ ] Trust Company

VI. Proposed Activity:

VII. Type of Entity Authorized to Conduct Proposed Activity (Check the one your Banking Institution is relying
upon for parity authority):

[ ] National Bank
[ ] Federal Savings Association
[ ] Operating Subsidiary of National Bank
[ ] Operating Subsidiary of Federal Savings Association
[ ] Service Corporation of Federal Savings Association
[ ] Financial Subsidiary of National Bank
[ ] FDIC-Insured State Bank through Section 24 of Federal Deposit Insurance Act
[ ] Subsidiary of FDIC-Insured State Bank through Section 24 of Federal Deposit Insurance Act
VIII. Legal Basis for Requested Parity Authority (Check Relevant Item(s) and Fill In):

A. Statutory and Regulatory Citations for Parity with National Banks, Federal Savings Associations, their Subsidiaries, Service Corporations, or Financial Subsidiaries of National Banks, that provide the basis for Banking Institution or Subsidiary activity proposed under parity authority:

[ ] 12 USC § ______
[ ] 12 CFR § ______
[ ] Other Relevant Statute(s) and Regulation(s) (if applicable): ________________
[ ] Agency Interpretive Letter(s) (if applicable): ________________ (List and Attach All).

B. Statutory and Regulatory Citations for Parity with FDIC-Insured State Banks or their Subsidiaries through Section 24 of the Federal Deposit Insurance Act, that provide the basis for Banking Institution or Subsidiary activity proposed under parity authority (Check Relevant Item(s) and Fill In):

[ ] Section 24 of Federal Deposit Insurance Act (12 U.S.C. § 1831a) and 12 CFR Part 362 (FDIC Implementing Regulation)
[ ] List Home State of Bank Engaged in Section 24 Activity: ________________
[ ] List Relevant Legal Citations Under Home State Law: ________________
[ ] FDIC Interpretive Letter(s) (if applicable): ________________ (List and Attach All).

IX. Legal Basis for Requested Non-Parity-Based Section 203(d) Subsidiary (Check Relevant Item(s) and Fill In):

[ ] 7 P.S. § ______ (specific provision of Banking Code to do through Subsidiary what Bank can do directly)
[ ] 12 CFR § ______ (if applicable)

X. Provide analysis regarding the risks and potential risks to the Banking Institution (and if applicable, the Subsidiary) that have been identified regarding the proposed activity:

XI. List conditions, limitations and/or restrictions imposed on the proposed type of activity by the applicable Federal banking regulator, consistent with section 201(c) of the Banking Code (7 P.S. § 201(c)):

XII. If Banking Institution or its Subsidiary would be engaging in a new activity, provide names, titles, contact information, experience, and relevant backgrounds of personnel who will be responsible for the proposed activity:

You are notified that if the Department has insufficient information to determine whether the Department should object to your request (a) for parity authority for your Banking Institution itself to conduct under Section 201 of the Banking Code, or (b) for the establishment of a Subsidiary through parity authority under Section 201, or (c) for non-parity establishment of a Subsidiary under Section 203(d), then the Department may either: (1) request that you agree in writing to an extension of time beyond the statutory 30 day notice period for the Department to consider this matter, within which time you will be required to provide the requested additional information; or (2) reject the application and possibly reject any future applications on the same or similar subject matter until the additional information regarding such notice is provided to the Department and the Department has no objection to the notice.
ADDENDUM TO BANK PARITY AND SUBSIDIARY NOTICE (FOR SUBSIDIARIES ONLY)

BANK SUBSIDIARY CORPORATION
The following information is required as part of the notice to the Department for the establishment of a subsidiary corporation:

1. Signed resolution of the Board of Directors approving the subsidiary.
2. A list of the initial directors and officers

Subsequent to the establishment of the subsidiary corporation, the following documentation must be forwarded to the Department when available:

1. Bylaws of the Subsidiary.
2. Articles of Incorporation for the Subsidiary.
3. Certificate of Incorporation issued by the Department of State or other evidence of filing with the Department of State.
4. The initial balance sheet of the Subsidiary.
5. A statement setting forth the amount of the Bank’s investment in the Subsidiary.
6. Copies of the requisite approvals issued by the Federal regulatory agencies (if applicable).

BANK SUBSIDIARY LIMITED LIABILITY COMPANY
The following information is required as part of the notice to the Department for the establishment of a subsidiary limited liability company:

1. Copy of the Resolution of the Bank’s Board of Directors authorizing formation of the Subsidiary.
2. Identification of the initial directors and officers of the Subsidiary.
3. Copy of the proposed Operating Agreement.

Subsequent to the establishment of the subsidiary limited liability company, the following documentation must be forwarded to the Department when available:

1. Certificate of organization for the Subsidiary
2. Evidence of the filing of the Certificate of Organization with the Department of State for the Subsidiary.
3. The executed Operating Agreement.
4. The initial balance sheet of the Subsidiary.
5. A statement setting forth the amount of the Bank’s investment in the Subsidiary.
6. Copies of the requisite approvals issued by the Federal regulatory agencies (if applicable)

BANK SUBSIDIARY - OTHER STRUCTURES
Contact the Department to determine documentation requirements and acceptability of other business structures for subsidiaries.