pennsylvania
DEPARTMENT OF BANKING

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December 29, 2008

TO ALL PENNSYLVANIA STATE-CHARTERED CREDIT UNIONS:

The purpose of this letter is to inform you that it is the position of the Commonwealth of Pennsylvania Department of Banking (the "Department") that Pennsylvania state-chartered credit unions that are eligible to participate in the Credit Union System Investment Program ("CU SIP") announced by the National Credit Union Administration Board ("NCUA") are pre-approved to borrow from the National Credit Union Administration Central Liquidity Facility ("CLF") and invest the proceeds from such borrowings in CU SIP Notes consistent with the terms of the CU SIP in parity with the ability of federally-chartered credit unions pursuant to Section 501(e)(1) and (f) of the Credit Union Code, 17 Pa.C.S. § 501(e)(1), (f), subject to the conditions as stated in this letter. The specific terms of the CU SIP are addressed in the attached CLF CU SIP Term Sheet.

In order to participate in the CU SIP, a participating credit union must borrow from the CLF in the form of a "CU SIP Advance" and invest the proceeds of such borrowing in "CU SIP Notes," which are National Credit Union Share Insurance Fund ("NCUSIF")-guaranteed senior debt of a corporate credit union. Since CU SIP Notes are guaranteed by the NCUSIF, CU SIP Notes are a permissible investment for Pennsylvania state-chartered credit unions pursuant to Section 501(b)(7)(i) of the Credit Union Code, 17 Pa.C.S. § 501(b)(7)(i).

Section 511(a) of the Credit Union Code permits Pennsylvania state-chartered credit unions to:

> borrow from any source a sum not exceeding 50% of its unimpaired capital, regular reserve, contingency reserves and retained earnings for the purpose of meeting the demand for loans to members or for the purpose of meeting demands for share withdrawals.

17 Pa.C.S. § 511(a). However, Pennsylvania state-chartered credit unions are not permitted to borrow for the purpose of making investments authorized by section 501(b)(7) of the Credit Union Code. 17 Pa.C.S. § 511(b). Federally-chartered credit unions are permitted to use borrowings to invest in permissible investments. *See, e.g.,* 12

U.S.C. § 1759(9); 12 CFR § 703.13, 741.2; NCUA Legal Opinion Letter 08-0139 (April 18, 2008). Based upon the foregoing, it is the position of the Department that eligible Pennsylvania state-chartered credit unions may borrow from the CLF consistent with the limitations contained in Section 511(a) of the Credit Union Code and invest the proceeds of such borrowing in CU SIP Notes according to the terms of the CU SIP in parity with the ability of federally-chartered credit unions pursuant to Section 501(e)(1) of the Credit Union Code, notwithstanding the restriction contained in Section 511(b) of the Credit Union Code.

In order to expedite the approval process for this activity, the Department is pre-approving this parity authority pursuant to Section 501(f) of the Credit Union Code. Thus, Pennsylvania state-chartered credit unions are not required to individually submit parity notices to the Department under Section 501(f) of the Credit Union Code in order to obtain authority to participate in the CU SIP as discussed in this letter. **Pennsylvania state-chartered credit unions participating in the CU SIP program must provide written notice of such participation to the Department's Credit Union Office.** Please be advised that the parity pre-approval contained in this letter only applies to participation in the CU SIP.

Should you need additional information or clarification regarding this letter, please contact Tim Blase, Director, Credit Unions Office, at (717) 787-7333 or tblase@state.pa.us. In our supervisory and regulatory role, we at the Pennsylvania Department of Banking continue to look forward to working with you to make the Pennsylvania state charter the charter of choice for financial institutions in Pennsylvania.

Sincerely,

Wendy Spicher
Deputy Secretary of Banking

Attachment