



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF BANKING  
333 MARKET STREET, 16TH FLOOR  
HARRISBURG, PENNSYLVANIA 17101-2290

JAMES B. KAUFFMAN, JR.  
SECRETARY OF BANKING

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**TO: All Pennsylvania State-Chartered Banks, Bank and Trust Companies, and Savings Banks ("Institution(s)")**

The Pennsylvania Department of Banking ("Department") hereby notifies you that your institution may be eligible to conduct lending activity under the Pilot Program for Residential Real Estate and Small Business Loans (the "Pilot Program") to the same extent as such authority is authorized for national banks pursuant to 12 C.F.R. § 32.7. This authority may be made available to your institution by filing a parity notice with the Department pursuant to section 201(c) and (e) of the Banking Code of 1965, 7 P.S. § 201(c) and (e). For your convenience, the parity notice form that may be completed by your institution and then filed with the Department is enclosed with this letter.

Pursuant to the Pilot Program, an eligible institution may make residential real estate loans or small business loans in the lesser of the following two loan-to-one-borrower amounts: 25% of the Bank's "capital accounts"<sup>1</sup> as that term is defined under section 306(e) of the Banking Code, 7 P.S. § 306(e); or \$10 million. The Pilot Program term "small business loans" is interpreted by the Department to mean any loan that is properly categorized as "secured by nonfarm nonresidential properties," or as "commercial and industrial loans" for call report purposes without regard to the amount of the loan.

The total outstanding amount of an eligible institution's loans to one borrower regarding loans made under the Pilot Program plus all other loans to that borrower by the institution shall not exceed 25% of the institution's "capital accounts." The aggregate limit of all loans made pursuant to the special lending limits of the Pilot Program is 100% of an eligible institution's "capital accounts." The rules applicable to the increased loans-to-one-borrower limitations under the Pilot Program are covered in more detail in the regulation cited as 12 C.F.R. § 32.7, which is applicable to an eligible institution's use of the Pilot Program.

To qualify as an eligible institution that may become authorized to participate in the Pilot Program, an institution must meet the following criteria BEFORE filing a parity notice with the Department:

- The institution must be well capitalized.
- The institution must have an overall CAMEL rating of 1 or 2.
- The institution must have a Management component rating of 1 or 2.
- The institution must have an Asset Quality component rating of 1 or 2.

As part of filing a parity notice with the Department, an institution seeking to conduct lending activity in accordance with the Pilot Program must include the following information with the parity notice:

- a written resolution by a majority of the institution's board of directors approving the use of the new special limits of the Pilot Program and confirming that the institution will abide by the terms and conditions of the Pilot Program.
- a description of how the institution's board of directors intends to exercise its continuing responsibility to oversee the use of the Pilot Program lending authority.

The Department will review an institution's conduct of lending under the Pilot Program and will continue to exercise regulatory authority by taking any actions that the Department deems appropriate to ensure the safety and soundness of the institution. Consistent with parity, the Pilot Program ends on June 11, 2004, unless terminated prior to that time by the Department. However, an institution that has received Department approval on or before that date may continue to make loans and extensions of credit under the special lending limits of the Pilot Program until September 10, 2004, provided the institution remains an eligible institution. Notwithstanding any other statement made in this letter, the Department reserves the right to order or otherwise require an institution engaging in the Pilot Program to cease such activity, in the Department's discretion, consistent with the Department's safety and soundness enforcement authority.

If you have any questions regarding this matter, please contact Joe Moretz, Corporate Applications Manager, at 717-783-2253.

Sincerely,



James B. Kauffman, Jr.  
Secretary of Banking

Enclosure: Parity Notice Form

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<sup>1</sup> It is noted that the Pilot Program regulation uses the term "capital and surplus" for counting the legal lending limit. However, for the sake of consistency with legal lending limit section 306 of the Banking Code and the normal practice of Pennsylvania state-chartered banks, bank and trust companies, and savings banks, the Department shall require an eligible institution that files a parity notice and subsequently becomes authorized to originate loans pursuant to the Pilot Program to count the increased legal lending limit in terms of "capital accounts" instead of "capital and surplus." This Department determination of how to count the legal lending limit under the Pilot Program as made consistent with section 306 of the Banking Code provides greater flexibility to the institution than using "capital and surplus" since "capital accounts" includes not only capital and surplus but also undivided profits, capital securities, and reserves for loan losses of the institution. All references to "capital accounts" in this letter refer to that term as defined at 7 P.S. § 306(e).