July 30, 2014

To All Pennsylvania State-Chartered Credit Unions:

I am writing to you to announce the completion of an important regulatory initiative of the Commonwealth of Pennsylvania Department of Banking and Securities (the "Department"). By virtue of publication in the July 26, 2014, edition of the *Pennsylvania Bulletin* (Vol. 44, No. 30), **the Department's regulation regarding the semiannual assessments on credit unions that will replace the existing assessment schedule and eliminate direct examination billing has become law**. The regulation is codified at 10 Pa.Code §§ 5.1-5.6, and a link to the regulation may be found on the Department's website at www.dobs.state.pa.us.

When I assumed the office of Secretary of Banking over three years ago, I had the benefit of then-Governor-Elect Corbett's Transition Team Report to guide me as to the pressing issues facing the Department at that time. **The most critical issue requiring my attention was the lack of sustainability of the Banking Fund**. The Banking Fund, which is solely funded by the assessments and fees that the Department charges its regulated banking industries (and not by the securities side of the Department), was trending towards insolvency. This was certainly due, in part, to the increased regulatory operating costs associated with the country's severe economic downturn. However, primarily it was due to the antiquated assessment schedules that were still in place for the Department's regulated banks, trust companies and credit unions. These schedules were not covering (1) the direct examination cost to regulate each type of institution, (2) each type of institution's share of the Department's overhead and (3) reasonable "reserves" to better cover those parts of the economic cycle where financial service firms require increased, and more costly, levels of Department involvement.

Our team has worked diligently to address this issue – first by reducing costs where appropriate and "right-sizing" the Department. With those initiatives implemented and following discussions with members and staff of the trade associations, we submitted a proposed regulation to the Independent Regulatory Review Commission ("IRRC") that would create an assessment-only approach for banks, trust companies and credit unions to halt, and gradually reverse, the decline in the Banking Fund's balance – with the goal of rebuilding the Banking Fund on a sustainable basis. IRRC approved this regulation on April 10, 2014.

The regulation eliminates the direct billing of examination costs for credit unions in favor of the assessment-only approach currently applicable to banks, bank and trust companies and savings banks. Please note, however, that **credit unions will remain subject to examination billing for examinations commenced prior to December 31, 2014.**

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Under this regulation, all assessments will be calculated, billed and paid semiannually based upon your first- and third-quarter call reports. Your institution will receive an invoice from the Department in December and June of each year reflecting your institution's semiannual assessment, which will be due the next month (January and July, respectively). The **first invoice under this regulation will be issued in December 2014 and will be due in January 2015**, based on assets reported in your institution's September 30, 2014, call report. You may estimate how this regulation will affect your semiannual assessments by using our **Estimated Assessment Calculator**, which can be found on our website (www.dobs.state.pa.us).

The regulation allows the Department to apply an annual inflation adjustment based on the Consumer Price Index to all assessments generated by the regulation, if the projected assessments are insufficient to provide for the Department's operational budget. The regulation also provides the Department with the authority to assess an additional surcharge on individual institutions that have a composite 4 or 5 rating.

We believe it is in the best interests of the safety and soundness of Pennsylvania's state-chartered institutions to be overseen by a quality regulatory unit, funded by the industry on a sustainable basis, during all phases of economic cycles. While the implementation of this regulation may cause an increase in the semiannual assessments applicable to your institution, the Department is committed to working with you to ensure the smoothest-possible transition to this new assessment-only approach.

Questions regarding this new regulation should be addressed to Tim Blase, Director, Credit Unions Office, at (717) 787-7333.

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

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

Sincerely,

Glenn E. Moyer

Glenn E. Moyer
Secretary of Banking and Securities