

## Table of Contents

<b>TABLE OF CONTENTS .....</b>	<b>2</b>
<b>SECTION 1 GENERAL.....</b>	<b>4</b>
1.1 STATEMENT OF PURPOSE.....	4
1.2 OBJECTIVE.....	4
1.3 STATE LAW AND AGENCY GUIDELINES .....	4
<b>SECTION 2 SUMMARY.....</b>	<b>5</b>
2.1 COVERAGE .....	5
2.2 RISKS ASSOCIATED WITH INSIDER ACTIVITIES .....	6
2.2.1 <i>Reputation Risk</i> .....	6
2.2.2 <i>Credit Risk</i> .....	6
2.2.3 <i>Compliance Risk</i> .....	6
2.2.4 <i>Operational Risk</i> .....	7
2.2.5 <i>Liquidity Risk</i> .....	7
<b>SECTION 3 REQUIREMENTS.....</b>	<b>8</b>
3.1 BOARD AND MANAGEMENT RESPONSIBILITIES.....	9
3.1.1 <i>Communications Duties</i> .....	10
3.1.2 <i>Fiduciary Duties</i> .....	10
3.2 ANNUAL SURVEY TO IDENTIFY INSIDERS.....	11
3.3 EXTENSIONS OF CREDIT .....	11
3.3.1 <i>Loans to Insiders and Executive Officers</i> .....	12
3.3.2 <i>Prohibition on Unauthorized Extensions of Credit</i> .....	13
3.4 REQUIREMENTS FOR REPORTING, PUBLIC DISCLOSURE, AND RECORD RETENTION .....	13
3.4.1 <i>Reports by Executive Officers</i> .....	13
3.4.2 <i>Reports about Credit Extended to Executive Officers</i> .....	14
3.4.3 <i>Reports for Certain Bank Stock</i> .....	14
3.4.4 <i>Public Disclosure Reporting Requirements</i> .....	14
3.5 REQUIREMENTS FOR CORRESPONDENT BANKING RELATIONSHIP REPORTING .....	14
3.5.1 <i>Reports by Correspondent Bank Executive Officers and Principal Shareholders</i> .....	15
3.5.2 <i>Correspondent Bank Public Disclosure Reporting Requirements</i> .....	15
3.6 ACCEPTANCE OF ITEMS OF VALUE .....	16
<b>SECTION 4 ORIGINATION COMPLIANCE .....</b>	<b>17</b>
4.1 EXTENDING CREDIT .....	17
4.2 COMMUNICATION AND REPORTING.....	18
4.3 IDENTIFICATION OF INSIDERS.....	18
4.4 REPORTS AND DISCLOSURES.....	18
<b>SECTION 5 RECORD RETENTION .....</b>	<b>20</b>
<b>APPENDIX 1 DEFINITIONS.....</b>	<b>21</b>
<b>APPENDIX 2 BEST PRACTICES.....</b>	<b>26</b>

## Section 1 General

### 1.1 Statement of Purpose

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[Sample Client] designed these policies and procedures to safeguard its legal responsibility to comply with applicable residential lending laws and regulations. The [board of directors](#) and senior management, through a sound [Compliance Management System](#), ensure the integration of these policies and procedures into the overall framework for product design, delivery, and administration across the residential lending origination and service life cycle. Management and employees utilize these policies and procedures to guide their daily responsibilities to effect mitigation of regulatory compliance risk within their job roles.

### 1.2 Objective

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The guidance in this guide applies throughout [Sample Client]'s operations with the objective to mitigate regulatory risk and consumer harm within the standards of [Sample Client]'s compliance program. [Sample Client] requires employees, contractors, and [third-party vendors](#) to comply with these policies and procedures.

### 1.3 State Law and Agency Guidelines

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Federal law may alter, affect, or preempt state laws that are inconsistent with the federal law. Preemption applies only to the extent of the inconsistency. A state law is not inconsistent if it is more protective of a consumer. Wherever state law or local regulations overlap and provide greater consumer protections than federal law or the requirements set out in this guide, [Sample Client] will comply with the more protective law or regulation and will consult with the appropriate legal counsel to set forth [Sample Client]'s policies and procedures for compliance.

In some instances, agencies may overlay guidelines that expand upon the requirements of federal law. [Sample Client] must be cognizant of agency guidelines and incorporate those guidelines into [Sample Client]'s policies and procedures.

## Section 2 Summary

The Federal Reserve Board (FRB)'s Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks (Regulation O) implements laws pertaining to [extensions of credit](#) by [banks](#) to their [insiders](#). Any banking institution that is a member of the Federal Reserve System, including any [subsidiary](#) of a [member bank](#) is subject to Regulation O. The regulation imposes restrictions on the extension of credit by a member bank to its [executive officers](#), [directors](#), and [principal shareholders](#) and their [related interests](#). Regulation O also requires reporting about credit extended by a [correspondent bank](#) to a member bank's executive officers, principal shareholders, and their related interests.

Key provisions of Regulation O include the following:

- Prohibitions on extending credit to an insider unless a loan meets both the following criteria:
  - The loan is non-preferential.
  - The loan does not present a higher-than-normal risk of repayment or other unfavorable features.
- Requirements for prior approval from the [board](#) for loans to insiders greater than a certain amount
- Dollar [lending limits](#) to individual insiders and to insiders in aggregate
- Restrictions on loans to executive officers
- Disclosure requirements for insiders to report certain financial information

### 2.1 Coverage

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Generally, Regulation O applies to the following individuals within a member bank:

- Executive officers who participate or have authority to participate in major policymaking functions
- Directors as members of the board of directors
- Principal shareholders including individuals or companies owning more than 10% of a class of voting securities of the member bank or its [affiliates](#), not including the parent holding company
- Related interests including a person or [company](#) with the power to exercise a [controlling](#) influence over the management or policies of the company or bank.

## Section 3 Requirements

Comprehensive insider policies help establish a corporate culture of ethical and honest behavior for all insiders. The board of directors must adopt and administer strong written policies governing [Sample Client]'s relationship to insiders and their related interests. The board and management must ensure that the policies are communicated throughout [Sample Client]. The board must also ensure that management implements a process to monitor and validate compliance with these policies.

[Sample Client]'s corporate governance processes must comprehensively address insider activities to prevent insider financial relationships that are or could be abusive, imprudent, or preferential. The Office of the Comptroller of the Currency (OCC) publication, [Insider Activities](#), provides guidance for insider policies, including the following recommendations:

- Include a code of ethics that requires the disclosure of actual or potential conflicts of interest
- Identify all insider related interests, as defined in Regulation O
- Require periodic background checks and identification of material interests that insiders have in the business of any borrower, applicant, other bank customer, vendor, or supplier
- Include guidelines for insider lending and other transactions involving insiders, including fees or commissions received by insiders from the bank
- Require that transactions with insiders be at arm's length and prohibit self-dealing
- Require the prompt reporting of insider securities transactions
- Prohibit the use of insider information in securities transactions
- Specify the circumstances and conditions under which the bank makes its facilities, real or personal property such as airplanes or cars, or personnel available for use for insiders
- Specify restrictions on accepting gifts, bequests, or other items of value such as an exchange of favors or payment for services from customers or other persons doing or seeking to do business with the bank
- Require bank employees to report improper or unethical behavior to appropriate parties such as bank management, the board, or auditors, and to report suspicious activity in accordance with the bank's suspicious activity reporting policy
- Specify the consequences for breaches of fiduciary duty and unethical conduct
- Include guidelines for reporting all insider and insider-related transactions to the board of directors or a committee thereof

### 3.4.2 Reports about Credit Extended to Executive Officers

With each report of condition submitted to its supervisory or regulatory authority, [Sample Client] will include a report of all extensions of credit made by [Sample Client] to its executive officers since the date of the previous report of condition. The report of extensions of credit to executive officers must be submitted with—but not as part of—the original or any copy of the report of condition.

### 3.4.3 Reports for Certain Bank Stock

If [Sample Client]'s shares are not publicly traded, each of its executive officers and directors is required to report annually to [Sample Client]'s board the outstanding amount of any credit extended to the executive officer or director which was secured by [Sample Client] shares.

### 3.4.4 Public Disclosure Reporting Requirements

Upon written request from a member of the public, [Sample Client] will make available the names of each of its executive officers and each of its principal shareholders to whom, or to whose related interests, [Sample Client] had, at the end of the preceding quarter, an outstanding extension of credit exceeding the limits set forth in the regulation. Disclosure is not required if the aggregate amount of all extensions of credit outstanding at such time from [Sample Client] to the executive officer or principal shareholder and to all related interests of that [person](#) does not exceed \$25,000. [Sample Client] is not required to disclose the amounts of individual extensions of credit.

[Sample Client] must maintain records of all requests for information and the disposition of such requests for two years from the dates of the requests.

## 3.5 Requirements for Correspondent Banking Relationship Reporting

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In general, with respect to [correspondent banking](#) relationships, the law prohibits the following:

- Preferential lending by a bank to executive officers, directors, and principal shareholders of another bank when there is a [correspondent account](#) relationship between the banks
- Opening a correspondent account relationship between banks when there is a preferential extension of credit by one of the banks to an executive officer, director, or principal shareholder of the other bank

## Section 4 Origination Compliance

### 4.1 Extending Credit

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[Sample Client] origination must comply with Regulation O restrictions on the extension of credit to insiders and executive officers.

Refer to [Extensions of Credit](#) in this guide for information about coverage and exceptions associated with this requirement.

Restrictions apply to loans to any insider of [Sample Client] or its affiliates, including any related interests which include the following:

- When extending credit to insiders, [Sample Client] must extend that credit on substantially the same terms and use the same underwriting criteria, that apply to non-insiders and non-employees.
- The aggregate amount of credit extended to an insider may not exceed [Sample Client]'s established legal [lending limit](#) and the aggregate amount of credit extended to all insiders must not exceed [Sample Client]'s unimpaired capital and unimpaired surplus amount.
- Any extension of credit to an insider that brings the aggregate amount of credit extended to the insider above \$500,000, or above the greater of \$25,000 or 5% of [Sample Client]'s unimpaired capital and unimpaired surplus, must be approved in advance by a majority vote of the board of directors.
- [Sample Client] may not pay an [overdraft](#) of an [executive officer](#) or director of [Sample Client] or an affiliate on an account at the [bank](#), unless the payment is made in accordance with a written, preauthorized, interest-bearing extension of credit plan that specifies method of repayment or preauthorized transfer of funds from another of the insider's accounts.

The following additional restrictions apply to loans to executive officers of [Sample Client] but are not applicable for loans to insiders of [Sample Client]'s affiliates:

- Any loan to an executive officer of [Sample Client] is subject to certain limits unless the loan is for a stipulated purpose or is secured in a stipulated manner.