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Section 1 General

1.1 Statement of Purpose

[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

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

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

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.

Some portions of Regulation O also apply to affiliates of the member bank, such as the parent holding company or any other subsidiary of that holding company.

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
- Include record-keeping requirements established by federal or state law

[Sample Client] must provide all insiders with written copies of insider policies, any related policies and code of ethics, as well as any subsequent changes to these policies. [Sample

Section 4 Origination Compliance

4.1 Communication and Reporting

[Sample Client] origination must use established communication channels and systems designated for the purposes of reporting concerns about insider loan activities and seeking advice about insider policies, conflicts of interest, and similar concerns.

Employees are responsible for ethical behavior and reporting suspected wrongdoing through a confidential reporting or “whistle-blower” system established for reporting, without reprisal, legitimate concerns about suspected illegal or unethical practices.

Refer to [Communication Duties](#) in this guide for more information.

4.2 Identification of Insiders

As part of the Regulation O requirement to maintain records to document compliance, [Sample Client] must conduct an annual survey to identify all insiders of [Sample Client]. It is recommended that [Sample Client] also identify [affiliate](#) insiders through the annual survey method.

Sample