

Your Bank

May 2006

Director & Senior Management Education

**RESPA - Section 8
Kickbacks & Code of Conduct
Training Program Overview**

Section 8 of RESPA

- HUD's Reg X - Real Estate Settlement Procedures Act
- Section 8 Violations
- Prohibitions on kickbacks

RESPA & Section 8 Violations

About Section 8a...

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Section 8(a) of RESPA, prohibits any person from giving and any person from accepting any fee, kickback, or other thing of value pursuant to any agreement or understanding that business shall be referred to any person. (See 12 U.S.C. 2607(a).)

RESPA & Section 8 Violations

About Section 8b...

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Section 8(b) also prohibits anyone from giving or accepting any portion, split, or percentage of any charge made or received for the rendering of a settlement service other than for services actually performed. (12 U.S.C. 2607(b).) Section 8(c) of RESPA provides, however, that nothing in Section 8 shall be construed as prohibiting the payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or services actually performed. (12 U.S.C. 2607(c)(2).)

Section 8

About Kickbacks

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Under Section 8, Congress sought to eliminate what it termed "abusive practices" -- kickbacks, referral fees, and unearned fees. In enacting these prohibitions, Congress intended that "the costs to the American home buying public will not be unreasonably or unnecessarily inflated." (S.Rep. 93-866 at 6548.) In describing the Section 8 provisions, the Senate Report explained that RESPA "is intended to prohibit all... referral fee arrangements whereby any payment is made or 'thing of value' is provided for the referral of real estate settlement business." (S. Rep. 93-866, at 6551.)

Trust & Ethics go hand in hand:

- How do we inspire trust? How do we maintain it? Through our honesty and ethical behavior. It means that we have to work at being ethical. It means that we should be at the head of the class when it comes to ethics.

That's why BANK has a code of ethics. It is why our code of ethics is strong, clear, and specific. It is why when someone comes to work in our bank they understand that they now work in a special place with special responsibilities. They should realize that they are held to a higher standard.

Yes, bankers are better than others. We should look at ourselves with pride.

Our Code of Ethics is more than a document that outlines our bank's ethics. It is more than our expected behavior. Our bank's ethics are reflected in everything - including products and service decisions. A genuinely ethical bank, like BANK, offers products that its customers want and need, not simply the products that are most profitable.

Code of Conduct & Ethical Behavior

Enron

Sarbanes Oxley Act

Whistleblower provisions

Corporate Governance

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The topic of ethics is hot stuff. Initially fueled by Enron, the stories just keep coming. The SEC is publishing enforcement actions by the dozens.

Banks have always adhered to a code of conduct and have always expected ethical behavior from their staff, officers and directors.

Banks & Ethical Conduct

It is all pre-SOX for us...

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Banks are different - and for good reasons. Banks rely on their reputation (and of course, FDIC insurance). People who are looking for a bank are looking for a place where they feel safe - safe with their money, safe with their privacy, and safe with their reputation. Of course, people want good products and services. But they often want more. Banks sell much more than their services. They sell their good reputation. Customers want a bank that is more than convenient. They want one they can trust.

Trust is our bank's most important product. If we lose the trust of our customers, we may as well shut our doors, now.

Code of Ethics

- ❑ • Honest and Ethical Conduct.
 - ❑ • Avoidance of Conflicts of Interest.
 - ❑ • Disclosure of Potential Conflicts of Interest.
 - ❑ • Disclosure in Filings and Communications.
 - ❑ • Compliance with Laws, Rules and Regulations.
 - ❑ • Reporting of Violations.
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- Honest and Ethical Conduct. Engage in honest and ethical conduct and proactively promote such conduct in the workplace.
- Avoidance of Conflicts of Interest. Avoid real or perceived conflicts of interest between the private interest of the individual and the interest of the Company and the Bank, as when an individual receives improper personal benefits as the result of his or her position with the Company or the Bank, or when the individual has other duties, responsibilities or obligations that run counter to his or her duties to the Company or the Bank.
- Disclosure of Potential Conflicts of Interest. Disclose to the Company's Ethics Officer or to the Audit Committee any transaction or relationship that reasonably could be expected to give rise to a real or perceived conflict of interest.
- Disclosure in Filings and Communications. Promote the production of full, fair, accurate, timely and understandable disclosure in reports and documents that the Company or its subsidiaries file with the Securities and Exchange Commission and other regulatory authorities, as well as in other public communications made by the Company or its subsidiaries.
- Compliance with Laws, Rules and Regulations. Comply with, and take all reasonable measures to ensure the Company's compliance with, all applicable governmental laws, rules and regulations.
- Reporting of Violations. Promptly report any questionable behavior as described below under "Reports of Violations."

Conflicts of Interest

□ Defined...

The term "conflict of interest" describes any circumstances that could cast doubt on the ability of the directors, officers, and employees to act objectively with regard to the interest of the Bank. The essence of a conflict of interest policy is that individuals should not use their positions with, or the assets or influence of, the Bank for personal advantage or for the advantage of others; they should at all times act in the best interests of the Bank. Directors, officers and employees should not perform any service of a directive or managerial nature for any competitor nor should they represent the Bank in any transaction in which they or a close relative have a financial interest.

Conflicts of Interest

The following are examples of transactions for which a conflict of interest may be present. This list is not all inclusive.

- (1) Limitations on Preferential Terms for Loans.
 - (2) Securities of Affiliates.
 - (3) Repurchase Agreements.
 - (4) Loan Transactions with Third Persons.
 - (5) Outside Activities.
 - (6) Real Estate Activities.
 - (7) Fiduciary Appointments.
 - (8) No Self Dealings.
 - (9) Outside Directorships, Partnerships, Sole Proprietorships
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- (1) Limitations on Preferential Terms for Loans. No employee or affiliated person of the Bank shall, directly or indirectly, receive a loan from the Bank or sell a loan to the Bank, on preferential terms and conditions. All loans by the Bank to employees and affiliated persons shall be made in the ordinary course of business, which do not exceed the loan amount which would be available to members of the general public of similar credit status applying for loans.
 - (2) Securities of Affiliates. The Bank may not invest, either directly or indirectly, in the stock, bonds, notes, or other securities of any affiliated person.
 - (3) Repurchase Agreements. The Bank may not directly or indirectly purchase securities under a repurchase agreement from any affiliated person.
 - (4) Loan Transactions with Third Persons. The Bank may not, directly or indirectly:
 - (a) Make any loan to, or purchase (other than through a secondary market) such as the loan made to, any third party on the security of real property purchased from any affiliated person or employee of the Bank, unless the property was a single family dwelling owned and occupied by the affiliated person or employee as his or her personal residence.
 - (b) Make a loan to, or purchase a loan made to, any third party secured by real property with respect to which any affiliated person or employee of the Bank holds a security interest;
 - (5) Outside Activities. No officer or employee shall have an outside interest or activity which will (i) materially encroach on the time or attention which should be devoted to his or her corporate duties; (ii) adversely affect the quality of work performed; (iii) compete with the Bank's activities; (iv) involve any, significant use of the Bank's employees, equipment, supplies or facilities; (v) infer sponsorship or support by the Bank of the outside activity interest or organization; or (vi) adversely affect the name or reputation of the Bank.
 - (7) Fiduciary Appointments. No director, officer or employee shall act as agent or attorney-in-fact (including signer or cosigner) on a customer's account, unless the customer is a member of his or her immediate family, without the prior consent of the Board of Directors as described above with exception of a nonprofit religious, civic, community, or educational organization and the director, officer or employee is a noncompensated volunteer and the relationship is one of community service.
 - (8) No Self Dealings. No director, officer or employee shall handle his or her personal or business matters (or those for his or her family) as a representative of the Bank. The Bank must be represented by an unrelated officer who is a superior (rather than a subordinate) to the officer or employee involved in the transaction.
 - (9) Outside Directorships, Partnerships, Sole Proprietorships
- Prior approval of the Board of Directors is required before an officer or employee accepts a position as a director or officer of a corporation. The only exceptions to this requirement are services as a director or officer of: (i) an affiliate of the Bank; (ii) purely social, civic, religious, or philanthropic institutions.

Conflicts of Interest, cont.

- (10) Confidential Information Obtained
 - (11) Church, Charitable, Educational, Fraternal or Other Civic Affairs.
 - (12) Borrowing from Customers.
 - (13) Giving Advice to Customers
 - (14) Political Activity and Use of Corporate Funds
 - (15) Joint Ventures.
 - (16) Business with Borrowers.
 - (17) Loan Procurement Fees.
 - (18) Transactions with Affiliated Persons -- List.
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(10) Confidential Information Obtained

Confidential information pertaining to the Bank or its customers, suppliers and employees is to be used solely for corporate purposes and not as a basis for personal gain by any director, officer or employee. In no case shall confidential information be transmitted to persons outside of the Bank who do not need to know such information in order to perform their duties.

(11) Church, Charitable, Educational, Fraternal or Other Civic Affairs. Directors, officers and employees are encouraged to take part in religious, charitable, educational, fraternal, or other civic activities as long as such activities do not impair efficiency in the performance of, or conflict with, such person's corporate duties. However, no officer or employee of the Bank shall act as treasurer or investment advisor for political subdivisions or school districts, without prior consent of the Board of Directors as described above.

12) Borrowing from Customers. Officers or employees shall not borrow from customers, brokers, or suppliers of the Bank other than recognized lending institutions. The term "borrow" does not include a purchase from a customer or supplier resulting in an extension of credit in the normal course of business, such as a department store. Under no circumstances shall an officer or employee lend his or her personal funds to a customer or supplier of the Bank.

(13) Giving Advice to Customers

(14) Political Activity and Use of Corporate Funds

(15) Joint Ventures. The Bank will not enter into any joint venture activities without first obtaining competitive bids from potential joint venture partners.

(16) Business with Borrowers. The Bank will not conduct business with any borrowers of the Bank without first obtaining competitive bids from unrelated parties.

(17) Loan Procurement Fees. No affiliated person or employee of the Bank may receive, either directly or indirectly, from the Bank or any other source, any fee or any other compensation of any kind in connection with the procurement of any loan from the Bank.

(18) Transactions with Affiliated Persons -- List. The Board of Directors shall maintain a list of known affiliated persons of the Bank, and shall review on at least an annual basis the status of all existing transactions with affiliated persons and all new transactions with affiliated persons. The Board of Directors shall identify any members of the Board of Directors that have potential for conflicts of interest due to outside employment or business affiliations, and each member of the Board of Directors is urged to assist the Board of Directors in identifying potential conflicts of interest by regularly reviewing circumstances that may give rise to such potential conflicts of interest.

□ Ethical Practices

Introduction

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- (1) It is the policy of the Bank to adhere to the highest moral and ethical standards in conducting its business. This includes compliance with all laws and regulations relating to its operations and respect for the confidentiality of information.
- (2) All confidential business information relating to the Bank is to be used solely for the purposes of the Bank and is not to be provided to unauthorized persons or used for the purpose of furthering a private interest or making a personal profit. All material non-public information concerning the securities, financial condition, earnings or activities of the Bank is to remain confidential until fully and properly disseminated to the public. Examples of areas of particular sensitivity are current interim earnings figures or trends and new products and services.

It is equally important that confidentiality of customer's records be maintained. Inappropriate use of such information is damaging not only to the customer but to the Bank as well.

Bank Bribery Act

- Consistent with the Bank bribery statute, directors, officers and employees of the Bank are prohibited from...

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Consistent with the Bank bribery statute, directors, officers and employees of the Bank are prohibited from:

- (1) Soliciting for themselves or for a third party (other than the Bank) anything of value from anyone in return for any business, service, or confidential information of the Bank.
- (2) Accepting anything of value (other than authorized compensation) from any person or company in connection with the business of the Bank, except for the following:
 - (a) Gifts, gratuities, amenities, or favors based on obvious family or personal relationships (such as those between parents, children or spouse) where the circumstances make it clear that it is those relationships rather than the business of the Bank that are the motivating factors;
 - (b) Meals, refreshments or entertainment of reasonable value in the course of a meeting or other occasion the purpose of which is to hold bona fide business discussions regarding the Bank.
 - (c) Loans from other financial institutions on customary terms to finance proper and usual activities of the Bank's directors, officers and employees, such as home mortgage loans, and automobile loans, except where prohibited by law.
 - (d) Advertising or promotional material of nominal value, such as pens, pencils, note pads, key chains, calendars, and similar items.
 - (e) Discounts or rebates on merchandise or services that do not exceed those available to other customers.
 - (f) Gifts of modest value that are related to commonly recognized events or occasions, such as a promotion, new job, wedding, retirement, Christmas, etc.
 - (g) Civic, charitable, educational, or religious organizational awards for recognition of service and accomplishments.

Any exception to the above must be made in writing on the basis of a full written disclosure of all relevant facts and be consistent with the Bank bribery statute. Disclosure of any offers of something of value beyond what is authorized in this policy must also be made by each director, officer and employee.

Notice and Sanctions

- A. Notice
- B. Disclosure of Conflicts
- C. Matters Not Covered by the policy

A. Notice

Directors, officers and employees of the Bank shall hereby be put on notice that violations of Federal and State regulations concerning conflicts of interest and usurpations of corporate opportunity jeopardize the good standing and financial health of the Bank and that such violations will be regarded by the Board with utmost concern. Directors who are found to have violated these regulations shall be required (i) to return to the Bank any benefits received and/or (ii) to resign from the Board or whatever other sanctions the Board deems appropriate. Officers who are found to have violated these regulations (i) may be required to return to the Bank any benefits received and (ii) shall be subject to dismissal or whatever other sanctions the Board deems appropriate. A copy of this Policy shall be given to all directors, officers and employees at the time of this initial appointment to the position.

B. Disclosure of Conflicts

Directors, officers and employees shall be encouraged to bring any known or potential conflicts or usurpations to the attention of the Board of Directors, or if appropriate, to the Internal Auditor.

C. Matters Not Covered by this Statement

The Board recognizes that it is impossible to define every practice that could constitute an objectionable conflict. The omission of any specific policy of limitation or prohibition noted above, however, shall not be regarded as approval of practices or conditions not specifically covered, and the Board of Directors will take appropriate action to prevent and eliminate conflicts when circumstances so warrant.

Our Code of Ethics
and
Code of Conduct
are in your packets.

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Briefly review our training program:

It is a blended program of both online and in person training.

BSA training is performed by Allan C. or I.

Compliance Training is performed on request and also in conjunction with any updated or new regulations. For example: FACT/FCRA

Sales and Operational training are covered by Theresa Ruvo