

**SUGGESTED OUTLINE OF BOARD RESOLUTION TO BE ADOPTED FOR
THE SALE OF EQUITY INDEXED CERTIFICATES OF DEPOSIT (ICD's)**

I. PURPOSE

- A. The bank wants to offer ICD's with the rate of return pegged to an equity index.
- B. The Board of Directors wants to control risk and operate in a safe and sound manner.

II. FACTS

- A. Risk management is the key to success of ICD's.
- B. Appropriate policies and procedures are key to risk management.
- C. Accurate accounting is essential for Board of Directors oversight.
- D. Customers must understand the features, benefits, and potential drawbacks of ICD's.
- E. The Board of Directors wants to comply with directives of the Iowa Division of Banking.

III. ACTIONS

- A. The Board of Directors will adopt policies and procedures to manage risk associated with offering ICD's.
- B. The Board of Directors will monitor ICD's at its regular meetings.
- C. The Board of Directors will designate a person or persons to be responsible for ICD's issued by the bank.
- D. The Board of Directors will ensure that the ICD's qualify for FDIC insurance and comply with applicable state and federal rules and regulations.
- E. At least annually, the Board of Directors will review the creditworthiness of all of the bank's ICD risk management counter-parties.
- F. The bank's Director's Examination or outside opinion audit will review the accuracy of accounting for the ICD's and related transactions.
- G. The Board of Directors will give prior approval to bank management to request permission from the Iowa Division of Banking to invest in interest rate swaps, option contracts, derivative contracts, or other interest rate risk management products.

IV. AUTHENTICATION

- A. Signature of presiding officer and secretary of the board.
- B. Date.

MINIMUM POLICY COMPONENTS

I. PURPOSE

- A. The policy is intended to assist bank management in monitoring and controlling risks associated with issuing indexed CD's (ICD's).
- B. The policy directs bank staff to develop and follow procedures to ensure the bank operates in a safe and sound manner.

II. DIRECTIVES

- A. Bank management will limit exposure to a rising index by investing in a derivative contract.
- B. Bank management will acquire or develop a predictive model for the value of its equity in the derivative contract and the liability owed to ICD customers. The model should evaluate risk based on annual increases of 5%, 10%, and 15% (or higher depending on market performance during the term of the product) in the equity index used for the term of the ICD's issued.
- C. At least quarterly, bank management will provide reports to the Board of Directors describing the values of all bank assets and liabilities associated with issuing ICD's.
- D. At least annually, bank management will provide the Board of Directors with an evaluation of the creditworthiness of all counter-parties involved in interest rate risk management of ICD's issued by the bank.
- E. Bank management will require its outside auditors to include ICD's and their related transactions in the bank's annual Director's Examination or opinion audit.
- F. Bank management will request Board of Director approval for investment in each derivative transaction.
- G. Bank management will forward copies of the proposed derivative contract, Board of Director approval, and forecast of values from its predictive model to the Iowa Division of Banking with the bank's request for approval to invest in the derivative contract.
- H. Bank management will provide training to all staff members who issue or process ICD's to ensure a thorough understanding of the product as well as the ability to communicate its features, benefits, and potential drawbacks to customers.
- I. Bank management will develop and implement procedures to ensure compliance with this policy and applicable state and federal rules and regulations.
- J. An officer of the bank will need to be designated to oversee the bank's ICD's offerings.
- K. Bank management will involve legal counsel in reviewing or developing documents and disclosures for use with bank's ICD's product.

III. Authentication

- A. Signatures of presiding officer of the Board of Directors and Board Secretary.
- B. Date

**IOWA DIVISION OF BANKING'S
POLICY STATEMENT ON EQUITY INDEXED CERTIFICATES OF DEPOSIT
(ICD's)**

ICD's contain various risks, including operational, legal, reputational, and counter-party. As such, they may not be suitable products for all banks to offer. Senior management and the Board of Directors must have a thorough understanding of all of the various risks, along with the ability to manage them. The Iowa Division of Banking will impose the following requirements on banks issuing ICD's:

1. The bank's Board of Directors must adopt a resolution approving the sale of ICD's.
2. The bank's Board of Directors must adopt a policy that addresses ICD's.
3. If the derivative provider is not a U.S. Government Sponsored Enterprise, the bank's Board of Directors must adopt a policy that limits the bank's risk of loss if the derivative provider is unable to perform on its obligations. The bank's risk should be evaluated using modeling of 5%, 10%, and 15% (or higher depending on market performance during the term of the product) annual increases in the value of the index used.
4. The bank's Board of Directors must monitor the ICD's and the related cost of funds derivative at least quarterly to ensure the derivative is adequate to control interest rate risk.
5. The bank's Board of Directors must review at least annually the financial condition of the interest rate derivative provider.
6. The bank's directors' examination or outside audit must address the accuracy of the accounting for the liabilities and assets involved in the ICD's.
7. The bank's Board of Directors must ensure that the deposits are FDIC insured, are appropriately reflected on Reports of Condition and Income, and comply with all applicable state and federal rules and regulations.
8. The bank's Board of Directors must ensure that all bank employees involved in issuing ICD's are properly trained to explain the unique differences between ICD's and fixed rate certificates of deposit offered by the bank.
9. The bank will request approval from the Iowa Division of Banking for a specific amount of investment in a derivative transaction, pursuant to the requirements of Section 524.901(9) of the Code of Iowa. The Division of Banking will approve or deny the request based on an evaluation of the bank's policies and procedures, capital adequacy, and ability to absorb risk of default by the derivative provider.
10. An officer of the bank will need to be designated to oversee the bank's ICD's offerings.
11. It is suggested bank management involve legal counsel in reviewing or developing documents and disclosures for use with bank's ICD's product.