



STATE OF ALABAMA
STATE BANKING DEPARTMENT

651 ADMINISTRATIVE BUILDING
MONTGOMERY, ALABAMA 36130
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October 25, 1982

FRANK J. ARRINGTON
Assistant Superintendent of Banks

C. S. BLACKLEDGE
Supervisor, Bureau of Loans

C. W. SAULS, JR.
Supervisor, Bureau of Credit Unions

KENNETH R. McCARTHA
Superintendent of Banks

Chief Executive Officer
State Chartered Banks
State of Alabama

Dear Chief Executive Officer:

During the past several months this office has received numerous telephone calls from officers and directors of state chartered banks regarding the sale of credit life insurance and the disposition of any commissions received thereon. Many of these inquiries came about as a result of ownership in insurance companies by directors or officers of state banks. This letter is intended to express the policy of this department as to the selection of companies from which credit life would be purchased and the disposition of commissions and other income received from the sale thereof. The question of a conflict of interest has been raised where a bank does business with an entity in which an officer or director has an ownership interest.

It is the responsibility of the Board of Directors to select an insurance company with which the bank will engage in the sale of credit life and accident and health or other credit related insurance. That selection should be based upon the service and benefits to be received by the bank. If a director or officer of the bank has an interest in a company which is under consideration, then that ownership or interest should be disclosed to the Board of Directors with such disclosure noted in the minutes. That ownership or interest should not have any bearing on the final selection. The primary factor to be considered is that of service or income to be received by the bank.

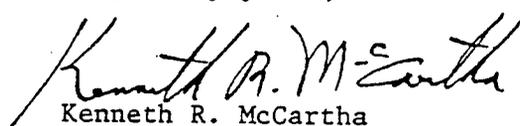
It has been the feeling of this department for several years that all income received from the sale of credit life, accident and health, or other credit related insurance sold by officers and employees of the bank and on the premises of the bank should be credited directly to the income of the bank. There has also been some confusion on the part of bankers as to what income from the sale of insurance was to be included in bank income. It has always been our position that all income was to include bonuses based upon a low claims ratio at the end of a specific period. There has been a court ruling where an officer was found guilty of embezzlement when a bonus check received at the end of the year was not surrendered to the bank. This policy has been imposed in the granting

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of all new charters. In other cases, it has been a condition imposed in the approval of branch offices or the relocation of a bank's main office. In general, we have tried to institute this policy at every available opportunity.

Please feel free to call this office should you have any questions concerning the policy of the State Banking Department as outlined in this letter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Kenneth R. McCartha".

Kenneth R. McCartha
Superintendent of Banks

KRM:lg