

BANK SECRECY ACT POLICY

POLICY STATEMENT

In compliance with section 748.2 of the NCUA Rules and Regulations, the board of directors of Alternatives Federal Credit Union (AFCU) has adopted the following policy to assure and monitor compliance with the record keeping and reporting requirements of the Bank Secrecy Act (BSA).

GOALS

The specific goals of this policy are:

- *To provide internal controls for ongoing compliance
- *To provide for independent testing for compliance
- * To designate an individual who will be responsible for day-to-day monitoring of transactions affected by BSA requirements
- * To provide staff training to educate all personnel who may come in contact with or handle large currency transactions as to their responsibilities under the BSA

COMPLIANCE

The compliance officer of the credit union will assume responsibility for ongoing compliance with the BSA, with broad authority to conduct or have conducted regular internal audits to ensure that the credit union is in full compliance with all reporting and record keeping requirements. These audits will be independent of the credit union's internal audit function, and will include, but not be limited to:

- * Reviewing all completed reporting forms for accuracy and disposition
- * Supervising the retention of these forms for the five years required by the BSA and this policy
- * Assuring that filing of regulatory forms is completed within the designated time frame
- * Performing ongoing research for any regulatory changes
- * Recommending changes to the BSA policy when necessary
- * Approving and maintaining the exempt list, and performing quarterly reviews of each account on the list
- * Assisting in the development of an effective training program and monitoring its progress for quality and effectiveness
- * Assuring that records are available and in compliance with the record keeping requirements on cash purchases of monetary instruments between \$3,000 and \$10,000, and that these records are readily accessible

TRAINING

All credit union personnel who might, in the daily course of business, come into contact with or handle large currency transactions are to be given intensive training in the requirements of the

BSA. Part of the orientation for new hires to fill vacancies as tellers, new account clerks, member services managers and representatives, and the accounting staff will include BSA training with a provision for follow-up training as needed. Additionally, all employees will be given an overview of the BSA on an annual basis.

REPORTING REQUIREMENTS

Credit union employees will comply with the reporting requirements described below.

A. Currency Transaction Reports

The following cash transactions will be reported within 15 days of the date of the transaction by completing a CTR, using the directions and procedures specified on the form:

- * All cash deposits and withdrawals exceeding \$10,000 or multiples totaling more than \$10,000 made during the credit union's business day, including night deposits
- * All transactions exceeding \$10,000 made by different individuals for the same account holder on any given business day
- * Personal and business transactions exceeding \$10,000 in cash for cash (e.g., exchanging \$20 bills for bills of a higher denomination)
- * Cash-back transactions exceeding \$10,000 whenever a member cashes over \$10,000 in checks
- * Purchases of negotiable instruments for an amount of \$10,000 or less when an added service fee increases the total to more than \$10,000 and the total amount is paid in cash

A CTR will also be filed when currency over \$10,000 is used in any of the following instances:

- * Checks cashed
- * Deposits made to share draft accounts, share savings accounts, or share certificate accounts
- * Loan payments
- * The purchase of credit union official checks or foreign drafts
- * Wire transfers
- * The purchase of traveler's checks
- * The purchase of U.S. savings bonds
- * For treasury tax and loan payments
- * The purchase of securities
- * Any other payments or deposits
- * All other cash-out transactions

B. Currency or Monetary Instrument Reports

The credit union will report any receipt of currency or other monetary instrument in an aggregate amount exceeding \$10,000 at one time that is transported, mailed, or shipped to the credit union from any place outside the United States. This report will consist of a completed CMIR and will be mailed to the Commissioner of Customs within 15 days of receipt, stating the amount, date of receipt, the form of the monetary instruments, and the person from whom the instruments were

received.

Disclosures made to Customs officials will fall within the restrictions of the Right to Financial Privacy Act. The credit union will disclose only the name or other identifying information of the person, corporation, or account, and the nature of any suspected illegal activity.

CMIRs are to be filed by mail, addressed to the Commissioner of Customs, Attention: Currency Transaction Reports, Washington, DC 20229.

C. Suspicious Activity Reports

The credit union will also file a suspicious activity report on all transactions conducted or attempted at or through the credit union if the credit union knows, suspects, or has reason to suspect that a wrongdoing has occurred or been attempted. The following are considered to be instances of suspicious activity and are to be reported within 30 calendar days after the activity is discovered:

- * Insider abuse involving any amount. Exempted from this requirement are robberies or burglaries that have otherwise been immediately reported to law enforcement authorities and losses incurred as a result of lost, missing, or stolen securities falling under other filing requirements.
- * Violations aggregating \$5,000 or more where a suspect can be identified, including any transaction involving funds from illegal activity or where an attempt is made to disguise funds from such activities; any transaction where an attempt is made to evade BSA requirements; and transactions that seems to have no business purpose or are at variance with normal activities of the party making the transaction.
- * Violations aggregating \$25,000 or more without regard to a potential suspect.

The following activities will be considered suspicious and require the filing of an SAR:

- * Structuring/money laundering (as defined in the Bank Secrecy Act)
- * Bribery or gratuity
- * Check fraud
- * Consumer lending fraud
- * Check kiting
- * Counterfeit checks
- * Counterfeit credit or debit cards
- * Other counterfeit instruments
- * Credit card fraud
- * Debit card fraud
- * Defalcation or embezzlement
- * False statements
- * Misuse of position or self-dealing
- * Mortgage loan fraud
- * Mysterious disappearance
- * Wire transfer fraud

Completed SAR forms are to be filed with the Financial Crimes Enforcement Network (FinCEN), Detroit Computing Center, PO Box 33980, Detroit, MI 48232.

D. Foreign Bank and Financial Report

While not currently applicable, if at any time the credit union has any financial account relationship outside the United States that exceeds \$10,000, the credit union will report that relationship to the IRS each year using a foreign bank and financial accounts report, IRS Form TD F 90.21. FBARs must be filed with the IRS if foreign financial accounts in excess of \$10,000 were maintained during the previous calendar year.

E. Catastrophic Act Report

We will notify the regional director within 5 business days of any catastrophic act that occurs at our office. A catastrophic act is any natural disaster such as a flood, tornado, earthquake, etc., or major fire or other disaster resulting in some physical destruction or damage to the credit union. Within a reasonable time after a catastrophic act occurs, we ensure that a record of the incident is prepared and filed at our main office. We will include information sufficient to indicate where the catastrophic act occurred; when it took place; the amount of the loss, if any; whether any operational or mechanical deficiency(ies) might have contributed to the catastrophic act; and what has been done or is planned to be done to correct the deficiency(ies).

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Funds Transfer Transactions

For the purpose of this section, the following definitions apply:

- * *Payment order* --- an instruction by a sender to a receiving bank or credit union, transmitted orally, electronically, or in writing, to pay or cause another bank or credit union to pay, a fixed, determinable amount of money to a beneficiary. The instruction must not contain a condition to the payment except for the timing of the payment; the receiving bank or credit union is to be reimbursed by debiting an account of, or otherwise receiving payment from, the sender; and the instruction is transmitted by the sender directly to the receiving bank or to an agent, funds transfer system, or communication system for transmittal to the receiving bank or credit union.
- * *Funds transfer* --- a series of transactions made for the purpose of making payments to the beneficiary of the payment order. Excluded from this definition are all transfers governed by the Electronic Fund Transfer Act (Regulation E) and transfers made through an automatic clearinghouse, an automated teller machine (ATM), or point-of-sale (POS) system.
- * *Originator* --- the individual giving the instructions to the receiving financial institution for the payment order in a funds transfer transaction.
- * *Beneficiary* --- a person to be paid by the financial institution.
- * *Receiving bank* --- the bank or credit union to which the sender's instructions are addressed.

The credit union will adhere to the record keeping requirements in cases where the credit union is the originator of the funds transfer and the transfer amounts to \$3,000 or more. The wire transfer department will retain for a period of five years the following records for funds transfers for all transactions accepted as an originator "bank." These records will be retained as an original or a microfilm, other copy, or electronic record:

- * The name and address of the originator
- * The amount of the payment order
- * The execution date of the payment order
- * Any payment instructions received from the originator with the payment order, to include oral or written instructions, the purpose of the fund's transfer, directions to the beneficiary's bank regarding how to notify the beneficiary of the receipt of the funds (e.g., advise by phone), or other information
- * The identity of the beneficiary's bank
- * As many of the following items as are received with the payment order: the name and address of the beneficiary, the beneficiary's account number, plus other specific identifiers relating to the beneficiary

These records are to be accessible by name, account number, and secondary account holder name within a reasonable period of time.

The following transactions are to be excluded from the above records retention requirements on funds transfers where the originator and the beneficiary are any of the following:

- * A domestic financial institution
- * A wholly owned domestic subsidiary of a domestic financial institution
- * A domestic broker or dealer in securities
- * A wholly owned domestic subsidiary of a domestic broker or dealer in securities
- * The United States
- * A state or local government

- * A federal, state, or local government agency
- * Where both the originator and beneficiary are the same person and both the originator's and the beneficiary's financial institution are the same domestic financial institution

EXEMPT PERSONS

CTRs are not required for cash transactions over \$10,000 involving:

- * Other U.S. financial institutions
- * Federal, state or local governments
- * Most publicly traded corporations (nonprofit organizations such as universities and hospitals are still covered by CTR requirements)
- * A qualified business customer who has maintained a transaction account at the credit union for at least 12 months, who frequently makes transactions in currency with the credit union in excess of \$10,000 and is incorporated or organized under the laws of the U.S. or a state, or is registered and is eligible to do business in the U.S. or a state
- * Payroll members that withdraw cash for payroll purposes from existing transaction accounts provided they have maintained a transaction account at the credit union for at least 12 months, operate firms that regularly withdraw more than \$10,000 to pay their employees in currency, and are incorporated or organized under the laws of the U.S. or a state, or are registered and is eligible to do business in the U.S.

A qualified business may not include businesses engaged in:

- * The practice of law, accountancy, or medicine
- * The auctioning of goods
- * The chartering or operation of ships, buses or aircraft
- * Gaming of any kind (other than licensed betting at race tracks)
- * Investment advisory services or investment banking services
- * Real estate brokerages
- * Pawn brokerages
- * Title insurance and real estate closings
- * Trade union activities

To qualify for exemptions, the credit union must file the standard IRS form 4789 (CTR) for each exempt person. Line 36 must be marked to indicate that the purpose of the filing is to identify an exempt person. This automatic exemption for exempt persons applies only to the requirement to file a CTR. The credit union is still required to file SARs to report any suspicious transaction conducted by an exempt person.

TIN REQUIREMENTS FOR SHARE CERTIFICATE, SHARE SAVINGS, AND SHARE DRAFT ACCOUNTS

Tax identification numbers (TINs) will be obtained and retained from each member purchasing or redeeming a share certificate, or opening a share savings or share draft account. If the member does not have the number when the account is opened, the credit union must obtain the

TIN within 30 days from the date of opening. When accounts are opened in the name of two or more persons but only one is present, the credit union must obtain a TIN for each person having a financial interest in the certificate or deposit within 30 days. A system will be put into place to track accounts without TINs to show that a good faith effort is in effect to obtain TINs by documenting names, addresses, and account numbers of those members from whom the credit union has failed to obtain such identification. The 30-day period can be extended when the person opening the account has applied for a TIN or social security number until the person opening the account has been given a reasonable opportunity to secure the number and furnish it to the credit union.

However, the credit union must, within 15 days following the end of any calendar year in which dividends accrued during that year are \$10 or more, use its best effort to secure and maintain the appropriate TIN or application form for a TIN.

Exemptions

Section 103.34 of the BSA exempts the following accounts and transactions from the TIN requirements:

- * Agencies and instrumentalities of federal, state, local, or foreign governments.
- * Judges, public officials, or clerks of courts of record as custodians of funds in controversy or under the control of the court
- * Aliens who are:
 1. Ambassadors, ministers, career diplomats, or consular officers
 2. Naval, military, or other attaches of foreign embassies and legations, and the members of their immediate families.
- * Aliens who are accredited representatives of international organizations entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organization Immunities Act of December 29, 1945 (22 USC 288), and the members of their immediate families
- * Aliens temporarily residing in the United States for a period not to exceed 180 days
- * Aliens not engaged in a trade or business in the United States who are attending a recognized college or university, or any training program, supervised or conducted by any agency of the federal government
- * Unincorporated subordinate units of a tax-exempt central organization that are covered by a group exemption letter
- * Nonresident aliens who are not engaged in a trade or business in the United States
- * A person under 18 years of age with respect to an account opened as part of a school thrift savings program, provided the annual interest is less than \$10
- * A person opening a Christmas club, vacation club, or similar installment savings program, provided the annual interest is less than \$10

RECORDKEEPING REQUIREMENTS

Beginning October 1, 1996, the credit union was no longer required to maintain a chronological log of all cash sales of monetary instruments between \$3,000 and \$10,000. Currently, the credit union is to maintain records on these types of transactions, including the name of the purchaser, the date of the purchase, the type of purchase, applicable serial numbers, and the dollar amount of each instrument purchased. In lieu of the chronological log, these records are to be maintained in the ordinary course of business of the credit union, retained for five years, and accessible within a reasonable length of time.

The credit union will adhere to the following records retention schedule for all reports required under the Bank Secrecy Act:

- * Currency transaction reports: Five years from the date of the report.
 - * Currency or monetary instrument report: Five years from the date of the report. (Although the BSA does not specify a retention requirement for this particular report, it is the opinion of the board that the five-year retention specified for other reports required under the BSA is a prudent one.)
 - * Suspicious activity report: Maintain a copy of any SAR with an original of all attachments to the report, for a period of five years from the date of the report.
 - * Foreign bank and financial report: Five years, to be available at all times for inspection as authorized by law.
 - * Documentation of wire transfers (outgoing and incoming): Five years from the date of the wire transfer transaction, to be available at all times for inspection as authorized by law. (This requirement applies only to records of funds transfers made on or after January 1, 1996.)
- When the credit union acts as the beneficiary's financial institution for a payment order and the proceeds are not delivered to the beneficiary in person, the credit union will retain a copy of the check or other instrument effecting the payment or information contained thereon, and the name and address of the person to which it was sent.

Member Identification Program

Introduction:

The USA PATRIOT Act requires financial institutions to establish a Member Identification Program (MIP). The MIP will be used in conjunction with Alternatives Federal Credit Union's Bank Secrecy Act program.

Purpose:

The USA PATRIOT Act is intended to assist in preventing and detecting money laundering and the financing of terrorism.

Objectives:

Section 326 of the USA PATRIOT Act requires Alternatives to establish procedures to:

- Verify the identity of any person or entity seeking to open an account at Alternatives;
- Maintain records of the information used to verify the member's identity; and
- Determine whether the person appears on the designated lists of any known or suspected terrorists or terrorist organization provided by any agency of the federal government.

In addition to the requirements of Section 326 of the USA PATRIOT Act, the MIP is required to include:

- Internal policies, procedures and controls to ensure ongoing compliance;
- Designation of a compliance officer;
- An ongoing training program; and
- An independent audit function to test the program.

Verification of Identity:

Each individual who establishes a new account with Alternatives must provide the following information **prior to opening the new account, without exception:**

- Name;
- Date of birth;
- Physical address at which the person resides and mailing address if different;
- An unexpired, government issued photo ID;
- For US persons, a taxpayer identification number such as social security number, individual taxpayer identification number or employer identification number for business accounts;
- For non-US persons, one or more of the following: a US taxpayer identification number, passport number and country of issuance; alien identification card number; or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.

The following information must be obtained from the persons other than individuals (corporations, partnerships, trusts):

- Name;
- A principal place of business, local office or other physical location; and
- Employer identification number

If the account is being established for a business, Alternatives recognizes that an employer identification number may not be available at the time the account is opened. In this instance, the new member will have 30 days to provide the appropriate information.

Youth Accounts: Alternatives will request a Photo ID and an original Social Security card in order for a youth to open an account. If photo ID or the original social security card is not available, we will accept a legible copy of the Social Security card.

Existing Members:

For existing members, identity does not need to be verified when establishing or changing accounts if:

- The member's identity was previously verified in accordance with the procedures outlined in this policy, or
- The employee has a reasonable belief that he/she knows the true identity of the member.

Notice Requirements:

Notice regarding the documentation required to fulfill Alternatives' MIP responsibilities will be posted in the lobby and made available to member service staff to hand to members inquiring about new accounts. Alternatives may from time to time place notices in mailings to members. The notice will read as follows:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open an account, we will ask you for your name, address, date of birth, and other information that will allow us to identify you. We will also ask to see your driver's license or other identifying documents.

Verification Requirements:

In order to verify the identity of the applicant, at least one document provided should be an unexpired government issued photo identification card (driver's license or military ID). Any other documentation gathered from the applicant to verify the required information is flexible and can include social security cards, certified birth certificates, utility bills, phone bills, pay stubs, etc.

Alternatives acknowledges that some applicants will not have an unexpired government issued photo ID card. In those instances:

- The applicant may provide another form of ID in conjunction with a government issued document showing the member's social security number or tax identification number. If the applicant is a non-U.S. person, passports, immigration documents, unexpired employment authorization documents are acceptable.

- If the applicant does not have any form of photo ID, he/she may present two forms of identification. One must be government issued (social security card, passport, immigration documents, etc).
- If the applicant cannot provide the information required, the account will not be opened.

If the account is being established for a person who lacks legal capacity, the guardian must provide required forms of identification.

Account Opened Not in Person:

If an account is not opened in person all account documentation and identifying documentation must be received and will be verified as mentioned in the above paragraph.

Any discrepancies between the documents themselves and additional sources used to verify the documents must be reconciled and noted in the account records, or the account will not be opened.

Alternatives does not intend to open any accounts without properly identifying new or existing members.

Alternatives need not identify existing members opening new account or conducting transactions if the member has been previously identified in accordance with this policy, and Alternatives has a reasonable belief of the member's true identity.

Recordkeeping:

Alternatives will retain the identifying information obtained about a member for five years after the date the account is closed or becomes dormant.

Alternatives will retain written records detailing a description of each document provided to verify identity. In addition to recording descriptions of documentation, Alternatives will also retain information regarding the non-documentary methods used to verify identity and their results, and will retain an explanation of how Alternatives resolved any discrepancies in the information obtained from the member. These records will be retained for five years after the record is made.

Checking Federal Terrorist or Suspected Terrorist List:

New member names will be checked against a list of known or suspected terrorists or terrorist organizations issued by agencies of the federal government. This check is done at the time of account opening. A quarterly check of the existing membership is also performed.

Designation of Compliance Officer:

The Member Service Manager has been appointed to maintain compliance with all aspects of the Member Identification Program.

Training:

All Alternatives staff will receive training during new employee orientation. Training will be coordinated and provided by the Compliance Officer.

Independent Testing:

Alternatives will implement a process to monitor internal compliance with the aforementioned policies. This process will include periodic reviews to ensure compliance with laws, regulations and rulings. In addition, reviews of reporting and control systems will be performed by an outside auditor.

