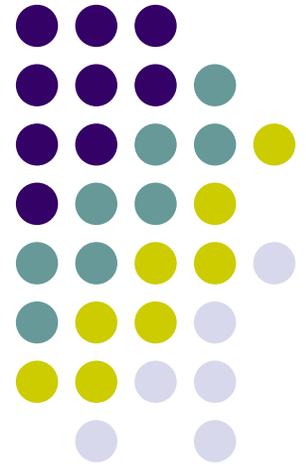




Gifts

How to stay in compliance when giving away bonuses/premiums...



Which laws do I have to worry about?



- Regulation Q
- Regulation DD (Truth in Savings)
- Illinois Law (815 ILCS 525) Prizes and Gifts Act
- IRS reporting rules in the Internal Revenue Code and regulations
- Section 20 of the Federal Deposit Insurance Act prohibits a bank from engaging in lotteries or games of chance.

What is Reg Q?



Regulation Q - Prohibition Against the Payment of Interest on Demand Deposits - 12 CFR Part 217

Sec. 217.101 Premiums on deposits.

- (a) Section 19(i) of the Federal Reserve Act and Sec. 217.3 of Regulation Q prohibits a member bank from paying interest on a demand deposit. Premiums, whether in the form of merchandise, credit, or cash, given by a member bank to a depositor will be regarded as an advertising or promotional expense rather than a payment of interest if:
- 1) The premium is given to a depositor only at the time of the opening of a new account or an addition to, or renewal of, an existing account;
 - 2) No more than two premiums per account are given within a 12-month period; and
 - 3) The value of the premium or, in the case, of articles of merchandise, the total cost (including taxes, shipping, warehousing, packaging, and handling costs) does not exceed \$10 for deposits of less than \$5,000 or \$20 for deposits of \$5,000 or more.

The costs of premiums may not be averaged. The member bank should retain sufficient supporting documentation showing that the total cost of a premium, including shipping, warehousing, packaging, and handling costs, does not exceed the applicable \$10/\$20 limitations and that no portion of the total cost of any premium has been attributed to development, advertising, promotional, or other expenses. A member bank is not permitted directly or indirectly to solicit or promote deposits from customers on the basis that the funds will be divided into more than one account by the institution for the purpose of providing more than two premiums per deposit within a 12-month period.

(b) Notwithstanding paragraph (a) of this section, any premium that is not, directly or indirectly, related to or dependent on the balance in a demand deposit account and the duration of the account balance shall not be considered the payment of interest on a demand deposit account and shall not be subject to the limitations in paragraph (a) of this section.

(bold emphasis added)

To summarize...Reg Q



- The exception given in 217.101(b) on the previous page allows the bank to give a larger premium outside of the \$10/\$20 limits.
- There cannot be a minimum balance requirement to obtain the premium.
- There cannot be a requirement to maintain the account for a specified amount of time.
- If the bonus or premium is tied to a service, such a direct deposit, rather than the account, the exception applies.

Regulation DD



Sec. 230.8 Advertising

- **(d) Bonuses.** Except as provided in paragraph (e) of this section, if a bonus is stated in an advertisement, the advertisement shall state the following information, **to the extent applicable**, clearly and conspicuously:
 - (1) The “annual percentage yield,” using that term;
 - (2) The time requirement to obtain the bonus;
 - (3) The minimum balance required to obtain the bonus;
 - (4) The minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus; and
 - (5) When the bonus will be provided.

Bonus defined in Regulation DD



- **(From the Reg)**

- ***Bonus** means a premium, gift, award, or other consideration worth more than \$10 (whether in the form of cash, credit, merchandise, or any equivalent) **given or offered to a consumer during a year in exchange for opening, maintaining, renewing, or increasing an account balance.** The term does not include interest, other consideration worth \$10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.*
- If the bonus is tied to a service, such a direct deposit, rather than the account, the requirements do not apply.

Prizes and Gifts Act (815 ILCS 525)



1. No payment may be required
 - The winner must be given the prize without obligation
 - The winner must be notified within 15 days of winning the prize

2. Disclosures required
 - A written promotional prize offer must contain the following
 - The true names of the sponsor and address
 - Retail value of the prize
 - A disclosure that no purchase is necessary
 - A disclosure that a purchase will not improve winning
 - A statement of the odds of winning
 - Any payment requirements (shipping or handling fees for example)
 - Any restrictions

IRS reporting rules



From the 2005 Instructions

Form	Title	What To Report	Amounts To Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-INT	Interest Income	Interest income.	\$10 or more (\$600 or more in some cases)	February 28 *	January 31
1099-MISC	Miscellaneous Income	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties	February 28 *	January 31

* The due date is March 31 if filed electronically.

A Sample of Rules

Contest Rules

“Stillman’s iPod Give Away” Official Contest Rules



1) **No purchase or obligation necessary to win.**

2) **To enter:** The Sweepstakes begins June 1, at 12:01 a.m. Central Daylight Savings Time (CDT) and ends June 7, 2006, at 11:59 p.m. CST (“Sweepstakes period”). To enter the sweepstakes without purchase or obligation, email Stillman at support@stillmanbank.com. Email should include Name, address, city, state, zip code, day and evening phone numbers, and the secret word(s).

3) **Eligibility:** Sweepstakes is open to legal U.S. residents, domiciled in the State of Illinois, 18 years of age and older as of June 1, 2006. Employees of Stillman BancCorp N.A. and Stillman BancCorp, Inc, and their immediate families (spouses, parents, children and siblings, and each of their respective spouses) and members of the household of such individuals are not eligible. Void where prohibited or restricted by law. The Sweepstakes is subject to all applicable federal, state and local laws, regulations and taxes. By participating, entrant agrees to abide and be bound by the Official Contest Rules and to accept the decision of Stillman BancCorp, N.A., as final in all respects.

4) **Prizes:** (1) Apple iPod Shuffle valued at \$69.99. Prizewinners will be drawn from qualified entry emails. Winners may make no substitution/transfer of prize.

5) **Prize restrictions:** Prizes are non-transferable. Federal, state and local taxes, and any expenses relating to the acceptance and use of the prize not specified, are the sole responsibility of the winner. Limit one prize per person.

6) **Drawing:** On June 9, 2006, Prizewinners will be randomly selected in each category in prize order. Drawing will be conducted at Stillman BancCorp N.A.’s Stillman Valley Branch. Winners need not be present to win.

7) **Odds:** Odds of being selected, as a sweepstakes winner will depend on the total number of eligible entries received from the branch listed above and mail-in entries.

8) **Winner Notification/Prize Awards:** Winners will be notified by phone.

9) **Additional Terms:** By participating, entrants agree to a.) The Official Rules and the decision of the employees and Stillman BancCorp N.A, which shall be final in all respects; b.) release, discharge and hold harmless, Stillman BancCorp N.A, their respective parents, subsidiaries, affiliates, officers, directors, and employees from any liability, claims, or damages arising out of their participation in the Sweepstakes, and the acceptance, use, misuse, or possession of any prize. By accepting a prize, the winners agree to, where legal, the use of their names and/or likenesses for advertising and publicity purposes without additional compensation or consideration.

10) **Limitations of Liability:** Stillman BancCorp N.A, is not responsible for the printing of or typographical errors in any Sweepstakes-related materials; for stolen, lost, late, misdirected, damaged, incomplete, illegible, or postage-due mail or entries; or for transactions that are processed late or incorrectly or are lost due to computer or electronic malfunction. Stillman BancCorp N.A, reserves the right to cancel or modify the Sweepstakes if fraud or technical failures compromise the integrity of the Sweepstakes as determined by Stillman BancCorp N.A, in its sole discretion.

11) **Winners List:** For the names of the winners, mail a self-addressed, stamped envelope to: “Stillman’s iPod Give Away Sweepstakes, Marketing Department, P.O. Box 101, Stillman Valley, IL 61084.” Requests must be received no later than July 1, 2006.

12) **Sponsored by:** Stillman BancCorp N.A.

13) **Trademarks:** Apple and iPod are registered trademarks of Apple Computer, Inc.