

MONARCH COMMUNITY BANCORP, INC and
MONARCH COMMUNITY BANK
EXCESSIVE OR LUXURY EXPENDITURE POLICY

This policy fulfills the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

Monarch Community Bancorp, Inc. (the “Company”) and its subsidiary, Monarch Community Bank (the “Bank”), prohibit excessive or luxury expenditures on entertainment and events, office or facility renovations, aviation or other transportation services or other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives or other similar measure conducted in the normal course of business operations of the Company and the Bank.

Renovations:

Renovations of facilities and office spaces should be relative to the approved current budget and strategic plan, and tracked within the Capital Expenditure Policy of the Bank. An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, and the expenditure is necessary to make the facility operation for customer use.

At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a Company shareholder perspective.

Entertainment:

Entertainment is defined as an activity that an employee, officer or director would use Company or Bank funds for business development purposes relating to a current customer(s) or prospective customer(s) or to further enhance the Bank’s marketing efforts. Our expectation is that all expenses ultimately paid by the Company or the Bank would be for business purposes, and used to drive business to the Bank. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, taking them to other events the customer/ prospect would find pleasurable is a necessary part of the Company’s marketing efforts and is not deemed as “entertainment” or a violation of the Luxury Policy. These expenses should be documented and detailed as to the benefit derived by the Bank.

Conferences:

The Board of Directors encourages attendance at conferences that are appropriate educational opportunities. These conferences should be related to the financial services industry and have a direct correlation to the Director’s role or the employee’s job duties. At times it may be appropriate that a spouse would travel to these conferences with Company attendees. However, in the event the spouse travels to the event, the spouse’s travel expenses will not be

paid by the Company or the Bank. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

This Policy would EXCLUDE reward conferences whether paid for by the Company or other vendors as a violation of this policy if the purpose is meant to be a reward, or would have no value of education to the employee or executive.

Holiday Parties:

The Board of Directors believes that holiday parties are part of an employee appreciation process. Holiday parties should be local in geographic nature, and should not cost the Company more than an average day's payroll per employee, on average. Other events, such as a company picnic or the occasional department or branch party, should be just a fraction of that cost and deemed reasonable by any appropriate standard.

Board or Management Retreats

Board or Management Retreats should only be used for educational or planning purposes, and should be looked at in the same view and discretion as all other expenses. Board education is a vital part of maintaining and keeping a dynamic director base, and this policy should not limit the retreat that is focused on strategic planning or education.

Events and Parties focused on Customers for the purpose of attracting their business would not fall under this policy.

Aviation and Transportation Services:

Transportation for Company or Bank staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate way for the Company and Bank. The accounting department will maintain, when appropriate, an analysis of trips to determine which mode of transportation is the most appropriate for the Company and its Shareholders. Modes of transportation to be used for the analysis, for example may consist of vehicle, commercial air service and private air service. A determination of transportation analysis will factor in cost, efficiency and timeliness of travel.

General:

All expenses permitted under this Policy shall be approved in accordance with the Bank's expense authorization procedures. The CEO and CFO shall certify that approvals were properly obtained for expenditures subject to this Policy that require approval by executive officers, the Board of Directors, or a committee of the Board.

The CFO is responsible for the day-to-day administration of this Policy, and the CEO is accountable for the overall adherence to this Policy. Any violations of the expense authorization procedures for expenses subject to this Policy or of this Policy shall be reported in writing to the Board Audit Committee no more than 30 days after such violation is discovered, in the manner

provided for in the Company's Complaint Procedure, and the Audit Committee shall investigate in accordance with that Procedure.

On no less than an annual basis, all Directors and Officers of Monarch Community Bancorp, Inc. and Monarch Community Bank shall certify as to their understanding of and compliance with this Policy on the form attached as Appendix A.

This Policy, and any subsequent amendments, shall be posted on the Bank's website and provided to the U.S. Department of Treasury and the Federal Deposit Insurance Corporation.

APPENDIX A

EXCESSIVE OR LUXURY EXPENDITURE POLICY

ANNUAL DIRECTOR AND OFFICER CERTIFICATION

This is to certify that I have read, understand and agree to comply with Monarch Community Bancorp, Inc.'s and Monarch Community Bank's Excessive or Luxury Expenditures Policy.

Print Name

Signature

Date