

**FIELDSTONE INVESTMENT CORPORATION**  
**CORPORATE GOVERNANCE GUIDELINES**

**Selection and Composition of the Board**

**1. Board Membership Criteria**

The Board of Directors (the “Board”) of Fieldstone Investment Corporation (the “Company”) shall initially consist of 7 directors, but the number of directors may be increased to up to 15 directors or decreased to the minimum number of directors permitted under Maryland General Corporation Law. Notwithstanding the number of directors comprising the Board, a majority of such directors shall meet the independence requirements of the NASDAQ Stock Market, Inc. and/or such other exchange where the Company’s securities may be listed (such exchange or exchanges, being hereinafter referred to as the “Exchange”). For the NASDAQ Stock Market, Inc, this means those directors who neither are officers or employees of the Company or its subsidiaries nor have a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, and who are otherwise “independent” under the rules of the NASDAQ Stock Market, Inc.

The Governance and Nominating Committee of the Board is responsible for reviewing with the Board, on an annual basis, the skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment shall, in addition to complying with the Company’s By-laws and the Nomination Process attached hereto as **Exhibit A**, be in accordance with the Charter of the Governance and Nominating Committee.

**2. Basic Director Responsibilities**

The basic responsibility of each director is to exercise his/her business judgment to act in a manner that he/she reasonably believes is in the best interest of the Company and its stockholders. The paramount duty of the Board is to select a well-qualified and ethical Chief Executive Officer (CEO) and to diligently oversee the CEO and other senior management in the operation of the Company. In addition, the Board performs the following specific functions, among others:

- Selects, compensates and evaluates the CEO and plans for management succession
- Oversees election, retention and compensation of qualified senior executives
- Reviews and approves the Company’s strategic plan and the annual operating plans, budget and corporate performance
- Advises management on significant issues facing the Company
- Reviews and approves significant corporate actions of the Company

- Oversees the financial reporting process, communications with external stockholders and the Company's legal and regulatory compliance program
- Nominates directors and oversees effective corporate governance

In discharging that obligation, a director should be entitled to rely upon the honesty and integrity of the Company's senior executives and its outside advisors and auditors. Each director shall also be entitled, at the Company's sole cost and expense, to the benefit of reasonable directors' and officers' liability insurance and the right of indemnification by the Company to the fullest extent permitted by law and the Articles of Incorporation of the Company, the Bylaws of the Company and any indemnification agreements to which such director and the Company are parties and to exculpation as provided by the laws of the State of Maryland and the Articles of Incorporation of the Company.

### **3. Selection and Orientation of New Directors; Continuing Education**

The Board has delegated to the Governance and Nominating Committee the power, authority, duties and responsibilities to recommend to the Board the director nominees for election at the next annual meeting or any special meeting of stockholders and any person to be considered to fill a Board vacancy or a newly created directorship resulting from any increase in the authorized number of directors. The Board itself, however, is ultimately responsible for selecting its own nominees and recommending them for election by the stockholders.

All new directors must participate in the Company's Orientation Program, which should be conducted within two months of the annual or special meeting at which a new director is elected. All other directors shall participate in the Company's Orientation Program at least once every 3 years during their directorship. This orientation will include presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting, legal and risk management issues, its regulatory compliance programs, its Code of Business Conduct and Ethics, its principal officers, and its internal and independent auditors. All other directors are also invited and encouraged to attend the Orientation Program.

### **4. Extending the Invitation to a Potential Director to Join the Board**

The invitation to join the Board should be extended by the Chairperson of the Board, Chairperson of the Governance and Nominating Committee or, when appropriate, another independent director.

## **Board Leadership**

### **5. Selection of Chairperson of the Board**

The Chairperson of the Board shall be chosen annually by the Board from among its members. The Chairperson of the Board shall preside at all meetings of the Board. In the event of a tie vote on any issue, the Chairperson's vote shall decide the issue. In the event that the Chairperson of the Board is either (i) unable to serve, or (ii) not "independent" under the rules of

the NASDAQ Stock Market, Inc., the Chairperson of the Governance and Nominating Committee shall be the lead director of the Board and shall act as Chairperson of the Board.

## **6. Executive Sessions of Independent Directors**

The independent directors will meet in executive session without management, at least quarterly, and shall publicly disclose the name of the director who shall preside at those executive sessions. The presiding director will develop the agendas for the executive sessions.

## **Board Composition and Performance**

### **7. Size of Board**

The Board presently has 7 members in accordance with the Company's Articles of Amendment and Restatement (the "Articles"). The Board shall establish and may increase or decrease the number of directors of the Company, provided, that the number thereof shall never be less than the minimum number permitted under the Maryland General Corporation Law, nor more than 15, and further provided, that the tenure of the office of a director shall not be affected by any decrease in the number of directors. The directors shall be elected at the annual meeting of the stockholders and each director shall be elected to serve for a term of one year and until his successor shall be elected and shall qualify or until his earlier resignation or removal.

### **8. Directors Who Change Their Present Job Responsibility**

When a director's principal occupation or business association changes substantially from the position he or she held when originally invited to join the Board or when an independent director is no longer independent, the director shall notify and tender a resignation to the Chairperson of the Governance and Nominating Committee. The Governance and Nominating Committee will review whether the new occupation or business association of the director or such director's loss of independence is (a) consistent with the specific rationale for originally selecting that individual and the guidelines for Board membership, (b) whether any material conflict of interest will exist, and (c) whether such director's membership on the Board is in the best interest of the Company and its stockholders. The Governance and Nominating Committee will recommend action to the Board to be taken regarding the resignation.

### **9. Service on Other Boards**

Independent directors are encouraged to limit the number of other boards (excluding non-profit) on which they serve, taking into account responsible board attendance, conflicting dates, possible conflicts of interest, required work levels and participation and effectiveness on these boards. Directors should also advise the Chairman of the Board and the Chairman of the Governance and Nominating Committee in advance of accepting an invitation to serve on another board.

### **10. Term Limits**

The Board has no term limits and each director shall stand for election each year at the Company's Annual Meeting of Stockholders.

The Governance and Nominating Committee will review each director's contribution to the Board in connection with its proposal of Board candidates. Each director shall confirm his or her desire to stand for re-election as a member of the Board in a timely manner to the Governance and Nominating Committee.

### **11. Board Compensation**

Director compensation should attract and retain superior candidates for Board membership and shall be straightforward and easy for stockholders to understand. The Compensation Committee, in consultation with Governance and Nominating Committee, is responsible for reviewing and making recommendations to the Board with respect to the compensation of directors.

## **12. Board's Interaction with Institutional Investors, Press, Etc.**

Management of the Company shall speak for the Company. Individual directors may, from time to time, at the request of management, meet or otherwise communicate with various constituencies involved with the Company. If appropriate, comments of the Board should come from the Chairperson.

## **13. Board's Interaction with Stockholders**

Stockholders may communicate directly with the Board or the "independent" members of the Board. All such communications by stockholders shall be in writing and directed to the Company's Secretary at: Corporate Secretary, Fieldstone Investment Corporation, 11000 Broken Land Parkway, Suite 600, Columbia, Maryland 21044 and should prominently indicate on the outside of the envelope that such communication is intended for the Board, the "independent" members of the Board, the Chairperson of the Board or the whole Board. Each communication intended for the Board and received by the Secretary that is related to the operation of the Company and is not otherwise commercial in nature shall be forwarded, without review (other than to determine whether the communication is commercial in nature), to the Board, the Chairperson of the Board or the whole Board, as applicable, following its clearance through normal security procedures.

## **14. Board Access to Management**

Board members shall have complete access to the Company's management. Board members shall take into account the importance of ensuring that such contact is not distracting to the business operation of the Company.

## **Attendance at Meetings and Meeting Procedures**

### **15. Attendance at Meetings**

Directors shall attend Board meetings and meetings of the committees on which they serve and spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

### **16. Selection of Agenda Items for Board Meetings**

The Company Secretary shall prepare the agendas with the Chairperson, Chief Executive Officer and the applicable Board Committee Chairperson's input. Each member of the Board

may suggest items to be included on the agenda with at least twenty (20) days notice to the Company Secretary before the meeting is to be held. Directors are urged to make suggestions for agenda items or additional pre-meeting materials, to the Chief Executive Officer, the Chairperson of the Board, or appropriate committee chair at any time.

Information and data that is important to the Board's or any Board Committee's understanding of any issues to be discussed will be distributed in writing to the Board and its Committees before any meeting thereof. Management shall condense this material while still providing the requisite information. In the event that the subject matter is sensitive, issues will be discussed at a meeting with or without written material.

### **17. Board Materials Distributed in Advance**

Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting should be distributed in writing to the directors reasonably in advance of the meeting and directors should review these materials in advance of the meeting. Directors may request supplemental information from management. All such information is to be maintained in conformity with the Company's policies on confidentiality.

### **18. Board Presentations**

As a general rule, presentations on specific subjects shall be sent to Board members in advance so that Board meeting time may be conserved and discussion time focused on questions from Board members with respect to the material. In the event the subject matter of presentation material is too sensitive to document and sent to Board members in advance of the meeting, the presentation will be oral and discussed at the meeting.

## **Board Committee Matters**

### **19. Board Committees**

The Board shall at all times have an Audit Committee, Compensation Committee and Governance and Nominating Committee, provided, however, that the Board may form and delegate authority to subcommittees and/or ad hoc committees for any matter that the Board deems appropriate and advisable. All members of these committees shall be independent directors who meet the definition of (a) a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, (b) the definition of an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, (c) the independence requirements of the NASDAQ Stock Markets, Inc., and (d) solely with respect to the Audit Committee, (i) the requirement to be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement, and (ii) the requirement to have had past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in such member's financial sophistication. Committee members will be appointed by the Board upon recommendation of the Governance and Nominating Committee, consistent with the Governance and Nominating Committee Charter,

with consideration given to the preferences of individual directors. The Board may rotate committee members from year to year to the extent practicable, but such rotation is not mandatory. The Board and each committee may hire independent legal, financial or other advisors as they deem necessary, without consultation or approval of any officer of the Company in advance.

## **20. Committee Charters**

Each of the Audit Committee, Compensation Committee and Governance and Nominating Committee will be governed by a charter that satisfies the listing requirements of The NASDAQ Stock Market, Inc. Each charter shall address the committee's purpose, membership, powers, authority, duties and responsibilities, as well as any particular qualifications required for committee membership. Each charter shall also require each committee to annually evaluate its performance, review its charter and include such other requirements of the NASDAQ Stock Market, Inc. The official charters which have been approved and implemented by the Board shall be published on the Company's website and mailed to stockholders upon written request.

## **21. Frequency and Length of Committee Meetings**

The Chairperson of each committee, in consultation with the committee members, shall determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter and as circumstances may require. The Chairperson of each committee and a majority of the committee members each have the right to call a special meeting of the committee.

## **22. Committee Agenda**

The Chairperson of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. At the beginning of each calendar year, each committee shall establish a schedule of agenda subjects to be discussed during the year (to the extent such subjects can be reasonably foreseen). The schedule for each committee shall be furnished to all directors.

## **23. Additional Committees**

The Board may, from time to time, in accordance with Maryland law and the Company's Bylaws, designate additional committees (both standing and ad hoc) as deemed necessary or advisable.

## **Leadership Development**

### **24. Assessing the Board's Performance**

The Board shall annually review its own performance to determine whether it and its committees are functioning effectively. The Governance and Nominating Committee shall

receive comments from all directors and report annually to the Board with respect to its assessment of the Board's performance. The report of the Governance and Nominating Committee will be presented to the Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board's role and effectiveness could improve.

## **25. Disclosure of Corporate Governance Guidelines, Charters and Code of Conduct**

On or about the time that those Corporate Governance Guidelines become effective, the Company shall post the following on its website:

- (1) these Corporate Governance Guidelines;
- (2) the charters of the Audit Committee, the Compensation Committee and the Nominating Committee;
- (3) the Company's Code of Conduct.

## **26. Review of Corporate Governance Guidelines**

The Board shall review these Corporate Governance Guidelines on an annual basis and recommend any changes for approval.

## **27. Advice**

The Board shall have the authority to obtain advice and assistance from internal or outside legal, accounting or other advisors in furtherance of its powers, authority, duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of special counsel or other experts or consultants, as it deems appropriate, without seeking further approval of the Committee or management.

## **28. No Legal Rights**

All interpretations of and determinations under these Guidelines are within the good faith discretion of the Board. The Guidelines do not create legal rights in any person.

Adopted by the Board of Directors on May 4, 2004.

Amended by the Board of Directors on August 18, 2004.

Amended by the Board of Directors on February 24, 2005.

## EXHIBIT A

### Nominations Process

#### General

The Board of Directors has a Governance and Nominating Committee. Its members are:

David S. Engelman, Chairperson of the Committee  
Jeffrey R. Springer  
Thomas D. Eckert

Each member of the Governance and Nominating Committee is independent in accordance with the applicable corporate governance standards set forth in the marketplace rules of the NASDAQ National Market. The Governance and Nominating Committee has a written charter which is available on the Company's website at [www.fieldstoneinvestment.com](http://www.fieldstoneinvestment.com).

#### Nomination of Directors

Directors may be nominated by the Board of Directors or by shareholders in accordance with the Bylaws of the Company. As a matter of course, the Governance and Nominating Committee evaluates the qualifications of potential candidates for membership on the Board of Directors and recommends qualified candidates for consideration by the Board of Directors for membership. The Governance and Nominating Committee will review all proposed nominees for the Board of Directors, including those proposed by stockholders, in accordance with its mandate contained in its charter. This will include a review of the person's judgment, skill, diversity, experience with businesses and other organizations of comparable size, independence, understanding of the Company's business or other related industries, the interplay of the candidate's experience with the experience of other members of the Board of Directors, the extent to which the candidate would be a desirable addition to the Board of Directors and any committee of the Board of Directors and such other factors as the Governance and Nominating Committee determines are relevant in light of the needs of the Board of Directors and the Company. The Board of Directors will nominate prospective directors without regard to gender, race and ethnicity. The Governance and Nominating Committee will select qualified candidates and review its recommendations with the Board of Directors, which will decide whether to invite the candidate to be a nominee for election to the Board of Directors.

To be qualified a candidate should:

- (a) satisfy the requirements of Section 4 of the Bylaws of the Company;
- (b) have high standards of ethical conduct and integrity;
- (c) have well-respected experience at senior levels of business, academia, government or other fields that will enable the Board of Directors to have access to a diverse body of talent and expertise relevant to the Company's activities;

(d) have adequate time, given the candidate's other time commitments and anticipated tenure on the Board of Directors and the retirement policy set forth for members of the Board of Directors in the Corporate Governance Guidelines;

(e) meet the independence guidelines applicable to the majority of members of the Board of Directors; and

(f) otherwise be willing to devote the time, care and rigor demanded of a director of a public company.

The Company does not presently, nor does it presently plan to, pay a fee to any third party to identify or assist in identifying or evaluating potential nominees; however, the Company may in the future determine to engage such a third party for such purpose.

If the Governance and Nominating Committee receives a nominee recommendation from a stockholder or group of stockholders that has beneficially owned more than 5% of the Company's voting common stock for at least 1 year (as of the date of the commendation), the name of the candidate, the name(s) of the stockholder(s) who recommended the candidate and whether the Governance and Nominating Committee chose to nominate the candidate shall be disclosed, if the consent of both the stockholder and the candidate has been received.

For a stockholder to submit a candidate for consideration by the Governance and Nominating Committee, in accordance with the Bylaws, a stockholder must notify the Company's Secretary. In addition, the Company's Bylaws permit stockholders to nominate directors at a shareholder meeting. To make a director nomination, a stockholder must notify the Company's Secretary no later than 120 calendar days prior to the first anniversary of the date of the proxy statement for the previous year's annual meeting of stockholders. Notices should be sent to: Secretary, Fieldstone Investment Corporation, 11000 Broken Land Parkway, Suite 600, Columbia, Maryland 21044. This notice must meet all the requirements contained in the Company's Bylaws and, additionally, must set forth:

- Any other information the stockholder believes is relevant concerning the proposed nominee;
- Whether the proposed nominee is going to be nominated at the annual meeting of stockholders or is only being provided for consideration by the Governance and Nominating Committee;
- A description of all arrangements or understandings between the stockholder who is submitting the notice and any other person (naming such person) pursuant to which the nomination is being made by the stockholder who is submitting the notice;
- If the stockholder who is submitting the notice intends to nominate the proposed nominee at the annual meeting of stockholders, a representation that the stockholder intends to appear in person or by proxy at the annual meeting to nominate the proposed nominee named in the notice; and
- Any other information relating to the stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.