



TARP

Capital Purchase Program (CPP)

On October 14, 2008, the United States Treasury announced a voluntary Capital Purchase Program (CPP) under the Troubled Asset Relief Program as part of four initiatives related to the Emergency Economic Stabilization Act of 2008 to assist the U.S. financial institutions in the current crisis. While details are still being disseminated by Treasury, the most current facts on the CPP program are inside.

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THE DIVIDEND

- 5% for the first five years ; 9% thereafter; payable quarterly.
- No dividends on common stock or other equity issues unless current on Senior Preferred.
- Treasury consent required for increase in common stock dividends or repurchase/redemption of common or preferred equity issues during the first three years, except in connection with a benefit plan in the ordinary course of business consistent with past practices.

OTHER RESTRICTIONS

- No redemption or repurchase of common stock or other equity issues unless dividends on Senior Preferred are current.
- Senior to common and equal to existing preferred shares unless existing places limits on new issues.
- Institution is subject to limitations on executive compensation as set out in Section 111 of EESA (See Treasury Note 2008-94).
 - Tax deductibility limitation on compensation of top five executives of \$500,000 each.
 - No 'golden parachutes' outside of revised 280g standards.

What Does This Mean To You?

The Treasury announced the CPP program as a result of the credit crisis plaguing U.S. financial institutions. While the act targets many different causes of the crisis, the CPP has been specifically created by the Treasury to jump start lending by 'healthy' financial institutions.

Considerations

- Board should actively consider CPP and their fiduciary responsibility.
- Relatively cheap permanent capital for the first five years, but expensive funding. Institutions need to be able to fully leverage Senior Preferred to benefit shareholders.
- Warrants may dilute ownership and earnings to some extent.
- The valuation of private bank stock and warrants may be necessary.

Capital Purchase Program (CPP)

THE BASICS

- CPP is designed for 'healthy' institutions to spur lending now. It is NOT meant to bridge failing institutions.
- Investment is limited to not less than 1% nor more than 3% of risk-weighted assets up to \$25 billion.
- There is enough money for every bank. The \$250 billion allocated for the program represents 3% of the risk-weighted assets of the industry – the maximum limit.
- Capital injections will be made at the highest corporate level.
- Details for privately held, S-corps and mutual holding companies (5,000 institutions) are forthcoming soon.
- Uniform application available on web site of primary federal regulator.
- THE DEADLINE for application to primary fed regulator:
NOVEMBER 14, 2008 5PM EST.
- Funding is expected by year-end 2008.

THE SECURITY

- Senior Perpetual Preferred Stock (\$1,000 par) (Senior Preferred).
- Cumulative if issued at the holding company level, non-cumulative if issued at the institution level.
- Non-voting, unless dividends are not paid for six non-consecutive quarters.
- Redeemable at par (plus accrued dividends) at the option of the issuer after three years; before three years only with proceeds from a perpetual preferred stock or common stock offering.
- Counts as Tier One capital.

THE WARRANTS

- Aggregate value equal to 15% of the dollar value of Senior Preferred.
- Immediately exercisable with a 10-year term.
- No voting power.
- Amount of warrants reduced by 50% if equivalent amount or more of equity capital is raised by December 31, 2009.

EXAMPLE

This is an example of a \$100 million community bank that chooses to participate in the CPP. At the maximum level, the CPP boosts Tier 1 Capital by 32% and dilutes tangible book value per share by 4.6%. The break-even analysis shows the additional loan volume needed to pay for the CPP.

Capital Level Analysis (In Thousands)	Prior to CPP 9/30/2008	Pro Forma with CPP % of Risk-Weighted Assets		
		1%	2%	3%
Total Assets	\$100,000	\$100,800	\$101,600	\$102,400
Intangible Assets	\$500	\$500	\$500	\$500
Total Risk-Weighted Assets	\$80,000	\$80,400	\$80,800	\$81,200
Preferred Stock Offering (CPP)		\$800	\$1,600	\$2,400
Total Equity Capital	\$8,000	\$8,800	\$9,600	\$10,400
Total Tangible Equity Capital	\$7,500	\$8,300	\$9,100	\$9,900
Tier 1 Capital	\$7,500	\$8,300	\$9,100	\$9,900
Tier 2 Capital	\$900	\$900	\$900	\$900
Total Risk-Based Capital	\$8,400	\$9,200	\$10,000	\$10,800
Tier 1 Risk-Based Capital Ratio	9.38%	10.32%	11.26%	12.19%
Total Risk-Based Capital Ratio	10.50%	11.44%	12.38%	13.30%
Tangible Equity/Tangible Assets	7.54%	8.28%	9.00%	9.72%

Dilution Analysis	Pro Forma with CPP % of Risk-Weighted Assets		
	(In Thousands)	1%	2%
Preferred Stock Offering (CPP)	\$800	\$1,600	\$2,400
Principal Amount of Warrants (15% of issue)	\$120	\$240	\$360
Additional Shares-Warrants (1)	8,000	16,000	24,000
Pro Forma Shares Outstanding	508,000	516,000	524,000
% of Outstanding Shares Owned by Treasury	1.57%	3.10%	4.58%
Pro Forma Book Value	\$15.75	\$15.50	\$15.27
Pro Forma Tangible Book Value	\$14.76	\$14.53	\$14.31
Accretion/Dilution to Book Value	-1.57%	-3.10%	-4.58%
Accretion/Dilution to Tg Book Value	-1.57%	-3.10%	-4.58%

Break-Even Analysis

Amount of New Loans Required (2)	\$1,538	\$3,077	\$4,615
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Stand-Alone at 9/30/2008

Common Shares Outstanding	500,000
Total Equity Capital	\$8,000
Tangible Equity Capital	\$7,500
Book Value Per Share	\$16.00
Tangible Book Value Per Share	\$15.00

(1) Assumed issue price at tangible book value per share.

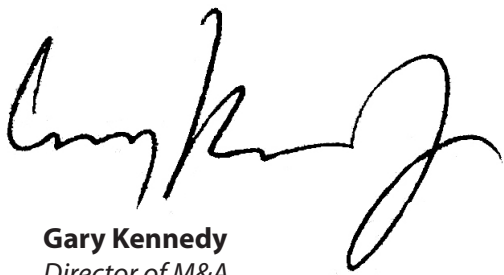
(2) Assumed 4% spread over cost of funds reinvested on the first day of the acquiring the Capital

SHESHUNOFF & Co. GUIDANCE

Sheshunoff & Co. Investment Banking is continually in communication with the leading financial industry accounting and legal advisory teams at the heart of the issue. Sheshunoff has been the trusted financial advisory service to the community banking industry for over 30 years and is focused on providing our clients up-to-date and concise assistance in this most historical moment for U.S. financial institutions. Sheshunoff's web site will contain relevant program updates and links to industry web sites, so visit **www.SheshunoffIB.com** for the latest information. To determine the impact of CPP on your organization, please contact us at **800.279.2241**.

SHESHUNOFF & Co. ADVISORY SERVICES

- Financial advisory services tailored to company specific strategic decisions.
- Specialized strategic planning including capital planning, regulatory consulting, and risk management.
- Valuation services for an independent, qualified appraisal of privately held stock or warrants.



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