

Adbanc, Inc
202 North Spruce, Box 770
Ogallala, NE 69153

March 4, 2009

Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave, N.W., Suite 1064
Washington, D.C. 20220

RE: Adbanc, Inc

Greetings:

Pursuant to your letter of February 6, 2009, please consider this letter our response into your audit of our use of TARP funds.

Adbanc, Inc., owns two entities, Adams Mortgage, LLC and Adams Bank & Trust. Our intention upon application was to use \$2,720,000 in Adams Mortgage, LLC to expand our mortgage lending abilities, and to use the remaining \$10,000,000 of the TARP funds to inject capital into Adams Bank & Trust to allow it to continue its expansion of business and consumer lending. This is still our intention, but we are currently using our TARP funds to fund loans in Adams Mortgage. The loans that we originate in this entity are sold on the secondary market. Upon closing, loans are funded through a warehouse line of credit until they are purchased by investors in the secondary market. This process usually takes 7-15 days. In January of this year we saw an explosion of mortgage demand. These loans began closing in late January and continued on an accelerated pace into February, and closings are being closely scheduled through March. As a result, our TARP funds have already be leveraged many times over in the form of new mortgages and refinancings are at level of over twice the number of closings we had in 2008. Without the TARP funds, we would not have had the capacity to close the number of loans that we did, and we would have had to turn away qualified loan applicants. In 2008, we closed 35 loans in January, 46 loans in February and 43 loans in March. In 2009, we closed 69 loans in January, 90 loans in February and have 85 loans that are locked and set for closing so far in March. At Adams Bank & Trust, our loans at the end of February of 2009 were up over 15% from our loans at the end of February of 2008. TARP funds will allow us to continue to fund the strong loan demand that we are currently experiencing. Again, without these funds which will be injected into the bank as capital, we would have to turn away creditworthy borrowers.

Regarding executive compensation, the Board of Adams Bank & Trust passed a resolution to comply with the executive compensation requirements of TARP prior to the receipt of these funds.


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In addition to the impact of being able to make more loans, receiving TARP funds has been viewed as very positive by our customers, employees and communities. I have attached a copy of our press release and talking points for our employees, and a copy of a newspaper article. We will use our TARP funding to continue to expand our business and consumer loans, and we

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I hereby state that I am a duly authorized senior executive officer in Adbanc, Inc., and certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.



Todd S. Adams
President

02.02.09

To: All Bank & WIN Staff

**From: Todd Adams
Chad Adams**

Re: Capital Purchase Program

Adbanc, Inc., the holding company for Adams Bank & Trust, has received approval and an investment of \$12,720,000 from the US Treasury in its Preferred Stock. Part of this investment will be retained in Adbanc, Inc. to facilitate the increased mortgage loan demand that Adams Mortgage, LLC is experiencing and the balance will be invested by the holding company into Adams Bank & Trust. Please review the following items:

1. The Official Announcement - This will be sent to various media agencies in our markets.
2. Talking Points – These questions and answers may help you understand what the Capital Purchase Program is or isn't, as well as answer any questions our customers may ask you.
3. A short elevator statement you can use to talk about this program with customers.

Official Announcement:

Adbanc, Inc., the holding company for Adams Bank and Trust and Adams Mortgage LLC, announced that it has received approval from the U.S. Department of Treasury to participate in its voluntary Capital Purchase Program. Through the program, the Treasury will invest \$12,720,000 in the Holding Company's senior preferred stock. The preferred stock will carry a 5 percent coupon for five years and 9 percent thereafter.

"We are pleased to receive approval, which is a reflection of our family Bank's continuing strength" said Todd Adams, Chairman and CEO. "This capital will facilitate the continued expansion of our prudent lending in Nebraska and Colorado, and help meet the increased demand for mortgage lending. It will also allow our bank and mortgage company to participate in potential acquisitions. The curtailment of lending by larger national institutions has resulted in significant loan demand within the region for our company. This is a voluntary program available to the nation's healthiest banks, and we are proud to be approved to participate."

The Adams Bank and Trust, with \$480,000,000 in assets, is a 93 year old family owned banking organization, with 16 branches in Nebraska and Colorado. Adams Mortgage LLC is based out of Colorado Springs with offices located along the front range of Colorado. It originated over \$113,000,000 in mortgage loans last year.

Q&A with Talking Points

What is the voluntary Capital Purchase Program (CPP)?

This is a **voluntary** program available to the nation's healthiest banks. The government is investing in financial institutions that are strong and vibrant and that are looking to expand their lending and mortgage programs by providing additional capital for a three to five year period.

What CPP isn't:

The money we are receiving is not a "handout". We pay dividends of 5% per year for the stock, plus pay a one time fee in the form of a Warrant for 5% of the total investment which amounts to \$636,000, and the Warrant bears a 9% dividend rate. At the bank's option, we can repurchase this capital from the US Treasury after three years, although it is designed to be a five year program.

Who is eligible for the program?

Healthy banks are eligible. The government wants to encourage these banks to expand their lending and mortgage programs through this infusion of capital.

Why are we participating in this program?

- ❑ Our regulators have encouraged us to participate in this program.
- ❑ Loans increased by \$55,000,000 last year and are budgeted to increase by another \$40,000,000 in 2009.
- ❑ Adams Mortgage originated \$113,000,000 of mortgage loans in 2008.
- ❑ With the Regulators closing weak banks, we want to be well positioned to acquire additional financial assets if an opportunity is presented.

Did the bank have to participate in this program?

No, this is a voluntary program. We are well capitalized for our current size. Once again, only healthy banks are able to participate and receive funds.

What will this capital do for the bank?

- ❑ We are already well capitalized so what will we do with this capital? It will be used to facilitate the loan growth we are experiencing and to explore the possibility of acquiring additional banks and/or branches. If our bank was not willing to consider growth and expansion, we would not participate in this program.
- ❑ The additional capital we will receive will enable the bank to receive even higher rankings among all banks for its capital/asset ratio. This could have the additional benefit of ensuring that our FDIC premium costs are as low as possible.
- ❑ If it turns out we do not need this capital for lending or expansion, we can redeem the preferred stock in three years.

When will the funds be received?

Adbanc, Inc has received the funds and is in the process of making the investment in preferred stock in Adams Bank & Trust. This should be completed in two or three weeks.

Will we announce this to the public?

The press releases will go out the week of February 2nd. The Treasury posts banks selected to participate in this program on its website, and that should also occur during this week.

If a customer has a question regarding this program and I don't know the answer, who do I go to for help?

Go through your region leadership first, your Region President and/or RRSC.

Elevator Speech Option

I'm proud that Adams Bank has been approved for this program. It's a voluntary program for only the healthiest banks in the nation. It shows just how strong our bank is in these difficult economic times. The bottom-line is that this program is going to help us help our customers.

First banks in Nebraska get investment from U.S. Treasury

By RICHARD PIERSOL / Lincoln Journal Star
Tuesday, Feb 03, 2009 - 05:46:31 pm CST

Two Nebraska bank holding companies are among the latest group of 42 getting \$1.15 billion of investment as part of the U.S. Treasury's \$700 billion in aid to financial institutions.

The Treasury invested \$12,720,000 in Adbank Inc., which owns Adams Bank and Trust in Ogallala, with branches in western Nebraska and eastern Colorado, and \$7,525,000 in Country Bankshares of Milford, owner of the Farmers and Merchants Bank, which has several branches in Southeast Nebraska.

The Treasury originally set up its Troubled Asset Relief Program to buy bad debt from distressed banks. But it also includes what it calls its Capital Purchase Program, which Treasury describes as a means to infuse capital into healthy, viable banks to improve the flow of financing available to small businesses and consumers.

That means the government is buying into these banks, taking senior preferred shares that pay the U.S. Treasury a 5 percent dividend for the first five years after the investment and 9 percent per year thereafter.

Farmers and Merchants Bank, which primarily serves farms and rural businesses, became the first Nebraska bank to receive Treasury investments through the program.

It has branches in Beaver Crossing, Firth, Jansen, Kearney, Lawrence, Milford, Palmyra, Panama, Superior, Weeping Water and Wilber, according to its Web site.

"We believe this investment will enable our institution to take advantage of opportunities to further strengthen our position in the marketplace," said Gerald Dunlap, president and CEO of Country Bankshares, in a U.S. Treasury press release. "In particular, we believe the investment will increase Farmers & Merchants Bank's lending capacity, thereby enhancing our ability to assist our core customers in meeting the challenges of a recessionary environment while positioning them to take full advantage of an economic recovery."

Dunlap is from a family that has been in Nebraska banking since the 1920s, when ancestor M.W. Dunlap bought the Farmers State Bank of Douglas.

Dunlap could not be reached for comment.

Adbank Inc. is a holding company owned by another pioneering Nebraska banking family, the Adams family, which started its business in 1916, according to the bank's Web site.

Todd Adams, chairman of Adbank and CEO of Adams Bank and Trust, said his organization will put \$2.7 million into the holding company to be put to use in Colorado mortgages, and the rest in Adams Bank and Trust as capital leverage to make more loans in the bank's primary markets.

Loan demand is up 15 percent in his region, Adams said, as other lenders pull back or leave the marketplace entirely.

People are coming back to banks for car loans, agricultural credit and consumer-owned real estate, he said, so there are opportunities.

"Primarily we are ag and small business banks, for medical professionals, retailers, ma and pa operations, plus consumer lending, mortgage refinancing," Adams said.

"We want to make sure we can continue to meet demand. It's been prudent credit that's helping our economy."

Some consider 5 percent dividends a high price to pay for money to lend, and Adams said he'd agree, if the money were to be lent. Instead, used as capital, it can be leveraged 12 to 1 to attract cheaper money to lend from depositors, the Federal Home Loan Bank and the Federal Reserve, he said.

The Adams bank has about \$490 million in assets, and loans expanded last year by \$55 million, to over \$400 million, so there's a market for money, Adams said.

"We see that continuing," he said.

"Contrary to some common opinions, this program is not intended to pull poorly run banks out of a hole.

"You have to be a strong and vibrant bank or you can't qualify, particularly in community banks, where they're executing this right now," Adams said. "Banks have a role, to be providers of credit in their areas. If you come into your shell and don't expand, that can be bad for your region. The motivation for us is, if we're going to be able to meet demand, this program makes sense for us."

He didn't rule out the possibility of acquiring other banks, should they become available, but said that's not the company's primary consideration.

Both Nebraska bank organizations are rated four stars by Bauer Financial, a financial ratings company. Four stars is excellent, five is superior. Bauer uses a broad set of criteria to assess banks' financial health.

Institutions that participate in the Treasury's Capital Purchase Program must comply with restrictions on executive compensation during the period that Treasury holds equity and also agree to limitations on dividends and stock repurchases.

Further information about the terms of the program, including weekly transactions, can be found at <http://www.treas.gov/initiatives/eesa/>.

The new distributions were made Friday and mark the second round of payments from the bailout fund since President Barack Obama took office.

The Associated Press contributed to this report.

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