



50

March 5, 2009

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

Re: Letter Requesting Update on TARP Funds dated February 6, 2009 for Centrue Financial Corporation

Dear Mr. Barofsky:

We acknowledge receipt, on February 10, 2009, of the above referenced letter requesting that we provide to you, within 30 days of this request, the following information:

1. A narrative response specifically outlining (a) our anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) our actual use of TARP funds to date; and (d) our expected use of unspent TARP funds. Additionally, you requested we take into consideration our anticipated use of TARP funds at the time of application or any actions that we would have not been able to take absent the infusion of TARP funds.
2. Our specific plans and status of implementation of plans for addressing executive compensation requirements associated with funding.

Please find attached the following items which should address the information you are requesting:

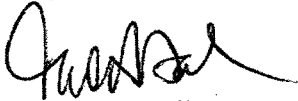
- Certification of accuracy & materially correct information
- TARP Initiatives & Progress Report for First Quarter 2009
- TARP Compensation Update
- TARP Action Plan (General List and Compensation List)
- Items presented at Centrue Financial Corporation's February 24, 2009 board meeting including the mortgage assistance program document

Mr. Barofsky
Page 2
March 5, 2009

Certain of the items above are marked "Confidential". We respectfully request confidential treatment of the information that is marked "Confidential" (the "Confidential Materials"). The Confidential Materials contain sensitive, non-public commercial and financial information regarding the proposed business operations and financial condition of Centru Financial Corporation and its subsidiary, Centru Bank, and sensitive, non-public information regarding the principals of Centru Financial Corporation and Centru Bank which is exempt from disclosure under the Freedom of Information Act, 5 U. S. C. Section 552. Please notify us of any request or decision to release any part of the Confidential Materials.

If you have any questions or concerns related to these documents, please contact Kurt Stevenson at (815) 431-2811 or me at (314) 505-5505.

Respectfully,



Thomas A. Daiber
President & CEO

CERTIFICATION OF ACCURACY & MATERIALLY CORRECT INFORMATION

I, Thomas A. Daiber, President & CEO of Centru Financial Corporation, a Delaware corporation (the "Company") have reviewed the above items and all supporting information contained or referenced therein (collectively, the "Report") being provided to the Office of the Special Inspector General for Troubled Asset Relief Program ("SIGTARP") in answer to SIGTARP's request for information dated February 6, 2009. Based on my personal knowledge and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, I hereby certify that all statements, representations and supporting information set forth in the Report are accurate and correct in all material respects.



Thomas A. Daiber

3-5-09

Date

CENTRUE FINANCIAL CORPORATION

**TARP INITIATIVES AND
PROGRESS REPORT
FIRST QUARTER, 2009**

EXECUTIVE OVERVIEW

THE COMPANY

Centrue Financial Corporation (the Company) and its wholly owned subsidiary Centrue Bank (Centrue) is a publicly held bank holding company. The Company has 28 banking offices located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area. The Company is engaged in commercial and retail banking and offers a broad range of lending, depository, and related financial services, including accepting deposits; commercial and industrial, consumer, and real estate lending; and other banking services tailored for consumer, commercial and industrial, and public or governmental customers.

TARP PROGRAM

Due to an unprecedented economic climate, the United States Government has taken extreme measures to bolster America's financial system by making significant investments in certain banking institutions. The Company is a participant in the U.S. Treasury's Troubled Asset Relief Program's Capital Purchase Program (collectively referred to herein as "TARP.") As such, the Company is committed to implementing business policies and practices that embrace not only the letter but also the spirit of TARP. We understand that TARP is more than merely a financial transaction. TARP funds are intended to help rebuild our nation by assisting American families, communities and businesses. We realize our responsibility is to put these funds to work as quickly and prudently as possible to stabilize lending activities and liquidity.

On January 9, 2009, the Company completed the sale of \$32.7 million in preferred shares to the U.S. Department of the Treasury. This progress report is our initial update since obtaining TARP funds and details the activities we have already undertaken and our implementation plan to meet the goals of TARP. Additionally, we address specific steps we will take to assist individuals and families who are facing financial hardship or who are at risk of losing their homes.

The primary purpose of this closing was to shore up our already well-capitalized position against the multitude of economic threats the banking industry currently faces. These threats include potential write-downs on investment securities, loan losses as a result of borrowers that have been battered by the economy, the prudent maintenance of a larger loan loss reserves, and the need to replace deposits lost within the banking industry due to the public's perception of the dire state of banking.

This additional capital will also allow the Company added flexibility on the lending front. As the real estate economy has deteriorated, we have worked to curtail our exposure of land, land development, and construction loans. Without additional capital, these curtailment efforts would have intensified and consideration of new construction projects would not have been possible. The TARP funds will allow the Centrue to fund a limited number of new construction loans. In addition,

T

[REDACTED]

b(4)

In recent weeks, we have assisted a couple of customers that had been struggling and on or have received notice of pending layoffs. In the first relationship, a borrower had hours cut due to economic conditions and fell behind on their payments and were facing foreclosure. Centrue worked with the customer and is in the process of restructuring the loan so that the customer could meet their obligations on their Centrue mortgage loan. For another customer, the borrower was also facing foreclosure due to losing child support payments and having hours cut. Although the customer was working two jobs, the customer had failed to make their payments thus falling behind on mortgage and escrow balances. Centrue is in the process of restructuring the loan so that the customer could meet their obligations based on

EXECUTIVE OVERVIEW

their current income levels. On a “case by case” basis, these TARP funds could allow Centrue to provide a restructure or loan modification to allow the consumer to cure the payment delinquency and to pay their real estate taxes. Centrue will carefully evaluate each individual circumstance to ensure that the resulting debt payments do not overwhelm the consumer.

Independent of our TARP initiatives, Centrue continues to lend to customers as part of ongoing business operations throughout our footprint in Illinois and Missouri. In the fourth quarter of 2008, we extended approximately \$30.1 million in new loans to people and businesses in the various markets we serve.

Shortly after the Company received the TARP capital, we created a special TARP committee (referred to herein as the “Committee”) of senior executives dedicated largely to approving, monitoring and tracking how we utilize these funds to help stabilize our communities and stimulate the economy. The Committee has established specific guidelines, consistent with TARP’s fundamental objectives.

We will use TARP capital only for those purposes expressly permitted under the guidelines of the program and approved by the Committee. TARP capital will not be used for such items as compensation and bonuses, dividend payments, lobbying or government relations activities, or any activities related to marketing, advertising and corporate sponsorship.

During the first quarter of 2009, the Committee will consider proposals submitted to it from the various segments of our business. Once approved, our business segments will develop initiatives to deploy the \$32.7 million to help expand available credit for people and businesses and support the recovery of the U.S. economy.

We are committed to doing our part to assist the Government in stimulating and restoring our economy. As we assist in the expansion and flow of credit, we believe the confidence and faith of the American people relative to the financial system and the U.S. economy overall will be restored. We will continue to evaluate our use of TARP capital to help ensure that we deploy it appropriately.

In our initial stages of deploying these funds, we are projected to put the funds to work in the following areas:

<u>Category</u>	<u>Amount</u>
Residential lending	\$ 13.9 million
Consumer lending	\$ 2.0 million
Commercial lending	\$ 8.0 million
Debt reduction: Bank of America	\$ 8.8 million
Other	\$ --
Total	<u>\$ 32.7 million</u>

TARP PROGRAM ACTIVITIES

UTILIZING TARP CAPITAL – GETTING CREDIT FLOWING

Due to the unprecedented economic downturn that started during the summer of 2008 and continued to deteriorate through the remainder of the year, the U.S. Government implemented drastic measures to try to prevent the total collapse of the banking segment of the economy by making significant investments in certain American financial institutions. Beginning in late 2008, the Department of Treasury began purchasing preferred stock of selected banks. The Company was notified on December 2, 2008 that it was approved for a \$32.7 million transaction to be closed in January of 2009. The Treasury's investment in the Company has helped to strengthen our capital position, facilitating our ability to fund new lending initiatives in support of U.S. homeowners, businesses and the overall economy.

Following is a summary of the Company's actions to date regarding our use of TARP capital.

- In mid-January, the Company created a special TARP committee (the "Committee") of senior executives that meets regularly to develop our TARP program and to ensure proper monitoring and approval under the TARP guidelines.
- A separate checking account was established at Centrule in to which the TARP funds were deposited. This account is tracked individually on the parent's books via a specific general ledger account. Thus, all activity is isolated and tracked for dispersals. On a monthly basis, the general ledger balance is reconciled to the account statement. This is a non-interest bearing account. The bank uses these funds to fund the activities described in this document.
- The Committee is currently analyzing proposals related to TARP totaling \$23.8 million of expanded lending in the communities we serve:
 - In 2009, we are projected to grow our loan portfolio by \$55.0 million overall
 - Over the next three-year period, we plan to leverage these funds and grow our overall portfolio by \$269.00 million. The Company is evaluating how to accomplish this.
 - Some of the specific projects being evaluated to initiate in 2009 are as follows:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

b(4)

- (b) (4) [REDACTED]

TARP PROGRAM ACTIVITIES

(b) (4)

- Due to the availability of these funds, Centruie had the ability to execute the following activities:
 - \$17.0 million of secondary market mortgage loans originated or refinanced in January of 2009
 - \$7.0 million of net commercial loan growth in January of 2009
 - Acquired \$42.0 million of mortgage-backed securities in the past 45 to 90 days that were made to qualified borrowers based on their credit histories and verifiable ability to make their monthly payments.
 - This activity will help to expand the flow of credit to people by providing liquidity to lenders who need to replenish funds to make new mortgage loans.
 - This can also help reduce the cost of consumer borrowing by ultimately enabling originators to lower interest rates on new mortgages, thus supporting government efforts to restore stability to the U.S. housing market.

INITIATIVES

On February 24, 2009, management presented to the Company's board of directors

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The additional initiatives that the Company is currently evaluating are as follows:

TARP PROGRAM ACTIVITIES

• [REDACTED]

[REDACTED]

• [REDACTED]

[REDACTED]

[REDACTED]

• [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

b(4)

SOURCES AND USES SCHEDULE

Following is a projected source and uses schedule for 2009.

Sources and Uses

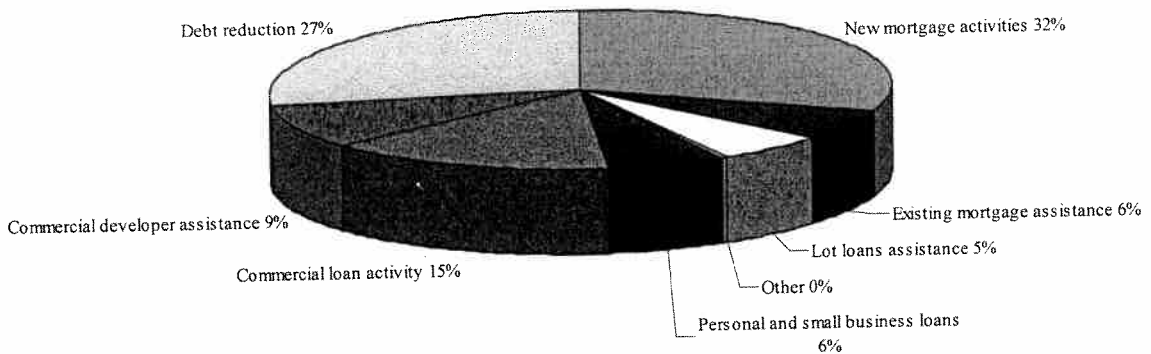
	Total Project	1Q/2009	2Q/2009	3Q/2009	4Q/2009
USES:					
New mortgage activities (5/7/10 year balloons)	10,000,000	1,250,000	2,916,666	2,916,667	2,916,667
Existing residential mortgage assistance	2,000,000	-	666,666	666,667	666,667
Existing lot loans assistance	1,750,000	-	583,334	583,333	583,333
Interest income concession on TARP funds	150,000	30,000	40,000	40,000	40,000
Personal and small business loans	2,000,000	-	666,666	666,667	666,667
Commercial loan activity	5,000,000	-	1,666,666	1,666,667	1,666,667
Commercial developer assistance	3,000,000	-	1,000,000	1,000,000	1,000,000
Debt reduction: Bank of America	8,800,000	8,800,000	-	-	-
Securities	-	22,620,000	(7,539,998)	(7,540,001)	(7,540,001)
Other	-	-	-	-	-
Total Uses of Funds	32,700,000	32,700,000	-	-	-
SOURCES:					
TARP	32,700,000	32,700,000	-	-	-
Other	-	-	-	-	-
Total Sources of Funds	32,700,000	32,700,000	-	-	-

TARP PROGRAM ACTIVITIES

USES GRAPH

A graph that summarizes these projects is below:

Use of TARP Funds



■ New mortgage activities	■ Existing mortgage assistance	□ Lot loans assistance	□ Other
■ Personal and small business loans	■ Commercial loan activity	■ Commercial developer assistance	□ Debt reduction

TARP GUIDELINES

GUIDELINES OVERVIEW

On January 9, 2009, the Company completed the sale of \$32.7 million in preferred shares to the U.S. Department of the Treasury. This progress report is our initial update since obtaining TARP funds and details the activities we have already undertaken and our implementation plan to meet the goals of TARP. Additionally, we address specific steps we will take to assist individuals and families who are facing financial hardship or who are at risk of losing their homes. Other items of note include the following:

- The preferred securities pay dividends to the U.S. Government totaling \$1.6 million per year.
- The Committee has established specific guidelines that are consistent with the objectives and spirit of the Treasury investment program. The complete guidelines can be found in the Appendix to this report.
- The use of TARP capital is being tracked, and it will not be used for any purposes other than those expressly approved by the Committee.
- Committee approval is the final stage in the process to evaluate proposals from Centruē's businesses for the use of TARP capital, risk, and the potential financial impact and returns.
- The Company will meet all regulatory reporting requirements associated with TARP and will also update this progress report each quarter-end.

The TARP securities purchase agreements stipulate that the Company will adhere to the following objectives as a condition of the Treasury's capital investment:

- Expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy.
- Work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market.

PERMITTED USES

The Company's guidelines call for TARP capital to be deployed in a prudent and disciplined manner consistent with the Company's strategic objectives and the Treasury's goal of strengthening the financial system and expanding the flow of credit. TARP capital is equity in the form of preferred stock. It will be used exclusively to support investments and not for expenses.

PROHIBITED USES

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses
- Dividend payments
- Lobbying or government relations activities
- Marketing, advertising or corporate sponsorship activities
- TARP capital will not be used for any purposes other than those expressly approved by the Committee. Specifically, we have ensured the following:
 - The Committee is required to report on the activities for which TARP capital was used. The Committee is tracking the uses of the funds and their performance to ensure the objectives of the programs are being achieved.

TARP GUIDELINES

- The Committee reports periodically to the Company's Board of Directors on the specific uses to which TARP capital has been applied.

PRIMARY LENDING AND SECONDARY MARKETS

One of the biggest challenges facing governments, regulators and financial institutions today is how to energize the financial system in order to promote economic activity. In the near-term, actions need to focus on restarting the flow of credit.

Secondary markets play a fundamental role in this process, which is why approximately half of the funds involved in the Company's TARP initiatives are directed there. The following section explains the differences between primary lending and the secondary markets, and why the proper functioning of secondary markets is so important to economic recovery.

- Primary Lending
 - Primary lending refers to the money that banks and other financial institutions extend as credit directly to people and businesses, as well as to state and local governments, and other borrowers.
 - Common forms of primary lending include mortgages on residential and commercial real estate, personal loans, lines of credit that businesses use to fund their day-to-day activities and pay suppliers and workers, and loans that businesses use to expand and grow.
 - Rates of interest on primary loans are governed by a number of factors. They include the level of the benchmark federal funds rate set by the Federal Reserve, the amount of credit available in general, the creditworthiness of individual borrowers and the risk associated with a particular loan.
 - Secured loans like mortgages are made against the underlying value of a home or certain commercial real estate, which is pledged against the loan as collateral.
- Secondary Markets
 - Mortgage originators and other lenders can hold the loans they make on their balance sheet, or they can securitize and sell them to investors in the secondary market, using the proceeds to originate new loans to families, individuals and businesses.
 - Active secondary markets in which borrowers can transfer or sell lending assets provide critical support to primary lending.
 - Consumers and businesses ultimately benefit from active secondary markets through the lower cost of credit and the availability of primary lending funds.
 - When confidence falls and liquidity disappears in the secondary market, as is now the case, the flow of credit slows and primary lending to people and businesses becomes more difficult and expensive to obtain.

DRAFT TARP COMMITTEE CHARTER AND GUIDELINES

Centrue Financial Corporation is committed to using the capital received under the U.S. Department of the Treasury's Troubled Assets Relief Program ("TARP") in a manner consistent with the purposes and objectives of TARP. These guidelines set forth the principles and procedures for the Company's use of the TARP investment.

The recitals to the TARP securities purchase agreements include the following objectives:

- "To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy."
- "To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market."

To facilitate the rigorous and transparent pursuit of these goals, the Company has designated a Special TARP Committee (the "Committee") comprised of senior executives responsible for overseeing, approving and monitoring the sound use of TARP capital for its intended purposes.

TARP capital will not be used for any purposes other than those expressly approved by the Committee.

The Committee members are the following individuals or their designees: Thomas Daiber, President & CEO; Kurt Stevenson, Chief Financial Officer; Roger Dotson, EVP; Heather Hammitt, Head of Human Resources & Corporate Communications; Steven Flahaven, Head of Commercial Banking; Diane Leto, Chief Risk Officer; Kenneth Jones, Chief Credit Officer; and Marc Kingry, Controller. Committee members are assigned specific responsibilities in order to ensure proper control over modifications to the program and the disbursement of funds. Specifically:

- President & CEO (Daiber) /CFO (Stevenson) - representatives of the Board to monitor the overall structure, modification, and purposes for use of TARP funds at the direction of the Board.
- EVP (Dotson)/Head of Commercial Banking (Flahaven) - representing the major lending divisions of the Bank (Mortgage and Commercial), will propose specific disbursements of funds under Board approved TARP Loan programs and present recommendations for modification of current programs as well as new programs.
- Chief Credit Officer (Jones)/Chief Risk Officer (Leto) - monitors the overall risk of the program related to highly compensated senior executive officers and loan programs associated with the TARP plan.
- Head of Human Resources (Hammitt) - assesses the compensation levels of senior executive officers compared to peers, review of documentation to support incentive bonus disbursements, salary adjustments, etc., as it relates to the compensation restrictions associated with the TARP program. Responsible for compliance with the TARP compensation-related requirements.
- Controller (Kingry) - program administrator (independent from lending function/disbursement requests) oversees compliance with TARP program requirements and monitors/tracks disbursements of funds to include reconciliation and transparency of TARP funds.

PRINCIPLES

- Permitted Investments

TARP capital will be deployed in a prudent and disciplined manner that is consistent with the Company's strategic objectives and the Treasury's goal of strengthening the financial system in the United States and

APPENDIX

expanding the flow of credit as stated above. TARP capital, which is in the form of preferred stock, will be used exclusively to support assets and not for expenses.

Permitted uses of TARP capital may include, among other things:

- Sound lending activities across Centrue
 - Financing transactions across Centrue
 - Establishing a loan modification program and other programs for homeowner avoidance of mortgage loan foreclosures
 - Establishing an assistance program which aims to help potential at-risk borrowers avoid delinquency
 - Purchases of loans and securities in secondary market that have the effect of increasing liquidity in the credit markets or the mortgage securities markets
 - Providing for loan losses to prevent erosion in the Company's capital
- Prohibited Uses

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses
- Dividend payments
- Lobbying or government relations activities
- Marketing, advertising or corporate sponsorship activities

PROCEDURES

The Committee and the Company will adhere to the following procedures in connection with the use of TARP capital:

- The Committee may approve the deployment of TARP capital for any authorized purpose, up to a specified maximum amount, without requiring additional approval of each use within that maximum.
- Each program developed needs to report to the Committee at least quarterly on the activities for which any TARP capital was used, the performance of any investments and the benefit of the activities to the flow of credit and/or the U.S. housing system.
- The Committee will report periodically to the Company's Board of Directors on the specific uses to which TARP capital has been applied.
- Deployment of TARP capital for authorized purposes within the approved maximum amount must be reported to the Controller with appropriate supporting materials to ensure effective monitoring.
- The Committee will ensure that Finance establishes appropriate financial reporting concerning the use of TARP capital.
- The Committee will meet as often as required, and not less than every quarter.
- The Committee will appoint a secretary and its decisions will be recorded. Actions may be evidenced by email or in a vote taken by an in-person or telephonic meeting. Actions taken by the Committee shall require the approval of at three of its members.

Overview of TARP Executive Compensation Standards Compliance Progress

Addressing Executive Compensation Standards

Centrue is in compliance with the Executive Compensation Standards issued by the U.S. Treasury in October of 2008 for TARP Capital Purchase Program participants including its provisions for clawbacks, golden parachutes and tax deductibility of executive compensation over \$500,000. In addition, Centrue has taken the necessary steps to ensure that incentive compensation for its senior executives does not encourage unnecessary and excessive risks that threaten the value of Centrue.

IMPORTANT NOTE: On February 17, 2009, the American Recovery and Reinvestment Act of 2009 was signed into law. Since there has been little guidance issued on how to comply with and interpret the new standards, management will monitor and implement future guidance as it is available. An overview of the new changes and potential considerations for complying with the standards will be discussed later in this summary.

Risk Assessment Procedures:

- Centrue's in-house TARP Committee consists of the executive management team, the senior risk officers and a representative from the finance area. The group performed a general risk assessment and identified mitigating action plans to address compensation-related risks to the Company. Various recommendations and actions were identified or implemented to further mitigate risk.
- Centrue's CEO, Thomas Daiber, met with senior risk officers to ensure that the SEO incentive compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of Centrue Financial Corporation.
- The Executive & Compensation Committee met with the senior risk officers both in a full Committee sessions and individually in executive session to ensure that the SEO incentive compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of Centrue Financial Corporation.
- Based upon a thorough compensation risk analysis, review of current controls, and implementation of recommendations, along with an additional confirmation by independent internal audit firm Clifton Gunderson, the senior risk officers, Chief Risk Officer Diane Leto and Chief Credit Officer Kenneth Jones, certify that the compensation plan arrangements do not encourage unnecessary and excessive risks that threaten the value of Centrue Financial Corporation.
- The 2009 proxy will contain the Initial Compensation Committee Certification stating, *"The compensation committee certifies that it has reviewed with senior risk officers the SEO incentive compensation arrangements and has made reasonable efforts to ensure that such arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the financial institution."*
- Mr. Daiber shall provide to the Chief Compliance Officer (CCO) of TARP, the following certification and provide copies of this certification to the transfer agent: *"I, Thomas A. Daiber certify, based on my knowledge, that the compensation committee of Centrue Financial Corporation reviewed within 90 days of the Department of the Treasury's purchase of the 32,668 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C, with a \$1,000 per share liquidation preference, and a warrant to purchase up to 508,320 shares of the Company's common stock at an exercise price of \$9.64 per share of Centrue Financial Corporation under the Capital Purchase Program the incentive compensation arrangements of the senior executive officers, as defined in subsection 111(b)(3) of the Emergency Economic Stabilization Act of 2008 and regulations and guidance issued thereunder (SEO's), of Centrue Financial Corporation*

with senior risk officers of Centru Financial Corporation to ensure that the CEO incentive compensation arrangements do not encourage the CEOs to take unnecessary and excessive risks that threaten the value of Centru Financial Corporation."

REVIEW OF NEW STANDARDS

The revised Executive Compensation Standards of the Economic Stimulus Plan issued on February 17, 2009 highlight six specific points. We believe that we are already in compliance with items number 1 through 5. The remaining item will likely require action as guidance is issued. In short, the new standards require the following:

- #1: Exclude incentives for senior officers to take unnecessary and excessive risk that threaten the value of Centru.
 - Status: Complete: Covered by previous standards. The incentive arrangements for each CEO were reviewed. Where controls could be enhanced, management adopted those recommendations.
- #2: Expand clawback to include the top 25.
 - Status: Complete: Adopted new Code of Ethics language to allow clawbacks on any employee bonuses. Management will follow-through on recovery of funds if/when the situation presents itself.
- #3: Expand golden parachute prohibition to the top 10 most highly compensated employees. It is unclear whether the new standards may be intended to prohibit all forms of severance and whether employment agreements pre-dating this restriction may warrant an exemption to this standard.
 - Status: Complete/Ongoing: No Centru employment agreements allow for golden parachutes. Management will continue to assess guidance issued by Treasury to determine whether any form of severance could be included and work with legal counsel should the situation present itself.
- #4: Prohibit compensation that would encourage manipulation of reported earnings.
 - Status: Complete: This was already covered in the initial compensation risk assessment performed by the TARP Committee and the senior risk officers.
- #5: The Compensation Committee must meet at least twice a year to review risk as it relates to TARP standards.
 - Status: Complete: A TARP risk review item will be added to all future Compensation Committee agendas. The process will be enhanced as needed based on additional guidance. The Committee has already met this requirement for 2009.

The remaining item will require action. Based on management's conversation with counsel, management will temporarily hold off on implementing any action in anticipation of additional guidance by the Treasury.

- #6: Do not accrue/pay incentive compensation to the top 5 senior executive officers. Some exemptions apply to employment contracts already in place. Companies may grant restricted stock that doesn't vest until TARP funds are paid back as long as the award does not have a value greater than one-third of the employee's annual compensation.

○ Status: [REDACTED]

b(4)

In addition to these standards, the new provisions also require the following actions:

- The CEO and CFO will be required to provide written certification of compliance with the Standards to the TARP Secretary.
 - Status: Management will work closely with legal counsel on the format which the certification needs to take and the deadline for compliance.
- A company-wide policy regarding excessive or luxury expenditures must be adopted by the Board.
 - Status: Management will review any guidance issued prior to the April Board meeting and present a policy change to the Board for approval.
- "Say on Pay" language permitting a separate shareholder vote to approve the compensation of executives must be included in our proxy statement.
 - Status: This new verbiage will be included in the 2009 proxy.

Funding

TARP proceeds will not be used in the funding of any compensation-related items including base salary, bonus or any employee benefits plan.

Loan Risks & Their Relationship with Executive Compensation

Executive compensation is reviewed annually by the Company's Executive & Compensation Committee which is comprised of four independent directors. The Committee also reviews and approves goals and objectives relevant to our executive officers including objectives, if applicable, related to lending activities.

We understand that loan risks can pose a significant threat to the organization. We have reviewed our control procedures and believe these risks are substantially mitigated. Some of the more significant controls to mitigate loss include but are not limited to segregation of duties; monitoring of activities by the Board and Board sub-committees, and Credit Administration and; various financial reviews by the Board and external third parties. To highlight the more significant controls:

- No senior executive officer has input capabilities to any financial, loan documentation, or core/financial processing system, limiting their ability to produce loan documents or process transactions without the assistance of another individual.
- All loans exceeding a \$750MM client relationship require Officers' Loan Committee and Directors' Credit Committee approval for credit quality and terms based on an independently prepared credit analysis by Credit Administration. Loans less than \$750MM client relationship are reviewed weekly by the Officers' Loan Committee and Directors' Loan Committee via a system generated report of "new and renewed loans."
- Loan renewals and modifications are processed with the same controls and independent verification/analysis as new credit proposals. Renewed and modified loans less than a \$750MM client relationship are reviewed weekly by the Officers' Loan Committee and Directors' Credit Committee via a system generated report of "new and renewed loans."
- Independent preparation of loan documentation by Operations with validation of appropriate credit committee approval per corporate policy prior to document preparation and loan funding.
- Independent verification of loan quality by Loan Review (reporting to the Audit Committee) and certain loan documentation through internal audits and Sox validation testing. Credit Administration independently prepares and reviews loan delinquency reports.
- Annual Board approval of budget. Monthly budget report variance reviews by line of business heads and other senior managers with quarterly Board of Directors review of budget variances.

- SEC/financial reporting reviewed by Disclosure Committee (consisting of all line of business heads and CEO), Board of Directors, Audit Committee Chairman, and external auditors. External auditors validate balances to supporting documentation. Internal auditor performs independent validation through audit and SOx compliance efforts.
- Confidential hotline established to report financial abuses, unethical/fraudulent activity.

Offsets

There has been no reduction in executive benefits at this time since current practices are in line with TARP guidelines. Thus, no offsets to compensation were made. The one outstanding item that remains is whether additional guidance on the incentive compensation aspect of TARP, and possibly the severance aspect of TARP, will result in a reduction and any offset to current executive offerings.

TARP CHECKLIST FOR GENERAL BUSINESS MATTERS

MAJOR INITIATIVES

- ✓ Ensure that TARP responsibilities and accountabilities are clearly understood and communicated.
- ✓ Ensure that all subsets of TARP (e.g. how funds are used, compensation restrictions, etc.) are identified and have an owner.
- ✓ Develop reporting mechanisms to track usage of TARP funds.
- ✓ Identify and mitigate any risks associated with TARP.

ACTION ITEMS

ACTION ITEMS	OWNER	PRIORITY	DUE DATE	REMARKS	STATUS
<ul style="list-style-type: none"> • 2: Develop charter for TARP Committee. 	Flahaven	High	03/15/09	Draft completed and submitted to committee for review	In Progress
<ul style="list-style-type: none"> • 4: Prepare overview of lending actions resulting from TARP funds. 	Dotson, Flahaven	High	Ongoing	Mortgage completed	In Progress
<ul style="list-style-type: none"> • 5: Develop process to track use of TARP funds. Formalize reporting so committee can monitor activity 	Dotson, Kingry	High	Ongoing	Process to track is completed	In Progress
<ul style="list-style-type: none"> • 9: Develop marketing plan to highlight use of TARP funds in advertising; continue message of strength, stability and service. 	Dotson	Medium	03/31/09		In Progress
<ul style="list-style-type: none"> • 11. Send progress report to legal and incorporate changes. 	Kingry	High	3/02/2009		Open
<ul style="list-style-type: none"> • 12. File response to SIGTARP 	Kingry	High	3/04/2009		Open
<ul style="list-style-type: none"> • 13. Submit charter to board for approval. 	Kingry	High	4/20/2009		Open
<ul style="list-style-type: none"> • 14. Develop policy on "excessive spending regarding TARP rules. 	Kingry	Medium	3/31/2009		Open

ACTION ITEMS	OWNER	PRIORITY	DUE DATE	REMARKS	STATUS
<ul style="list-style-type: none"> 15. Set up separate checking account and determine if we need separate cost center and branch to properly track TARP funds. 	Kingry	Medium	3/20/2009		Open
<ul style="list-style-type: none"> 16. Set recurring time and date of meetings. 	Kingry	Medium	3/3/2009		In Process
<ul style="list-style-type: none"> 17. Identify secretary to record minutes for meetings. 	Stevenson	Medium	3/05/2009		In Process

CLOSED ACTION ITEMS

ACTION ITEMS	OWNER	PRIORITY	DUE DATE	REMARKS	STATUS
<ul style="list-style-type: none"> 1: Appoint a Company representative to oversee all TARP matters, not limited to compensation. 	Daiber	High	01/31/09	Kingry Chair; Jones, Leto (RM); Hammitt (Comp); Dotson (Mortgage); Stevenson (Funds Usage); Flahaven; Daiber	Closed
<ul style="list-style-type: none"> 3: Prepare sources and uses/financial analysis of overall TARP program. 	Stevenson	High	February BOD meeting	Given to board in February	Closed
<ul style="list-style-type: none"> 6: Prepare progress report on TARP administration matters. 	Kingry	High	4/15/2009	Draft completed and reviewed by Committee	Closed
<ul style="list-style-type: none"> 7: Review 10K risk factors as they relate to TARP. 	Kingry	High	April BOD meeting		Closed
<ul style="list-style-type: none"> 8: Review general risk assessment and mitigating action plans to assist in identifying potential areas of risk. <ul style="list-style-type: none"> o Assess by line of business: <ul style="list-style-type: none"> o Finance/Treasury: Stevenson o Operations, Retail: Dotson o Commercial: Flahaven 	Stevenson Dotson Flahaven	High	02/11/09		Closed

ACTION ITEMS	OWNER	PRIORITY	DUE DATE	REMARKS	STATUS
<ul style="list-style-type: none"> 10: Develop summary overview of January's activity for TARP. 	Stevenson	High	February BOD meeting		Closed

Memorandum

To: Centrue Financial Corporation Board of Directors

From: Thomas A. Daiber, Kurt R. Stevenson

Date: February 18, 2009

Re: TARP

Following are exhibits related to the TARP program.

- Exhibit I. Sources and uses.
- Exhibit II. Breakeven analysis.
- Exhibit III. Impact to 2008 actual results.
- Exhibit IV. Impact to 2009 budget results.
- Exhibit V. Risk-based capital impact for 2008 and 2009.
- Exhibit VI. TARP funds usage report.

Exhibit I
Sources and Uses

	<u>Total Project</u>	<u>1Q/2009</u>	<u>2Q/2009</u>	<u>3Q/2009</u>	<u>4Q/2009</u>
<u>USES:</u>					
New mortgage activities (5/7/10 year balloons)	10,000,000	1,250,000	2,916,666	2,916,667	2,916,667
Existing residential mortgage assistance	2,000,000	-	666,666	666,667	666,667
Existing lot loans assistance	1,750,000	-	583,334	583,333	583,333
Interest income concession on TARP funds	150,000	30,000	40,000	40,000	40,000
Personal and small business loans	2,000,000	-	666,666	666,667	666,667
Commercial loan activity	5,000,000	-	1,666,666	1,666,667	1,666,667
Commercial developer assistance	3,000,000	-	1,000,000	1,000,000	1,000,000
Debt reduction: Bank of America	8,768,000	8,768,000	-	-	-
Securities	-	22,620,000	(7,539,998)	(7,540,001)	(7,540,001)
Other	-	-	-	-	-
Total Uses of Funds	32,668,000	32,668,000	-	-	-
<u>SOURCES:</u>					
TARP	32,668,000	32,668,000	-	-	-
Other	-	-	-	-	-
Total Sources of Funds	32,668,000	32,668,000	-	-	-
	-	-	-	-	-

Exhibit II

(b) (4)

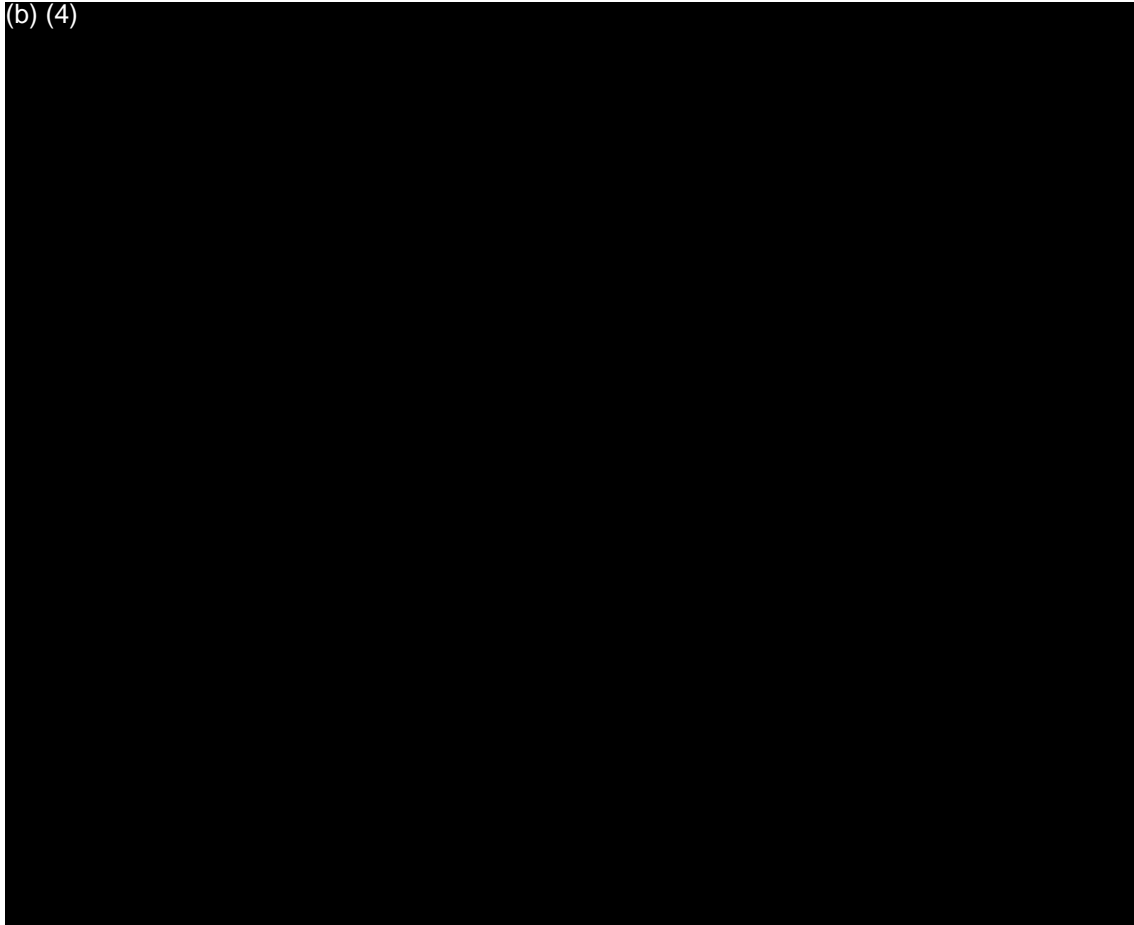


Exhibit III
Key Performance Data
2008: With and Without TARP Proceeds

	(A)	(B)	(C)
	Actual December 2008	TARP Proceeds	Pro Forma December 2008
Income Statement			
Interest Income FTE	73,654,079	-	73,654,079
Loan Fee Income	843,732	-	843,732
Total Interest Income FTE	74,497,810	-	74,497,810
Interest Expense	33,944,049	-	33,944,049
Net Interest Income Before Provision	40,553,761	-	40,553,761
Provision For Loan And Lease Loss	8,082,000	-	8,082,000
Net Interest Income After Provision	32,471,761	-	32,471,761
Non-Interest Income	13,408,504	-	13,408,504
Non-Interest Expense	35,744,709	-	35,744,709
Tax Equivalent Adjustment	980,046	-	980,046
Pretax Net Income	9,155,510	-	9,155,510
Income Tax Expense	2,765,847	-	2,765,847
Net Income	6,389,663	-	6,389,663
Preferred dividends (Series A and C)	207,000	-	207,000
Net Income On Common Stock	6,182,663	-	6,182,663
Per Share Data			
Diluted Earnings Per Share	\$ 1.02	\$ -	\$ 1.02
Book Value Per Share	\$ 19.14	\$ 0.00	\$ 19.14
Tangible Book Value Per Share	\$ 13.57	\$ 0.00	\$ 13.57
Weighted Average Shares	6,042,296	-	6,042,296
Period End Common Shares	6,028,491	-	6,028,491
End Of Period Balance Sheet (000's)			
Securities	252,562	32,668 (1)	285,230
Loans	1,004,390	-	1,004,390
Deposits	1,049,220	-	1,049,220
Assets	1,401,881	32,668 (1)	1,434,549
Earning Assets	1,265,774	32,668 (1)	1,298,442
Equity Capital	115,908	32,668 (1)	148,576
Key Ratios			
Return On Average Equity	5.43%	0.00%	5.43%
Return On Average Tangible Equity	7.73%	0.00%	7.73%
Efficiency Ratio	64.32%	0.00%	64.32%
Return On Average Assets	0.47%	0.00%	0.47%
Average Earning Assets/Average Assets	90.23%	0.00%	90.23%
Loans/ Deposits	95.73%	0.00%	95.73%
Net Overhead	1.65%	0.00%	1.65%
Interest Income/Earning Assets (FTE)	6.10%	0.00%	6.10%
Interest Expense/ Earning Assets	2.78%	0.00%	2.78%
Net Interest Margin (FTE)	3.32%	0.00%	3.32%

(A) Actual 2008 results.

(B) Impact to 2008 results assuming \$32.7 million TARP proceeds were recorded on December 31, 2008.

(1) Proceeds from TARP.

(C) Pro forma 2008 results assuming TARP proceeds

Exhibit IV
Key Performance Data
2009 Budget: With and Without TARP Proceeds

(b) (4)



**Exhibit V
Capital Ratios**

	Actual 31-Dec-08	TARP Adjustments	Projected 31-Dec-08
Tangible Capital			
Total equity capital	115,908,000	32,668,000	148,576,000
LESS: Convertible preferred stock	500,000	-	500,000
LESS: Disallowed goodwill and other disallowed intangible assets	33,582,000	-	33,582,000
Total tangible capital	81,826,000	32,668,000	114,494,000
Tier I Capital			
Total equity capital	115,908,000	32,668,000	148,576,000
LESS: Accumulated other comprehensive income	(3,544,000)	-	(3,544,000)
Qualifying trust preferred securities	20,000,000	-	20,000,000
LESS: Disallowed goodwill and other disallowed intangible assets	33,582,000	-	33,582,000
LESS: Disallowed mortgage servicing rights	105,870,000	32,668,000	138,538,000
Total tier I capital	289,000	-	289,000
	105,581,000	32,668,000	138,249,000
Tier II Capital			
Allowance for loan losses includible in tier II capital	13,792,238	-	13,792,238
Other tier II components	10,000,000	-	10,000,000
Total tier II capital	23,792,238	-	23,792,238
Total risk based-capital	129,373,238	32,668,000	162,041,238
Capital Ratios			
Total risk-based capital ratio (10% considered "well capitalized)	12.23%		14.86%
Tier I leverage ratio (5% considered "well capitalized)	8.10%		10.61%
Tangible equity/total tangible asset ratio	5.99%		8.37%
Tier I risk-based capital ratio (6% considered "well capitalized)	9.98%		12.68%
Equity/assets	8.27%		10.61%
Surplus Capital			
Total risk-based capital ratio excess/shortfall (10.0% target)	23,599,000		53,000,000
Tier I risk-based capital excess/shortfall (8.0% target)	20,962,000		51,016,000

(b) (4)

Exhibit VI

TARP FUNDS USAGE REPORT

USE	AMOUNT ALLOCATED	JANUARY 2009	JAN YTD 2009
NEW CONFORMING RESIDENTIAL REAL ESTATE LOANS (PORTFOLIO)	\$9,000,000	\$ 0	\$ 0
MONTHLY AVERAGE OF MORTGAGES WITH REIMBURSEMENT NOT RECEIVED (SOLD)		\$1,307,615	\$1,307,615
NEW ARM MORTGAGES (PORTFOLIO)	\$1,000,000	\$ 0	\$ 0
EXISTING RESIDENTIAL MORTGAGE ASSISTANCE	\$2,000,000	\$ 0	\$ 0
EXISTING LOT LOAN ASSISTANCE	\$1,750,000	\$ 66,764	\$ 66,764
PERSONAL AND SMALL BUSINESS LOAN ASSISTANCE	\$2,000,000	\$ 56,405	\$ 56,405
COMMERCIAL LOAN ASSISTANCE	\$5,000,000	\$ 0	\$ 0
COMMERCIAL DEVELOPER ASSISTANCE	\$3,000,000	\$ 0	\$ 0
DEBT REDUCTION BANK OF AMERICA	\$8,865,000	\$8,865,000	\$8,865,000
SECURITIES	0	0	0
OTHER	\$ 53,000	\$ 0	\$ 0
TOTAL	\$32,668,000	\$10,295,784	\$10,295,784

Memo

To: Board of Directors

From: Daiber, Dotson, Flahaven, Hammitt, Jones and Stevenson

Date: February 17, 2009

Re: Mortgage assistance program – utilization of US Treasury CPP proceeds

Overview

Centrue Bank has established a mortgage assistance program in conjunction with the capital received from the US Treasury Capital Purchase Program. Our goal is to originate at least \$15 million in residential loans annually for up to the next 5 years under the program. With an average loan size of \$150,000, that would allow us to help 500 families.

We will offer 30 year fixed rate loans for low to moderate families who need assistance at below market rates. These loans would be sold into the secondary market at breakeven resulting in approximately \$1,500 of foregone income per loan or \$750,000 over the 5 year life of the program. Current mortgage rates are 5.5% so to price the loan at breakeven after our costs we would offer loans today at approximately 5%. The borrower would lower their monthly payment by \$46.68 and save \$16,804.80 in expense over the life of the loan. We will also offer 10 year mortgage balloons on 30 year amortization at the 5% rate and may hold a portion of these loans in our portfolio. The program will be promoted by direct mail to the low to moderate income areas near our branches. We will place general ads without quoting rates to let the market know that Centrue is actively making home loans.

We will also promote the mortgage program to home builders in our communities to assist them in selling new homes. These loans would also be offered at 5% for 30 year fixed rate loans and promoted through brochures available through the builders. The builders will be given an option to reduce their profit on the sale of homes by buying down the loan rate to make the program even more attractive.

We analyzed offering a 4% loan product, but we would have had to recognize \$800,000 in losses annually on the sale of the loans.

Consumer portfolio product

Terms & Conditions:

- Rate - 5.0%
- 10-year term on a 30 year amortization
- Applicant would have to maintain a deposit account and the monthly payment would be via an AFT

Profitability Considerations:

- Loans would be conforming at the time of closing.
- These loans may be placed in our portfolio or sold into the secondary market, ideally at a profit or breakeven price.

Consumer & Commercial secondary market product

Terms & Conditions:

- Pricing at 100.5% with a 30-day delivery date
- Rate - 5.0%
- Applicant would have to maintain a deposit account and the monthly payment would be via an AFT

Profitability Considerations:

- These loans would be fully conforming at the time of closing and would be sold immediately to the secondary market with servicing retained.
- The servicing fee would give us a breakeven position with no further loan loss exposure.

Marketing Efforts:

Target Audience:

- Developer/home builder customers who have finished homes for sale
- Deal directly with the homebuyer to ensure they fully qualify for the loan.
- Consumer loan efforts will target low or moderate income areas where possible.

Delivered via:

- Newspaper ads
- Website
- In-branch messaging
- Brochure
 - distributed to organizations in MSA's and low and moderate income areas
- Messaging would be general in nature
 - We were CPP participants and part of the healthy banks that the US Treasury chose to invest in.
 - Funds are being put to work in many ways in the communities we serve