Nicolet
BANKSHARES, INC.

March 5, 2009

Via Email (SIGTARP.response@do.treas.gov) (w/o supporting documentation) and FedEx

Special Inspector General - TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D. C. 20220

Attn: Neil M. Barofsky
Special Inspector General

Re: SIGTARP Request for Information
Nicolet Bankshares, Inc.

Dear Mr. Barofsky:

Nicolet Bankshares, Inc., a Wisconsin corporation (the "Company"), is the parent of Nicolet National Bank (the "Bank"), a financial institution with approximately $700 million in assets and six full service banking offices in Appleton, Crivitz, De Pere, Green Bay, and Marinette, Wisconsin, and Menominee, Michigan. On December 23, 2008, the Company received an investment of $14.96 million under the Troubled Asset Relief Program (TARP) Capital Purchase Program. We are responding to your letter, dated February 6, 2009, with respect to our use of TARP funds and compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 ("EESA").

To preface our response, we wish to express concern that a broad brush is being applied to the banking industry and to all banks that received TARP funds. We are different from many other recipients in that approximately a week after we accepted TARP capital, we successfully raised private capital of $9.5 million in a private common stock offering. We have always demonstrated our commitment to supporting our community through active, responsible lending, and will continue to do so with the receipt of TARP capital. Our owner-managed culture aligns our customers and shareholders (which now includes you, the Federal government), promotes accountability and transparency, and results in fair compensation practices. We remain committed to taking actions that support the well-being of our communities, customers, employees and shareholders.

We have restated and responded to each of your requests to provide the following information below.

111 North Washington St ■ PO Box 23900 ■ Green Bay WI 54305-3900 ■ P 920-430-1400 ■ F 920-430-7581

(1) *A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.*

Response:

[redacted]

1b) The TARP funds were infused directly into the Bank. This increased the Bank's capital strength, legal lending limit and capacity to make loans.

1c, 1d) Since receipt of TARP funds on December 23, 2008, we have continued the activities described in our application, consistent with our commitment to support our community, customers and shareholders. Specifically, since our receipt of the $14.96 million in TARP funds, the funds have been used or earmarked for lending as follows: we have (i) originated, or committed to originate, $54 million in new loans, of which nearly $30 million were residential mortgage loans originated for sale into the secondary markets; (ii) renewed $24 million in credit to our existing customers; (iii) maintained a $3 million line of credit to a local bank holding company; and (iv) repurchased $6 million of our participations sold.

[redacted]

(2) *Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.*

Response: We plan to fully comply with the executive compensation requirements associated with the TARP funds. In general, our compensation practices are straightforward, and we did not have to change our policies to comply with Section 111 of EESA, prior to the American Recovery and Reinvestment Act of 2009 ("ARRA") amendments.

In connection with our TARP closing on December 23, 2008, our senior executive officers executed side letter agreements to ensure that their respective compensation arrangements would continue to comply with Section 111 of EESA during the period in which Treasury continues to hold its investment. The senior executive officers were not otherwise compensated for these amendments and have not been awarded any other forms of executive compensation; [redacted] (b) (4) (b) (4) (b) (4) (b) (4)

We are currently in the process, with the assistance of counsel, of reviewing the ARRA to determine whether further modifications to our executive compensation arrangements or other actions will be required pending adoption of regulations and guidance by Treasury. In light of the provisions of ARRA, the Company's Compensation Committee will recommend, and our Board of Directors will adopt, a TARP Compensation Compliance Policy that addresses each of the requirements contained in EESA, ARRA, and the related Treasury guidelines.

In connection with the EESA requirements, our Compensation Committee will review the incentive compensation arrangements of our senior executive officers to ensure that such arrangements do not encourage senior executive officers to take unnecessary or excessive risks. This review will be completed on or around March 23, 2009.

In addition to the responses above, we have enclosed copies of pertinent documentation to either support our responses or further evidence transparent discussion internally or externally about our anticipated or actual use of TARP funds. We have preserved all documents referring to our use or anticipated use of TARP funds, including any internal emails, budgets or memoranda.

A table of contents of attached material is outlined as Exhibit A following the signature page, which will be included in our email response. The attachments themselves will be included only in the FedEx response.

As a duly authorized senior executive officer of the Company, I hereby certify, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations and supporting information provided herein are true and complete to the best of my knowledge.

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Thank you for your consideration of our responses to your comments. If you have any questions, or if we can be of further assistance to you, please contact me at [redacted]

Sincerely,

Robert B. Atwell
Nicolet Bankshares, Inc.
Chairman, President, and Chief Executive Officer

Office of the Special Inspector General
Troubled Asset Relief Program
March 5, 2009

EXHIBIT A

ATTACHMENTS RELATED TO RESPONSE OF NICOLET BANKSHARES, INC. FOR FEBRUARY 6, 2009 LETTER FROM SPECIAL INSPECTOR GENERAL-TARP

I. October 29, 2008 - Cover letter to the OCC to our application for the CPP Preferred Stock Investment under TARP.

II. January 14, 2009 – Correspondence to Wisconsin Bankers Association in response to Senator Herb Kohl's office asking about our use of TARP funds.

III. January 7, 2009 – Press Release: Nicolet Bankshares, Inc increases capitalization by 50% in December.

IV. Media

a. January 1, 2009 – *Green Bay Press-Gazette* – Nicolet Bank receives $15M

b. January 7, 2009 – *Milwaukee Journal Sentinel* – Nicolet National Bank raises $9.5 million in private capital

c. January 7, 2009 – *Green Bay Press-Gazette* – Bank plots aggressive strategy as it raises $24M in capital

d. January 16, 2009 – *Wisconsin State Journal* – 2 banks in state have lent money from TARP: 4 banks in Wisconsin are participating in the federal program

e. February 4, 2009 – *ABC NEWS Business Unit* – Tiny Banks Lending Large

f. February 5, 2009 – *ABC NEWS WBAY Channel 2* – Nicolet Bank Puts Bailout Money Back in Community

g. February 21, 2009 – *Milwaukee Journal Sentinel* – Treasury investment in banks misunderstood, executives say

Exhibit A - I

Nicolet

(b) (8)

[redacted]

Exhibit A - II

Nicolet
BANKSHARES, INC.

January 14, 2009

Kurt Bauer
Wisconsin Bankers Association
4721 South Biltmore Lane
Madison, WI 53718

Dear Kurt,

I appreciate Senator Kohl's office asking about our use of TARP funds. While we have tried to be very transparent about our capital strategy, I am very concerned about the public's perception of this program. I am also very concerned about some of the questions and ideas I hear coming out of Washington.

I have attached our recent press release about our capital strategy, of which TARP is a component. I have also attached two recent articles (one in the Green Bay Press Gazette and the other in the Milwaukee Journal) about our capital plans.

Beyond these published documents, I would like to add these points:

1. **Is TARP a bailout?**
   I can't speak for the whole industry, but in our case, it is definitely not a bailout. We were adequately capitalized before the TARP funds. We raised $9.5MM from private investors in our community at the same time we applied for the TARP. We are profitable. The TARP money is not replacing the capital we wrote off from a bunch of bad decisions we made in the past. We have not made that many bad decisions and we pay for our own mistakes.

2. **What did Nicolet do with the capital?**
   While our press release adequately addresses this, I would like to comment in a more complete fashion. In my opinion, there are two reasons why the public gets frustrated with the response of banks to questions about the use of the capital. The first is my opinion. The second is fact.

   A. Some banks are being deliberately evasive. My personal belief is that the infusion of capital into most of the big banks is a bailout. It is a necessary bailout in the sense that the industry cannot return to health until the big banks have written off their bad paper. Without TARP, writing off all their bad paper would leave them inadequately capitalized to survive and to face the additional problems, which will come in the recessionary climate we are going to be in. For these banks, they are broke without TARP and they have exhausted their ability to raise private capital, because investors no longer trust banks financial reporting. Without TARP, we would be Japan circa 1992. Because these institutions are Toobtofs (Too Big To Fail) and they can't raise enough capital privately to write off the rest of their bad paper, the alternative to TARP would be the "Don't Ask; Don't Tell" regulatory approach that smothered the Japanese economy in the 1990s. The unspoken deal in Japan was that the Regulators pretended the banks weren't broke and the banks pretended the banks were not broke. They slowly earned their way out of the hole. As a small institution, which has had to compete in a landscape dominated by Toobtofs, I am not happy about the bailout, but I accept that this is the least bad approach the Treasury can take. It makes it a little awkward to talk about. Citicorp was bailed out more than GM has been, but nobody is grilling Wall Street on their use of corporate jets.

B. It is honestly a little difficult to respond to questions about the use of a specific dollar that flows into a bank. The most truthful answers are a little more complicated than the public would like. Let me give a specific example. Between Dec 23rd and December 31st Nicolet received stock investments of $24.5MM of which TARP was $15MM. During those 6 business days, we had total cash inflows of $194MM and outflows of $194MM. TARP inflows comprised 7.7% of our total cash outflows. When the public asks, "where did our cash go?" there are $194MM worth of answers that are all equally true in a narrow sense. It is easy to truthfully answer the question in a way that will mollify the public by simply listing $15MM of loan advances, which we made during that period. The optimist in me would prefer to address the intent of the question, which is a little more complicated.

3. **So if Nicolet isn't broke, why did you take the TARP funds?**
We took the TARP funds for two reasons. The first is that we believe in the intent of the program as it was expressed to us. With the exception of the Toobtofs, the program is intended to infuse capital into strong banks because this will hasten the stabilization of the banking industry. I have no doubt that our industry will be radically different 3 years from now. I don't know all the changes coming but putting money in the hands of the best banks is a smart way to keep credit flowing and clean up problem assets. It is much better than trying to staff a federal agency to buy up the bad assets and take over the banks mired in the problems. We care about our civic duty but we also participated because we believe it will enhance our shareholder value to do so. I understand the public's frustration, but I am very concerned about an emerging attitude that there is something wrong with banks using TARP money to enhance common shareholder value. Of course we plan to use the TARP money to make money. It is costing us about 8% to use the money. We have a fiduciary responsibility to our shareholders to use this money to make them money.

4. **You are not planning to use the money to pay bonuses, pay dividends, buy your own stock or make acquisitions are you?**
We will abide by the terms of the documents we signed. Beyond that we will make whatever decisions we believe will enhance shareholder value. The compensation restrictions don't bother us. We eliminated bonus accruals in February of 2008 because we could see that we were not going to hit our profit plan. This is what real businesses do. We have never paid dividends to common shareholders. Buying our stock will require approval of the Treasury. Our capital strategy has placed us in an extremely strong position to support our customers and community through a difficult environment. We intend to support our customers and develop new relationships. We are planning to acquire either branches or other banks, if we are able to negotiate purchases that provide a suitable return to our shareholders.

5. **What do you think Congress should do in light of the crisis in banking?**
I am appalled as a citizen and banker at the state of the industry. We knew there were fundamental issues rooted in the way bankers think about banking, but we had no idea it was this bad. This crisis reflects the collapse of the fiduciary responsibility of banks toward their customers and the public. Clearly there needs to be fundamental change. I would like to see a very deep and thoughtful reflection in three areas.

Toobtof

A. Any Toobtof (banks, car companies, Fannie, Freddie, FHLBs, insurance companies, etc) must be much better regulated. The simplest suggestion I have is that federal tax policy should strongly discourage the bigness that indisputably poses a public risk. This will reduce the danger they pose, provide revenue for the risk we underwrite and level the playing field for the smaller institutions which must compete against the implied public support Toobtofs enjoy. We should name our Toobtofs and tax them appropriately.

The Role of Congress

B. Congress should reflect on their own involvement. Fannie and Freddie are a big part of the problem. Home ownership is an appropriate public policy objective. There are many ways to support home ownership. Clearly creating very large and powerful public/private entities is not the answer. Before we pass new laws to fix this problem, I would like to respectfully request Congress to evaluate the effectiveness of Sarbanes Oxley. It was very expensive. It seems intended to create an atmosphere of presumed criminality in the boardroom, which actually undermines good business. Most importantly, it sure didn't work to prevent this disaster. Almost every one of these bankrupt Toobtofs was Sarbox compliant in 2006 and even 2007. The insolvencies weren't created in 2008, they were merely revealed in 2008. The problem isn't really financial oversight. It is rooted in the way we think about business and no amount of laws and regulations can change what goes on in the hearts and minds of business people. Don't be too quick to pass laws that have more to do with feeling like you are doing something than actually doing something. Ask the really tough questions and ask them about yourselves also. Please don't pass laws which punish the horses who didn't leave the barn.

The Regulatory System

C. What has worked and what hasn't worked? The answer isn't so much more regulation, but better regulation. I am dumbfounded at how the industry has gotten this bad. It flies in the face of what we know about our regulators. Our primary contact is with the OCC and they are very smart, responsible people. They know our institution. I don't enjoy every interaction we have, but their oversight is thoughtful and their communication is excellent. I really don't understand how this could have happened, but it won't do to assume the existing regulatory oversight has worked on a national level.

I would also like to extend an invitation to Senator Kohl and his staff to come to Green Bay and visit with us. We will do our best to answer any questions they have about what we see at ground level. Could you please extend an invitation to them? We would also organize a round table of our customers to comment on what they are experiencing. As bad as this crisis is, we firmly believe that we can harness this opportunity to place the industry on a sound footing.

Sincerely,

Robert B. Atwell
CEO

Enclosed: Internal Press Release
Green Bay Press Gazette article
Milwaukee Journal article

Exhibit A - III

Nicolet
BANKSHARES, INC.

For release upon receipt

Contact: Jeff Gahnz, Public Relations
920.430.7344 or 920.321.8040 (cell)

Nicolet Bankshares, Inc. increases capitalization by 50% in December

GREEN BAY, Wis., Jan. 7, 2009 – Nicolet Bankshares, Inc., holding company of Nicolet National Bank, increased its capitalization by 50% in December through participation in the U.S. Treasury's Capital Purchase Program and through a private placement stock sale.

Nicolet Bankshares, Inc. received $14.96 million from the U.S. Treasury's Capital Purchase Program on December 23, 2008, becoming the first private bank in Wisconsin to participate in the program. Five days later, Nicolet Bankshares, Inc. finalized a private placement stock offering that raised an additional $9.5 million.

With the capital infusion, $10 million was immediately injected into Nicolet National Bank as capital, where an additional $7.5 million of loans were made prior to year-end. Nicolet Bankshares, Inc. also retired its line of credit, which was used for capital management throughout 2007 and 2008. The balance of the equity remains at the holding company and is earmarked for strategic initiatives the company plans to explore. No money was used for executive bonuses or to replace equity lost by bad loan or investment decisions.

Mike Daniels, President and COO of Nicolet National Bank said, "A rule of thumb is that $1 in capital allows you to increase your assets by $10. We have money to lend, and are looking for relationship business."

Bob Atwell, Chairman and CEO of Nicolet Bankshares, Inc. said, "We are planning to be offensive in a strategic sense. There is more value out there than at any other time in our careers."

Nicolet Bankshares, Inc. is the holding company of Nicolet National Bank, a locally owned and managed bank with $625 million in assets and locations in Green Bay, Appleton, Crivitz, De Pere, Marinette and Menominee, MI. More information can be found at www.nicoletbank.com.

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If you would like more information or an interview with Mike Daniels or Bob Atwell, please contact Jeff Gahnz at 920.430.7344 or jgahnz@nicoletbank.com.

Exhibit A - IVa

Nicolet Bank receives $15M

Green Bay Press-Gazette January 1, 2009
Richard Ryman Text

Nicolet Bankshares Inc., parent company of Nicolet National Bank, Green Bay, received $14.96 million through the U.S. Treasury Department's Capital Purchase Program.

The department created the Capital Purchase Program as part of its Trouble Asset Relief Program. To date, $162 billion has been invested in U.S. banks in return for preferred stock and warrants.

The department announced $1.9 billion in investment in 43 banks on Wednesday.

Locally, Associated Bank and M&I Bank also received Treasury money through the program.

Exhibit A - IVb

Nicolet National Bank raises $9.5 million in private capital

Milwaukee Journal Sentinel January 7, 2009
Paul Gores Text

Green Bay's Nicolet National Bank said it has raised $9.5 million in private capital on top of the almost $15 million investment it recently received from the U.S. Treasury, positioning it for new business opportunities and possible acquisitions.

Privately held Nicolet, which is third in deposit market share in Green Bay behind Associated Bank and M&I Bank, said it had planned to raise capital - which ultimately came from board members and existing shareholders - even before the government's cash infusions to bolster healthy banks became available.

"We were under no pressure from anybody to raise additional capital of any kind. But during the course of the summer, we decided that this would be a very important time to be a very, very well-capitalized bank, both defensively and offensively," said Robert Atwell, chairman and chief executive.

The private capital-raising effort concluded Dec. 31.

Nicolet has assets of $625 million. It had profit of about $1.3 million through the first nine months of 2008.

Atwell said the additional capital "gives us an extraordinary strength during turbulent times."

"Our No. 1 responsibility and objective is to support the needs of our customer base. We want to grow that customer base in a prudent way," Atwell said. "We want to develop solid relationship business. We have the resources to do it."

Nicolet was one of the first private banks in the U.S. to receive money through the Treasury's Capital Purchase Program, in which the government has been buying preferred stock in selected banks.

In a tough environment for raising capital, banks that have received or were approved for an investment from the Treasury are having more success finding private investors to help boost capital levels, said Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland.

"To be able to raise it locally speaks very highly of the job they've done in the community and with their customers," Bruss said of Nicolet.

Atwell said the new capital from the government and private investors translates to new growth capacity of about $250 million.

"While it's a great time to have a great defensive position - and we certainly are in that - we do think the next several years are going to be a time of extraordinary opportunity for organizations that have the discipline to keep themselves well positioned," Atwell said.

That could include acquisitions of other banks - or branches of banks - that aren't as strong. Nicolet currently operates in northeastern Wisconsin and the Upper Peninsula of Michigan, and probably wouldn't make an acquisition far from its current market, Atwell said.

"We are going to keep our eyes open," said Mike Daniels, Nicolet's president.

Nicolet also has been picking up business from companies whose previous banks have been more focused on internal matters during the financial crisis, Daniels said.

Exhibit A - IVc

Bank plots aggressive strategy as it raises $24M in capital

Green Bay Press-Gazette January 7, 2009
Richard Ryman Text H. Marc Larson Photography

Adversity can create opportunity. Nicolet Bankshares is looking for opportunity, so the Green Bay financial holding company raised $24 million in capital in December.

"We are planning to be offensive in a strategic sense," said Bob Atwell, chairman and chief executive officer of Nicolet. "There is more value out there than at any other time in our careers."

Nicolet Bankshares, parent company of Nicolet National Bank, received $14.9 million through the U.S. Treasury's Capital Purchase Program and raised $9.5 million by selling shares to private investors. It increased its capitalization by 50 percent.

"We've been almost exclusively an organic-growth company, but as we look at this environment we think there is more strategic opportunity to acquire other institutions or parts of other institutions," Atwell said.

Or make loans. Mike Daniels, president and chief operating officer, said a rule of thumb is that $1 in capital allows you to increase your assets by $10.

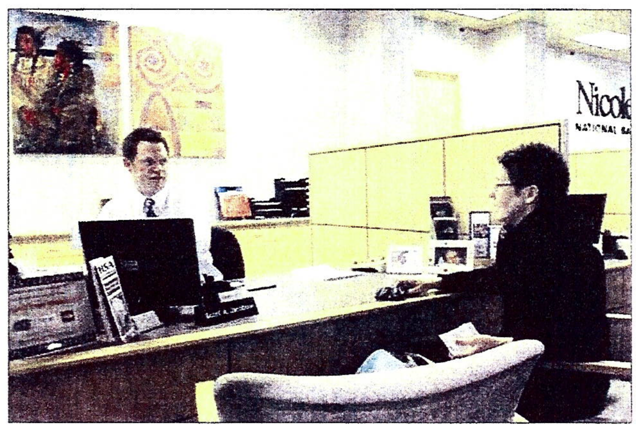
"As we see our competitors turn inward, that will provide opportunity," Daniels said.

Atwell and Daniels were at pains Tuesday to point out that Treasury money is going to stable banks. Nicolet was one of the first 20 private banks nationwide to receive money from the government, which purchased preferred shares of its stock.

It is the third bank in Wisconsin — after M&I Bank and Associated Bank — to receive Treasury money.

"There was no pressure from anyone to raise additional capital," Atwell said. "We increased our

Nicolet National Bank Chairman and Chief Executive Officer Bob Atwell works in his office Tuesday at Nicolet National Bank.



Retail banker Scott Jacobson works with customer Linda Galt on Tuesday at Nicolet National Bank, 111 N. Washington St., Green Bay.

capitalization. We didn't have a shortage of capital."

Banks have received criticism nationwide for not being transparent about how Treasury money is used, but Atwell said it's not black-and-white accounting, though he understands the frustration. The money is blended with all other money going in and out of the bank on a daily basis, and it's impossible to say money from a specific source was definitively used for a particular purpose.

"The reality is, the public is ticked off and confused, and who can blame them?" said Atwell, who's long been critical of aspects of the financial industry.

He said Nicolet eliminated executive bonuses in February, when it already was clear the bank would not meet its 2008 projections, though it remained profitable.

"We did a liquidity hedge in February. We asked ourselves: 'How bad is this going to be?'" Atwell said. Nicolet has some problem loans, but not more than it can handle, Atwell said.

"We took our risks where we understood them, in the loan portfolio," Daniels said.

The bank did not take risks on its investments.

Daniels said Nicolet has money to lend. He said transparency goes both ways.

"Do you have a plan? If you have a problem, say you have a problem. If you are scared, say you are scared," he said.

Atwell expects 2009 to be difficult. He said industrial customers are planning for 10 percent to 15 percent less in sales and looking at contingencies for worse.

"This is not a (business) cycle. It's a fundamental change," he said. "People are going to change their habits. If there is enough pain, people learn what they need to learn."

Atwell said Nicolet is challenging its customers, and potential customers, to take the same clear-eyed approach as the bank.

"Be liquid, keep the balance sheet strong and look prudently for opportunities. Unless we are going back to the Stone Age, it's a time of extraordinary opportunity. It's going to take guts and capital to do," Atwell said. "There's money out there."

Exhibit A - IVd

2 banks in state have lent money from TARP: 4 banks in Wisconsin are participating in the federal program

Wisconsin State Journal January 16, 2009
By Marv Balousek

Two Wisconsin banks that have received funds from the federal Troubled Assets Relief Program say the money already has helped them make more loans.

Four Wisconsin-based banks are participating in TARP's Capital Purchase Program in which the government invests in the banks usually through purchase of preferred stock.

The first installment, amounting to $350 billion, was allocated for the TARP program last fall to strengthen the nation's financial institutions. President-elect Barack Obama requested that an additional $350 billion be released. President George W. Bush, acting on Obama's behalf, asked for congressional approval of the release, and the Senate Thursday gave that approval.

Participating Wisconsin banks are AnchorBank of Madison, Associated Bank of Green Bay, M&I Marshall & Ilsley Bank of Milwaukee and Nicolet National Bank of Green Bay.

More state banks have applied for the money, and the U.S. Treasury Department is expected to continue approving applications.

Other banks, however, have declined to participate because of its terms, including a provision that the Treasury Department can amend the agreement at any time.

"What banks are going to do with the money depends on their particular market or growth strategy," said Kurt Bauer, president of the Wisconsin Bankers Association.

"Some are lending and others are buying mortgage-backed securities, which helps lending."

Since receiving $1.715 billion in TARP funds, M&I has approved $1.3 billion in new credit to new and existing customers, Marshall & Ilsley Corp. announced last week in its fourth-quarter earnings report.

The money also enabled the bank to begin a foreclosure abatement program that includes a 90-day moratorium on foreclosures beginning Dec. 18.

At Nicolet National Bank, the receipt of nearly $15 million in TARP funds and a private stock offering that raised $9.5 million allowed the bank to make an additional $7.5 million in loans before the end of 2008.

AnchorBank, which received preliminary TARP approval for $110 million a week ago, has not yet received the money, said bank president Mark Timmerman.

"We will be able to use it yet this spring to increase lending, work through challenging loan situations and fortify our capital base," he said.

Associated Bank president Paul Beideman said through a spokeswoman that he could not discuss the bank's use of $525 million in TARP funds before the release of the company's fourth-quarter earnings report on Thursday.

John Knight, a lawyer with the Boardman Law Firm of Madison who represents bankers, said he's optimistic the TARP program will help the economy recover.

"Many believe the results haven't been there yet, but it's just going to take a while to get the credit market unlocked," he said. "I personally believe this is an important ingredient."

Banks participating in the program would lose money if they used all of the TARP money directly for loans. That's because the cost of the funds to the banks is much higher than current commercial and residential loan rates. Including interest and fees, the cost is 8 percent to 10 percent of the total amount if the TARP stock is repurchased by the bank within five years. The cost is even higher if the government holds the stock for more than five years.

But the TARP money can be profitable if it is added to a bank's capital base and leveraged with less expensive money from other sources.

Banks are required to maintain favorable ratios of capital to assets, and adding TARP money to a bank's capital means the bank can increase the total amount it can lend. Loans are considered bank assets.

"A rule of thumb is that $1 in capital allows you to increase your assets by $10," said Mike Daniels, president and chief operating officer of Nicolet National Bank. "We have money to lend and are looking for relationship business."

The benefits of the TARP program weren't enough to convince all banks to apply.

"We investigated it and came to the conclusion first and foremost there was no need for it from the standpoint of elevating capital," said Charles Saeman, president of the State Bank of Cross Plains. "There were some qualities of the TARP program we were not comfortable with."

Capitol Bank of Madison also declined to participate.

"Our bank was philosophically against it," said bank president Ken Thompson. "We didn't want the government intervention."

Exhibit A - IVe

Tiny Banks Lending Large

The Nation's Mega-Banks Aren't Using Bailout Cash for Loans, But Local Banks Are

ABC NEWS Business Unit February 4, 2009
Scott Mayerowitz Text

Michael Daniels runs a small bank in Green Bay, Wis., that recently received $15 million in taxpayer money.

When he got the money, Daniels did something a bit rare in banking circles these days: He lent it out to homebuyers and small businesses.

"We're making loans," Daniels said. "The window is open. It's never been closed."

That's exactly what government leaders want banks to do with money from the Troubled Assets Relief Program, but what apparently not enough of them are doing.

A Federal Reserve study released just this week showed that banks are continuing to make it harder for people to get all types of loans.

But Daniels and a handful of executives -- mostly at smaller banks -- are doing everything possible to help their communities out.

"This bank can only be as good as the community it operates in," said Daniels, president and chief operating officer of the five-branch Nicolet National Bank. "We're very invested in this community."

Daniels did take the TARP money as "a bit of a safety net" in case the economy "totally tanks." But, for the most part, Nicolet National Bank plans to pump that cash back into the local economy.

In fact, Daniels and the bank officers have so much confidence in their loans that they raised another $9.5 million through a private stock offering at the same time they got the TARP funds at the end of December. About 40 percent of that new private capital came from bank directors and insiders.

"We put our own money right alongside it," Daniels said.

The government wants banks to lend out money they got from the Troubled Assets Relief Program, or TARP, but apparently, not enough of them are doing it.
(Getty/ABC News)

"You put your money where your mouth is."

Like many other banks, Nicolet has had its fair share of loans go bad. But it still has plenty of capital on hand because its own investments, in Daniels' words, are "chocolate and vanilla."

To date, the government has pumped $387.4 billion of TARP funds into the nation's financial system. Of that, $195.33 billion went to 359 institutions in 45 states and Puerto Rico. (The rest of it went to insurance giant AIG, General Motors, Chrysler and to guarantee other bank loans.)

Large Banks Have Yet to Lend

America's largest banks have not been as willing to spend. The banks have come under intense criticism for refusing to detail how they are spending the taxpayer money.

The government wants banks to lend out money they got from the Troubled Assets Relief Program, or TARP, but apparently, not enough of them are doing it.
(ABC News Photo Illustration)

Citigroup, which has received $45 billion of TARP money and been under criticism for its sponsorship of a New York sports stadium, announced Tuesday that it put $25.7 billion from TARP back into mortgages. Citi also used another $2.5 billion of government funds for personal and business loans, $1 billion for student loans and put $5.8 billion toward credit card loans.

Paul Miller, managing director of FBR Capital Markets, said that banks face a difficult balancing act. If banks loan too much, they throw off their debt ratio and possibly hurt their stock price.

"Banks need to be careful," Miller said. "They have to walk a very fine line."

But if they don't loan enough, politicians and the public will be annoyed that they aren't doing enough.

"That's what the politicians want, they want results. And the results are not going to be as simple as a lending increase," Miller said.

The smaller, community banks are better capitalized than the big banks, Miller added, and, therefore, more willing to make new loans.

"The people that are lending [the TARP money] out didn't really need it," he said.

Central Bancorp, in the Boston metro area, is one of those banks.

The bank has taken out large ads in the Boston Globe announcing "We have money to lend."

"We're vigorously pushing that money," said William Morrissey, the bank's chief operating officer. "We want to make mortgages. We have the money to invest."

It is a similar story in Maryland where three small bank brands owned by Shore Bancshares took TARP money, but didn't need it to shore up its finances. The banks -- Felton Bank of Delaware, The Centreville National Bank of Maryland and The Talbot Bank of Easton -- are all lending as vigorously as they did in the past, according to CEO Moorhead Vermilye.

"We have continued to loan money and support the community," he said.

Local Banks More Willing to Give Money

Other regional banks in his market "have pulled their horns in" and Vermilye's banks have swooped in to fill the void.

The loans are going to small businesses and homeowners.

"The residents of Talbot County are looking toward us to keep them viable," Vermilye said. "It indicates to the community that we are the lender of choice in this area.

"We've done exactly what the Treasury wanted us to do," he added. "It is important that we get out the picture that all of this isn't bailout money. It's also not being used inappropriately."

C.R. "Rusty" Cloutier, president and CEO of MidSouth Bancorp, is taking things one step further. He's on a road trip though Louisiana and Texas holding "town hall"-style meetings, telling the public that his bank has money and is loaning it out.

"Most people are unwilling to borrow money right now," Cloutier said. "They are not interested in borrowing. They are very nervous.

"Most of our customers and the new people are very nervous about taking on any new debt," he added.

He said it's almost like getting a 1-year-old to eat his peas. His customers just don't want to take on any new risk.

"We've got plenty of money to lend, we'd love to lend," he said.

There are some large banks that have received TARP funds and increased their lending, but not many.

SunTrust, which received $4.9 billion in TARP funds, is one bank that did increase lending.

"We have said consistently and publicly that we are in business to make good loans to creditworthy borrowers. We are out there every day in the marketplace, in a very difficult economic environment, seeking opportunities to do that; the loan growth reported in our fourth quarter results reflects those efforts," Barry Koling, a spokesman for SunTrust, said in an e-mail.

BB&T has also increased lending.

"In the spirit of TARP, our aim has been to target areas with liquidity and funding challenges that are beyond our banking network," spokesman Bob Denham said in an e-mail. "BB&T has been able to provide commercial and industrial loans, auto finance for consumers, insurance premium finance for small businesses, and commercial and small business equipment finance."

Exhibit A - IVf

Nicolet Bank Puts Bailout Money Back in Community

ABC NEWS WBAY Channel 2 February 5, 2009
Jeff Alexander Text

A local bank is drawing national attention for doing what government leaders want banks to do with its taxpayer bailout money -- lend money to home buyers and small businesses.

At the end of last year when the $700 billion Troubled Assets Relief Program -- or TARP --- became available for the troubled financial sector, Green Bay-based Nicolet Bank applied.

"The parameters are three-percent of your risk-weighted assets. We were the third bank in the state to get it, behind M&I and Associated," Nicolet Bank president and COO Mike Daniels said.

Daniels insists Nicolet Bank didn't apply for the $15 million in TARP money needing the capital.

Instead, he viewed it as a safety net in a rough economy and a chance to pump more cash back into the local economy.

"The day we got it, we put 15 million directly into the bank which increased our lending capacity," he said, "and between December 23rd and the end of the year we made about eight million in new loans and have continued to."

The bank's lending caught the attention of ABC News, which recently profiled Nicolet online, comparing it to larger banks that according to a Federal Reserve study this week continue to make it harder for people to get all types of loans.

"It's hard for us to understand and we're in the darn industry," Daniels said, "so imagine how it is for the average American saying OK, we've given these big banks all this money, where's it going?"

It's a question Daniels and his privately-owned bank with five area branches are happy to answer.

Exhibit A - IVg

Treasury investment in banks misunderstood, executives say

Milwaukee Journal Sentinel February 21, 2009
Paul Gores Text

When news spread that Manitowoc's Bank First National was receiving $12 million in so-called Troubled Asset Relief money from the federal government, some people familiar with the bank were puzzled.

"We had customers calling and saying, 'You've always been a strong bank. Why would you take this money'" said Lisa O'Neill, chief financial officer for the bank. "There has been a real awareness campaign to say we were offered this money because we are a well-run institution."

Confusion about the Troubled Asset Relief Program spans far beyond Manitowoc.

For more than a few reasons, starting with an early shift in priorities by the officials running it, TARP has become one of the most misunderstood and controversial parts of the federal government's effort to revive the economy.

Originally intended to stabilize the financial system by getting troubled loans and investments off the books of important banks, the program quickly evolved into capital injections to strengthen banks of various sizes around the country. The infusions of taxpayer money, in which the Treasury buys shares of preferred stock in banks that win its approval, were meant to let banks build capital and, in turn, increase the flow of financing to businesses and consumers.

But the quick switch in strategy for the program, which already had been labeled a "bailout" in the media, muddied perceptions and stirred doubts about whether the government had figured out how to handle the financial crisis. Further complicating matters were statements by the Treasury saying the money was directed to healthy banks, even though some big troubled ones, such as Citibank, were major recipients.

Wisconsin banks get Treasury capital

So far nine Wisconsin-based banks have received or been approved for an investment through the Treasury's Capital Purchase Program, which is part of the Troubled Asset Relief Program – better known as TARP. The Treasury purchases preferred shares of stock in the banks and is to receive a 5% dividend annually on its investment.

BANK NAME	HEADQUARTERS	AMOUNT OF TREASURY INVESTMENT	DATE RECEIVED
M&I Bank	Milwaukee	**$1.7 billion**	Nov. 14
Associated Bank	Green Bay	**$525 million**	Nov. 21
AnchorBank	Madison	**$110 million**	Jan. 30
Baraboo National Bank	Baraboo	**$20.7 mllion**	Jan. 16
Nicolet National Bank	Green Bay	**$15 million**	Dec. 23
Bank First National	Manitowoc	**$12 million**	Jan. 16
Blackhawk Bank	Beloit	**$10 million**	Pending
Mid-Wisconsin Bank	Medford	**$10 million**	Feb. 20
Legacy Bank	Milwaukee	**$5.5 million**	Jan. 30

Dollar figures are rounded. Blackhawk Bancorp Inc. has received preliminary approval.

Sources: U.S. Treasury, Mid-Wisconsin Bank — Journal Sentinel

Add to that the cries by Congress that participating banks aren't making enough loans and reports of extravagances by some banks receiving the money, and it's easy to see why people are scratching their heads about TARP.

Wisconsin recipients

So far eight Wisconsin-based banks have received funding via TARP. Despite public and congressional misgivings about whether it's working, most of the Wisconsin banks say it is having — or will have — an impact.

Milwaukee's Marshall & Ilsley Corp. said that from time it received $1.7 billion in government capital Nov. 14 until the end of December — the most up-to-date figures the bank has made public — M&I entered into roughly $1.3 billion in new credit throughout its markets.

"That's a pretty strong number given the economic environment," said Greg Smith, chief financial officer of M&I, the biggest bank based in the state.

Smith said M&I also is "taking very seriously" the TARP mandate to work with struggling mortgage borrowers, noting that in December the bank declared a three-month moratorium on foreclosures on owner-occupied homes.

The state's second-largest bank, Associated Banc-Corp, of Green Bay, said that from mid-November — when it received its Capital Purchase Program investment of $525 million — through January it issued about $2.3 billion in new and renewed loans to customers.

Associated probably wouldn't have done that much lending without the capital boost, said chief executive Paul Beideman, who noted that the bank already was well capitalized but took the money as "an abundance of caution."

"It allows you to think about it more aggressively because you can indeed be more flexible," Beideman said.

More lending planned

Bank First National's O'Neill said the $12 million her bank received last month will support its strategic plan to increase lending by $50 million this year and again in 2010. She said the bank was encouraged by its regulator to participate in the Capital Purchase Program, and that even with the 5% dividend banks must pay the government, "it was one of the better ways to attract capital into the organization to facilitate executing our growth strategy."

Banks like to point out that the money isn't a handout. They must pay the Treasury a 5% dividend for the first five years and 9% thereafter. Just last week, for example, M&I said it will pay a quarterly cash dividend of more than $21.4 million to the U.S. Treasury.

Mike Daniels, president of Nicolet National Bank in Green Bay, said his bank never stopped making loans and never changed its underwriting standards as the economy slowed. Nicolet received almost $15 million in late December.

"We have made way over $15 million of loans since Dec. 23, both residential mortgages and new commercial relationships," Daniels said.

Merlin Zitzner, chairman and CEO of The Baraboo Bancorporation, said his bank has turned more than half of its $20.7 million in TARP money into loans in Sauk County. He said deposits at his bank had been hurt by people who had moved their money to super-safe Treasuries — money that he argues left Baraboo and went to Washington, D.C.

"We saw it as an opportunity to get some of that Washington money back in our communities and finance economic growth," Zitzner said.

Funds still flowing

Milwaukee's Legacy Bancorp received $5.5 million on Jan. 30, and Medford-based Mid-Wisconsin Financial Services announced Friday that it received $10 million.

TARP funding is pending for Beloit's Blackhawk Bank. It has received preliminary approval to get $10 million but still can turn down the money. Its CEO is having some second thoughts.

Regulations that come with the capital, including limits on executive compensation, added by Congress in passing economic stimulus legislation, "are making taking TARP money less and less attractive," said Blackhawk CEO Rick Bastian.

If the new rules scare off Blackhawk, the government may lose out on a bank with exactly the kind of attitude lawmakers seem to want.

"We've kept our problem loans relatively low and so, unlike a lot of banks, including Citibank and Bank of America, we look at TARP capital as a way to sustain additional growth and to capitalize on the opportunities that inevitably take place in a market that's as full of turmoil as the banking market is today," Bastian said.

"We would expect to do what the Treasury would love to see banks do, and that's multiply that $10 million investment into $80-$90-$100 million in additional loans and investments."

Some of the big banks in the first wave of TARP awards — none was from Wisconsin — reportedly signed on only because of arm-twisting by federal officials who talked of saving the financial system. Since then, regulators have encouraged many other banks to apply for the funding. So far more than 400 have taken the capital. But accepting TARP money comes with potential hazards other than limits on compensation.

Associated's Beideman discovered that when a public uproar occurred after the Journal Sentinel's Dan Bice reported this month that the bank was planning to reward 100 top-achieving employees with a trip to a plush resort in Puerto Rico. The bank canceled the trip in response to the criticism, although it said no taxpayer funds would have been used for it.

The unfavorable reaction here almost certainly was heightened by previous reports of travel, opulent expenditures and big bonuses by executives of other national banks that had received TARP funds.

Said Blackhawk's Bastian: "It's one of those things where people are asking me whether I'm buying an airplane with the $10 million or how much of that is going toward my office or how much is going toward a bonus. Not one penny of it."