



March 2, 2009

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

Dear Mr. Barofsky,

Per your request, dated February 6, 2009, we hereby submit our response to the questions you raised with respect to our participation in the Capital Purchase Program.

Northeast Bancorp is the holding company for Northeast Bank, a community bank that was established in 1872 and has been successfully serving our local communities via the delivery of a very diversified portfolio of financial products and services, including traditional bank products and other financial services such as wealth management, investment and insurance brokerage services.

Our organization did not participate in the creation or delivery of subprime loan products as we have, throughout our history, believed that we have a responsibility to help loan applicants determine whether or not they can afford to repay their desired level of debt.

We have always been and remain well capitalized and in good standing with our regulatory partners.

Our fundamental rationale for subscribing to the minimum allowable amount of funds under the Capital Purchase Program was to provide our institution and its customers with insurance against what are clearly unusual economic circumstances that are fraught with uncertainty. A copy of our Press Release dated 12/12/08 has been attached.

In addition, by taking advantage of the Capital Purchase Program, we were able to secure long term capital that we desire to use as a springboard towards the identification and tracking of loans that are related to the refinancing of existing debt, both for homeowners and the small business marketplace, in addition to new community investment.

Anticipated Use of TARP Funds

We anticipate the solicitation and development of loans that can be used to refinance the debt of existing homeowners as well as selected small business enterprises that can demonstrate the ability to repay their debt.

Segregation of TARP Funds

We will track the loans and other community investments that are related to the TARP funds in order to make certain that we do not exceed the prudent utilization of this new source of capital.

Actual Use of TARP Funds to Date

Attached is the current list of loans and CRA-related investments that were made using the TARP capital as the source of funding.

NORTHEAST BANK
Capital Purchase Program
Loan and Investment Tracking

Loan/Investment Date	Amount	Interest Rate
1/2/2009	217,717.64	(b) (4) Residential
1/14/2009	12,063.00	Consumer
1/21/2009	25,063.00	Consumer
1/22/2009	28,068.00	Consumer
1/23/2009	900,000.00	Commercial
2/1/2009	152,657.09	Residential
2/5/2009	10,905.40	Consumer
2/17/2009	10,063.00	Consumer
2/23/2009	1,604,000.00	Community Investment
2/25/2009	4,204.43	Consumer
2/25/2009	13,557.86	Consumer
2/26/2009	72,063.00	Consumer
Total:	3,050,362.42	

Expected Use of Unspent TARP funds

We will continue to seek opportunities to refinance borrowers who are dealing with the burden of poorly structured debt whereupon we will attempt to provide a new financing plan that is in line with their ability to repay.

Executive Compensation

Our organization has always paid its executives in a manner that is both fair and prudent. We do not have any *golden parachutes* or anything remotely close to what could be determined as excessive executive compensation and we will not do so in the future.

The following summary compensation table sets forth the cash and non-cash compensation paid to or accrued for the past fiscal year for the Company's Chief Executive Officer, Chief Financial Officer and for the three other most highly compensated executive officers of the Company or its subsidiaries whose total compensation exceeded \$100,000 for the fiscal year ended June 30, 2008 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Non-equity Incentive Plan Compensation</u>	<u>Non-equity Incentive Plan Compensation</u>	<u>All Other Compensation (1)</u>	<u>All Other Compensation</u>
James D. Delamater.....	2008	\$258,707	\$0	\$15,000	\$35,282	\$14,881	\$323,870
President and Chief Executive Officer	2007	240,694	0	0	0	23,148	263,842
Robert S. Johnson.....	2008	\$142,419	\$0	\$5,000	\$20,268	\$5,305	\$172,992
Chief Financial Officer	2007	138,271	0	0	0	5,030	143,301
Marcel C. Blais.....	2008	\$142,419	\$0	\$5,000	\$9,751	\$4,904	\$162,074
Chief Operating Officer, Retail Banking	2007	138,271	0	0	0	4,538	149,839
Pender J. Lazenby.....	2008	\$154,332	\$0	\$5,000	\$26,832	\$6,559	\$192,723
Chief Risk Officer	2007	139,392	0	0	0	17,813	156,205
Leslie Couper ...	2008	\$124,067	\$0	\$5,000	\$12,407	\$4,103	\$145,577
Northeast Financial Division Manager	2007	115,378	0	0	0	3,797	119,175

(1) These amounts include payments as follows:

(i) Term life insurance premiums for 2008: \$1,032 for Mr. Delamater; \$1,032 for Mr. Johnson; \$456 for Mr. Blais; \$1,032 for Mr. Lazenby; and \$276 for Ms. Couper; For 2007: \$1,032 for Mr. Delamater; \$792 for Mr. Johnson; \$360 for Mr. Blais; \$1,032 for Mr. Lazenby; and \$276 for Ms. Couper.

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(ii) Matching 401k contributions for 2008: \$6,990 for Mr. Delamater; \$4,273 for Mr. Johnson; \$4,273 for Mr. Blais; \$4,627 for Mr. Lazenby; and \$3,722 for Ms. Couper. For 2007: \$6,405 for Mr. Delamater; \$4,148 for Mr. Johnson; \$4,148 for Mr. Blais; \$4,181 for Mr. Lazenby; and \$3,461 for Ms. Couper.

(iii) Automobile reimbursement allowance for 2008: \$4,309 for Mr. Delamater; For 2007: \$1,520 for Mr. Delamater.

(iv) Employee contribution to a Health Savings Account for 2008: \$1,500 for Mr. Delamater; For 2007: \$1,500 for Mr. Delamater.

(v) Director fees for 2008: \$900 for Mr. Delamater; \$900 for Mr. Lazenby. For 2007: \$12,600 for Mr. Delamater; \$12,600 for Mr. Lazenby.

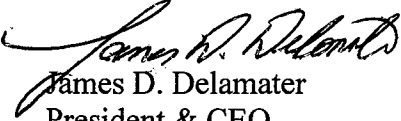
(vi) Referral fee for 2008: \$150 for Mr. Delamater; \$175 for Mr. Blais; \$105 for Ms. Couper. For 2007: \$90 for Mr. Delamater; \$90 for Mr. Johnson; \$30 for Mr. Blais; \$60 for Ms. Couper.

In addition, our organization is in compliance with Regulation O and, as such, we do not have any excessive or imprudent loans to our executive officers.

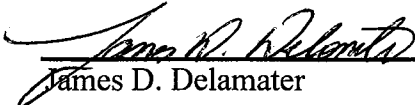
Summation

We are proud of our long history of profitable and prudent operations and pleased that we were able to access a portion of the funds in the Capital Purchase Program as these funds will allow us to actively seek opportunities to assist individual and small business clients in the restructure of their indebtedness.

Respectfully submitted,


James D. Delamater
President & CEO
Northeast Bancorp

I hereby certify the accuracy of all statements, representations and supporting information, provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.


James D. Delamater


Date

FOR IMMEDIATE RELEASE



For More Information:

Jim Delamater, President & CEO
Northeast Bank, 500 Canal Street, Lewiston, ME 04240
www.northeastbank.com

1-800-284-5989 ext. 3569
jdelamater@northeastbank.com

Northeast Bancorp Completed U.S. Treasury Investment Under Capital Purchase Program

Lewiston, MAINE (December 12, 2008) - Northeast Bancorp (NASDAQ: NBN), the parent company of Northeast Bank (www.northeastbank.com), announced today that the US Treasury has completed its investment in Northeast under the U.S. Treasury Department's voluntary Capital Purchase Program (CPP). The Company received approximately \$4.2 million in capital and, in return, issued the Treasury shares of Northeast Bancorp preferred stock and warrants to purchase Northeast Bancorp common stock. The \$4.2 million in capital represents approximately 1% of Northeast's risk-based assets, the minimum level for participation in the program.

Jim Delamater, President and CEO explained, "We evaluated participation in the program and determined that the best course of action for our company and our shareholders was to take advantage of this opportunity, which bolsters our capital position on favorable terms. Our current capital position is stronger than ever, though we felt that it is important to participate in the program. The Treasury is encouraging all healthy banks to take part, in order to help support our economy and restore confidence in the credit and financial markets. Our participation in the program is testimony to Northeast's continued commitment to serving the needs of area businesses and families, and the overall strength of our balance sheet."

Northeast's Tier 1 risk-based capital ratio was 10.02% on September 30, 2008, above the "well-capitalized" threshold of 6%. The infusion of capital through the Capital Purchase Program raises the Company's Tier 1 risk-based capital ratio to approximately 10.92%. The non-voting senior preferred shares issued to the Treasury pays a dividend of 5% annually for the first five years and 9% annually after the fifth year.

"We expect that the additional long-term capital funds now available through the Capital Purchase Program will help us continue with our plan for full product and income diversification," continued Delamater. "We are proud to be one in the ranks of those banks that that took a conservative approach to lending in recent years, steering clear of subprime products, maintaining common sense underwriting standards and, most importantly, looking out for the best interests of the customers. Northeast is well-positioned with the talent, infrastructure and lending culture to continue to meet the credit needs of our markets in both Maine and New Hampshire."

Northeast Bancorp, headquartered at 500 Canal Street, Lewiston, ME 04240, is the holding company for the Maine-based Northeast Bank, founded in 1872. Northeast Bank, together with its wholly-owned subsidiary, Northeast Bank Insurance Group, Inc., has grown to \$605 million in total assets and is a leader in providing one-stop shopping for financial services. The Company derives its income from a combination of traditional banking services and non-traditional financial products and services including insurance and investments; operating eleven traditional bank branches, fourteen insurance offices and three investment centers that serve seven counties in Maine and two in New Hampshire.

Management encourages present and prospective shareholders to contact President and CEO Jim Delamater directly to discuss the Company, its products and services, and ongoing efforts to develop shareholder value. He can be reached at jdelamater@northeastbank.com or toll free at 1-800-284-5989. Management also suggests that any person wishing to utilize the services of Northeast Bancorp or its subsidiaries or interested in learning more about the Company can access its web site at www.northeastbank.com.

This communication contains certain "forward-looking statements". Although the Company believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors. These statements speak only as of the date of this report and we do not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this communication or to reflect the occurrence of unanticipated events. For a more complete discussion of certain risks and uncertainties affecting the Company, please see "Item 1. Business-Forward-Looking Statements and Risk Factors" set forth in the Company's Form 10-K for the year ended June 30, 2008.

Customer access to securities is provided through Commonwealth Financial Network, Member NASD/SIPC.
Important information--Securities, annuities, and insurance products are not deposit products, not FDIC insured, are subject to investment risk, including the possible loss of principal, and are not an obligation of or guaranteed by the Bank.