

March 6, 2009

Mr. 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

Re: Response of Princeton National Bancorp, Inc. to letter dated February 6, 2009

Dear Mr. Barofsky:

In response to your letter of February 6, 2009, please refer to the following:

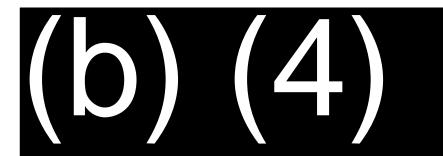
When Princeton National Bancorp, Inc. ("the Company") applied for the U.S. Department of Treasury TARP Capital Purchase Program, it was anticipated the funds received would provide the capital necessary to fund additional loan growth (b) (4)

The \$25.083 million received from the Capital Purchase Program provided the Company with funds that could be used to support up to \$250 million in additional loans at Citizens First National Bank (the "Subsidiary Bank") (b) (4)

The funds would also provide additional liquidity at the Subsidiary Bank.

The Capital Purchase Program funds of \$25.083 million were received on January 23, 2009 and are segregated from other institutional funds. The funds have been maintained in a deposit account in the name of the Company with the Subsidiary Bank. Reports are being maintained daily. The Capital Purchase Program funds are maintained in overnight funds sold at the Federal Reserve Bank. In calculating the Subsidiary Bank's daily liquidity, the Capital Purchase Program funds are not included in the calculation. Copies of the aforementioned reports are being maintained.

(b) (4)



While the intentions of the Company were to use the Capital Purchase Program funds to fund loan growth (b) (4) instead a portion of the funds were used to pay off the corporate debt. It was our impression the purpose of this program was to stimulate the economy by, among other things, allowing participants to lend to other financial institutions to insure adequate levels of liquidity throughout the banking system.

(b) (4)

Therefore, \$16.271 million of the funds received (b) (4)

were used to eliminate the corporate debt. (b) (4)

The Company now has \$8.812 million (b) (4)

(b) (4) in funds that can be infused into the capital of the Subsidiary Bank, on an as needed basis, which can then be leveraged to make loans(b) (4)

Although the segregated Capital Purchase Program funds were not used, knowing we had the additional funds at the Company level that could be infused into the Subsidiary Bank's capital and, in part, because of the liquidity provided by having the funds on deposit with the

(b) (4)

Bank also has approximately \$30 million in its Commercial Banking pipeline. As stated above, if necessary, the Capital Purchase Program funds can be infused into capital at the Subsidiary Bank and leveraged to fund the loan programs being considered and the loans in the pipeline.

- As part of the Proxy Statement for the Company's annual meeting of shareholders to be held on April 28, 2009, a "Say on Pay" proposal is being included which will be considered by the Directors' Personnel Policy & Salary Committee in determining compensation standards for future increases. An omnibus agreement was executed on January 23, 2009 to amend all employment and other compensation agreements to the extent necessary to comply with EESA and the Capital Purchase Program. The Company's senior risk officer, together with the Directors' Personnel Policy & Salary Committee, will be reviewing the incentive compensation practices of the Company to insure the Management Incentive Plan and Stock Compensation Plan do not encourage the senior executive officers to take un-necessary and excessive risks. While the Company has the Capital Purchase Plan funds, the Management Incentive Plan has been amended to exclude the top five most highly compensated senior executive officers and there will be no stock options awarded to these individuals.
- The Company took steps to notify the public, its shareholders and employees about its participation in the program. A press release was released on January 26, 2009 to the public; an E-mail was sent to employees on February 6, 2009 discussing the Capital Purchase Program; and the quarterly FACT sheet was mailed to shareholders on February 26, 2009. Included in these items was discussion of the benefits of the Capital Purchase Program and possible uses of the funds. Copies of the aforementioned mailings will be maintained by the Company.
- I, Tony J. Sorcic, President & CEO of Princeton National Bancorp, Inc., a Delaware Corporation (the "Company") have reviewed the Company's response dated March 6, 2009 and all supporting information contained or referenced therein (collectively, the "Report") being provided to the Office of the Special Inspector 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 aspects.

Tony J. Sorcic President & CEO