

HOMETOWN BANK

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3/16/09 # 205

Cook Street Office
P.O. Box 317
1000 Cook Street
Redwood Falls, MN 56283-0317
Telephone: 507-644-HOME
Fax: 507-644-4664

Downtown Office
P.O. Box 317
301 S. Washington Street
Redwood Falls, MN 56283-0317
Telephone: 507-637-8730
Fax: 507-637-5825

Olivia Office
P.O. Box 127
1115 West Lincoln Ave
Olivia, MN 56277-0127
Telephone: 320-523-2040
Fax: 320-523-2043

February 25, 2009

Neil M. Barofsky
Special Inspector General—TARP
1500 Pennsylvania Avenue NW, Suite 1064
Washington, D.C. 20220

RE: TARP Information

Dear Mr. Barofsky:

In response to your letter dated February 6, 2009, I offer the following:

Redwood Financial, Inc. received the \$ 2.995 million TARP fund investment on January 9, 2009. The

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The TARP funds have not been segregated from other institution funds but a ledger has been established to keep track of when and how the funds are used. To date, no TARP funds have been used. These funds are currently deposited in an account at HomeTown Bank.

A committee of the Board of Directors of Redwood Financial, Inc. reviewed the current compensation programs for the officers and directors of Redwood Financial, Inc. and HomeTown Bank, its wholly owned subsidiary. The committee's review included equity-based compensation programs, incentive-based compensation programs and levels of total compensation. The committee determined that our current compensation practices complied with Section 111(b) of the Emergency Economic Stabilization Act.

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(b) (4)

Based on the committee's review and conclusions, no changes were required or undertaken to comply with the compensation standards of Section 111(b) of the Emergency Economic Stabilization Act.

Cleveland Office
P.O. Box 249
326 Broadway Street
Cleveland, MN 56017
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www.htbmn.com

A subsidiary of Redwood Financial, Inc.

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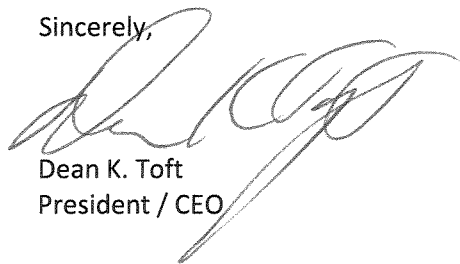
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Enclosed please find a copy of an email sent to all HomeTown Bank employees concerning the TARP funds as well as a copy of a story that recently appeared in the local newspaper.

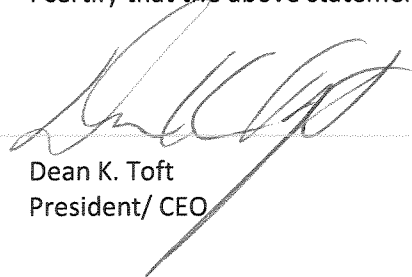
If you have any questions or further information is needed, please contact me.

Sincerely,



Dean K. Toft
President / CEO

I certify that the above statements, representations and supporting information are accurate.



Dean K. Toft
President/ CEO

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Dean Toft

From: Dean Toft
Sent: Friday, January 09, 2009 3:36 PM
To: HTB Staff

Hello everyone:

There has been much talk in the news about the U.S. Treasury Troubled Asset Relief Program (TARP). Part of that program includes the Capital Purchase Program (CPP). This program says that the US Treasury will purchase preferred stock in qualifying financial institutions to bolster the institution's capital position so the institution can make more loans and do other things to help get our economy get going again. Many large banks and other financial institutions have taken advantage of this program and many more want to participate.

In October, 2008, after much discussion at the Board level, our holding company, Redwood Financial, decided to apply for funds in this program. We are eligible for up to 3% of risk weighted assets, so, in our case, that amounted to \$ 2,995,000. In December, we received notice from the OTS and the US Treasury that our application was approved. Today, we closed on the deal and now have \$ 2,995,000 more in capital that we had yesterday.

While we really didn't need to strengthen our capital position as we are already considered well capitalized by the OTS and we are profitable (we are also a 5 star rated bank by Bauer Financial and only 4% of the banks in the nation earn that rating), the Board thought it best to (b) (4)

(b) (4)

Weak or troubled institutions will have a very difficult time qualifying for this program. Because we were approved and funded, I consider it a compliment that the OTS and the US Treasury think we are a surviving financial institution. Because our stock is not listed on a major stock exchange and seldom trades, we are considered a private company. We are probably the first private company in Minnesota, and one of the first in the nation, to qualify and actually get funded for this program

The US Treasury is required to publish the names of the financial institutions in which it purchases preferred stock within 48 hours of the purchase. Therefore, I wanted you to know about this prior to the public being informed of it. If anyone asks about it and you are not comfortable explaining our participation as I have tried to outline above, please have them call me or (b) (6) Since I will be on vacation next week, they would need to talk to (b) (6)

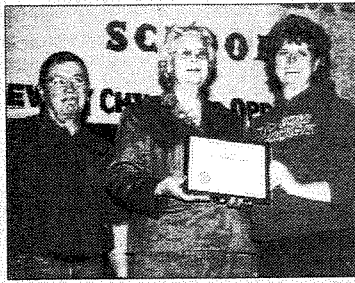
Thanks to everyone who helped out with all of the particulars of the CPP program. Thanks to you for helping to make our company successful.

Dean

Dean K. Toft
President/CEO
HomeTown Bank
(b) (6)

CONFIDENTIAL NOTIFICATION**** Because there is a small risk that information transmitted via internet Email could fall into the wrong hands, we suggest that confidential information, such as account numbers or social security numbers, or personal information not be transmitted via email. Instead please contact me via telephone.

This electronic message, along with any attachments, is an official HomeTown Bank communication and is intended solely for the identified recipients. The information is confidential and may be legally privileged. Access to this email by anyone else is unauthorized.



NEWS

The ECHO Charter School was recently presented an award. Read more on Page 3.



SPORTS

Read the latest scores from recent high school sporting events on Pages 8-9.

THE REDWOOD G

FEBRUARY 12, 2009

The Redwood Gazette

Different set of rules

HomeTown Bank TARP funds in different category

By ERIK POSZ

Staff Writer

Not all banks are the same.

Small, local banks, often called thrifts, are heavily regulated, audited frequently and must account for every penny that comes through or goes out its doors.

Commercial banks, such as J.P. Morgan-Chase and other large investment firms, are more loosely regulated.

This has caused some problems in recent months when \$180 billion, roughly 60 percent of the total funds from the Troubled Asset Relief Program (TARP), went to the five biggest financial



Toft

institutions: Citigroup, Bank of America, AIG, Wells Fargo and J.P. Morgan-Chase.

The problem is with little to no oversight, the money just disappeared once the banks got their hands on it. Some of money went for bonuses, such as the \$1 billion AIG paid in "retention bonuses" to every department, the very people who put them and the country in the mess it is now.

Of the first installment of the \$700 billion bailout, \$280.2 billion, roughly 93 percent of the total allocated, has gone to the top 28 institutions, all of which got investments or loans of \$1 bil-

lion and above.

By contrast, the 300 smallest investments, doled out to local or regional banks, total \$10.87 billion, roughly 3.6 percent of the total.

One of the banks to receive TARP funds in our area is HomeTown Bank.

HomeTown Bank (a.k.a. Redwood Financial Inc.) got \$2.995 million in TARP funds Jan. 9.

It didn't get those funds under the same programs that the big banks out east got their money.

HomeTown Bank didn't get the money because it had \$3 million in bad debt on its book. It got the money as part of the Capital Purchase Program.

SEE TARP - PAGE 15

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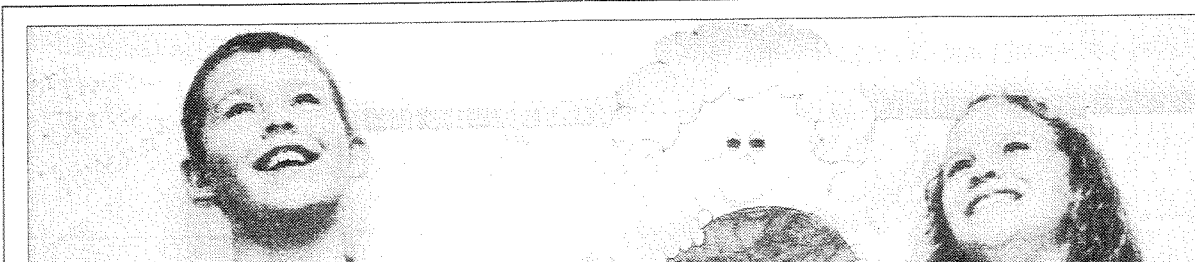
By ERIK P

Staff Writer

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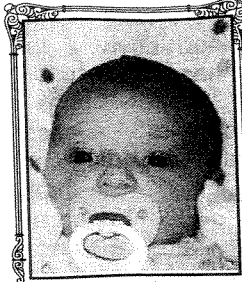


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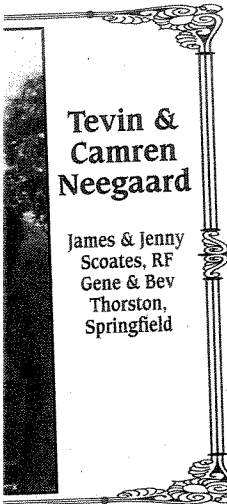
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Caitlin Flinn
James & Jenny Scoates, RF
Mike & Brenda Flinn, RF



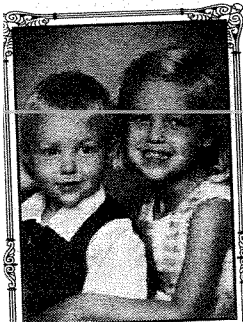
Ellery Ann Larsen
Curtis Larsen
Don Prescott & Ann Larsen,
Lower Sioux
Roger Senger & Paula Busack, RF



Tevin & Camren Neegaard
James & Jenny Scoates, RF
Gene & Bev Thorston, Springfield



Collin & Chloe Flahaven
Pat & Carol Flahaven, RF
Great-grandmothers:
Dolly Mahlmann,
Columbia Heights
Betty Flahaven,
Aberdeen, S.D.



Elly & Austin Baune
Bob & Carol Baune, Morton
Dennis & Vickie Drewlow, Great Bend, N.D.



Ian Everret All Runner
Craig & Jamie All Runner, RF

TARP

Continued from Page 1

"It is a program for healthy banks, where the government will put money into healthy banks," said Dean Toft, President and Chief Executive Officer of HomeTown Bank. "If a bank isn't healthy, it can get funds from a different part of TARP."

"We qualified (for the Capital Purchase Program) because we are a healthy bank."

"We have adequate capital. We have been profitable and have adequate loan loss reserves."

Toft said the bank had to fill out an application for the funds, send it to its regulators, the Office of Thrift Supervision.

That office had to agree with the application, and then it was sent on to the U.S. Treasury Department.

"When the board met (back in October) we discussed it," Toft said. "We didn't know if we wanted the money or not. But we thought 'let's apply and see what happens.'"

"As it happens, we are the first private bank in Minnesota to get that money."

Toft said once approved, it was a slam dunk - the money was definitely welcome, despite restrictions put on the money.

"Why we wanted the money was to enhance our capital position so we could make more good loans, but also in case an opportunity came along to make an expansion we could maybe take advantage of that," Toft said.

Large banks, such as the Wells Fargo takeover of Wachovia after receiving TARP

cism from Congress, the press and the public. However, Wells Fargo did not get its funds from the Capital Purchase Program, like HomeTown Bank did.

That and Wells Fargo took in \$25 billion in TARP funds, versus \$2.995 million to HomeTown Bank.

Buying another bank, or investing the money, or loaning it out are all acceptable under the TARP Capital Purchase Program, Toft explained.

"If we want to grow and find another bank to buy, or other investments, we need capital for that," Toft said. "We could borrow the money from somewhere. Or we could do a public stock offering. Or we could use the Capital Purchase Program money."

In exchange for the \$2.995 million, HomeTown Bank sold the treasury department 2,995 shares of preferred stock.

Dividends have to be paid to the treasury quarterly on those shares.

Unlike with some of the big banks, the money can't just disappear down a hole.

"We have to pay that money back," Toft said. "In fact, our first payment is coming up on February 15."

"We pay a five percent dividend for five years. The preferred stock can't be redeemed for three years, at least."

"After that time we can buy back the preferred stock and get the government paid off."

"That's one thing that doesn't come out very well in the media is that this money needs to be paid back."

Wells Fargo is actually the only large bank

made a payment on the TARP funds it received.

That payment totaled \$371.5 million.

Toft said the smaller, regional banks are limited on how much money they can receive from the capital purchase program.

There is a strict formula relating to assets, cash, loans and ratios as to how much a bank can get.

"There were expenses in getting this money," Toft said. "It took two sets of lawyers - one in Minneapolis and one in New York - to do the application."

"Plus we had to agree to restrictions. We got the money on Jan. 9, which was before President Obama set his restrictions on executive pay, but we had to agree to that anyhow."

"The top five people in the company had to agree to that pay restriction. But honestly, it didn't effect us."

I mean, a \$500,000 pay limit, we're well under that. We weren't even close."

The capital purchase program funds give HomeTown Bank flexibility and opportunity in these difficult financial times, improving its position and allowing it to make more loans.

"A year ago we had \$91 million in loans," Toft said. "At the end of 2008, we had \$102 million."

"So we increased our loans last year by just about \$12 million. We want to continue to do that."

"But they have to be good loans."

Toft said jokingly unlike some of the big boys, no TARP funds are going to be used for dividends, private jets, trips or junkets to Las Vegas, France or Spain.