CAPITAL PURCHASE PROGRAM (CPP) LENDING REPORT

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RSSD (for Bank Holding Companies): 2361880
Holding Company Docket Number (for Thrift Holding Companies):
FDIC Certificate Number (for depository institutions):

LENDING ACTIVITY (Thousands $)	2009 FEB	2009 MAR	Key	Comments
1. Loan Balances				
a. Average Consumer Loans	$83,499	$84,197	Average balances reflect performing loan balances in categories consistent with the data collection guidance.	**Loan payoffs for March totaled ($723). Net transfers FROM nonaccrual totaled $160. Month-end nonaccrual balance = $724.**
b. Average Commercial Loans	$59,423	$58,691	Same as above.	**Loan payoffs for March totaled ($621). Net transfers TO nonaccrual totaled ($416). Month-end nonaccrual balance = $1,210.**
c. Total Loans (sum of lines a and b)	$142,922	$142,888	Same as above.	**In the month of February, 26 new loans were booked with a total commitment of $2,346. In the month of March, 27 new loans were booked with a total commitment of $1,678.**

2. General Market Commentary (optional)

Background: Private Bank Minnesota (Bank) is the sole subsidary and primary asset of Private Bancorporation, Inc. (PBI). The Bank's dominant loan product is home equity loans. Over the past few years this product has been very aggressively sold in this market by the larger banks in particular. Home equity loan offers of 100% LTV at a prime or lower rate of interest were fairly common. The aggressive pricing was also very evident in other consumer and commercial loan products as well. During this time the Bank stuck to its underwriting criteria in terms of collateral and liquidity, but was forced to lower rates toward the competition in order to retain renewing loans. This posture resulted in flat loan growth and gradually decreasing margins during 2005-2007. When the markets reacted to the first news of loan concerns in the summer of 2007, many of the banks in this market began to pull back on their aggressive underwriting/pricing of these products. In the fall of 2007 the Bank began to see more loan credit-worthy loan referrals and began to again grow - from a total loan balance of $113,447 at the end of September 2007 to $147,521 at the end of August 2008. At that point, because of capital ratio limitations, the Bank was forced to curtail soliciting new loans from potential new clients in order to continue servicing the credit needs of existing clients. In September PBI advanced $1 million on its bank stock loan to inject into the Bank to maintain its well-capitalized ratios, holding an unadvanced reserve for potential loan loss issues. PBI applied for the CPP investment in order to support the borrowing that provided the Bank with the capital necessary to grow loans in 2008, to allow the Bank to start growing again, and to provide a cushion for unanticipated loan quality issues evolving from the current economic situation. **Current Situation:** Since receiving the CPP funds at the end of February, the Bank has been able to initiate new marketing efforts to generate new loan and deposit prospects. In this early stage results have been mixed for several reasons: (1) Substantially all of the Bank's loans are variable rate based on Prime. Because of the historically low prime rate we have had to institute interest floors in order to bolster our net interest margin which has significantly deteriorated over the past year. Clients and prospects alike are reacting to 5%-6% floors - not because they are high but because they are "so much" over prime. (2) Low mortgage rates are motivating some clients to refinance and pay off home equity loans. (3) Businesses appear to be contracting in the current environment, not seeking new credit and sometimes paying down loans. In the meantime, the Bank has recently invested $2.9 million in a FNMA pool security which consists of 20 low-to-moderate income mortgages in this market area. Having said that, we feel that even though the average balances don't yet reflect the growth, our efforts have been successful as reflected in the booking of $1.67 million in new loan commitments in March and $2.34 million in February.