

**FORM 10-Q**

**UNITED STATES  
FEDERAL DEPOSIT INSURANCE CORPORATION**

**WASHINGTON, D.C. 20329-9900**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

FDIC Certificate No.: 58072

**USA Bank**

(Exact name of registrant as specified in its charter)

**New York**

(State or other jurisdiction of incorporation  
or organization)

**20-0646362**

(I.R.S. Employer  
Identification No.)

**601 North Main Street, Port Chester, New York 10573**

(Address of principal executive offices)  
(Zip Code)

**(914) 939-3700**

(Registrant's telephone number, including area code)

**N/A**

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of May 12, 2009, 5,750,000 shares of the Issuer's common stock, \$2.00 par value, were outstanding.

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**PART I**  
**Financial Information**

**Item 1. Consolidated Financial Statements**

**USA BANK**

**CONSOLIDATED BALANCE SHEETS**

**March 31, 2009 and December 31, 2008 (unaudited)**

|   | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| Cash and due from banks   | \$ 6,681,443              | \$ 1,286,237                 |
| Federal funds sold and overnight investments  | 5,558,924                 | 10,629,616                   |
| Cash and cash equivalents   | 12,240,367                | 11,915,853                   |
| Held to maturity securities, at amortized cost (fair value \$1,111,619 in 2009 and \$1,181,876 in 2008)                   | 1,078,486                 | 1,146,972                    |
| Available for sale securities, at fair value  | 40,050,025                | 40,877,380                   |
| Total investment securities   | 41,128,511                | 42,024,352                   |
| Loans held for sale   | 457,375                   | -                            |
| Loans, net of the allowance for loan losses of \$2,411,000 in 2009 and \$2,044,000 in 2008                                | 156,484,369               | 151,013,117                  |
| Leasehold improvements and equipment, net   | 671,814                   | 691,560                      |
| Other real estate owned   | 2,370,250                 | 2,370,250                    |
| Accrued interest receivable   | 1,561,032                 | 1,638,089                    |
| Other assets  | 241,718                   | 279,585                      |
| <b>Total assets</b>   | <b>\$ 215,155,436</b>     | <b>\$ 209,932,806</b>        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                           |                              |
| <b>Liabilities</b>  |                           |                              |
| Deposits  |                           |                              |
| Noninterest-bearing deposits  | \$ 6,046,967              | \$ 8,435,324                 |
| Interest-bearing deposits   | 169,391,059               | 161,332,857                  |
| Total deposits  | 175,438,026               | 169,768,181                  |
| Securities sold under repurchase agreements   | 23,000,000                | 23,000,000                   |
| Accrued expenses and other liabilities  | 1,294,127                 | 1,030,820                    |
| <b>Total liabilities</b>  | 199,732,153               | 193,799,001                  |
| <b>Commitments and Contingencies</b>  |                           |                              |
| <b>Shareholders' Equity</b>   |                           |                              |
| Common stock, par value \$2; 5,750,000 shares authorized, issued and outstanding at March 31, 2009, and December 31, 2008 | 11,500,000                | 11,500,000                   |
| Additional paid-in capital  | 21,116,774                | 21,116,774                   |
| Accumulated deficit   | (13,851,897)              | (13,026,070)                 |
| Accumulated other comprehensive loss – net unrealized loss on available for sale securities                               | (3,341,594)               | (3,456,899)                  |
| <b>Total shareholders' equity</b>   | 15,423,283                | 16,133,805                   |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 215,155,436</b>     | <b>\$ 209,932,806</b>        |

See Accompanying Notes to Consolidated Financial Statements

**USA BANK**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended March 31, 2009 and 2008 (unaudited)**

|   | <b>Three Months Ended March 31</b> |                     |
|---|------------------------------------|---------------------|
|   | <b>2009</b>                        | <b>2008</b>         |
| <b>Interest Income</b>  |                                    |                     |
| Interest on Federal funds sold and overnight investments        | \$ 4,903                           | \$ 86,228           |
| Interest on interest-bearing deposits                           | -                                  | 58,952              |
| Interest and fees on loans                                      | 2,744,799                          | 2,239,627           |
| Interest on investments   | 550,930                            | 598,836             |
| Interest on loans held for sale                                 | 1,767                              | 174,258             |
| <b>Total interest income</b>                                    | <b>3,302,399</b>                   | <b>3,157,901</b>    |
| <b>Interest Expense</b>   |                                    |                     |
| Interest expense on deposits                                    | 1,713,503                          | 1,564,935           |
| Interest expense on securities sold under repurchase agreements | 259,875                            | 262,983             |
| <b>Total interest expense</b>                                   | <b>1,973,378</b>                   | <b>1,827,918</b>    |
| <b>Net interest income</b>                                      | <b>1,329,021</b>                   | <b>1,329,983</b>    |
| <b>Provision for loan losses</b>                                | <b>366,560</b>                     | <b>225,000</b>      |
| <b>Net interest income after provision for loan losses</b>      | <b>962,461</b>                     | <b>1,104,983</b>    |
| <b>Noninterest Income</b>                                       |                                    |                     |
| Gains on sales of securities                                    | -                                  | 146,365             |
| Gains on sales of loans   | 2,436                              | 50,669              |
| Broker fee income   | -                                  | 47,792              |
| Service charges   | 37,402                             | 15,400              |
| Other   | 26,761                             | 6,693               |
| <b>Total noninterest income</b>                                 | <b>66,599</b>                      | <b>266,919</b>      |
| <b>Noninterest Expense</b>                                      |                                    |                     |
| Salaries and employee benefits                                  | 738,185                            | 777,892             |
| Occupancy and equipment   | 140,687                            | 192,550             |
| Professional fees   | 269,427                            | 292,501             |
| Legal   | 140,119                            | 218,033             |
| Commissions   | 3,672                              | 156,706             |
| Contract services   | 33,061                             | 49,810              |
| Printing, stationery and supplies                               | 8,374                              | 13,691              |
| Advertising   | 54,186                             | 9,644               |
| Data and item processing  | 100,296                            | 86,864              |
| FDIC Insurance  | 160,120                            | 112,490             |
| OREO Expense  | 27,781                             | 4,500               |
| Other   | 178,979                            | 203,187             |
| <b>Total noninterest expense</b>                                | <b>1,854,887</b>                   | <b>2,117,868</b>    |
| <b>Net loss</b>   | <b>\$ (825,827)</b>                | <b>\$ (745,966)</b> |
| Basic and diluted loss per share                                | <b>\$ (0.14)</b>                   | <b>\$ (0.13)</b>    |

See Accompanying Notes to Consolidated Financial Statements

**USA BANK**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Three Months Ended March 31, 2009 and 2008 (unaudited)**

|   | <b>Number<br/>of<br/>Shares</b> | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid in<br/>Capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total</b>         |
|---|---------------------------------|-------------------------|---|--------------------------------|--|----------------------|
| Balance, December 31, 2007                                  | 5,750,000                       | \$ 11,500,000           | \$ 21,116,774                             | \$ (10,334,178)                | \$ 26,618  | \$ 22,309,214        |
| Comprehensive loss:   |                                 |                         |   |                                |  |                      |
| Net loss  | -                               | -                       | -   | (745,966)                      | -  | (745,966)            |
| Unrealized holding loss on<br>available for sale securities | -                               | -                       | -   | -                              | (151,722)  | (151,722)            |
| <b>Total comprehensive loss</b>                             |                                 |                         |   |                                |  | <b>(897,688)</b>     |
| Balance, March 31, 2008                                     | <u>5,750,000</u>                | <u>\$ 11,500,000</u>    | <u>\$ 21,116,774</u>                      | <u>\$ (11,080,144)</u>         | <u>\$ (125,104)</u>  | <u>\$ 21,411,526</u> |
| Balance, December 31, 2008                                  | 5,750,000                       | \$ 11,500,000           | \$ 21,116,774                             | \$ (13,026,070)                | \$ (3,456,899)   | \$ 16,133,805        |
| Comprehensive loss:   |                                 |                         |   |                                |  |                      |
| Net loss  | -                               | -                       | -   | (825,827)                      | -  | (825,827)            |
| Unrealized holding gain on<br>available for sale securities | -                               | -                       | -   | -                              | 115,305  | 115,305              |
| <b>Total comprehensive loss</b>                             |                                 |                         |   |                                |  | <b>(710,522)</b>     |
| Balance, March 31, 2009                                     | <u>5,750,000</u>                | <u>\$ 11,500,000</u>    | <u>\$ 21,116,774</u>                      | <u>\$ (13,851,897)</u>         | <u>\$ (3,341,594)</u>  | <u>\$ 15,423,283</u> |

See Accompanying Notes to Consolidated Financial Statements

**USA BANK**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2009 and 2008 (unaudited)**

|  | Three Months Ended March 31, |                      |
|--|------------------------------|----------------------|
|  | 2009                         | 2008                 |
| <b>Cash Flows from Operations</b>  |                              |                      |
| Net loss   | \$ (825,827)                 | \$ (745,966)         |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities     |                              |                      |
| Amortization and accretion of premiums and discounts on investments, net                     | 57,735                       | (44,890)             |
| Provision for loan losses  | 366,560                      | 225,000              |
| Gain on sale of available for sale securities  | -                            | (146,365)            |
| Loans originated for sale, net of principal payments received                                | (872,500)                    | (1,630,351)          |
| Proceeds from sales of loans   | 417,561                      | 3,294,919            |
| Net gains on sales of loans  | (2,436)                      | (50,669)             |
| Depreciation and amortization  | 40,689                       | 56,921               |
| Changes in assets and liabilities:   |                              |                      |
| (Decrease) increase in deferred loan fees  | (18,992)                     | 104,968              |
| Decrease (increase) in accrued interest receivable   | 77,057                       | (117,941)            |
| Increase in other assets   | 37,867                       | 29,098               |
| Increase in accrued expenses and other liabilities   | 263,307                      | 537,421              |
| <b>Net cash (used in) provided by operating activities</b>                                   | <u>(458,979)</u>             | <u>1,512,146</u>     |
| <b>Cash Flows from Investing Activities</b>  |                              |                      |
| Purchase of available for sale securities  | (5,871,768)                  | (14,982,651)         |
| Proceeds from sale of available for sale securities  | -                            | 14,246,701           |
| Proceeds from call of available for sale securities  | 3,900,000                    | -                    |
| Principal repayments on available for sale securities  | 2,853,997                    | 954,419              |
| Principal repayments on held to maturity securities  | 71,182                       | 73,369               |
| Net increase in loans receivable   | (5,818,820)                  | (22,603,188)         |
| Purchase of leasehold improvements and equipment   | (20,943)                     | (9,189)              |
| <b>Net cash used in investing activities</b>   | <u>(4,886,352)</u>           | <u>(22,320,539)</u>  |
| <b>Cash Flows from Financing Activities</b>  |                              |                      |
| Net increase in time deposits  | 3,958,818                    | 22,841,762           |
| Net increase in other deposits   | 1,711,027                    | 3,829,323            |
| <b>Net cash provided by financing activities</b>   | <u>5,669,845</u>             | <u>26,671,085</u>    |
| <b>Net increase in cash and cash equivalents</b>   | <u>324,514</u>               | <u>5,862,692</u>     |
| Cash and cash equivalents  |                              |                      |
| Beginning  | 11,915,853                   | 10,955,671           |
| Ending   | <u>\$ 12,240,367</u>         | <u>\$ 16,818,363</u> |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                      |                              |                      |
| Cash paid for:   |                              |                      |
| Interest   | <u>\$ 2,046,724</u>          | <u>\$ 1,692,977</u>  |
| <b>Supplemental disclosure of noncash investing activity:</b>                                |                              |                      |
| Unrealized holding gains (losses) on available for sale securities arising during the period | <u>\$ 115,305</u>            | <u>\$ (169,102)</u>  |

See Accompanying Notes to Consolidated Financial Statements

**USA Bank**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**Note 1. Nature of Operations**

USA Bank (the “*Bank*”) is a State of New York chartered commercial bank whose deposits are insured by the Federal Deposit Insurance Corporation. The Bank is headquartered in Port Chester, New York, and offers traditional commercial banking deposit services to residents from its “primary market area” of Port Chester, Rye, and Rye Brook, New York, and also attracts loan customers from its primary market area and other towns in upper Westchester County, New York, and lower Fairfield County, Connecticut.

The Bank’s overall strategy is to provide highly personal, customized and responsive service in the delivery of banking services to businesses and individuals located in the primary market area. The Bank’s main branch is located at 601 North Main Street, Port Chester, NY. The Bank also leases additional space in Greenwich, CT, for general administrative purposes.

**Note 2. Basis of Consolidated Financial Statement Presentation**

The Consolidated Balance Sheet at December 31, 2008 has been derived from the audited financial statements of the Bank at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The interim consolidated financial statements and notes thereto include the accounts of the Bank and its wholly-owned subsidiary, USA MBA, Inc., a Connecticut-based mortgage brokerage company, which is inactive. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of income and expenses for the reporting periods. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements of the Bank and notes thereto as of December 31, 2008, filed with the FDIC on Form 10-K on April 15, 2009.

### Note 3. Investments

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale and held to maturity securities at March 31, 2009, and December 31, 2008, are as follows:

#### March 31, 2009

| Available for sale securities      | Amortized Cost       | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value           |
|------------------------------------|----------------------|------------------------|-------------------------|----------------------|
| Mortgage-backed securities         | \$ 43,391,619        | \$ 862,600             | \$ (4,204,194)          | \$ 40,050,025        |
| <b>Total available for sale</b>    | <b>\$ 43,391,619</b> | <b>\$ 862,600</b>      | <b>\$ (4,204,194)</b>   | <b>\$ 40,050,025</b> |
| <b>Held to maturity securities</b> | <b>1,078,486</b>     | <b>33,133</b>          | <b>-</b>                | <b>1,111,619</b>     |
| Mortgage-backed securities         | \$ 1,078,486         | \$ 33,133              | \$ -                    | \$ 1,111,619         |

#### December 31, 2008

| Available for sale securities      | Amortized Cost       | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value           |
|------------------------------------|----------------------|------------------------|-------------------------|----------------------|
| U.S. Government Sponsored Agencies | \$ 3,900,000         | \$ 4,875               | \$ -                    | \$ 3,904,875         |
| Mortgage-backed securities         | 40,434,279           | 516,655                | (3,978,429)             | 36,972,505           |
| <b>Total available for sale</b>    | <b>\$ 44,334,279</b> | <b>\$ 521,530</b>      | <b>\$ (3,978,429)</b>   | <b>\$ 40,877,380</b> |
| <b>Held to maturity securities</b> |                      |                        |                         |                      |
| Mortgage-backed securities         | \$ 1,146,972         | \$ 34,904              | \$ -                    | \$ 1,181,876         |

At March 31, 2009, gross unrealized holding losses on four available for sale securities totaled \$4,204,194, an aggregate depreciation of 55.7% from the Bank's amortized cost. All four of these securities are private label whole loan collateralized mortgage obligations ("CMOs") that have been in an unrealized loss position for twelve consecutive months or longer. Any losses incurred to date or in the future have currently been and are anticipated to be absorbed by subordinate classes within the pool of mortgages. The credit support available on the four securities is approximately one times the current projected cumulative losses within the tranche of mortgages collateralizing these investments. Management does not believe that any of the securities with unrealized losses as of March 31, 2009, are other-than-temporarily impaired. Three of the four securities were downgraded to BB and the fourth was downgraded to B-subsequent to March 31, 2009. The Bank has the ability and intent to hold these securities until fair value recovery or to maturity, if necessary, and expects to receive all contractual principal and interest related to these investments. As a result, management believes that these unrealized losses will not have a negative impact on future earnings or a permanent effect on capital. However, to the extent that changes in interest rates, credit movements and other factors that influence the fair value of investments occur, the Bank may be required to record impairment charges for other-than-temporary impairment in the future.

At December 31, 2008, gross unrealized holding losses on five available for sale securities totaled \$3,978,429, an aggregate depreciation of 36.5% from the Bank's amortized cost. One of these securities was an agency mortgage-backed security with an implied AAA rating which was called during the period ended March 31, 2009. The other four securities were the private label whole loan CMOs referred to above, which were all rated AAA by Fitch at

December 31, 2008. Standard & Poor's (S&P) downgraded two of these four securities from an AAA rating to an A and BB rating during the fourth quarter of 2008, leaving the other two unchanged at AAA as of December 31, 2008. The unrealized losses on the four private label whole loan CMOs totaled \$3,952,000, and the securities had a fair value of \$3,858,000 at December 31, 2008. At December 31, 2008, these four securities had been in an unrealized loss position for twelve consecutive months or longer.

At March 31, 2009, \$27.9 million of the available for sale securities and the \$1.2 million of held to maturity securities have been pledged as collateral for municipal deposits and securities sold under agreements to repurchase. There were no sales of investment securities during the three months ended March 31, 2009. There were sales of \$14.2 million of investment securities during the three months ended March 31, 2008, which resulted in a gain of \$146,000.

#### Note 4. Loans and Allowance for Loan Losses

Summaries of the Bank's loan portfolio as of March 31, 2009, and December 31, 2008, are as follows:

|                                 | March 31,<br>2009     | % of Total<br>Portfolio | December 31,<br>2008  | % of Total<br>Portfolio |
|---------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Real estate loans               |                       |                         |                       |                         |
| Residential mortgages           | \$ 12,038,588         | 7.57%                   | \$ 11,650,804         | 7.60%                   |
| Commercial real estate          | 38,154,780            | 23.98%                  | 35,378,954            | 23.09%                  |
| Construction                    | 76,750,540            | 48.24%                  | 75,649,779            | 49.36%                  |
| Home equity                     | 14,167,790            | 8.91%                   | 13,048,310            | 8.51%                   |
| Total real estate loans         | <u>141,111,698</u>    | <u>88.70%</u>           | <u>135,727,847</u>    | <u>88.56%</u>           |
| Commercial and industrial loans | 16,751,910            | 10.53%                  | 15,817,596            | 10.32%                  |
| Consumer loans                  | 1,219,115             | 0.77%                   | 1,718,019             | 1.12%                   |
| Total gross loans               | <u>159,082,723</u>    | <u>100.00%</u>          | <u>153,263,462</u>    | <u>100.00%</u>          |
| Deferred loan fees, net         | (187,354)             |                         | (206,345)             |                         |
| Allowance for loan losses       | <u>(2,411,000)</u>    |                         | <u>(2,044,000)</u>    |                         |
| Loans receivable, net           | <u>\$ 156,484,369</u> |                         | <u>\$ 151,013,117</u> |                         |

In the normal course of business, the Bank may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, substantially the same as those available to unrelated customers.

#### Allowance for Loan Losses

The following represents the activity in the allowance for loan losses for the three months ended March 31, 2009, and March 31, 2008:

|                                | March 31,<br>2009   | March 31,<br>2008   |
|--------------------------------|---------------------|---------------------|
| Balance at beginning of period | \$ 2,044,000        | \$ 1,421,000        |
| Charge-offs                    | -                   | -                   |
| Recoveries                     | -                   | -                   |
| Provision for loan losses      | <u>367,000</u>      | <u>225,000</u>      |
| Balance at end of period       | <u>\$ 2,411,000</u> | <u>\$ 1,646,000</u> |

### Non-Accrual, Past Due and Restructured Loans

The following is a summary of non-accrual and past due loans at March 31, 2009 and December 31, 2008:

|   | <u>March 31,<br/>2009</u> | <u>December 31,<br/>2008</u> |
|---|---------------------------|------------------------------|
| Loans delinquent over 90 days and still accruing                | \$ 1,919,585              | \$ 664,884                   |
| Non-accrual loans   | 9,728,294                 | 9,046,113                    |
| Total nonperforming loans                                       | <u>\$ 11,647,879</u>      | <u>\$ 9,710,997</u>          |
| <br>  |                           |                              |
| % of Total Loans  | 7.32%                     | 6.34%                        |
| % of Total Assets   | 5.41%                     | 4.63%                        |
| Ratio of allowance for loan losses to total nonperforming loans | 20.70%                    | 21.05%                       |

Note: One non-accrual loan of \$2.2 million had a specific reserve of \$141,540 as of March 31, 2009 and December 31, 2008.

The Bank had one loan considered as “troubled debt restructuring” as of March 31, 2009 and December 31, 2008 (see further discussion below), in the amount of \$1.4 million at both March 31, 2009 and December 31, 2008, which is included in non-accrual loans.

On July 16, 2008, the Bank entered into a forbearance agreement, which restructured two loans totaling \$1.9 million with one borrower. The agreement covered the period from August 1, 2008, through June 1, 2010. Under the terms of the agreement, the borrower agreed to pay to the Bank an increased interest rate on the principal balance outstanding and assigned rental payments of \$6,800 per month from one of the collateral properties through the term of the agreement. The borrower also agreed that the due date for final payment will be the earlier of the date of sale or refinancing of the premises or June 30, 2010. Based on appraisals dated August 20, 2008, the Bank established a specific reserve of \$139,000 during the third quarter of 2008 within the allowance for loan losses, while the net realizable value of the collateral on the other loan was determined to be sufficient to enable the Bank to collect the balance due.

During the fourth quarter of 2008, the borrower went into arrears on the forbearance agreement. A more recent appraisal on one of the properties, in which the Bank was in a second position, resulted in no value in the collateral available to the Bank and that loan was charged-off in the amount of \$479,000. The other property was placed on non-accrual status and the net realizable value of the collateral on that property is in excess of the outstanding loan balance; therefore, no specific allowance was established for the loan.

### Potential Problem Loans

Other than loans that have been identified as non-accrual or past due 90 days and still accruing at March 31, 2009 and December 31, 2008, the Bank had no material loans as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms. Considering the depressed state of the economy, including increased unemployment both locally and nationally and continuing depreciating real estate values, it is possible that loans, other than those on non-accrual status or those 90 days past due and accruing, could become problem loans in the future.