

FIRST NORTHERN COMMUNITY BANCORP
Form PRE 14A
August 03, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
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First Northern Community Bancorp

(Name of Registrant as Specified In Its Charter)

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FIRST NORTHERN COMMUNITY BANCORP
195 N. FIRST STREET
DIXON, CA 95620

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To be held September 13, 2011

August __, 2011

To our Shareholders

You are cordially invited to attend a Special Meeting of Shareholders of First Northern Community Bancorp (the "Company") which will be held at the First Northern Bank Operations Center, 210 Stratford Avenue, Dixon, California, on September 13, 2011, at 9:00 am for the following purposes:

1. Approval of a proposal to adopt an amendment to Article 4 of the Company's Amended Articles of Incorporation (the "Articles"), to authorize the Company to issue up to 22,848 preferred shares which will be sold to the U.S. Treasury under the U.S. Treasury's Small Business Lending Fund, the proceeds of which sale will be used, in part, to redeem all of the Company's outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which were issued to the U.S. Treasury as a part of its Capital Purchase Program under the Troubled Asset Relief Program.
2. Approval of a proposal for the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article 4 of the Company's Articles or a quorum is not present at the meeting; and
3. Approval of any other matter which may properly come before the Special Meeting or any adjournment or postponement thereof. At this time, the Company's Board is not aware of any other business to come before the Special Meeting.

Shareholders of record of the Company at the close of business on August 1, 2011, will be entitled to notice of and to vote at the Special Meeting and any adjournment thereof. Each shareholder is entitled to one vote for each share of common stock held regarding each matter properly brought before the Special Meeting.

IT IS VERY IMPORTANT THAT EVERY SHAREHOLDER VOTE. WE URGE YOU TO MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON. IF YOU DO ATTEND THE SPECIAL MEETING AND ELECT TO VOTE IN PERSON, YOU MAY DO SO. THE PROXY MAY BE REVOKED AT ANY TIME PRIOR TO ITS EXERCISE.

BY ORDER OF THE
BOARD OF DIRECTORS

Gregory DuPratt
Chairman of the Board

Louise Walker
President and Chief Executive Officer

FIRST NORTHERN COMMUNITY BANCORP

195 North First Street

Dixon, California 95620

NOTICE OF SPECIAL MEETING
OF SHAREHOLDERS

To be held September 13, 2011

August __, 2011

To our Shareholders:

You are cordially invited to attend a Special Meeting of Shareholders of First Northern Community Bancorp (the "Company"), to be held at the Company's Operations Center at 210 Stratford Avenue, Dixon, CA, on September 13, 2011 at 9:00 am, local time, for the following purposes:

1. Approval of a proposal to adopt an amendment to Article 4 of the Company's Amended Articles of Incorporation (the "Articles"), to authorize the Company to issue up to 22,848 preferred shares which will be sold to the U.S. Treasury under the U.S. Treasury's Small Business Lending Fund, the proceeds of which sale will be used, in part, to redeem all of the Company's outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which were issued to the U.S. Treasury as a part of its Capital Purchase Program under the Troubled Asset Relief Program.
2. Approval of a proposal for the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article 4 of the Company's Articles or a quorum is not present at the meeting; and
3. Approval of any other matter which may properly come before the Special Meeting or any adjournment or postponement thereof. At this time, the Company's Board is not aware of any other business to come before the Special Meeting.

Shareholders of record of the Company at the close of business on August 1, 2011, are entitled to notice of and to vote at the Special Meeting and at any adjournment thereof. Each shareholder is entitled to one vote for each share of common stock held regarding each matter properly brought before the Special Meeting.

Your vote is important, regardless of the number of shares of common stock you own. Whether or not you plan to attend the Special Meeting in person, it is important that your shares of common stock be represented. Please sign, date and return your proxy card. A return envelope, which requires no postage if mailed in the U.S., has been provided for your use. If you later decide to revoke your proxy for any reason, you may do so in the manner described in the accompanying Proxy Statement.

By Order of the Board of Directors,

Louise Walker
President and Chief Executive Officer

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EVERY SHAREHOLDER'S VOTE IS IMPORTANT. IF YOU ARE UNABLE TO BE PRESENT AT THE SPECIAL MEETING, YOU ARE REQUESTED TO COMPLETE AND RETURN PROMPTLY THE ENCLOSED PROXY SO THAT YOUR SHARES WILL BE REPRESENTED. A STAMPED, ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

FIRST NORTHERN COMMUNITY BANCORP

195 North First Street

Dixon, California

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS

INTRODUCTION

We are sending this Proxy Statement and the accompanying proxy card to you as a shareholder of First Northern Community Bancorp, a California corporation (the "Company"), in connection with the solicitation of proxies for the Special Meeting of Shareholders (the "Special Meeting") to be held at the Company's Operations Center, 210 Stratford Avenue, Dixon, CA, on September 13, 2011, at 9:00 am, local time. We are soliciting proxies for use at the Special Meeting, or any adjournment thereof. Only shareholders of record as of the close of business on August 1, 2011, which we refer to as the record date, will be entitled to vote at the Special Meeting. The proxy solicitation materials for the Special Meeting will be distributed to shareholders of record on or about August __, 2011.

INFORMATION ABOUT THE SPECIAL MEETING

When is the Special Meeting?

September 13, 2011 at 9:00 am, local time.

Where will the Special Meeting be held?

At the Company's Operations Center, 210 Stratford Avenue, Dixon, CA.

What matters will be voted upon at the Special Meeting?

You will be voting on the following matters:

1. Approval of a proposal to adopt an amendment to Article 4 of the Company's Amended Articles of Incorporation (the "Articles"), to authorize the Company to issue up to 22,848 preferred shares which will be sold to the U.S. Treasury under the United States Department of Treasury ("Treasury") Small Business Lending Fund ("SBLF"), the proceeds of which sale will be used, in part, to redeem all of the Company's outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which were issued to the U.S. Treasury as a part of its Capital Purchase Program under the Troubled Asset Relief Program ("TARP").
2. Approval of a proposal to approve the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt the proposed amendment to Article 4 of the Company's Articles.

Why is the Company holding a Special Meeting of Shareholders?

On July 15, 2011, the Company received approval from the Treasury to participate in the Treasury's SBLF in the amount of \$22,847,500. Participation in the SBLF would involve issuing a newly-authorized series of Company Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "SBLF Shares") to the Treasury and redeeming all of the Company's outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A which were issued to the Treasury as a part of its Capital Purchase Program under TARP (the "TARP Shares"). A summary comparison of the terms of the SBLF Shares and the TARP Shares is set forth below under the caption "Proposal 1 – Summary Comparison of the TARP Shares and the SBLF Shares." After redemption of the TARP Shares, the Company would receive approximately \$5,457,500 in net proceeds from the offering before offering related expenses. The ten-year warrant issued to the Treasury in 2009 in connection with the TARP Shares (the "Warrant") to purchase up to 352,977 shares of the Company's common stock at an exercise price of \$7.39 per share will remain outstanding unless the Company repurchases the warrant. If we do not repurchase the Warrant, until the Warrant expires, Treasury may sell, exercise or continue to hold the Warrant, in whole or in part.

We believe that participation in the SBLF will provide the Company with an opportunity to replace the TARP Shares with SBLF Shares that we believe present more attractive financial and other terms for the Company and its shareholders. In addition, SBLF participation will provide the Company an opportunity to raise additional capital in a low-cost manner. While the Company's capital position is sound and above the minimum required to be considered well-capitalized under applicable regulatory guidelines, the Board and management believe that it is advisable to take advantage of this opportunity to ensure that the Company remains well-positioned to support its existing operations, including the funding of small business loans, and take advantage of potential growth opportunities in the future. We also believe that economic uncertainty and turbulence in the local and global markets continue to make it prudent for financial institutions to supplement their capital as protection against future economic difficulties.

Is the SBLF part of TARP?

No, the SBLF is a distinct and separate program from TARP. The SBLF Shares are part of the SBLF under the Small Business Jobs Act of 2010 rather than the Emergency Economic Stabilization Act of 2008 ("EESA") (as was the case with TARP) and draws from a source of funding separate than TARP and is administered by a separate organization in the Treasury. The Small Business Jobs Act of 2010 includes a specific assurance that any institution will not, by virtue of participating in the SBLF, be considered a TARP recipient. The SBLF encourages lending to small business by providing capital to community banks with under \$10 billion in assets. Any funding received under the SBLF must first be used to pay off TARP funding, including the TARP Shares.

Will the SBLF Participation Change our Business Strategies?

No. We believe a significant portion of our lending operations already consist of lending to small businesses as contemplated by the SBLF program.

What will happen to the Warrant?

The Warrant to purchase up to 352,977 shares of the Company's common stock at an exercise price of \$7.39 per share will remain outstanding unless the Company repurchases the warrant. Under Treasury policies, after redeeming the TARP Shares, the Company will have a right of first refusal to repurchase the Warrant at its appraised market value. The Company does not intend at this time to repurchase the Warrant although it would reconsider if the Warrant could be repurchased on terms that the Company believes are attractive. Shareholder approval is not being sought and would not be necessary to repurchase the Warrant. If we do not repurchase the Warrant, until the Warrant expires, Treasury may sell, exercise or continue to hold the Warrant, in whole or in part.

Why are the amendments to Article 4 of the Company's Articles necessary?

Because we are not currently authorized to issue the SBLF Shares under our Articles, it is necessary for us to amend our Articles to authorize the SBLF Shares in order to participate in the SBLF. While the shareholders of the Company authorized the TARP Shares in 2009, this authorization was limited to shares issued to the Treasury under the Capital Purchase Program. The SBLF is not a Capital Purchase Program or TARP program, therefore, the Company lacks authorization to participate in the SBLF without an amendment to the Company's Articles.

While the Company intends to participate in the SBLF if this proposal is approved, there can be no assurance that we will participate in the SBLF and will not be required to do so. However, the proposed amendments to the Articles will only authorize the SBLF Shares and will not authorize the Company to issue the preferred shares for any other purpose.

Is Participation in the SBLF Program Necessary for the Company to Redeem the TARP Shares?

Under the American Recovery and Reinvestment Act of 2009, the TARP Shares may be redeemed at any time. All redemptions of the TARP Shares must be at 100% of issue price, plus any accrued and unpaid dividends, and are subject to the approval of our banking regulators. At this time, the Company has determined that participation in the SBLF program presents the most attractive and feasible means of redeeming the TARP Shares.

When can the Company Redeem the SBLF Shares and Exit the SBLF Program?

Subject to the prior approval of the FDIC and California Department of Financial Institutions, under the terms of the SBLF program, the Company could exit the program at any time without penalty by redeeming the SBLF Shares and paying all accrued and unpaid dividends. Partial redemptions of at least 25% of the original funding amount are also permitted at any time without penalty.

The Company is currently exploring various options for the redemption of the SBLF Shares should the Company proceed with this transaction. In addition to the possibility of future redemption of the SBLF Shares from our earnings from operations, the Company is considering other capital raising transactions such as a registered rights offering to existing shareholders as a means to redeem all or some of the SBLF Shares. Any such rights offering, if conducted, would be conducted by the Company pursuant to an effective registration statement filed with the SEC and a prospectus and this statement does not constitute an offer of any securities for sale.

What is the recommendation of the Company's Board of Directors?

The Company's Board of Directors recommends that each shareholder vote "FOR" Proposal 1, the amendment to Article 4 of the Company's Articles, and "FOR" Proposal 2, to adjourn the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt Proposal 1, or a quorum is not present at the time of the Special Meeting.

What will the consequences be if the proposed amendments to Article 4 of our Articles are not approved?

If the proposed amendments to our Articles are not approved, we will not be able to participate in the SBLF and redeem the TARP Shares through SBLF Funding. We will miss an opportunity to take advantage of a source of funding that we believe is more attractive than the TARP Funding and miss an opportunity to redeem the TARP Shares.

Who can vote?

You are entitled to vote if you were a record holder of our common stock as of the close of business on August 1, 2011, the record date for the Special Meeting.

Each shareholder is entitled to one vote for each share of common stock held of record on August 1, 2011. At the close of business on August 1, 2011, there were 9,116,316 shares of our common stock outstanding and entitled to vote. The common stock is our only class of securities entitled to vote at this Special Meeting.

Regardless of the number of shares you own, it is important that you vote on the proposals.

How do I vote?

Your shares of common stock may be voted by one of the following methods:

- by submitting the enclosed proxy card; or
- in person at the meeting.

Voting in Person. If you attend the Special Meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the Special Meeting.

If you hold your shares of common stock in "street name" through a broker, a financial institution or another nominee, then that nominee is considered the shareholder of record for voting purposes and should give you instructions for voting your shares of common stock. As a beneficial owner, you have the right to direct that nominee how to vote the shares of common stock held in your account. Your nominee may only vote the shares of our common stock that it holds for you in accordance with your instructions. If you have instructed a broker, a financial institution or another nominee to vote your shares of common stock, the below-described options for revoking your proxy do not apply and instead you must follow the instructions provided by your nominee to change your vote.

If you hold your shares of common stock in "street name" and wish to attend the Special Meeting and vote in person, you must bring an account statement or letter from your broker, financial institution or other nominee authorizing you to vote on behalf of such nominee. The account statement or letter must show that you were the direct or indirect beneficial owner of the shares of common stock on August 1, 2011, the record date for voting at the Special Meeting.

How will my shares of common stock be voted?

Those shares of common stock represented by properly executed proxy cards that are received prior to the Special Meeting, and not subsequently revoked, will be voted in accordance with your instructions by your proxy. If you submit a valid proxy card prior to the Special Meeting, but do not complete the voting instructions, your proxy will vote your shares of common stock as recommended by the Board of Directors, except in the case of broker non-votes where applicable, as follows:

- “FOR” Proposal 1, the adoption of the amendment to Article 4 of our Articles of Incorporation to authorize the Company to issue the SBLF Shares.
- “FOR” Proposal 2, the approval of the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Special Meeting to adopt Proposal 1 or a quorum is not present at the time of the Special Meeting.

If you hold your shares in a bank or brokerage account you should be aware that if you fail to instruct your bank or broker how to vote, the bank or broker is not permitted to vote your shares in its discretion on your behalf on non-routine items such as Proposal 1. This will have the effect of a vote against Proposal 1 but will not have an effect on Proposal 2.

No dissenters’ rights exist for any action proposed to be taken at the Special Meeting. If any other matters are properly presented for voting at the Special Meeting, the persons named as proxies will vote on those matters, to the extent permitted by applicable law, in accordance with their business judgment.

How do I change or revoke my proxy?

Shareholders who submit proxies retain the right to revoke them at any time before they are exercised. Unless revoked, the shares of common stock represented by such proxies will be voted at the Special Meeting and any adjournment or postponement thereof. You may revoke your proxy at any time before it is actually exercised at the Special Meeting by giving notice of revocation to the Company in writing. The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. If you hold your shares of common stock in “street name” and instructed your broker, financial institution or other nominee to vote your shares of common stock and you would like to revoke or change your vote, then you must follow the instructions of your nominee.

If I vote in advance, can I still attend the Special Meeting?

Yes. You are encouraged to vote promptly, by returning your signed proxy card by mail, so that your shares of common stock will be represented at the Special Meeting. However, voting your shares of common stock does not affect your right to attend the Special Meeting or vote your shares of common stock in person.

What constitutes a quorum and how many votes are required for adoption of the proposals?

Under our Bylaws, a quorum is a majority of the shares of common stock outstanding. Shares of common stock may be present in person or represented by proxy at the Special Meeting. Both abstentions and broker non-votes are counted as being present for purposes of determining the presence of a quorum. There were 9,116,316 shares of Company common stock outstanding and entitled to vote on August 1, 2011, the record date. A majority of the outstanding shares of common stock, or 4,558,158 shares of common stock, present in person or represented by proxy, will constitute a quorum. A quorum must exist to conduct business at the Special Meeting.

If a broker indicates on the form of Proxy that it does not have discretionary authority as to certain shares of common stock to vote on a particular matter, those shares of common stock will be considered as present for the purpose of determining the presence of a quorum but not entitled to vote with respect to that matter.

Votes Required for the Approval of the Proposals. To approve the three proposals, the following votes are required:

Item	Vote Required	Impact of Abstentions and Broker Non-Votes, if any
Proposal 1 Amendment to Article 4 of the Company's Articles	Approval of a majority of the outstanding shares of common stock	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal Broker non-vote will have the same effect as a vote "AGAINST" the proposal
Proposal 2 Adjournment or postponement of the Special Meeting	Approval of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Special Meeting	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal Broker non-vote will not count as a vote on the proposal and will not affect the outcome of the vote

Who pays the cost of proxy solicitation?

We will pay the costs of preparing, assembling, printing and mailing this Proxy Statement, the accompanying proxy card and other related materials and all other costs incurred in connection with the solicitation of proxies on behalf of the Board of Directors. Although we are soliciting proxies by mailing these proxy materials to our shareholders, our directors, officers and employees also may solicit proxies by further mailing, personal contact, telephone, facsimile or electronic mail without receiving any additional compensation for such solicitations. Arrangements will also be made with brokerage firms, financial institutions and other nominees who are record holders of shares of common stock for the forwarding of solicitation materials to the beneficial owners of such shares of common stock. We will reimburse these brokers, financial institutions and nominees for their reasonable out-of-pocket costs in connection therewith.

Who should I call if I have questions concerning this proxy solicitation or the proposals to be considered at the Special Meeting?

If you have any questions concerning the proposals to be considered at the Special Meeting or voting your shares, please call Louise A. Walker, President and Chief Executive Officer or Jeremiah Z. Smith, Executive Vice President and Chief Financial Officer at (707) 678-3041.

PROPOSAL 1

ADOPTION OF AMENDMENT TO ARTICLE 4 OF THE COMPANY'S ARTICLES TO AUTHORIZE THE SBLF SHARES

General

Participation in the SBLF would involve issuing approximately 22,848 SBLF Shares to the Treasury and redeeming all of the Company's outstanding TARP Shares. The full text of the proposed amendment to Article 4 of the Articles necessary for this transaction is included with this Proxy Statement as Appendix A. Under the Company's existing Articles, the Company has authority to issue 16,000,000 shares of common stock and 18,500 shares of preferred stock. The Company was only authorized to issue the preferred stock to the Treasury for purposes of participating in the Capital Purchase Program established by the Treasury as a part of TARP. In 2009 the Company issued 17,390 TARP Shares to the Treasury pursuant to this authorization. The remaining 1,110 authorized and unissued preferred shares that were not issued will be retired pursuant to the amendment to Article 4 of the Company's Articles. Although the TARP Shares would not be available for reissuance after redemption in any case, after redemption, the Board of Directors intends to retire the TARP Shares.

If the shareholders adopt the proposed amendment to Article 4 of the Articles, the Company will be authorized to issue up to 22,848 preferred shares, each without par value for issuance as SBLF Shares. These preferred shares would be available only for issuance to the Treasury as the SBLF Shares for participation in the SBLF. Within these limitations, the Board will be authorized to issue the SBLF Shares without further action by the Company's shareholders.

Reasons for Adoption of the Proposed Amendment

The primary objective of the proposed amendment to Article 4 of the Articles is to enable the Company to participate in the SBLF. On July 15, 2011, the Company received approval from the Treasury to participate in the Treasury's SBLF in the amount of \$22,847,500. After redemption of the TARP Shares, the Company would receive approximately \$5,457,500 in net proceeds from the offering before offering related expenses. The Warrant issued to the Treasury to purchase up to 352,977 shares of the Company's common stock at an exercise price of \$7.39 per share would remain outstanding unless the Company repurchases the warrant. If we do not repurchase the Warrant, until the Warrant expires, Treasury may sell, exercise or continue to hold the Warrant, in whole or in part.

We believe that participation in the SBLF will provide the Company with an opportunity to replace the TARP Shares with SBLF Shares that we believe present more attractive financial and other terms for the Company and its shareholders. In addition, SBLF participation will provide the Company an opportunity to raise additional capital in a low-cost manner. While the Company's capital position is sound and above the minimum required to be considered well-capitalized under applicable regulatory guidelines, the Board and management believe that it is advisable to take advantage of this opportunity to ensure that the Company remains well-positioned to support its existing operations, including the funding of small business loans, and take advantage of potential growth opportunities in the future. We also believe that economic uncertainty and turbulence in the local and global markets continue to make it prudent for financial institutions to supplement their capital as protection against future economic difficulties.

The Board believes it is advisable to take advantage of the SBLF to raise additional capital to ensure that the Company and its bank subsidiary, First Northern Bank (the "Bank"), remain well-positioned to support existing operations as well as anticipated future growth. Treasury's approval of the Company's application does not legally bind the Company to participate in the SBLF. As of the date of this Proxy Statement, however, it is the Company's intention to participate in the SBLF promptly after approval by our shareholders.

Terms of the SBLF

The foregoing description of the SBLF is based on the public information currently made available by Treasury regarding the SBLF and does not purport to be complete in all respects.

The purpose of the SBLF is to provide capital and incentives to eligible financial institutions to increase small business lending throughout the communities they serve. The SBLF is a distinct and separate program from TARP. As such, institutions receiving SBLF investments will not be treated as TARP participants.

Under the SBLF, Treasury will purchase up to \$30 billion of senior preferred shares on standardized terms from eligible financial institutions. In order to be eligible for participation in the SBLF, an institution must have less than \$10 billion in assets and may not be on the FDIC's problem bank list or similar list. These eligible financial institutions can generally apply to issue senior preferred shares to Treasury in aggregate amounts between 1% and 5% of the institution's risk-weighted assets as reported in the institution's most recent call report as of the date the institution submits its SBLF application.

On July 15, 2011, the Company received approval from the Treasury to participate in the SBLF in the amount of \$22,847,500, representing 5% of the Company's total consolidated risk-weighted assets of approximately \$456,950,000 as of March 31, 2011.

If the Company participates in the SBLF, Treasury would purchase the SBLF Shares from the Company. Based upon the \$22,847,500 investment, the Company would issue 22,848 SBLF Shares to Treasury. The SBLF Shares would constitute Tier 1 capital and would rank senior to the Company's common shares. As required under the SBLF, the Company would contribute at least 90% of the incremental increase in funding under the SBLF program from that contributed under the TARP program, or at least \$4,911,750, to the Bank.

Dividends. The Company would be required to pay noncumulative dividends on the SBLF Shares quarterly in arrears at a rate that is determined by the level of the Company's qualified small business lending ("QSBL"). The dividend rate during the first two years will be, at most, 5% per annum. With a 10% increase in QSBL, the rate will drop to only 1%. Lesser increases in QSBL can cause the rate to drop to between 2% and 4%. The rate in the tenth quarter after funding will continue to apply until the end of the 4.5 year period after funding. The rate during this period is generally limited to 5%, but could be lower depending on applicable increases in QSBL. However, if the Company is not able to increase QSBL at all by the end of the eighth quarter after issuance, the dividend will be increased to 7% commencing with the tenth quarter after issuance and will be further increased to 9% commencing in April 2014. Regardless of QSBL increases, if the SBLF Shares have not been redeemed after 4.5 years, the dividend rate will increase to 9%.

The rate of the dividend that the Company would pay for a given quarter would be based on the extent in which the Company's QSBL increased during such quarter over a baseline QSBL level equal to the quarterly average of the Company's QSBL for each of the full four quarters ending June 30, 2010 (the "QSBL Baseline"). Under the SBLF, QSBL is defined to include the following types of loans:

- commercial and industrial loans;
- owner-occupied nonfarm, nonresidential real estate loans;
- loans to finance agricultural production and other loans to farmers; and
- loans secured by farmland.

Excluded from these types of loans, and therefore excluded from the calculation of QSBL, are:

- any loan or group of loans to the same borrower and its affiliates with an original principal or commitment amount greater than \$10 million;
- loans to borrowers who have (or whose ultimate parent company has) more than \$50 million in revenue during the most recent fiscal year ended as of the date of loan origination;
- the portion of any loans guaranteed by the U.S. Small Business Administration, any other U.S. Government agency or a U.S. Government-sponsored enterprise; and
- the portion of any loans for which the risk is assumed by a third party (e.g., the portion of loans that have been participated).

The Company's estimated QSBL Baseline is \$230,492,000.

For each of the first nine full calendar quarters after the Company issues the SBLF Shares, the dividend that it must pay for such quarter will be adjusted depending upon the extent of the Company's increase in QSBL for the applicable quarter over the QSBL Baseline. For example, if the Company's QSBL in a quarter does not increase above the QSBL Baseline, then the dividend that the Company will be required to pay for such quarter will be 5%. Whereas, if the Company's QSBL for a quarter increased by 5% above the QSBL Baseline, then the dividend that the Company would be required to pay for such quarter would be 3%. The following table of adjustments shows the dividend rates that apply with specified QSBL increases over the QSBL Baseline: