

**CPP ANNUAL USE OF CAPITAL SURVEY - 2011**



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

HopFed Bancorp, Inc. Heritage Bank

Point of Contact:	Billy Duvall	RSSD: (For Bank Holding Companies)	0
UST Sequence Number:	109	Docket Number: (For Thrift Holding Companies)	H2913
CPP/CDCI Funds Received:	18,400,000	FDIC Certificate Number: (For Depository Institutions)	30090
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 12, 2008	City:	Hopkinsville
Date Repaid <sup>1</sup> :	N/A	State:	Kentucky

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

**Increase lending or reduce lending less than otherwise would have occurred.**

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To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

**Increase securities purchased (ABS, MBS, etc.).**

Mortgage backed securities, SBA Participation Notes and SBA PoolsSBIC Bonds. The Bank's investment portfolio has increased from \$142.3 million at December 31, 2007 to \$383.8 million at December 31, 2011.

**Make other investments.**

Increased municipal bond holdings, especially in 2008 and early 2009 in response to market conditions

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**X Increase reserves for non-performing assets.**

The Company's allowance for loan loss account has increased from \$6.1 million at December 31, 2008 to \$11.3 million at December 31, 2011.

**X Reduce borrowings.**

Since December 2008, the Bank has reduced FHLB borrowings from \$130.0 million to \$63.3 million at December 31, 2011.

**X Increase charge-offs.**

Charge offs have increased due to the continued poor economic conditions. The Bank has absorbed loan charge offs and increased its funding in the allowance for loan loss account.

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**Purchase another financial institution or purchase assets from another financial institution.**

Empty response area for the first question.

**Held as non-leveraged increase to total capital.**

Empty response area for the second question.

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### **What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?**

The Company did not have to shrink its balance sheet due to capital shortages. Immediately prior to the receipt of CPP funds, the Company's capital ratios were close to 6% Tier One and 10.75% Total Risk Based. The Company was prepared to raise capital at that time. However, by the summer of 2008 our access to the capital markets vanished and we would have been forced to dramatically reduce the bank's loan volume. The Company's balance sheet has declined in the last year. This decline is due to the lack of loan demand and poor investment opportunities available given the current interest rate market.

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**What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

We feel that the presence of CPP funds made it easier for the Company to go out on the open market and raise \$30 million in capital in the summer of 2010. The market understood that the new capital was not needed for survival and that the company would be in a position to repay CPP funds and grow its balance sheet.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

A large, empty rectangular box with a black border, intended for the respondent to provide a detailed description of actions taken with the capital infusion of CPP/CDCI funds.