



## ANNUAL USE OF CAPITAL SURVEY - 2009

### NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Blackhawk State Bank

Person to be contacted regarding this report:	Todd James
UST Sequence Number:	789
CPP Funds Received:	10,000,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Mar 13, 2009
Date Repaid <sup>1</sup> :	N/A

RSSD: (For Bank Holding Companies)	27548
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	14078
City:	Beloit
State:	Wisconsin

<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). To answer that question, Treasury is seeking responses that describe generally how the CPP 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 investment was deployed or how many CPP 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 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 funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Lending was reduced less than would have otherwise occurred. Total loans, including loans held for sale decreased by \$2.5 million, or less than 1% from 12/31/2008 to 12/31/2009. Absent the additional capital, lending would have been curtailed further to increase the bank's capital ratios.
<input checked="" type="checkbox"/>	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.).	The bank increased its lending in commercial and industrial loans by \$13.3 million, or 14%, when comparing December 31, 2009 to December 31, 2008. However, this growth was more than offset by reductions in construction and development and other real estate loans.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	To help offset the cost of the preferred stock dividend, the bank purchased highly rated private label mortgage backed securities in approximately the same amount as the amount of preferred stock issued under the Capital Purchase Program. The capital was not leveraged beyond that.

<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Other than purchasing investments equal to the amount of capital received, the proceeds of the preferred stock were used to bolster capital ratios and were not leveraged any further.

What actions were you able to avoid because of the capital infusion of CPP funds?

The receipt of the CPP funds enabled the bank to continue lending in its local markets rather than focusing on shrinking the balance sheet. While the stated regulatory requirements to be considered a well capitalized institution have not changed, the regulatory agencies are increasing their expectations of the cushion banks should maintain above the well capitalized threshold. Management believes that the stated requirements for banks to be considered well capitalized are likely to increase in the future as well. Without the CPP or some other capital infusion to the bank, risk weighted assets would have had to been reduced by nearly \$50 million from the December 31, 2008 level to achieve a total risk based capital ratio of 12%, which appears to be the new standard in the industry. The CPP capital allowed the bank to avoid decreasing the loan and investment portfolios by the amount needed to meet the new expectations on capital levels.

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

The receipt of the CPP funds enabled the bank to continue lending in the local markets. While total loans decreased slightly from December 31, 2008 to December 31, 2009, lending within the bank's market increased. During 2009 as participations purchased from out of market banks matured they were not renewed or replaced with out of market loans. The capital freed up by those maturities was redeployed into loans within the bank's market. Without the CPP approximately \$6 million of reductions in participations purchased would have gone to reduce total loans instead of being redeployed in the local market.

The bank's capital ratios were increased significantly. The leverage ratio increased from 7.19% to 8.59% and the total risk weighted capital ratio increased from 10.41% to 12.92% from December 31, 2008 to December 31, 2009.

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

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.