



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

HMN Financial, Inc.

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|---|-----------------|
| Person to be contacted regarding this report: | Jon Eberle, CFO |
| UST Sequence Number: | 295 |
| CPP Funds Received: | 26,000,000 |
| CPP Funds Repaid to Date: | 0 |
| Date Funded (first funding): | Dec 23, 2008 |
| Date Repaid ¹ : | N/A |

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|--|-----------|
| RSSD: (For Bank Holding Companies) | N/A |
| Holding Company Docket Number: (For Thrift Holding Companies) | H2309 |
| FDIC Certificate Number: (For Depository Institutions) | N/A |
| City: | Rochester |
| State: | Minnesota |

¹If 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. | The CPP funds improved our capital position and allowed us to continue to lend in 2009 despite the elevated level of our non-performing loans and the reduced earnings we experienced. |
| <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.). | In 2009 we funded the following loans: commercial -\$54 million, consumer -\$23 million, and 1-4 family -\$125 million. |
| <input type="checkbox"/> | Increase securities purchased (ABS, MBS, etc.). | |

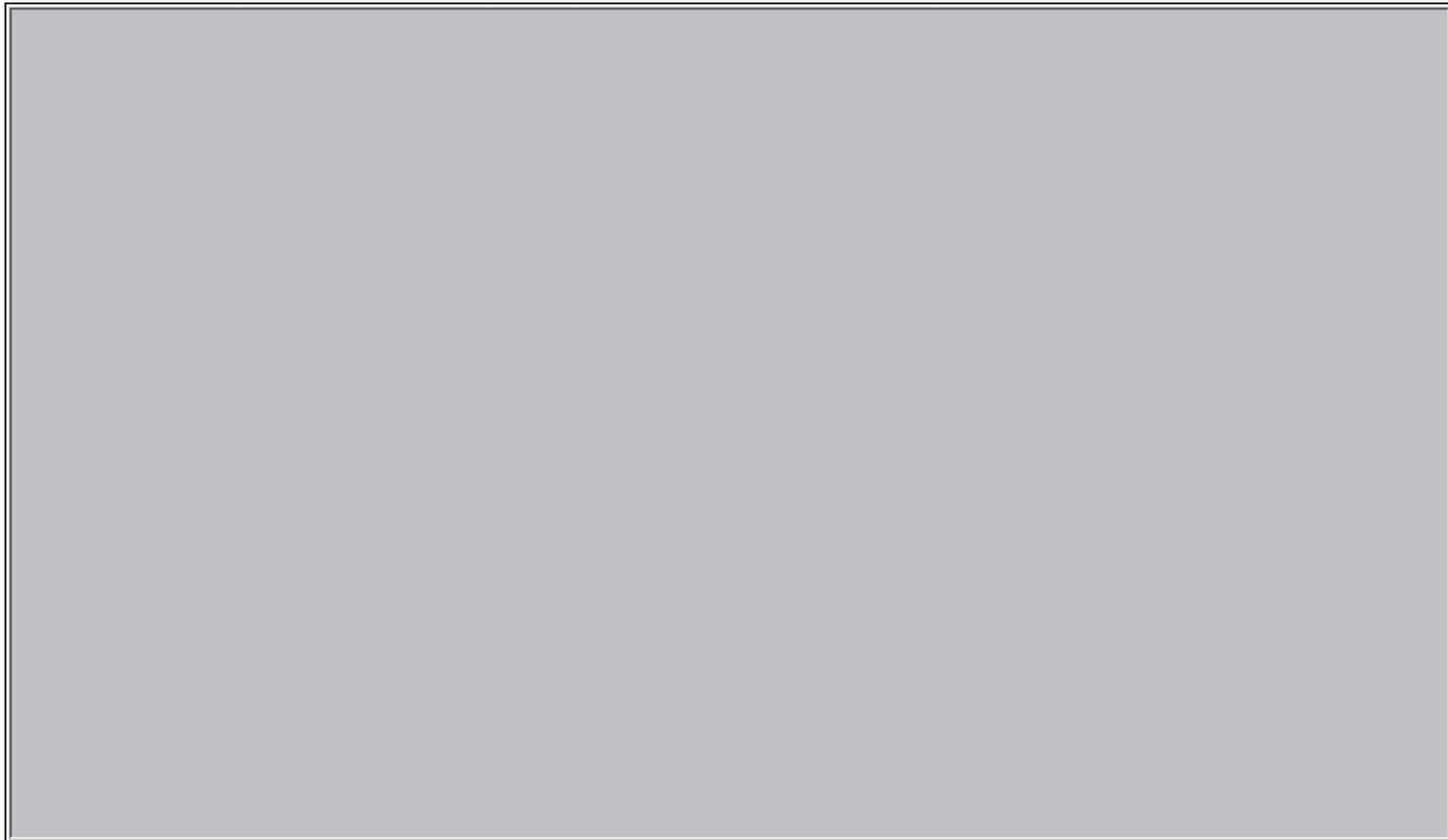
| | | |
|-------------------------------------|--|--|
| <input type="checkbox"/> | Make other investments | |
| <input type="checkbox"/> | Increase reserves for non-performing assets | |
| <input type="checkbox"/> | Reduce borrowings | |
| <input checked="" type="checkbox"/> | Increase charge-offs | Net charge off's increased \$6.3 million in 2009 when compared to 2008. The CPP funds helped us maintain a well capitalized status which allowed us to continue to lend despite the increased charge offs that we experienced. |
| <input type="checkbox"/> | Purchase another financial institution or purchase assets from another financial institution | |
| <input type="checkbox"/> | Held as non-leveraged increase to total capital | |

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

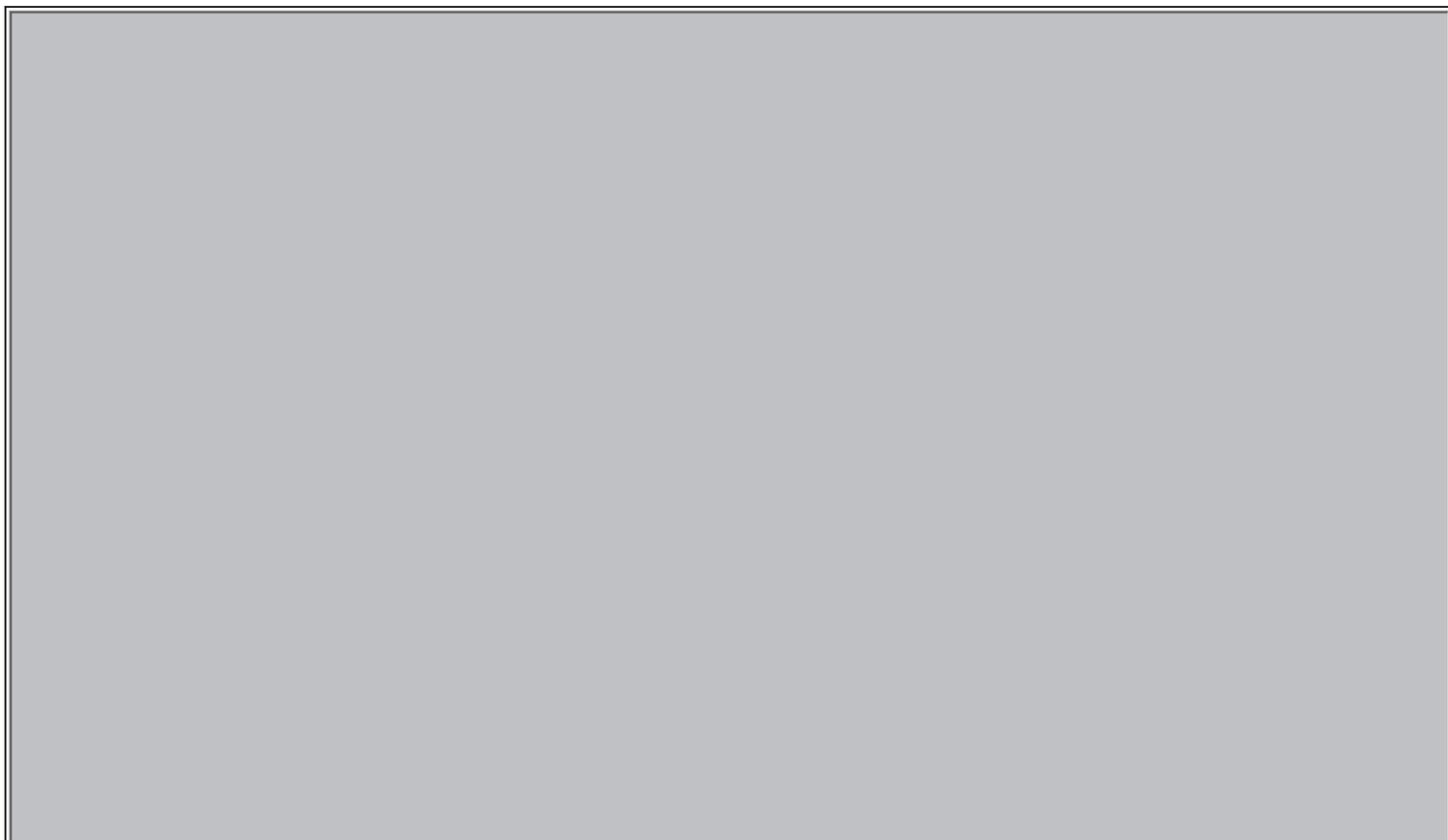
The CPP funds improved HMN's capital position and allowed us to continue to lend to credit worthy borrowers despite the elevated level of non-performing assets and the net operating losses experienced. Without the CPP funds, we would have had to decrease the size of our existing loan portfolio even more dramatically in order to reduce the risk of our capital falling below acceptable levels.

The CPP funds allowed us to maintain our "well capitalized" status during 2009. Without the CPP funds, the increased losses as a result of the increased loan loss provisions would have reduced our capital levels to an amount that would have been considered "adequately capitalized".

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



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.