



## ANNUAL USE OF CAPITAL SURVEY - 2009

### NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

Person to be contacted regarding this report:	Karl F. Betz	RSSD: (For Bank Holding Companies)	
UST Sequence Number:	227	Holding Company Docket Number: (For Thrift Holding Companies)	4287
CPP Funds Received:	1,834,000	FDIC Certificate Number: (For Depository Institutions)	34167
CPP Funds Repaid to Date:	0	City:	Peterborough
Date Funded (first funding):	Dec 19, 2008	State:	New Hampshire
Date Repaid <sup>1</sup> :	N/A		

<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 type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	
<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 mitigating some of the risk inherent in our loan portfolio, the Bank originated an increased volume of U.S. Small Business Administration loans, of which loans and outstanding commitments totaled \$3.4 million during 2009 compared with \$1.7 million for 2008.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	We used the additional capital to leverage the Bank by initially purchasing \$16.0 million in net mortgage-backed securities during the fourth quarter of 2008 while funding this leverage with \$11.8 million in borrowings from the Federal Home Loan Bank of Boston and Federal Reserve Bank of Boston.

<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 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?

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

In response to your letter dated March 11, 2010, Monadnock Bancorp, Inc. received \$1,834,000 in CPP funds at the end of 2008. At that time, we reported that we had used the additional capital to leverage Monadnock Community Bank to \$127.6 million in total assets by initially purchasing \$16.0 million in net mortgage-backed securities during the fourth quarter of 2008 while funding this leverage with \$11.8 million in borrowings from the Federal Home Loan Bank of Boston and to a lesser extent the Federal Reserve Bank of Boston.

During 2009, we were able to mitigate the net loss that we reported to our shareholders of \$70,000 as a result of selling \$43.0 million in mortgage-backed securities during 2009 at a net realized gain of \$531,000. In addition, our net unrealized gains on the investment portfolio increased by \$284,000 during 2009. These gains in our investment portfolio were used to offset unforeseen expenditures related to collection and foreclosure costs on delinquent loans and foreclosed properties, of which expenditures totaled \$361,000 for 2009. Our results of operations were also impacted by increased FDIC assessment premiums totaling \$189,000 during 2009 compared with FDIC premiums of \$47,000 for 2008 as well as a writedown of goodwill for \$132,000 that was recorded for the year ended December 31, 2009.

On the lending side, the loan portfolio increased \$2.6 million, or 3.7%, from \$70.7 million at the end of 2008 to \$73.3 million at the end of 2009. In mitigating some of the risk inherent in our loan portfolio, the Bank originated an increased volume of U.S. Small Business Administration loans, of which loans and outstanding commitments totaled \$3.4 million during 2009 compared with \$1.7 million for 2008. Loan originations during 2009 were negatively impacted by the economic recession which reduced the level of loan applications for qualified loan customers. Net loan growth for 2009 was also impacted by a reduction in our one- to four-family portfolio by \$3.2 million as the low interest rate environment during the year encouraged borrowers to refinance their 15 year and 30 year mortgages into lower interest rates, of which the Bank is keeping only 15 year mortgages in our loan portfolio.

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.