

**CPP ANNUAL USE OF CAPITAL SURVEY - 2010**



NAME OF INSTITUTION  
(Include Holding Company Where Applicable)

Intermountain Community Bancorp

Point of Contact:	Douglas M. Wright	RSSD: (For Bank Holding Companies)	2634490
UST Sequence Number:	62	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	27,000,000	FDIC Certificate Number: (For Depository Institutions)	23415
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Sandpoint
Date Repaid <sup>1</sup> :	N/A	State:	Idaho

<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.**

Due to heightened capital requirements and Intermountain Community Bancorp's ("IMCB") capital position, CPP funds supported much of the \$267MM in loan originations in 2010, a decline from 2009, but a continued commitment to community needs in light of ongoing economic challenges.

**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.).**

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

Investments in marketable securities, including MBS, CMO, municipal, and agency securities, increased by \$1.3 million from 2009 to 2010, continuing to support increased liquidity and lower rates in mortgage and municipal markets. MBS and CMOs represented 85% of the investment portfolio.

**Make other investments.**

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

**Reduce borrowings.**

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**Increase charge-offs.**

IMCB was better positioned in 2010 to manage and resolve problem credits due to a proactive approach established in prior years, resulting in reduced charge offs. The credit market remained challenging, but CPP capital continued to provide additional flexibility to resolve issues as they occurred

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

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

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

With the capital infusion of CPP funds, IMCB (“Company” or “Bank”) was primarily able to avoid the following two conditions: (1) A more significant reduction in new loan originations. As noted above, IMCB originated about \$267 million in loans in 2010 or about 46% of its 2010 ending loan balance. Lower total originations than the prior year reflected a combination of lower borrower demand, extreme softness in real estate markets leading to very limited real estate loan origination, and prudent underwriting standards in a high-risk environment. Given the overall higher bank capital levels required by market and regulatory conditions during 2010, an estimated \$267 million of total origination activity was supported by CPP funds. In particular, IMCB originated \$175 million in commercial and agricultural loans to small and mid-size businesses in our market areas, and \$78 million in first and second lien residential real estate loans to local consumers. In doing so, it supported numerous businesses and farmers in the rural communities in which it operates. It also provided funding for consumers to purchase, remodel or refinance their homes at a time when real estate prices and mortgage rates were particularly attractive. (2) A sizeable reduction of the Company’s balance sheet, which would have forced the Company to reduce service to many of its deposit and loan customers. Given the Bank’s significant market presence in the rural Idaho, Oregon and Eastern Washington communities where it operates (holding 25% to 50% market share in many of its counties), this would have negatively impacted both these customers and our local communities. To maintain the equity to asset ratio of 5.9% that it achieved at year end 2010 without CPP funds would have required IMCB to reduce its balance sheet by about \$437 million. With many of its competitors stressed by difficult economic conditions, this type of reduction would have reduced both deposit and lending options for many customers, and resulted in a net reduction in banking service in IMCB’s rural communities.

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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?**

In addition to originating more loans and maintaining services for more customers than it otherwise would have been able to in Idaho's difficult economic environment, IMCB used CPP funds for the following: (1) The Company was able to complete its second full year of investment in its company-wide outreach initiative, Powered by Community ("PBC"), an institutional, local and regional initiative designed to help communities rebuild economic prosperity from the ground up. In its second year, the program focused on three market segments: women, small business/farms, and non-profit organizations, with a goal of two initiatives per branch. A total of 44 initiatives were completed including (a) 12 financial education seminars targeted to women; (b) 11 small business/small farm economic development/education seminars; (c) eight educational seminars for non-profit organizations; (d) sponsorship of a community review program for Bonners Ferry (located in a distressed and under served county of North Idaho) assessing the vitality (jobs, income, etc.) and wealth (assets, infrastructure) of the community and how to improve both; (e) sponsorship of the 4th annual South Central Community Action Partnership in Action seminar in the Magic Valley area, educating the community and offering solutions for unemployment, foreclosures, credit issues, financial literacy, etc. and communicating services and resources available to those who need them; and (f) a partnership with North Idaho College's Small Business Development Corporation to provide a free small business educational series covering marketing, finances, management and strategic planning. Overall, Company employees contributed over 11,000 hours of community service leading to significant brand development, community recognition and the Idaho Governor's Brightest Star Award and an American Bankers Association letter of commendation. (2) To assist in working with borrowers more effectively to resolve problem loans. Because of conservative residential underwriting standards, the Bank continues to have low default rates on its own residential first mortgage loans, but has been heavily impacted by the general downturn in both its local economies and particularly in real estate valuations. The CPP funds provided additional flexibility in working with borrowers to resolve credit challenges as effectively as possible. In many cases, this involved early identification of problems followed by proactive engagement with borrowers to reach the best possible conclusion. Successful resolution could take a number of paths, including modification of loan terms, maturities, and/or rates, discounting balances to allow refinancing with new lower loan balances, arranging short sales by borrowers, and in situations where the above paths would not work, liquidation of the asset. Due to the infusion of CPP funds, the Company worked pro-actively with borrowers in 2010 and was able to reduce the number of charge-offs.

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

Without the CPP funds, IMCB would not have had the same flexibility to pursue different options with its struggling borrowers. With strong continued deposit balances and lower loan demand, the Company deployed funds from reductions in the loan portfolio into the investment portfolio, including investments in mortgage-backed securities, collateralized mortgage obligations, and municipal bonds. These efforts continued to add liquidity to the residential mortgage and municipal markets and keep rates low, while at the same time maintaining a healthy yield on the investment portfolio. In addition, CPP funds added directly and indirectly to the overall liquidity of IMCB, enhancing the stability of its balance sheet and providing additional safety to its depositors during a period of heightened market concerns. The \$27 million received boosted IMCB's funds directly by adding cash to the balance sheet, and indirectly, it supported the maintenance of higher levels of liquid assets.