March 9, 2009

VIA EMAIL AND FEDERAL EXPRESS

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, N.W.
Suite 1064
Washington, D.C. 20220

Re: HF Financial Corp. Response Letter
SIGTARP Audit

Dear Mr. Barofsky:

This letter is being submitted to you by HF Financial Corp. (the "Company") in response to your letter addressed to Curtis L. Hage, dated February 6, 2009 ("SIGTARP Letter"). The Company is a unitary thrift holding company which owns all of the outstanding stock of Home Federal Bank (the "Bank"). Unless otherwise indicated, all responses contained in this letter refer to the combined operations of the Company and the Bank.

On November 21, 2008, the Company entered into a Letter Agreement, including a Securities Purchase Agreement – Standard Terms incorporated therein (collectively, the "Agreement"), with the United States Department of the Treasury (the "Treasury Department") pursuant to which the Company issued and sold to the Treasury Department (i) 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock Series A, par value $0.01 per share and having a liquidation preference of $1,000 per share (the "Preferred Stock"), and (ii) a ten-year warrant (the "Warrant") to purchase up to 302,419 shares (the "Warrant Shares") of the Company's common stock, par value $0.01 per share (the "Common Stock"), at an initial exercise price of $12.40 per share, for an aggregate purchase price of $25 million in cash.

For your convenience, the questions posed in the SIGTARP Letter are included herewith and are designated by italics.

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P. O. Box 5000 • Sioux Falls, South Dakota 57117-5000
Phone (605) 333-7556 • Fax (605) 333-7621

(1) A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.

(a) The Company received $25.0 million in TARP funds on November 21, 2008 and employed the proceeds immediately in the following manner:

(i) $25.0 million was used to pay down then existing Federal Home Loan Bank Advances;

(ii) the Company purchased $42.7 million of AAA rated Mortgage Backed Securities;

(iii) the Company continued its normal lending activity and did not alter its underwriting standards;

[redacted] b(4), b(8)

(v) the Company will use the proceeds of investing and lending the TARP funds to pay the Treasury Department all required dividends on the Preferred Stock (the Company remitted its first dividend of $291,667 on February 15, 2009).

(b) The Agreement did not specify that the TARP funds were to be segregated and the Company has not segregated these funds.

(c) See answer to 1(a) above.

For the period November 21, 2008 through February 28, 2009, the Company has provided new and renewal loans in the amount of $145.6 million to home buyers, consumers, farmers/ranchers, and small businessmen. This amounts to an increase of 31.2% from the same period one year ago.

(d) The Company has no unspent TARP funds. The Company invests excess cash into liquid investments to earn interest until the funds are needed to fulfill loan obligations.

(2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

Pursuant to the terms of the Agreement, the Company agreed to certain restrictions on executive compensation that could limit the tax deductibility of compensation the Company pays to its Senior Executive Officers (Messrs. Hage, Posegate, Brown, Olthoff and Ms. Sundvold, collectively, the "Senior Executive Officers"). The Company also agreed that until such time as the Treasury Department ceases to own any securities acquired from the Company pursuant to the Agreement and the Warrant, the Company will (i) take all necessary action to ensure that its benefit plans with respect to its Senior Executive Officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA") as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date of issuance of the Preferred Stock and the Warrant and (ii) not adopt any benefit plans with respect to, or which cover, its Senior Executive Officers that do not comply with Section 111(b) of EESA. The applicable Senior Executive Officers of the Company have: (i) entered into letter agreements (the "SEO Letter Agreements") with the Company consenting to the foregoing and (ii) executed a waiver (the "SEO Waiver") voluntarily waiving any claim against the Treasury Department or the Company for any changes to such Senior Executive Officer's compensation or benefits that are required to comply with Section 111(b) of EESA. The SEO Letter Agreements and the SEO Waivers are included as Exhibits 1 and 2, respectively, to this letter.

On December 31, 2008, the Company entered into an amended and restated employment agreements (the "Employment Agreements") and change-in-control agreements (the "Change-in-Control Agreements") with the Senior Executive Officers.

The Employment Agreements and Change-in-Control Agreements were amended to effect certain compensation restrictions required in order for the Company to comply with EESA. These amendments included:

(i) Prohibiting "golden parachute payments" to the Senior Executive Officers during the period (the "CPP Period") that the Treasury Department holds an equity or debt position in the Company pursuant to the CPP.

(ii) Requiring any bonus and incentive compensation paid to the Senior Executive Officers during the CPP Period to be subject to recovery or "clawback" by the Company if such payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(iii) Stipulating that each of the Company's other compensation, bonus, incentive and benefit plans, arrangements and agreements in which the Senior Executive Officers are a party to or otherwise participate are amended to the extent necessary to give effect to (i) and (ii) above; and

(iv) Requiring the Company to review all of its compensation, bonus, incentive and other benefit plans, arrangements and agreements to ensure that they do not encourage the Senior Executive Officers to take unnecessary and excessive risks.

The Personnel, Compensation and Benefits Committee (the "PCB Committee") of the Company met at its regularly scheduled meeting on January 21, 2009 to review whether the Company's executive compensation programs encourage the Senior Executive Officers to take unnecessary and excessive risks. The PCB Committee determined that (i) the Company's executive compensation programs did not encourage the Senior Executive Officers to take unnecessary and extraordinary risks before the Company received the TARP funds and (ii) the Company's executive compensation programs do not encourage the Senior Executive Officers to take unnecessary and extraordinary risks since the Company received the TARP funds. Attached as Exhibit 3 is the report of the PCB Committee (this report is being submitted to you as confidential information).

It is the intent of the Company to comply with all applicable Treasury Department guidelines on executive compensation.

Included herewith, please find the following pertinent supporting documentation:

(i) shareholder communications regarding the TARP program:

the Company's practice is to file all shareholder communications with the Securities and Exchange Commission ("SEC"). A convenient link to the Company's filings with the SEC is contained at the Company's website at www.homefederal.com. The Company's filings on Form 8-K on November 21, 2008 and January 7, 2009, contain disclosures regarding the Company's participation in the TARP program as do, to a lesser extent, most of the Company's SEC filings since November 21, 2008.

(ii) media communications regarding the TARP program:

attached as Exhibit 4 is a listing of reports of the media regarding the Company's participation in the TARP program. We have also included for your convenience copies of print media reports and electronic references to non-print media reports.

(iii) materials which were delivered to the Company's Board of Directors for purposes of its approval of the Company's participation in the TARP program.

attached as Exhibit 5 is a presentation to the Board of Directors of the Company prepared by Sandler O'Neill & Partners, L.P. titled "TARP Issuance and Pro Forma Analysis", dated October 27, 2008 (this report is being submitted to you as confidential information).

The Company is segregating and preserving all documents (including internal emails, budgets and memoranda) regarding our anticipated or actual use of TARP funds.

Should you have any questions regarding this letter, please contact the undersigned directly at (b) (6) [redacted].

Very truly yours,

Darrel L. Posegate
Executive Vice President &
Chief Financial Officer

Certification

I, Darrel L. Posegate, certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Darrel L. Posegate, Executive Vice President & Chief Financial Officer

EXHIBIT 1

SEO LETTERS

HF FINANCIAL CORP.

Mr. Curtis L. Hage
48023 Oak Trail Place
Sioux Falls, SD 57108

Dear Mr. Hage:

HF Financial Corp. and Home Federal Bank (the "Company") anticipates entering into a Securities Purchase Agreement (the "Participation Agreement"), with the United States Department of Treasury ("Treasury") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "CPP"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect, except to the extent the EESA requires continued application of all or some of the restrictions below.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

1. *No Golden Parachute Payments.* The Company is prohibiting any golden parachute payment to you during any "CPP Covered Periods." A "CPP Covered Period" is any period during which (A) you are a senior executive officer and (B) Treasury holds an equity or debt position acquired from the Company in the CPP.

2. *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to you during a CPP Covered Period and while you are a senior executive officer is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

3. *Compensation Program Amendments.* Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. Appendix A is not necessarily an exhaustive list of affected Benefit Plans.

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In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you that the Company does not have the authority to change unilaterally, you and the Company agree to negotiate such changes promptly and in good faith.

4. *Waiver*. You agree to execute the waiver of claims set forth in Annex B of the Participation Agreement if you are a senior executive officer on the Closing Date.

5. *Definitions and Interpretation*. This letter shall be interpreted as follows:

   - "Senior executive officer" means the Company's "senior executive officers" as defined in subsection 111(b)(3) of EESA as reasonably determined by the Company.

   - "Golden parachute payment" is used with same meaning as in Section 111(b)(2)(C) of EESA.

   - "EESA" means the Emergency Economic Stabilization Act of 2008 as implemented by guidance or regulation issued by the Department of the Treasury and as published in the Federal Register on October 20, 2008.

   - The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. Section 30.1(b) (as in effect on the Closing Date). If you are also delivering a waiver pursuant to the Participation Agreement, then as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

   - The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. section 30.11 (as in effect on the Closing Date).

   - Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

6. *Miscellaneous*. To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of South Dakota. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile will be deemed an original signature.

The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially challenging times.

Yours sincerely,

HF Financial Corp.

By: ______________________

Name: Darrel L. Posegate

Title: Executive Vice President, Chief Financial Officer & Treasurer

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____

Curtis L. Hage

Date: 11/19/08

Mr. Darrel L. Posegate
5205 S. Sand Cherry Circle
Sioux Falls, SD 57108

Dear Mr. Posegate:

HF Financial Corp. and Home Federal Bank (the "Company") anticipates entering into a Securities Purchase Agreement (the "Participation Agreement"), with the United States Department of Treasury ("Treasury") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "CPP"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect, except to the extent the EESA requires continued application of all or some of the restrictions below.

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3. *Compensation Program Amendments*. Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. Appendix A is not necessarily an exhaustive list of affected Benefit Plans.

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In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you that the Company does not have the authority to change unilaterally, you and the Company agree to negotiate such changes promptly and in good faith.

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   - The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. Section 30.1(b) (as in effect on the Closing Date). If you are also delivering a waiver pursuant to the Participation Agreement, then as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

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The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially challenging times.

Yours sincerely,

HF Financial Corp.

By: ______________________

Name: Curtis L. Hage

Title: Chairman, President & CEO

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____

Darrel L. Posegate

Date: 11/19/2008

HF FINANCIAL CORP.

Mr. David A. Brown
4312 Fireside Ave
Sioux Falls, SD 57103

Dear Mr. Brown:

HF Financial Corp. and Home Federal Bank (the "Company") anticipates entering into a Securities Purchase Agreement (the "Participation Agreement"), with the United States Department of Treasury ("Treasury") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "CPP"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect, except to the extent the EESA requires continued application of all or some of the restrictions below.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

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2. *Recovery of Bonus and Incentive Compensation*. Any bonus and incentive compensation paid to you during a CPP Covered Period and while you are a senior executive officer is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

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In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you that the Company does not have the authority to change unilaterally, you and the Company agree to negotiate such changes promptly and in good faith.

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   - The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. Section 30.1(b) (as in effect on the Closing Date). If you are also delivering a waiver pursuant to the Participation Agreement, then as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

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The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially challenging times.

Yours sincerely,

HF Financial Corp.

By: ______________________

Name: Curtis L. Hage

Title: Chairman, President & CEO

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____

David A. Brown

Date: 11/19/08

HF FINANCIAL CORP.

Mr. Brent R. Olthoff
509 Morning Rain Avenue
Brandon, SD 57005

Dear Mr. Olthoff:

HF Financial Corp. and Home Federal Bank (the "Company") anticipates entering into a Securities Purchase Agreement (the "Participation Agreement"), with the United States Department of Treasury ("Treasury") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "CPP"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect, except to the extent the EESA requires continued application of all or some of the restrictions below.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

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3. *Compensation Program Amendments*. Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. Appendix A is not necessarily an exhaustive list of affected Benefit Plans.

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In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you that the Company does not have the authority to change unilaterally, you and the Company agree to negotiate such changes promptly and in good faith.

4. *Waiver*. You agree to execute the waiver of claims set forth in Annex B of the Participation Agreement if you are a senior executive officer on the Closing Date.

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   - The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. Section 30.1(b) (as in effect on the Closing Date). If you are also delivering a waiver pursuant to the Participation Agreement, then as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

   - The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. section 30.11 (as in effect on the Closing Date).

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The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially challenging times.

Yours sincerely,

HF Financial Corp.

By: ______________________
Name: Curtis L. Hage
Title: Chairman, President & CEO

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____
Brent R. Olthoff

Date: 11/19/08

HF FINANCIAL CORP.

Ms. Natalie A. Sundvold
601 W. 9th Street
Dell Rapids, SD 57022

Dear Ms. Sundvold:

HF Financial Corp. and Home Federal Bank (the "Company") anticipates entering into a Securities Purchase Agreement (the "Participation Agreement"), with the United States Department of Treasury ("Treasury") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "CPP"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect, except to the extent the EESA requires continued application of all or some of the restrictions below.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

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3. *Compensation Program Amendments*. Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. Appendix A is not necessarily an exhaustive list of affected Benefit Plans.

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In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you that the Company does not have the authority to change unilaterally, you and the Company agree to negotiate such changes promptly and in good faith.

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   - The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. Section 30.1(b) (as in effect on the Closing Date). If you are also delivering a waiver pursuant to the Participation Agreement, then as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

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The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially challenging times.

Yours sincerely,

HF Financial Corp.

By: ______________________
Name: Curtis L. Hage
Title: Chairman, President & CEO

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

____
Natalie A. Sundvold

Date: 11/19/2008

EXHIBIT 2

SEO WAIVER

WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

[signatures begin on following page]

By: ______________________________
Name: Curtis L. Hage
Title: Chairman and Chief Executive Officer of HF Financial Corp.
Date: November 21, 2008

By: ______________________________
Name: Darrel L. Posegate
Title: Executive Vice President, Chief Financial Officer and Treasurer of HF Financial Corp.
Date: November 21, 2008

By: ______________________________
Name: David A. Brown
Title: Senior Vice President/ Community Banking of Home Federal Bank, a wholly owned subsidiary of HF Financial Corp.
Date: November 21, 2008

By: ______________________________
Name: Natalie A. Sundvold
Title: Senior Vice President/ Service & Support of Home Federal Bank, a wholly owned subsidiary of HF Financial Corp.
Date: November 21, 2008

By: ______________________________
Name: Brent R. Olthoff
Title: Senior Vice President/Chief Financial Officer of Home Federal Bank, a wholly owned subsidiary of HF Financial Corp.
Date: November 21, 2008

EXHIBIT 3

REPORT OF THE PERSONNEL, COMPENSATION & BENEFITS COMMITTEE

~ CONFIDENTIAL ~

Memoranda

TO: HF Financial Corp. Board of Directors

From: HF Financial Corp. Personnel, Compensation and Benefits Committee

Subject: Report on Personnel, Compensation and Benefits Committee Review of Executive Incentive Plans and Risk Mitigation Under CPP Participation

Date: January 21, 2009

The HF Financial Corp. Personnel, Compensation and Benefits Committee (PCB Committee) met on Wednesday January 21, 2009 to perform its review of the Company's Executive Compensation Program as required by the Securities Purchase Agreement of the United States Department of the Treasury pursuant to which the Company is participating in the Troubled Asset Relief Capital Purchase Program (CPP). In connection with this report, the PCB Committee has met with officers of the Company who act as senior risk officers. With regard to the required review of the Company's Executive Incentive and Bonus Compensation Program the Committee concludes based on the procedures outlined below and to the best of its knowledge:

1. The Executive Incentive Compensation and Bonus Program contains incentives to reward executives to take normal risks associated with asset acquisition and management in banking including making loans to individuals and businesses in the markets we serve along with prudent investments to provide liquidity for normal banking operations. The inclusion of the CPP funds has not changed the business plan, although it does require leveraging of the capital provided ($25MM) to bring full value to the shareholder interest. That leverage is accomplished through normal lending and investing activity and also requires increasing the deposit base. These are normal activities included in the current as well as traditional strategic business plans of the Company. The Board of Directors reviews financial results and other performance factors quarterly to assure compliance with the annual strategic business plan. Further, the Board of Directors approves large loans, large investment transactions and monitors asset performance through a series of quarterly reports and dialogues with executive management throughout the course of the year.

(b) (4) [redacted]

(b) (4) [redacted]

(b) (4) [redacted]

2. The PCB Committee meets annually with risk management officers of the Company to assess the risks and the potential impact to the Executive Incentive Compensation and Bonus Program and Company performance. This meeting usually occurs in the course of meetings leading up to the final approval of the Annual Strategic Business Plan which includes the Short Term Incentive Program and the Long-Term Incentive Program. In addition, there is at least quarterly monitoring occurring through the reports to the Board of Directors, meetings of the Board of Directors and dialogue previously mentioned.

3. The PCB Committee will certify that it has met these requirements in its CD&A section of the Company's Proxy Statement. The Company is on a fiscal year ending June 30th and has not had a Proxy Statement to prepare since accepting participation in the CPP Program.

EXHIBIT 4

MEDIA COMMUNICATIONS

Media Communication Listing

Date	Media Type	Publication/Source	Interviewed	Title/Heading	Web Link
09/23/2008	Video	Keloland Television	Curt Hage	Bank CEO: Money Is Safer In The Bank	http://www.keloland.com/videoarchive/index.cfm?VideoFile=092308moneyweb
09/23/2008	Video	Keloland Television	Curt Hage	Protecting Your Money	http://www.keloland.com/videoarchive/index.cfm?VideoFile=092308cash
09/30/2008	Video	Keloland Television	Curt Hage	Bank CEO Says "Hold The Course"	http://www.keloland.com/videoarchive/index.cfm?VideoFile=093008nb
10/14/2008	Video	Keloland Television	Curt Hage	Are We Affected By $250 Billion Plan?	http://www.keloland.com/videoarchive/index.cfm?VideoFile=101408banks
10/14/2008	Video	Keloland Television	Curt Hage	Bank CEO Weighs In On Government Plan	http://www.keloland.com/videoarchive/index.cfm?VideoFile=101408banksweb
10/23/2008	Radio	KWAT - Watertown, SD	Curt Hage	Safe and Soundness of Banks	
10/27/2008	Print	Bloomberg.com	HF Mentioned	Capital One, Key Among 19 Banks Getting $35 Billion	
10/29/2008	Video	Keloland Television	Curt Hage	Money Matters: Following The Money	http://www.keloland.com/videoarchive/index.cfm?VideoFile=102908mm
10/29/2008	Newspaper	Argus Leader	Curt Hage	S.D. Bank Part of Lending Push	
10/29/2008	Video	Keloland Television	Curt Hage	Banks Role In Economic Recovery	http://www.keloland.com/videoarchive/index.cfm?VideoFile=102908mmweb
11/05/2008	Newspaper	Sioux Falls Business Journal	Curt Hage	State's Largest Banks Face Storm With Cash	
12/05/2008	Print	Yahoo! Finance	HF Mentioned	AP Impact: Some Bailout Holdings Down $9 Billion	
12/08/2008	Video	Bloomberg.com	Curt Hage	HF's Hage Says TARP Participation was "Defensive" Move	www.bloomberg.com/apps/news?pid=newsarchive&sid=a5obW8OiVQ1s
12/15/2008	Video	Keloland Television	Curt Hage	Tracking Bailout Money	http://www.keloland.com/videoarchive/index.cfm?VideoFile=121508mmweb
12/15/2008	Video	Keloland Television	Curt Hage	Money Matters: Following the Money II	http://www.keloland.com/videoarchive/index.cfm?VideoFile=121508mm
02/12/2009	Print	Bloomberg.com	Curt Hage	MidSouth Loses Would-Be Borrows as TARP Fails with Louisianans	
02/27/2009	Video	KSFY.com	Curt Hage	Home Federal Accepts Federal Money	http://www.ksfy.com/news/local/40454712.html

Bloomberg.com

Capital One, Key Among 19 Banks Getting $35 Billion (Correct)

Email | Print | A A A

By Linda Shen and Hugh Son

(Corrects total figure in chart at bottom in story originally published Oct. 27.)

Oct. 27 (Bloomberg) -- At least 19 regional U.S. banks, including SunTrust Banks Inc. and Capital One Financial Corp., accepted $35 billion in government cash as the Treasury rolled out the second half of its $250 billion package to shore up lenders and thaw frozen credit markets.

Treasury Secretary Henry Paulson is doling out cash to recapitalize struggling lenders and jump-start takeovers in an industry suffering from the worst housing crisis since the Great Depression. SunTrust, Capital One, KeyCorp and PNC Financial Services Group Inc. are among regional lenders that have agreed to take cash so far by selling preferred shares to the U.S.

``This is just unprecedented,'' said BMO Capital Markets analyst Peter Winter. ``What the government has said is that you can't let the financial system fail, and if this doesn't work they'll come up with another plan.''

The capital infusions come as governments worldwide strive to ensure the stability of banks. Kuwait's central bank said it will guarantee deposits at Gulf Bank KSC, which remains solvent after clients defaulted on currency derivatives contracts, the state-run Kuwait News Agency reported. Paulson already gave $125 billion to nine of the biggest U.S. lenders.

Some banks are raising money on their own. Mitsubishi UFJ Financial Group Inc., the Japanese bank investing $9 billion in Morgan Stanley, said it will sell as much as 990 million yen ($10.7 billion) of stock to replenish its capital. Japan's biggest bank may sell as much as 600 billion yen of common shares in the 12 months starting Nov. 4.

Niagara Falls, Beverly Hills

The latest U.S. banks to benefit from the government's Troubled Asset Relief Program, or TARP, spanned the nation, ranging from City National Corp., in Beverly Hills, California, to First Niagara Financial Group Inc., based in upstate New York near Niagara Falls. The banks may be joined by life insurance companies, some of which are now in talks with the government about potential Treasury investments, said Jack Dolan, spokesman for the American Council of Life Insurers in Washington.

Dolan declined to say which companies are involved in the talks. Spokesmen for MetLife Inc. the biggest U.S. life insurer, and No. 2 Prudential Financial Inc. declined to comment today. Most U.S. property and casualty insurers won't participate, according to a statement today from Evan Greenberg, chief executive officer of Ace Ltd. and chairman of the American Insurance Association.

State Street, Northern Trust

Other financial firms participating in the program included State Street Corp., the world's largest money manager for institutions, which is selling a $2 billion stake. Northern Trust Corp., a custody bank that oversees $3.53 trillion, plans to sell the government a $1.5 billion stake.

``We're happy to do our part to support the financial and economic stability of the U.S.,'' Capital One spokeswoman Tatiana Stead said in an e-mailed statement. The McLean, Virginia-based bank is raising $3.6 billion.

News of the infusions helped spur gains in U.S. financial stocks. Huntington Bancshares Inc. advanced 15 percent to $9.17 as of 4:10 p.m. in New York Stock Exchange composite trading. Regions Financial Corp., which is selling a $3.5 billion stake, added 11.3 percent. Fifth Third Bancorp, which expects $3.4 billion from the Treasury, rose 5 percent after earlier surging as much as 20 percent.

BB&T Corp., the best-performing stock in the KBW Index this year, said today it will sell $3.1 billion in preferred shares and warrants to the Treasury. BB&T is based in Winston-Salem, North Carolina.

Tennessee, Cleveland

First Horizon National Corp., Tennessee's largest bank, said Friday it received preliminary approval to receive about $866 million from the U.S. Treasury. PNC on Oct. 24 announced it was buying National City Corp. for $5.2 billion in stock after receiving $7.7 billion from the Treasury. Washington Federal Inc. and Valley National Bancorp said over the weekend they would receive a total of $560 million from the government. City National said it would sell $395 million in preferred stock and warrants.

Cleveland-based KeyCorp plans to sell $2.5 billion in equity. Huntington, of Columbus, Ohio, announced its application for $1.4 billion in a statement today.

The funds will help KeyCorp ``gain flexibility in managing our balance sheet'' and ``enhance our ability to lend to our relationship clients,'' Chief Executive Officer Henry L. Meyer said in a separate statement today.

Dallas, San Francisco

The bank said that had the $2.5 billion capital increase been in place on Sept. 30, KeyCorp's Tier 1 ratio, measuring the ability to absorb losses, would have been about 10.76 percent, rather than 8.48 percent. A ratio above 6 percent puts banks into a ``well-capitalized'' category.

Another bank accepting funds was Comerica Inc. The Dallas- based bank, which also does business in Canada and Mexico, said today that it plans to sell $2.25 billion in preferred stock and warrants to the Treasury, boosting its Tier 1 ratio to 10.35 percent.

Also included among banks getting funds were UCBH Holdings, the San Francisco-based company that owns United Commercial Bank, which said it expects $298 million from the Treasury. Bank of Commerce Holdings, which owns Redding Bank of California, expects as much as $17 million.

Baltimore-based Provident Bankshares Corp. said today it got preliminary approval to participate in the U.S. program and didn't disclose how much it will get. Old National Bancorp, based in Evansville, Indiana, said today that it has preliminary approval to raise $150 million from the government, and hasn't decided whether to participate.

HF Financial Corp., based in Sioux Falls, South Dakota, said today that it also received preliminary approval to sell a $25 million stake to the government. HF Financial is the parent company for financial firms including Home Federal Bank and Mid America Capital Services Inc.

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Following are banks that have announced participation in the
Treasury program. Some company names have been shortened for
space:

FIRST ROUND
Citigroup           $25 billion
Wells Fargo         $25 billion
JPMorgan Chase      $25 billion
Bank of America     $15 billion
Merrill Lynch       $10 billion
Goldman Sachs       $10 billion
Morgan Stanley      $10 billion
Bank of New York    $3.0 billion
State Street        $2.0 billion
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TOTAL	$125 billion
SECOND ROUND	
PNC	$7.7 billion
Capital One	$3.6 billion
SunTrust	$3.5 billion
Regions Financial	$3.5 billion
Fifth Third	$3.4 billion
BB&T	$3.1 billion
KeyCorp	$2.5 billion
Comerica	$2.25 billion
Northern Trust	$1.5 billion
Huntington	$1.4 billion
First Horizon	$866 million
City National	$395 million
Valley National	$330 million
Washington Federal	$230 million
UCBH Holdings	$298 million
First Niagara	$186 million
Old National	$150 million*
HF Financial	$25 million
Redding Bank	$17 million
Provident	--**
TOTAL	$35.18 billion

*Old National hasn't decided whether to participate.
**Provident didn't say how much it expects.

To contact the reporter on this story: Linda Shen in New York at lshen21@bloomberg.net

Last Updated: October 28, 2008 08:50 EDT

ArgusLeader.com

October 29, 2008

S.D. bank part of lending push

Home Federal joins federal plan to free up money

Megan Myers
memyers@argusleader.com

A Sioux Falls company hopes to play a key role in the government's plan to stimulate the nation's banking system.

Sioux Falls-based HF Financial Corp., parent company of Home Federal Bank, has received preliminary approval from the U.S. Treasury Department to take part in a $250 million capital purchase program. That program, a part of the federal $700 billion bailout package, is designed to stimulate the economy by buying millions in stock from stable banks.

If approved, the Treasury would buy $25 million of preferred stock in HF Financial, said Curt Hage, chairman and chief executive. Though HF Financial officials said they still are discussing how the money would be used, it could allow the company to expand or increase lending at its banking branches.

Hage said Home Federal is "well-capitalized" but is interested in using the program to further strengthen the bank.

"When first approached by the Treasury about its capital plan, we were cautious about participating," Hage said. "However, after further clarification that this program is designed to strengthen the capital and liquidity of viable banks, we decided to take a closer look."

A nudge for more lending

As part of its $700 billion bailout package passed in September, the government announced plans earlier this month to pour $125 billion through stock purchases into nine large financial companies to loosen up lending.

Another $125 billion will soon start flowing to another group of banks. But the second round comes as the White House on Tuesday prodded companies already participating in the program to start making more loans.

Assistant Treasury Secretary David Nason said this week that the administration's major aim is to stabilize the financial system and that stronger institutions will be in a better position to lend and support the overall economy.

The Treasury program is open to publicly traded banks. Home Federal is South Dakota's only publicly traded bank with a local headquarters.

The company's application to the Treasury came as it reported a strong fiscal first quarter, with a nearly 50 percent increase in earnings per share. HF Financial said it earned $2 million, compared with $1.3 million during the same period last year. The company also announced a quarterly cash dividend of 11.25 cents per share for the first quarter of the 2009 fiscal year.

Won't sock away money

Hage said HF Financial officials are learning about the details of the program, and the company's board still must approve the deal. He said he can't yet discuss specifics of how HF Financial would use the money, but it could make more loans and potentially expand.

"We can't just put it in the bank account," Hage said. "It potentially puts us in the position to make acquisitions of banks that aren't as stable."

Analyst Frank Schiraldi, associate director of New York City-based Sandler O'Neill & Partners, said HF Financial stands to benefit from the plan.

"They could deploy it a number of ways," Schiraldi said. "I'm sure they'll use it to grow."

Curt Everson, executive director of the South Dakota Bankers Association, said he couldn't speak on Home Federal's plans.

"It's up to each individual bank," Everson said. "Those are individual business decisions."

Many analysts believe the investments are being doled out to the strongest financial institutions, with the aim of spurring consolidation among banks and protecting the government from having to salvage some of the industry's weakest players.

"It appears to us that these 'gifted' banks will receive the capital whether they need it or not, as they will likely do the cleanup on behalf of the Fed and the Treasury by acquiring weaker institutions," wrote Morgan Keegan & Co. analyst Robert Patten in a research note last week.

Reach reporter Megan Myers at 331-2257. Argus Leader wire services contributed to this report.

1-5-08

BANKS: Heavy dose of ag loans

Continued from page 1

capital.

Seattle-based Washington Mutual Bank and Pasadena, Calif.-based IndyMac Bank are examples of banks taken over by federal regulators in recent months.

South Dakota has not had a bank failure in 16 years. Rapid City-based First Federal Savings Bank of South Dakota was taken over in April 1992. Seventeen banks in the state were taken over by federal regulators between 1982 and 1992. The first bank failure before that was in 1940, according to the FDIC.

"We have a lot of very well-run banks in South Dakota," said Mark Moylan, deputy regional director of the Federal Deposit Insurance Corp.'s office in Kansas City. "South Dakota relies a great deal on the ag economy. That is doing well. There are some issues that are more bank specific. In general, the South Dakota banking community is doing well."

Banks must have a total risk-based capital ratio of at least 10 percent to be well-capitalized, according to the Federal Financial Institutions Examination Council's Uniform Bank Performance Report. The report does not include thrift operations, such as Sioux Falls-based Home Federal Bank and Beresford-based First Savings Bank.

Capital performs several functions. It helps banks absorb losses, promotes public confidence, restricts excessive asset growth and provides protection to depositors and FDIC insurance funds, according to the FDIC.

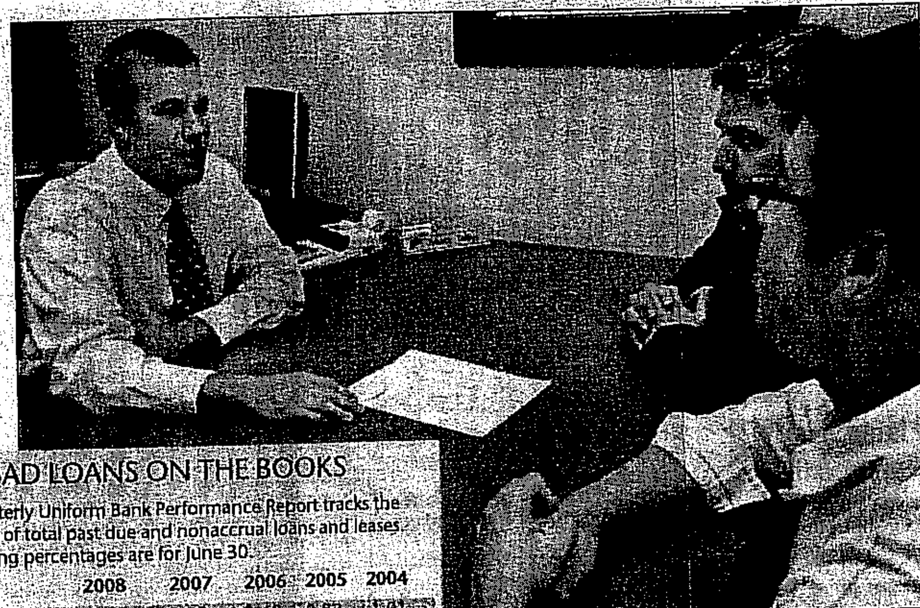
Local bank executives say having adequate capital, or cash, gives them staying power in a down economy and allows for opportunities, including expansion, acquisition and investment in technology.

A bank can be well-capitalized but have too many bad loans on the books.

"There are institutions that have lower (risk-based capital) numbers that are well-run and others that have higher numbers that are not doing good," Moylan said.

As a general rule of thumb, banks shouldn't have more than 25 percent of their capital tied to bad loans, local bankers say. Many South Dakota banks' total past due and nonaccrual loans and leases are 1 percent to 2 percent.

Capital ratios can reflect a bank's business model and how they use capital.



Matt Teller, a business banker with First Premier Bank, talks with Brad DeVille and Casey Schultz about their new business, Caliber Creative Advertising Agency. First Premier CEO Dana Dykhouse said the bank's strategy is to be well-capitalized so that it has money to loan to customers. That ability to fund ventures and purchases will help bring stability to the market, Dykhouse said.

Inertia
For the Sioux Falls Business Journal

BAD LOANS ON THE BOOKS

The quarterly Uniform Bank Performance Report tracks the percentage of total past due and nonaccrual loans and leases. The following percentages are for June 30.

Bank	2008	2007	2006	2005	2004
The First National	2.15	0.89	1.48	0.82	1.01
Dacotah	1.87	1.79	2.13	2.48	2.59
First Premier	2.61	2.42	1.02	2.03	15.54
Great Western	1.09	1.55	0.83	0.90	1.13
Wells Fargo	3.94	2.92	2.03	1.78	1.12

Source: Federal Deposit Insurance Corp.

Federal regulations

Banks aren't required by the FDIC to diversify their lending portfolios, Moylan said. But regulators are watching banks that have loans concentrated in industries that are volatile or facing other economic issues. The key is to have expertise, Moylan said.

One of the areas federal regulators are watching closely is the commercial and residential real estate market.

"At the same time, we constantly watch the ag sector and some of the volatilities there," Moylan said.

South Dakota's highest loan concentration is in the agriculture industry.

The condition of each bank's local economy is the underlying factor if adjustments need to be made to its underwriting standards, he said.

A majority of banks that are in trouble aren't taken over by the FDIC. Most are able to make corrective actions, Moylan said.

The FDIC scores banks' overall health by a report called CAMELS, which assesses capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. The scores are confidential.

State banking health

Roger Novotny, director of the South Dakota Division of Banking, said most of the banks in South Dakota are well-positioned to handle any economic downturn and, if necessary, can put losses behind them.

"We are monitoring the situation and watching the way the economy is going – watching the ag economy and seeing where that goes in the next year, too," he said. "That no doubt will have course corrections as far as commodity prices."

The Uniform Bank Performance Report's third-quarter report, ending Sept. 30, will be available by the middle of November. Novotny said that will give regulators a better picture of where South Dakota banks are.

Michael Keller, dean of the Beacom School of Business at the University of South Dakota, said loan demand has been strong for a long time and banks are not constrained in South Dakota.

"The community bankers I've talked to are consistently making loans to good customers like they've always been," Keller said. "I don't get the sense there's been any sudden restriction or tightening of lending in South Dakota."

Because of the good health of one of South Dakota's banks, HF Financial Corp., the parent company of Home Federal Bank, has received preliminary approval from the U.S. Treasury to take part in the government's capital purchase program, which is part of the $700 billion bailout package. The Treasury will buy up to $250 billion in preferred stock from healthy financial institutions as part of its efforts to build capital to increase credit availability to businesses and consumers. If the Sioux Falls-based company is approved, the Treasury Department would buy $25 million of preferred stock in HF Financial.

"If participating in this historical program we can do our part to move our economy forward through enhanced lending for the markets we serve, then we are pleased to step up as a leader for our communities," Curt Hage, chairman and chief executive officer of Home Federal, said in the bank's earnings report.

Keller said Home Federal will have more flexibility to make loans and have the opportunity to make good investments that come along.

Wells Fargo Bank NA

Having a high capital ratio can position banks for acquisition opportunities.

See **LENDING**, page 17

YAHOO! FINANCE

Provided By

AP IMPACT: Some bailout holdings down $9 billion

AP IMPACT: Bailout's option to buy bank stocks not attractive option due to plunging stocks

Frank Bass, Associated Press Writer
Friday December 5, 2008, 7:36 am EST

Stock intended to eventually earn taxpayers a profit as part of the Bush administration's massive bank bailout has lost a third of its value -- about $9 billion -- in barely one month, according to an Associated Press analysis. Shares in virtually every bank that received federal money have remained below the prices the government negotiated.

Most of the Treasury Department's investments since late October have been in preferred bank stocks, more than $180 billion worth, with investments in giants like Citigroup and JPMorgan Chase, and many small community banks. But the government also negotiated options to buy up to 1.2 billion shares of common bank stock that was valued at $27 billion.

The Treasury Department said it did not expect these common stock options to be profitable immediately and negotiated them so taxpayers could share in the wealth if the bank stocks recover.

Now, however, the value of that common stock is worth less than $18 billion. If the government exercised all its warrants to purchase the stock today, it would lose money on 51 of its 53 agreements. Taxpayers would be out $9.1 billion.

The government can exercise its options to buy the common stock anytime over the next decade, but the options were "immediately exercisable," according to banks' securities filings.

"The markets are saying this plan isn't going to work for the banks," said Ross Levine, Tisch professor of economics at Brown University. "They're asking where this plan is going."

Potential losses among these common stocks include more than $3 billion for the administration's biggest deal, a $45 billion injection into Citigroup Inc. The government gave the New York-based giant $25 billion on Oct. 28. In addition to preferred stock worth $1,000 per share, the deal included warrants to pick up 210 million shares of common stock at $17.85. In late November, the White House put together a plan to give Citibank another $20 billion. The deal also included warrants to pick up 254 million shares, with the price set at $10.61.

Citigroup stock has since fallen below $8.

The government would only earn a profit if the share price eventually exceeds the negotiated warrant price. Under the bailout plan, the common stock warrants -- effectively treated as stock options for non-employees -- would allow taxpayers to share the wealth as banks recover.

"We're not exercising the warrants today," Treasury spokeswoman Brookly McLaughlin said. "We have

10 years to exercise the warrants, so it's more accurate to look at what the market believes are the 10-year prospects for these banks."

The Treasury Department projects that the $180 billion in preferred stock will generate roughly $9 billion per year during the first five years and $16.2 billion per year afterward, assuming the banks remain solvent.

The preferred stock has a fixed value of $1,000 per share, and a 5 percent annual dividend for the first five years of the investment.

Treasury Secretary Henry M. Paulson Jr. describes the cash infusion as "an investment, not an expenditure."

So far, however, only two of the 53 banks can be considered a good investment.

The AP's analysis found that only HF Financial Corp. of Sioux Falls, S.D., and First Niagara Financial Group of Lockport, N.Y., would make money for taxpayers if the common stock options were exercised today. According to records filed with the Securities and Exchange Commission, both are small banks, far removed from the wheeling and dealing of federally insured giants that ravaged the global economy by making bad bets on subprime mortgages.

The South Dakota bank, for example, has a market value of $54 million, a fraction of the size of JPMorgan Chase, the nation's largest. The Treasury Department gave $25 million to HF Financial on Nov. 21 in exchange for 25,000 shares of preferred stock and warrants that allow taxpayers to buy 302,000 shares at $12.40 within the next decade. For now, it's a good deal; the bank's stock is trading around $13. If the government exercised its option to buy HF stock today, taxpayers would collect $63,500.

More companies would be in the black, but the government used a 20-day stock price average to set the warrant price, meaning it willingly negotiated to pay roughly 25 percent more than the stock was worth on the day it signed the deals on behalf of taxpayers.

Nara Bancorp, created in 1989 to serve Southern California's growing Korean-American community, borrowed $67 million from taxpayers on Nov. 21, when its stock was trading at $7.50 per share. But the government negotiated the option to buy 1 million shares of Nara common stock at $9.64, higher than its stock is currently trading.

"It's a complete mistake to think this is a good investment for us," said Paola Sapienza, a finance associate professor at Northwestern University's Kellogg School of Management, who spearheaded a September protest of the bailout by more than 200 of the nation's leading economists. "It's a gamble. It's like going to Las Vegas."

Emergency Economic Stabilization Act: http://www.ustreas.gov/initiatives/eesa/

Bloomberg.com

MidSouth Loses Would-Be Borrowers as TARP Fails With Louisianans

Email | Print | A A A

By James Sterngold

Feb. 12 (Bloomberg) -- C.R. "Rusty" Cloutier of MidSouth Bank wants to heed President **Barack Obama**'s call to lend money. It's his customers who aren't paying attention.

Cloutier, chief executive officer of **MidSouth Bancorp Inc**. in Lafayette, Louisiana, received a $20 million cash infusion from the U.S. government on Jan. 9 and instructed loan officers to line up borrowers. Then he went on the road to make personal appeals at 14 town hall meetings.

"What we want to do is make people aware we have $250 million to lend," Cloutier said Jan. 28 at the branch in downtown Lafayette. The 20 or so in the audience were outnumbered by bank employees handing out cookies and bottled water. Nobody asked for an application.

Lending nationwide slowed after the Treasury Department began giving 389 banks $236 billion in Troubled Asset Relief Program money on Oct. 28. CEOS of eight of the largest U.S. banks that accepted TARP injections were chided by Congress yesterday for not opening loan spigots.

"I urge you strongly to cooperate with us, not grudgingly, not doing the minimum," said Barney Frank of Massachusetts, a Democrat and chairman of the **House Financial Services Committee**.

Outstanding loans and credits at commercial banks fell to $7.057 trillion in the week ending Jan. 28 from $7.266 trillion in October, according to the Federal Reserve.

"If people thought the government would give banks money and they would turn around and leverage that and lend it, that's not the way it works," said Robert E. Litan, a senior fellow in economic studies at the **Brookings Institution** in Washington.

Thaw Frozen Markets

MidSouth, which has $937 million in **assets** and 34 branches in southern Louisiana and southeast Texas, is struggling to put its TARP money to work, Cloutier said.

While he has some fresh borrowers, people are "very, very nervous" about taking on significant new debt, the 61-year-old banker said.

The TARP was designed to thaw frozen credit markets, then- Treasury Secretary **Henry Paulson** told Congress on Nov. 24. The program under the Obama administration will mandate lending, Treasury Secretary Timothy Geithner said on Feb. 10.

"The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support," Geithner said.

For now, many customers are sitting tight, said **Curtis Hage**, CEO of closely held **Home Federal Bank** of Sioux Falls, South Dakota, which received $25 million of TARP money.

'Special' Rate

"If there was a greater demand out there for loans, we'd be out there after them like a dog after a bone," Hage said.

At the MidSouth meeting in Lafayette, the only lending- related questions were from a man who complained he had been rejected for a $200,000 advance two years ago and a woman who planned to open a Japanese restaurant if she could borrow at a "special" rate.

"Rates can't get any lower than they are now," Cloutier told her.

MidSouth charges about 5.25 percent for a **30-year conventional mortgage,** depending on the applicant's credit score. Rates on small-business loans run from about 5.25 percent to 6 percent, depending on the size of the compensating balances the borrower keeps with the bank, said **Donnie Landry**, MidSouth's chief lending officer.

Small-business loan rates are as much as two percentage points lower than they were a year ago, Landry said.

Creditworthy Borrowers

The spread over the prime rate had widened to more than 2 percentage points from three-quarters of a point or less in response to the greater risks in the market, Landry said.

"Credit hasn't tightened, but the ability to find creditworthy borrowers has tightened," he said. MidSouth hopes to increase lending by attracting new clients in Texas, he said.

Cloutier said he had expected to find eager borrowers in Lafayette Parish, where the **unemployment rate** is 3.5 percent, compared with 7.6 percent in the U.S.

While the **S&P/Case-Shiller Composite-20 Home Price Index** showed that national prices plummeted 18.2 percent in November from a year earlier, the median in Lafayette slipped to $170,000 from $171,000, according to local realtor Van Eaton & Romero.

Expectations the economy may deteriorate make borrowing look risky, said Andy C. Simon, president of Crown Drilling Fluids LLC, a drilling and services company that has taken out loans from MidSouth Bank and keeps deposits there.

'Expecting a Downturn'

"We're hunkering down," Simon said. "That's not to say we're not planning some growth -- but we're just planning."

Residential and commercial construction in Lafayette has slowed, said contractor Timothy Lemoine, a MidSouth director.

"People are now expecting a downturn, so the market has tightened up considerably just in the last few months," Lemoine said.

Some MidSouth officials wonder if the bank did the right thing in accepting TARP assistance, said **Will G. Charbonnet Sr**., MidSouth's chairman.

The $20 million was in exchange for 20,000 preferred MidSouth shares, which the Treasury Department bought for $1,000 each, according to the bank. MidSouth pays a 5 percent annual dividend. In addition, the Treasury received 208,768 warrants for common shares.

MidSouth rose 54 cents to $9.26 at 4 p.m. yesterday in New York Stock Exchange composite trading. The shares underperformed the Standard & Poor's SmallCap Financials **Index** by 18 percentage points over the past 12 months.

"Look, short term this is not a good decision," Charbonnet said of taking TARP aid. "It costs us money."

Nonperforming Assets

MidSouth accepted the capital as "an insurance policy" to provide a more substantial capital cushion in case credit conditions worsen, Charbonnet said.

The $20 million pushed the capital-to-assets ratio to about 10.5 from 8.38, according to the bank. The average in the S&P SmallCap Banks Index is 8.69.

Before the recession, regulators generally wanted banks to maintain capital ratios of at least 8, said Nicholas Ketcha, former director of supervision at the Federal Deposit Insurance Corp. He's now a managing director at Liberty Corner, New Jersey-based FinPro Inc., a bank consulting firm.

In this environment, a ratio of 10 or more is considered sound, Ketcha said.

Net income at MidSouth fell to $1 million in the fourth quarter from $1.9 million a year earlier. Nonperforming assets, or loans whose payments are at least 90 days overdue, climbed to 1.17 percent of the total from 0.35 percent. The increase was largely the result of a commercial real estate loan in Baton Rouge, Louisiana, that stopped accruing interest, the bank said.

Balance Sheet Risk

The average rate of nonperforming assets for companies in the S&P SmallCap Banks Index was 1.93 percent.

While one way to boost borrowing is to lower standards, bank examiners are insisting that loan officers be more prudent than ever, Cloutier said. Bankers are wary of increasing bad loans in any event, said Hage, the South Dakota banker.

"We're not going to put our balance sheet more at risk for the sake of public policy," Hage said.

Federal regulators are stressing both prudence and increased lending, not one or the other, said Steve Fritts, associate director of the FDIC's risk management policy and examination oversight branch in Washington.

"We don't believe they're mutually exclusive," Fritts said. "They go hand in hand."

To Cloutier, that sounds like a mixed message.

"If the regulators want me to wash a car, I'll do it," he said. "I'll go out to the parking lot and get to work. Just don't let me guess which car I have to wash and how I have to do it."

To contact the reporter on this story: James Sterngold in Los Angeles at **Jsterngold2@bloomberg.net**

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EXHIBIT 5

BOARD OF DIRECTOR MEETING MATERIALS FOR CONSIDERATION OF PARTICIPATION IN TARP/CPP PROGRAM

~ CONFIDENTIAL ~

TARP Issuance & Pro Forma Analysis

HF FINANCIAL CORP.

Private and Confidential
October 27, 2008

~ CONFIDENTIAL ~

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Table Of Contents