

Indiana Community BANCORP

February 27, 2009

Neil M. Barofsky
 Special Inspector General – TARP
 1500 Pennsylvania Avenue, NW
 Suite 1064
 Washington, DC 20220

Dear Mr. Barofsky:

In response to your correspondence dated February 6, 2009, I have outlined your information request and our reply as follows:

- (1)
 - (a) Anticipated use of TARP funds.
 - (b) Were TARP funds segregated from other institutional funds?
 - (c) Actual use of TARP funds to date.
 - (d) Expected use of unspent TARP funds.

The decision to apply for and accept \$21.5 million in TARP funds was completed in anticipation of using the funds to strengthen the capital position of Indiana Community Bancorp and its wholly owned subsidiary Indiana Bank and Trust Company. Although both the Company and the Bank were well capitalized, as defined by regulatory guidelines at the time the Company received TARP funds, we anticipated that the TARP funds would be utilized to provide additional commercial bank services to the communities we serve in southeast and central Indiana. More specifically, our intent was to continue to provide commercial and consumer loans to customers within the communities that we serve. These extensions of credit would be based on the same underwriting criteria in place prior to receipt of TARP funds.

TARP funds are currently being held in an interest bearing deposit account at the Federal Reserve. TARP funds were not specifically segregated from other institutional funds. As we are a community bank that operates within a relatively small geographic footprint, we do not specifically segregate any funding sources.

Since receipt of the TARP funds in mid-December, we have experienced growth in commercial loans of approximately \$4 million while consumer loans have experienced a decrease of approximately \$3 million. Because of a significant increase in the residential mortgage loan pipeline due to refinance activity, we have seen an increase of approximately \$14 million in mortgage loans. However, consistent with our strategy dating back to 2006, these loans are sold in the secondary market so the increase in outstanding balances is short term. During this same time frame, we have experienced growth in deposits of approximately \$12 million.

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(b) (4)

(2) Specific plans for addressing executive compensation requirements associated with the funding.

At the time we received the TARP funds, our executive officers signed waivers and compensation agreements assuring compliance with the compensation limitations in effect at the time the TARP investment was made. We continue to monitor the executive compensation requirements associated with the funding through consultation with our corporate legal counsel. We understand that under the American Recovery and Reinvestment Act of 2009 ("ARRA"), bonus payments to our President and CEO while the TARP preferred stock is outstanding are prohibited. Moreover, any change of control agreement payments or enhanced SERP payments upon a change in control to our two executive vice presidents are also prohibited. We are also aware of the \$500,000 limit on the tax deductibility of compensation paid to our executive officers while the TARP preferred stock is outstanding. We plan to submit a "Say on Pay" proposal to our shareholders at our upcoming annual meeting, consistent with the ARRA. In addition, our senior risk officer reviewed with our Board's Compensation Committee all compensation plans which impact our executive officers, to determine whether they encouraged our executive officers to take unnecessary and excessive risks that could threaten the value of the Company. This review occurred on February 24, 2009. With regard to the new ARRA limitations listed above which impact our executive officers, no changes to any executive compensation plans have been implemented or proposed at this time. We are reviewing with corporate legal counsel what steps, if any, should be taken in response to ARRA.

Should you have any additional questions or require any additional information based on the responses above, please feel free to contact me at (b) (6)

By signing below, the undersigned officer certifies, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, the accuracy of all statements, representations, and supporting information set forth herein.

Sincerely,



Mark T. Gorski
Executive Vice President and Chief Financial Officer
Indiana Community Bancorp