

MutualFirst Financial Inc.

110 EAST CHARLES ST.

MUNCIE, INDIANA 47305-2400

PHONE 765/747-2800

March 3, 2009

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

Dear Mr. Barofsky:

This letter is in response to your request of February 6, 2009 regarding *MutualFirst's* utilization of TARP funds received on December 23, 2008. I will attempt to answer the questions you have asked as completely and succinctly as possible. I am sending you this information in electronic form and will also send hard copy as you requested.

- (1) (a) When we applied for TARP funding, we anticipated using the funds as a means to increase our Total Risk Based Capital in light of the challenging economic times. Although well-capitalized, our regulator the OTS encouraged us to participate. Although we have no liquidity concerns, the funds would provide us additional capital. (b) (c) (d) The TARP funds were not segregated from other institutional funds. MutualFirst Financial, Inc. (MFSF) received \$32,382,000 through the U. S. Treasury Capital Purchase Program. MFSF placed \$29,143,800 into its wholly owned subsidiary MutualBank, while retaining the remaining \$3,238,200 at the holding company. MutualBank placed approximately \$20.0 million of the proceeds in highly rated securities. Approximately \$14.8 million was placed in mortgage-backed securities, \$3.2 million in municipal securities and \$2.0 million in corporate bonds. These securities will provide liquidity as needed to meet current and future loan demand. The remaining funds held at MutualBank were placed in working capital. This working capital is used to fund loans and meet the cash needs of MutualBank. The attached Exhibit 1 indicates the investments that were made at the Bank level from the TARP funding. We continue to seek and make as many loans that meet our underwriting standards as we possibly can. Because we never participated in subprime or option arm lending, our underwriting standards have not been significantly modified in light of recent economic conditions. We have noted a significant tightening of underwriting standards

by Freddie Mac, who is our major secondary market outlet. The markets we serve are challenged for growth, and we suffer from significant unemployment. We never believed that we could leverage the TARP funds by significantly increasing the lending in our markets without taking undue risk. Our capital prior to TARP funding was fully adequate to meet any and all loan demands in the markets we serve.

You will find in Exhibit 2 a brief description of our lending activities the first two months of 2009 compared to the first two months of 2008. Although new consumer and commercial loans made are less than in 2008, mortgage loans were significantly higher and I would call your attention to the commitments for mortgage loans. You can see that we have a substantial number of mortgage loans committed and not yet closed. Another significant number are the commercial loans that have been renewed so far this year compared to last year.

The attached information in Exhibit 3 documents the fact that MutualBank has historically worked to assist our customers during times of financial distress. Neither borrower nor lender benefits from the foreclosure process. Maintaining assets, especially homes that provide the foundation of most families' wealth, remains the goal of the Bank.

While modifications have greatly increased over the recent months, we point with pride to the fact that workout arrangements as a means of assistance to struggling customers historically have maintained a success rate near 60%.

These workouts have included:

1. Short term arrangements to reduce payments in order to give borrowers time to sell a home or find employment.
2. Modifications to capitalize past due payments and bring an account current and amortize over the remaining term.
3. Extend terms of mortgages to reduce payments to match new lower income levels and reducing interest rate, if needed.
4. Agree to "Short sales" of collateral real estate in order to facilitate a sale to an able borrower.
5. Deeds in lieu of foreclosure have been used in the past, but the present bankruptcy laws and additional liens on properties have limited the number of these in this environment.

Indeed, balancing the need to maintain earnings by investing in viable lending activity, while recognizing the efforts of those caught in the middle of declining real estate values and workforce reductions is a challenge that our industry is facing. We continually look for ways to work with a customer to meet their current needs.

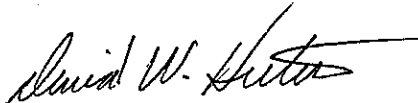
In addition to modifications, our collection efforts have changed somewhat. We tend to defer the foreclosure process when possible, and are more apt to approve long term workouts even after the foreclosure is initiated. To this point, a proactive approach has seen some measure of success.

- (2) At the time of the transaction with Treasury, all of our named executive officers signed waiver agreements that acknowledged the implication to executive compensation. In addition, each senior executive officer signed a Compensation Modification Agreement, the form of which is attached as Exhibit 5, reflecting the officer's and *MutualFirst's* understanding that if any compensation arrangement is subsequently deemed to be excessive or otherwise not comply with TARP, they may be modified to comply. Our Compensation Committee reviewed the requirements with counsel, and evaluated the compensation programs we currently offer for compliance. The Committee also reviewed any incentive plans with our senior risk personnel to ensure that the compensation plans do not encourage behavior that would create short term gain that increases risk taking for the Company. Because we currently pay within the guidelines established, we do not see any problem complying.

Please find Exhibit 4 to be my certification that the information contained in this letter is accurate.

Also, please feel free to contact me at (b) (6) if you have any further questions regarding this information or if I can be of further assistance.

Sincerely,

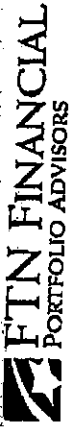


David W. Heeter, CEO
MutualFirst Financial, Inc.

MUTUAL FEDERAL INVESTMENTS

MUTUAL FEDERAL INVESTMENTS

MUTUAL FEDERAL INVESTMENTS



ID	SD	Cusip	Current	Type	Price	Yield	Duration
12/23/08	12/29/08	(b) (4)	2,727,167	WL^ CMO (1/09-7/18)	96.00	(b) (4)	2.50
12/23/08	12/29/08	(b) (4)	2,000,000	PAC CMO (6/12-9/14)	100.75	(b) (4)	3.88
01/06/09	01/09/09	(b) (4)	2,500,000	PAC CMO (12/12-6/17)	101.31	(b) (4)	5.05
01/12/09	01/15/09	(b) (4)	2,020,487	Seq CMO (2/09-2/18)	100.94	(b) (4)	2.60
01/15/09	01/22/09	(b) (4)	3,026,143	WL^ CMO (2/09-8/18)	99.13	(b) (4)	3.38
01/16/09	01/22/09	(b) (4)	2,495,432	WL^ CMO (2/09-7/18)	98.00	(b) (4)	2.82
		Subtotal	14,769,230		99.20	(b) (4)	3.37
12/24/08	12/30/08	(b) (4)	300,000	2021 Municipal	99.04	(b) (4)	9.61
12/24/08	12/30/08	(b) (4)	565,000	2022 Municipal	98.99	(b) (4)	10.13
01/09/09	01/29/09	(b) (4)	510,000	2023 Municipal	99.46	(b) (4)	10.69
01/16/09	01/27/09	(b) (4)	320,000	2020 Municipal	100.00	(b) (4)	8.05
01/16/09	01/27/09	(b) (4)	505,000	2023 Municipal	100.00	(b) (4)	7.95
01/20/09	02/06/09	(b) (4)	275,000	2021 Municipal	99.52	(b) (4)	9.49
01/20/09	02/03/09	(b) (4)	225,000	2023 Municipal	100.58	(b) (4)	8.35
01/20/09	02/03/09	(b) (4)	225,000	2024 Municipal	99.66	(b) (4)	11.32
01/20/09	02/03/09	(b) (4)	225,000	2025 Municipal	98.47	(b) (4)	11.82
		Subtotal	3,150,000		99.51	(b) (4)	9.63
12/23/08	12/29/08	(b) (4)	1,000,000	Corp	100.04	(b) (4)	3.53
01/09/09	01/14/09	(b) (4)	1,000,000	Corp	102.80	(b) (4)	3.59
			2,000,000		101.42	(b) (4)	3.56
		TOTALS	19,919,230		99.45	(b) (4)	4.38

Percentage of trades

CMO	74.1%
Munis	15.8%
Corporates	10.0%

*Indicates tax-equivalent yield
(b) (4)

^ Indicates "Whole Loan" CMO

Exhibit 2

MutualBank

		2009 January 1 through February 28	2008 January 1 through February 29	Change
Mortgage	Commitments (MutualBank Only 2008)	\$ 55,189,234.00	\$ 7,048,223.00	\$ 48,141,011.00
	New Loans	\$ 32,763,454.00	\$ 26,603,247.00	\$ 6,160,207.00
Consumer	New Loans	\$ 6,137,084.65	\$ 8,884,006.36	\$ (2,746,921.71)
Commercial	Commitments	\$ 6,225,000.00	\$ 13,232,000.00	\$ (7,007,000.00)
	Renewed Loans	\$ 30,044,992.44	\$ 25,136,297.00	\$ 4,908,695.44
	New Loans	\$ 8,169,642.63	\$ 9,313,001.00	\$ (1,143,358.37)
TOTALS		\$ 138,529,407.72	\$ 90,216,774.36	\$ 48,312,633.36

11.00

11.00

11.71

11.44

11.37

11.35

11.00

11.00

11.00

11.00

11.00

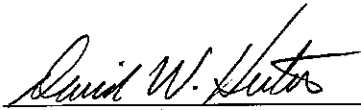
11.00

Modifications, Short Sales, etc.		Int Capitalized	Escrow capitalized	Prin Balance	Sales Price (short sales only)	Loss incurred?	completed	Due for current month's payment?
Acct #	Type of mod							
<u>3rd Quarter 2008</u>								
Mortgages								
1	(b) (6) Int & pmi only pmt for 6 months	\$ -	\$ -	\$ 63,995.65		\$ -	8/1/2008	Yes
2	Interest only payment for 3 months	\$ -	\$ -	\$ 64,497.24	n/a	n/a	8/2008	Yes
3	Capitalize past due pmts & reamort	\$ -	\$ 491.70	\$ 44,962.90	n/a	n/a	10/2/2008	Yes
4	Extend term by 60 months and reamortize (10 yr to 15 yr)	\$ -	\$ -	\$ 118,512.22	n/a	n/a	9/16/2008	No
5	Capitalize escrow due and reamortize	\$ -	\$ 2,511.54	\$ 93,027.08	n/a	n/a	8/30/2008	No
6	Capitalize past due pmts & reamort	\$ 618.40	\$ 945.74	\$ 27,766.37	n/a	n/a	8/30/2008	No
7	Capitalize past due pmts & reamort	\$ 761.68	\$ 1,159.86	\$ 34,200.25	n/a	n/a	8/30/2008	No
8	Capitalize past due pmts & reamort	\$ 500.08	\$ 63.24	\$ 25,003.05	n/a	n/a	10/21/2008	Yes
9	Capitalize past due pmts & reamort	\$ 376.30	0 (escrow coverage check covered)	\$ 28,670.78	n/a	n/a	10/24/2008	Yes
10	Capitalize past due pmts & reamort	\$ 284.31	\$ 47.12	\$ 66,569.37	n/a	n/a	10/31/2008	Yes

1	(b) (6)	Interest only - capitalize escrow for 6 months	\$ -	\$ 795.30	\$ 59,215.12	n/a	n/a	2/24/2009	Yes	Freddie Mac
2	(b) (6)	Capitalize past due pmts & reamort & Int & esc only pmts for 4 months	\$ 1,015.80	\$ 462.96	\$ 92,872.43	n/a	n/a	no	not complete	
3	(b) (6)	Capitalize past due pmts & reamort	\$ 1,144.12	\$ 312.25	\$ 109,834.99	n/a	n/a	2/18/2009	Yes	
4	(b) (6)	Reduce rate from 12.9% to 8.9% - going through debt counseling		\$ 2,646.13			4% interest	2/4/2009		
5	(b) (6)	Interest & escrow only pmts	\$ -	\$ -	\$ 48,232.43	n/a	n/a	8-Nov	yes	
6	(b) (6)	Interest & escrow only pmts	\$ -	\$ -	\$ 273,505.91	n/a	n/a	2/20/2009	Yes	
7	(b) (6)	Capitalize past due pmts & reamort	\$ 1,035.36	\$ 9.27	\$ 57,122.55	n/a	n/a	2/20/2009	Yes	Freddie Mac
8	(b) (6)	Capitalize past due pmts & reamort	\$ 991.24	\$ (68.51)	\$ 79,299.40	n/a	n/a	1/14/2009	Yes	
9	(b) (6)	Capitalize past due pmts & reamort	\$ 585.64	\$ 198.40	\$ 65,372.93	N/A	n/a	1/8/2009	Yes	
10	(b) (6)	Capitalize past due pmts & reamort	\$ 758.84	\$ 437.89	\$ 69,145.80	n/a	n/a	1/29/2009	Yes	
11	(b) (6)	Capitalize past due pmts & reamort	\$ 589.18	\$ 294.60	\$ 65,768.11	n/a	n/a	1/14/2009	Yes	

Exhibit 4

I, David W. Heeter, CEO of *MutualFirst* Financial, Inc. and MutualBank, 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.



3/3/09

David W. Heeter, CEO *MutualFirst* Financial, Inc./MutualBank

Date

COMPENSATION MODIFICATION AGREEMENT

THIS AGREEMENT ("Agreement"), made this 17th day of December, 2008, by and between *MutualFirst* Financial, Inc., Mutual Bank, its wholly owned subsidiary, (together, the "Corporation") and David W. Heeter, a senior executive officer of the Corporation ("Executive").

WHEREAS, the Corporation has determined that it is in the best interests of the Corporation and its stockholders to participate in the Treasury TARP CPP program ("CPP"), under which, the Corporation will issue preferred stock and warrants to purchase Corporation common stock to the United States Treasury ("UST") in return for cash; and

WHEREAS, in order for the Corporation to participate in the CPP, the Corporation and its senior executive officers subject to the Compensation Guidelines ("SEOs") must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance and the related UST interim final regulations (31 CFR Part 30) published in the Federal Register on October 20, 2008 (the "Compensation Guidelines"); and

WHEREAS, the Corporation is required to deliver a certificate to the UST at the closing of the CPP transaction that it has complied with all the Compensation Guidelines; and

WHEREAS, the board of directors of the Corporation has authorized and directed the Compensation Committee to take any and all the actions required under the Compensation Guidelines in order to enable the Corporation to deliver that certificate and authorized each member of the Compensation Committee to execute this Agreement on behalf of the Corporation; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, is required to review the Corporation's compensation plans and policies with senior risk officers in order to identify and unilaterally eliminate any bonus plans or other incentive compensation arrangements for SEOs that encourage them to take unnecessary and excessive risks that threaten the value of the financial institution; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, must adopt appropriate provisions for the recovery by the Corporation of any bonus or incentive compensation paid to a senior executive officer (as defined under the Compensation Guidelines) based on financial statements or performance metric criteria later determined to be materially inaccurate; and

WHEREAS, in order to comply with the Compensation Guidelines as long for so UST holds securities of the Corporation acquired in the CPP, the Corporation is prohibited from making any golden parachute payment (as defined under the Compensation Guidelines) to any SEO; and

WHEREAS, the Corporation is required to deliver to the UST in connection with the consummation of the CPP transaction a waiver from each of its SEOs with respect to the changes in the Corporation's compensation plans, polices and practices as required by the Compensation Guidelines; and

WHEREAS, the Compensation Committee has asked Executive to execute the waiver in the form attached; and

WHEREAS, the Executive believes the requirements imposed under the Compensation Guidelines in order for the Corporation to obtain government funds by participating in the CPP are reasonable and in the best interests of the Corporation and its stockholders and furthers the long term best interests of the Corporation and its SEOs, including the Executive.

NOW, THEREFORE, to allow the Corporation to participate in the CPP for the mutual benefit of the Corporation, its stockholders and Executive, and for other good and valuable consideration, the Corporation and the Executive hereby agree as follows:

1. GENERAL MODIFICATION OF EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, the Corporation and Executive agree that, notwithstanding any contract, plan, policy or agreement to the contrary, all employment, compensation and benefit agreements, plans and policies with respect to Executive shall be deemed modified to comply in all respects with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues preferred stock and warrants to the UST. The Corporation and Executive further agree that the Corporation shall not adopt any new benefit plan with respect to Executive that does not comply with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues preferred stock and warrants to the Treasury. The Executive agrees that the Corporation, through its Compensation Committee, has the sole discretion: (a) to determine whether and to what extent any bonus or incentive compensation with respect to the Executive encourages the Executive to take unnecessary and excessive risks that threaten the value of the financial institution, and (b) to eliminate any such compensation as long as UST holds securities of the Corporation acquired in the CPP.

2. RECOVERY OF INCENTIVE COMPENSATION: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, in the event Executive receives a bonus or any other incentive compensation from the Corporation based on financial statements or performance metric criteria later

determined by the Corporation's Compensation Committee, in its sole discretion, to be materially inaccurate, Executive agrees to repay the Corporation, in cash and within 30 days of a written demand therefore, the amount of the bonus or incentive compensation received by Executive in excess of the amount that would have been paid to Executive had the inaccurate statements or criteria been accurate.

3. GOLDEN PARACHUTE PAYMENTS: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, Executive agrees that: (a) the Executive shall not be entitled to receive any golden parachute payment (as defined under the Compensation Guidelines) upon Executive's severance from employment (as defined under the Compensation Guidelines) and (b) that all applicable contracts and agreements between Executive and the Corporation are deemed to be amended in this regard.

4. WAIVER: **Executive hereby voluntarily waives any claim against the Corporation for any changes to my compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including golden parachute agreements) that are required to comply with the Compensation Guidelines and that are made pursuant to this Agreement. This waiver includes all claims Executive may have under the laws of the United States or any state related to the requirements imposed by the Compensation Guidelines, including, without limitation, a claim for any compensation or other payments Executive would otherwise receive. Executive agrees to execute the required waiver in the form attached hereto and deliver said warrant to the Corporation no later than the close of business on December 17, 2008.**

5. COVERED EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Executive acknowledges that all the employment, compensation and benefit agreements, plans and policies applicable to Executive, including but not limited to those listed in Annex A hereto, are subject to the modifications and amendments provided for in this Agreement, to the extent applicable.

6. MODIFICATION - WAIVERS - APPLICABLE LAW: No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by the Executive and on behalf of the Corporation by such officer as may be specifically designated by the Board of Directors of the Corporation. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by federal law, to the extent applicable, and otherwise by the laws of the State of Indiana.

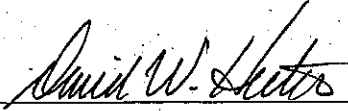
7. INVALIDITY - ENFORCEABILITY: The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8. HEADINGS: Descriptive headings contained in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision in this Agreement.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

EXECUTIVE

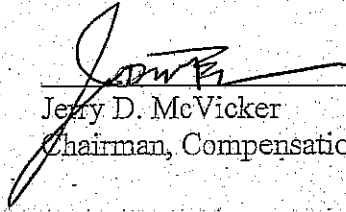


Signature

David W. Heeter

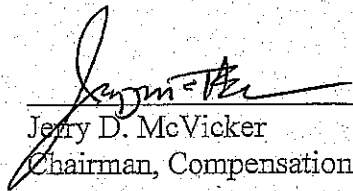
Print Name

**MUTUALFIRST FINANCIAL,
INC.**

By: 

Jerry D. McVicker
Chairman, Compensation Committee

MUTUAL BANK

By: 

Jerry D. McVicker
Chairman, Compensation Committee

Employment Agreements:

Severance Agreements

Other Benefit Plans or Agreements

Other Employment Compensation and Benefit Plans and Policies

SEO 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.

Date:

12/17/08

Name

Title CEO