IDAHO BANCORP

March 06, 2009

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

Dear Mr. Barofsky,

Responding to your request dated February 6, 2009, I have identified below (a) Idaho Bancorp's potential anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) the Bank's actual use of TARP funds to date; and (d) the Bank's potential expected use of unspent TARP funds:

Jim Latta, President and Chief Executive Officer of Idaho Bancorp and its subsidiary, Idaho Banking Company, has outlined potential uses of the capital received from the U.S. Treasury. These are also listed on Exhibit I:

(b) (4)

The TARP funds received from the U.S. Treasury have not been segregated from other Bank funds at Idaho Bancorp.

The capital received from the U.S. Treasury has primarily been used, to this point in time, for lending purposes and augmentation of the Bank's allowance for loan losses since the infusion of capital on January 16, 2009.

Administration • 7661 W. Riverside Dr. Ste. 201 • Boise, Idaho 83714 • Phone (208) 287-6505 • Fax (208) 287-6502

**Lending**
From January 16, 2009 through February 28, 2009, the Bank has renewed maturing loans in the amount of $9,684,000 (Exhibit II). The Bank also either increased the amount of these outstanding loans or established new loans with other customers by lending an additional $2,267,000. Of the $11,951,000 in approved loans, $5,397,000 is for commercial real estate loans, while $4,352,000 is for commercial and industrial non-real estate loans. The remaining $2,202,000 is for consumer related loans.

In addition to the renewal of maturing loans, the Bank has been active in the residential mortgage market. During 2009 and through February 28, 2009, the Bank has taken 126 applications for home loans totaling approximately $25,001,000 (Exhibit III). During this time period, the Bank funded 77 loans totaling approximately $15,239,000 (Exhibit IV). During this same time period, the Bank sold 65 loans totaling approximately $13,216,000. The Bank typically sells these residential loans in the secondary market.

On a voluntary basis, in January and February 2009, the bank held off completing any foreclosures on 1-4 family primary residences in the spirit of cooperation with the US Treasury until foreclosure mitigation rules could be developed.

**Investments**
In February, 2009; the bank invested $1,958,000 in Alt-A, AAA rated collateralized mortgage obligation securities. The Bank has typically used its investment portfolio for liquidity purposes. However, given the opportunity that currently exists in the securities market for purchasing Whole Loan and Alt-A collateralized mortgage obligations at significant discounts, the Bank has focused more of its reinvestment dollars on these types of securities. To determine which securities to purchase, as the Bank reinvests its funds, the Bank considers 10 different factors for each security. These factors include;

1. average loan size
2. number of loans in the pool
3. seasoning of security – weighted average months
4. weighted average loan-to-value
5. delinquencies
6. average FICO scores
7. credit support
8. geographic concentration
9. occupancy purpose
10. price



Administration • 7661 W. Riverside Dr. Ste. 201 • Boise, Idaho 83714 • Phone (208) 287-6505 • Fax (208) 287-6502

The Bank believes these securities provide reasonable returns without incurring undue risk to the Bank. The Bank also believes investing in these types of securities directly benefits liquidity and mortgage activity on a national level.

**Allowance for Loan Losses**

Due to events subsequent to December 31, 2008, the Bank increased its allowance for loan losses at December 31, 2008 from $3,073,000 to $4,553,000 and additionally recognized $1,384,000 in charge-offs in December 2008. Together, these transactions had an adverse affect on the December 31, 2008 income statement of $2,864,000 (Exhibit V).

The December 31, 2008 allowance for loan losses and the affect on the corresponding income statement have been audited and approved by our external auditors, Moss Adams.

Without the effects of increasing the Bank's allowance from 1.46% to 2.17% of loans outstanding at December 31, 2008 and recognizing the charge-offs mentioned above, management had looked at efficiently deploying the capital by growing assets by approximately $100,000,000, subject to the Bank's ability to grow core deposits and other funding sources to support the asset growth, all while staying within policy guidelines.

Despite the increase in allowance for loan losses and additional charge-offs recognized in the 2008 financials due to events subsequent to December 31, 2008, the Bank continues to be well capitalized, even without the capital injection from the U.S. Treasury. However, the capital from the U.S. Treasury gives the Bank an added layer of protection from unforeseen events that could transpire in the economy.

**Executive Compensation**

The Bank is in compliance with the executive compensation limits associated with the capital funding from the U.S. Treasury. [redacted]

(b) (4)(b) (4)



Administration • 7661 W. Riverside Dr. Ste. 201 • Boise, Idaho 83714 • Phone (208) 287-6505 • Fax (208) 287-6502

Any strategic, operational, or financial decision made first takes into consideration the shareholders' perspective.

(b) (4) [redacted]

We are in process of completing and reviewing the additional limits and oversight of compensation as prescribed under the most recent economic stimulus package. Our independent board member compensation committee has been formed; and they will meet on or before June 30, 2009 to ensure the Bank's compensation packages for highly paid employees meet the six standards limiting compensation for such employees. The Bank believes it is already in compliance with the six standards as outlined in the updated regulatory guidance.

Exhibits associated with loans have personal information including names and amounts and are not being furnished to you at this point. These documents are on file at our offices.

I certify, to the best of my knowledge, the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

James C. Latta
President and Chief Executive Officer



Administration • 7661 W. Riverside Dr. Ste. 201 • Boise, Idaho 83714 • Phone (208) 287-6505 • Fax (208) 287-6502

Idaho Bancorp
Office of the Special Inspector General – Response Letter
Exhibit I

**Tarp Strategies:**

[redacted]