

BNCCORP

BNCCORP, Inc. 322 East Main P.O. Box 4050 Bismarck, ND 58502-4050 www.bnccorp.com Telephone: (701) 250-3040 FAX: (701) 222-3653

March 4, 2009

Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

Confidential: This communication, information contained herein, or attached hereto, is considered confidential by the management of BNCCORP, Inc. The use, or distribution, of the information in this communication without written consent is expressly prohibited.

In your letter dated February 6, 2009 you requested certain information from BNCCORP, Inc. (BNC) regarding the use of TARP proceeds and compensation practices. We are respectfully submitting this response, and initiate with the following observations.

Management of BNC has read the recitals in the Securities Purchase Agreement between the Department of the Treasury (the TARP Investor) and BNC.

As a community banking entity, we serve multiple constituencies including, but not limited to, the TARP Investor, various regulatory authorities (e.g. OCC and FDIC), our clients, our employees, common shareholders and the communities in which we live and work.

The needs and demands of these constituencies are sometimes compatible, in other instances, our constituents have competing objectives. For example, we believe the TARP Investor expects BNC to expand the flow of credit. In contrast, the OCC appears to be mandating cautionary lending practices, particularly with respect to real estate loans which they prefer that BNC reduce its exposure. Recently, the FDIC announced its intent to increase insurance assessments. This increase will reduce capital in the banking industry thereby impairing the industry's capacity to lend.

The current economic environment is likely the most challenging since the Great Depression. Unfortunately, the trends appear negative. As a result, the financial condition of banks, borrowers and depositors is stressed. Such circumstances could accentuate differences our constituents may have.



The management of BNC will attempt to consider the various objectives of all constituents as we operate the institution.

TARP Proceeds

Management anticipates TARP proceeds will be used for the following primary purposes: expand the flow of credit, support our exposure to credit losses, support the capital position of BNC National Bank (the Bank), support the liquidity of the Bank and support the earnings of the Bank.

Since the time elapsed from the receipt of TARP proceeds to the date of your letter was merely 14 business days, the extent to which we have used, or will use, TARP proceeds for any of these, or other, purposes has not been quantified at this juncture. None-the-less, management of BNC acknowledges we have improved the regulatory capital of the holding company, provided liquidity at the Bank and capitalized on certain lending opportunities. A summary of loans outstanding at various intervals is attached.

We may attempt to quantify certain objectives in the future, but such quantification is inherently limited. The current economic environment is extraordinarily dynamic. As a result, we have recently been forced to re-assess utilization of our financial resources and we fully expect it will be necessary to remain nimble as we utilize our financial resources in the future.

With respect to segregation of TARP funds, proceeds were deposited into BNC's money market account at the Bank thereby co-mingling the TARP proceeds with other funds held in this account. We currently do not anticipate "earmarking" TARP funds. Rather, we intend to manage our financial resources on a more macro basis.

Undoubtedly, TARP proceeds have enhanced our financial capacity and we have proceeded methodically. Initially, we strategically analyzed how BNC is being impacted by the economy and how TARP proceeds may align with objectives. In particular, we evaluated various methods of infusing capital into the Bank and identified which lending products should be emphasized. Subsequently, we communicated to our key managers and producers which lending and depository products are endorsed by senior management. For example, we will emphasize programs that support residential lending, SBA loans and small businesses.

Executive Compensation

BNC management understands we are required to conduct an audit of compensation practices to assess compliance with EESA standards. The audit is to be completed within 90 days of receiving TARP proceeds. Conduct of this audit has been complicated because compensation standards are morphing. Despite these dynamics, we currently presume our compensation practices are in compliance with EESA standard in many respects. We will conduct the compensation audit by mid April, as required, and amend compensation practices, if necessary, to comply with EESA.

Request and Certification



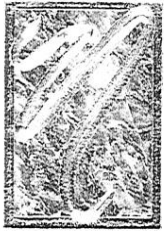
We understand the CPP Investor has a vested interest in BNC's performance, but it seems unusual and demanding for any investor to require a response of this nature so shortly after investment. We received the TARP funds on January 16, 2009, and your letter was dated February 6, 2009 – a span of 14 business days. For example, the SEC has deemed quarterly reporting to be sufficiently frequent. We willingly respond, but respectfully submit it is counterproductive to create progress reports every 14 days. Please consider spacing further progress reports to more extended intervals.

The signatories below certify that they have reviewed this response, and, based upon their knowledge, this response does 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.

Very truly,

Gregory K. Cleveland
Chief Executive Officer

Timothy J. Franz
Chief Financial Officer



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BNC Summary Loan Information

Description	January-09	December-08	January-08
Residential mortgage loans held for sale	\$ 25,146,362	\$ 13,135,412	\$ -
Lines of credit outstanding to residentail lenders	\$ 27,192,847	\$ 28,583,576	\$ 21,926,409
Loans held for investment	\$ 554,399,975	\$ 542,977,824	\$ 497,652,337
Total Loans	\$ 606,739,184	\$ 584,696,812	\$ 519,578,746
	January 1, 2009 - January 31, 2009	December 1, 2008 - December 31, 2008	January 1, 2008 - January 31, 2008
New loans originated (1)	\$ 40,783,940	\$ 24,814,235	\$ 8,205,534
Loans renewed or extended	\$ 15,149,868	\$ 63,650,349	\$ 4,662,194
(1) included originations of residential loans held for sale aggregating	\$ 32,690,720	\$ 20,107,802	\$ -