

Northern Trust Corporation
50 South La Salle Street
Chicago, Illinois 60603
(312) 630-6000

#176



Northern Trust

William R. Dodds, Jr.
Executive Vice President & Treasurer

(b) (6)

March 6, 2009

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

Re: Troubled Asset Relief Program (TARP)

Dear Mr. Barofsky:

Following is the response of Northern Trust Corporation ("Northern Trust") to your letter of February 6, 2009 requesting information concerning use of TARP funds by Northern Trust and compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 and Department of Treasury guidelines.

(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 been taken that you would not have been able to take absent the infusion of TARP funds.

On November 14, 2008, the U.S. Department of the Treasury invested \$1.576 billion in senior preferred shares and related warrant of Northern Trust under the TARP Capital Purchase Program. Northern Trust did not seek the Government's investment, but we were encouraged by Federal Reserve and Treasury representatives to participate in the program. Northern Trust views TARP as important to restoring overall stability to the U.S. financial system.

On February 17, 2009, Northern Trust paid its first quarterly dividend on the preferred shares to the Department of Treasury in the amount of \$19.9 million. So long as Northern Trust remains in TARP, for each of the next five years Northern Trust will pay the Treasury dividends on the preferred shares for the benefit of U.S. taxpayers the amount of \$78.8 million on an annual basis.

On January 30, 2009, Northern Trust filed its first monthly Treasury Intermediation Snapshot containing both a Quantitative and Qualitative overview of Northern Trust's participation in TARP (see Annex 1). As you will see from Annex 1, Northern Trust is a



Northern Trust

TARP

March 6, 2009

Page 2 of 6

leading provider of investment management, asset and fund administration, fiduciary and banking solutions for corporations, institutions and successful individuals worldwide. As of December 31, 2008, our loans and leases totaled \$30.8 billion, assets under custody totaled \$3 trillion, and assets under management totaled \$559 billion.

In our institutional business, Northern Trust clients include non-profit foundations, college and university endowments, and retirement plans for corporations, unions, and local, state and national governmental agencies. Our role as a trust/custody/fiduciary bank is essential to our clients, and to U.S. and global financial markets, as Northern Trust is responsible for the safety and security of pension, 401K, endowment, governmental, and other assets - assets that provide purchasing power and financial security for millions of people.

In our personal business, Northern Trust clients include individuals and families, primarily in the United States. We provide mortgages and other personal loans to our clients, in addition to a breadth of financial planning services for our clients and their families.

As with any source of capital, the investment by the U.S. Treasury contributed to Northern Trust's already strong capital base relative to regulatory guidelines and the industry. In December of 2008, Northern Trust invested \$500 million of TARP funds in The Northern Trust Company, our flagship bank, as additional capital. The remaining TARP funds were placed on deposit with The Northern Trust Company. Since the TARP funds have substantially been moved to the subsidiary bank level, they are fully available to fund business growth, high-quality loan growth and other purposes consistent with the TARP objectives. As indicated below, Northern Trust has established guidelines for usage of TARP funds; however, as stated in the preceding sentence the TARP funds have been deployed in the same manner as other funds in our capital accounts and have not been segregated into specific sub-accounts at the business unit level. The TARP funds will enable Northern Trust to expand its core businesses and increase high-quality lending more than would have been possible in the absence of such funds. However, in view of the very adverse current market conditions and our commitment to maintaining high credit quality and strong capital ratios, it will take time to fully employ this amount of additional capital in our business.

Northern Trust is continuing to manage its business prudently in order to pay back the capital consistent with the TARP terms. This prudent management will facilitate both



TARP
March 6, 2009
Page 3 of 6

payment of dividends and repayment of capital, consistent with one of the EESA purposes -- to "maximize overall returns to the taxpayers of the United States."

More specifically, TARP funds have been and are expected to be used for the following purposes, in accordance with Northern Trust's TARP guidelines:

- TARP funds have been and will be used to support the strong capital levels that our personal and institutional clients expect, including non-profit foundations, college and university endowments, and retirement plans for corporations, unions, and local, state and national governmental agencies. Above all, our clients want to be certain that their assets are safe and secure at all times. Northern Trust's fiscally conservative culture, prudent management and well-capitalized status all help protect our clients' assets. These activities work to advance another stated purpose of the EESA -- to promote "liquidity and stability to the financial system of the United States" and to protect assets including "college funds, retirement accounts and life savings."
- TARP funds have been and will be used to support high-quality loan growth, benefiting consumers and institutions. Although Northern Trust's focus is principally on investment management and administration of assets, we continue to use our balance sheet to provide loan and deposit services in the communities that we serve. Our loans and leases at 12/31/08 totaled \$30.8 billion, a 21% increase from 12/31/07 and a 3% increase from 9/30/08. Our domestic deposits, which provide safety and income for our clients, were \$24.3 billion at 12/31/08, a 53% increase from 12/31/07 and a 36% increase from 9/30/08.
- TARP funds have facilitated restoration and maintenance of Northern Trust's strong capital levels following significant actions taken in the third quarter on a voluntary basis to support our clients, including consumers, businesses, and investors, to preserve assets and enhance liquidity. In September 2008 Northern Trust:
 - Allocated up to \$550 million to provide capital support for certain cash investment funds, thereby providing financial protection and confidence for consumers, businesses and others who invested retirement, pension and other assets in those funds;
 - Provided \$167.6 million to support securities lending clients, including many that are pension funds, retirement funds, endowments and other entities that represent U.S. consumers; and



TARP
March 6, 2009
Page 4 of 6

-
- Established a program to purchase up to \$600 million illiquid auction rate securities from consumers, thereby restoring purchasing power and liquidity to many of our personal clients. Purchases totaling \$515 million were funded in the fourth quarter, 2008 following receipt of TARP funds.
 - TARP funds facilitate purchases, on a regular basis, of mortgage backed securities of Government Sponsored Enterprises and obligations of U.S. financial institutions that are participating in the FDIC Temporary Liquidity Guarantee Program, thereby providing liquidity to the financial markets and encouraging increased mortgage lending activity. Northern Trust expects to continue to use TARP funds for this purpose.
 - TARP funds may be used for other investments or purposes that are consistent with Northern Trust guidelines and with applicable legal requirements.

Northern Trust has continued to manage its business prudently in order to maintain healthy credit relationships with its mortgage borrowers. Northern Trust's residential mortgage portfolio continues to exhibit satisfactory credit quality overall. Importantly, our mortgage portfolio includes only traditional mortgage origination. Northern Trust has never been in the sub-prime market. We do not routinely use mortgage brokers, and have no payment option adjustable rate mortgages. Moreover, Northern Trust does not sell or securitize pools of mortgages, so we are in a position to work directly with the majority of our mortgage holders on any payment problems they may have.

We are aware of growing stresses for some of our borrowers. We are endeavoring to provide tools for borrowers with short-term payment issues, and a willingness and ability to pay in the long term, that might allow them to stay in their homes. Options we have utilized include: past due payment postponements; modifications; forbearance agreements; short sales; and deed-in-lieu of foreclosure. In addition, we have established a Homeownership Retention Program. As part of this Program, a committee will review all home mortgages with payment problems in order to avoid preventable foreclosures. These efforts provide for consistent and equitable treatment with regard to modifications, extensions, or foreclosure (if deemed appropriate). This Program will be administered in concert with guidelines recently issued by the Obama Administration to promote homeowner affordability and stability. TARP funds will facilitate actions that Northern Trust may want to take in connection with its Homeownership Retention Program.



TARP
March 6, 2009
Page 5 of 6

Our historical experience has yielded a very small number of foreclosures nationally -- currently less than one quarter of one percent of the total number of mortgage loans outstanding. We have examined each situation closely to confirm that appropriate options have been considered, consistent with sound risk management principles.

Northern Trust will continue to apply TARP funds in accordance with applicable law. We believe that adherence to our prudent and fiscally conservative principles will provide the best means for Northern Trust to use TARP funds consistent with the EESA so that the Department of Treasury investment maximizes overall returns to the U.S. taxpayers.

(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.

Northern Trust is committed to full compliance with the standardized executive compensation requirements that are applicable to banks receiving original TARP funds in November 2008. The following actions have been taken to comply with these requirements:

- In connection with the closing of the preferred share transaction, each of the five Senior Executive Officers (SEO) was required to execute a waiver in a form approved by the Department of Treasury with respect to any compensation arrangements that may conflict with the EESA executive compensation arrangements required under Section 111 of EESA and Treasury guidelines;
- On January 23, 2009, at its regularly scheduled meeting, Northern Trust's Compensation and Benefits Committee discussed the incentive and bonus compensation arrangements for the SEOs. Present at the meeting were Northern Trust's Chief Risk Officer, Chief Human Resources Officer, and the Committee's consultant. The Committee reviewed a report prepared by members of the Human Resources, Risk Management and Legal staffs of Northern Trust, with assistance from outside counsel; and a letter prepared by the Committee's independent consultant.



Northern Trust

TARP
March 6, 2009
Page 6 of 6

These materials covered various aspects of the compensation arrangements, potential design features that might induce excessive or unnecessary risk, mitigating factors, and conclusions and recommendations. The Chief Risk Officer, the Committee and the Committee's independent consultant all concurred that there were no incentive or bonus programs that encouraged unnecessary or excessive risk and that no corrective actions were required. The certification from the Compensation and Benefits Committee required by Treasury regulations will be included in Northern Trust's proxy to be mailed in March, 2009;

- Northern Trust will take all necessary action to comply with the additional restrictions and limitations on executive compensation imposed by Title VII of the American Recovery and Reinvestment Act of 2009 on recipients of TARP funds in 2008. However, since many of these provisions are unclear and require implementation by the Treasury, we are awaiting more detailed guidance from Treasury on several of these additional requirements.

In submitting this letter, I 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.

I trust that the above information responds to your request. Please contact the undersigned if you require any additional information.

Respectfully submitted,

William R. Dodds
Executive Vice President

Enclosure

Name of institution: Northern Trust Corporation		Submission date: January 30, 2009		Person to be contacted regarding this report: Patricia K. Bartler	
PART I. QUANTITATIVE OVERVIEW					
SCHEDULE A: CONSUMER LENDING (Millions \$)		2008		2007	
		DEC	NOV	DEC	NOV
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)		\$8,088.0	\$6,154.0	\$8,184.0	All information is domestic and estimated based on a combination of internal and regulatory reporting data.
b. Total Originations		\$88.8	\$85.1	\$65.9	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Purchased first mortgages have been included as a source supporting mortgage availability.
(1) Refinancings		\$29.3	\$19.3	\$20.6	
(2) New Home Purchases		\$59.5	\$65.8	\$45.3	CBA purchases are not separately classified as refinancings and new home purchases; CBA purchases are included in the new home purchases figures.
2. Home Equity					
a. Average Total Loan Balance		\$2,157.0	\$2,238.0	\$2,315.0	All information is domestic and estimated based on a combination of internal and regulatory reporting data.
b. Originations (New Lines+Line Increases)		\$120.2	\$63.2	\$135.7	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Renewals are included.
c. Total Used and Unused Commitments		\$4,278.0	\$4,333.0	\$4,423.0	All information is domestic and estimated based on a combination of internal and regulatory reporting data.
3. US Card - Managed					
a. Average Total Loan Balance - Managed		N/A	N/A	N/A	Northern Trust does not have a managed credit card portfolio.
b. New Account Originations (Initial Line Amt)		N/A	N/A	N/A	
c. Total Used and Unused Commitments		N/A	N/A	N/A	
4. Other Consumer					
a. Average Total Loan Balance		\$2,212.0	\$1,161.0	\$2,180.0	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Includes revolving and non-revolving loans to purchase/carry securities and overdraft protection on consumer accounts.
b. Originations		\$156.0	\$146.9	\$118.1	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Renewals are included.
Residential real estate loans totaled \$10.4 billion as of 12/31/08; a 13% increase from the prior year and a 4% increase from the prior quarter.					
Approximately 50% of total commitments were used during the reporting period.					
Other Consumer includes revolving and non-revolving loans; over 90% is revolving (i.e., personal lines of credit).					

SCHEDULE B: COMMERCIAL LENDING (Millions \$)		QCI	NOV	DEC	Key	Comments
1. C&I						
a. Average Total Loan and Lease Balance	\$12,611.0	\$12,449.0	\$12,794.0		All information is domestic and estimated based on a combination of internal and regulatory reporting data. Includes agricultural loans, loans to purchase/carry securities, and other/trust advances.	
b. Renewal of Existing Accounts	\$283.1	\$511.6	\$286.8		All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
c. New Commitments	\$1,181.8	\$534.7	\$992.3		All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
2. Commercial Real Estate						
a. Average Total Loan and Lease Balance	\$2,970.0	\$3,023.0	\$3,040.0		All information is domestic and estimated based on a combination of internal and regulatory reporting data.	Commercial real estate loans totaled \$3 billion as of 12/31/08; a 28% increase from the prior year and a 2.5% increase from the prior quarter.
b. Renewal of Existing Accounts	\$21.7	\$7.6	\$42.0		All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
c. New Commitments	\$132.9	\$15.2	\$169.0		All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions \$)						
1. MBS/ABS Not Purchased Volume						
a. Mortgage Backed Securities	\$0.0	\$479.0	\$18.0		All information is domestic and estimated based on internal reporting data.	Northern Trust purchases, on a regular basis, debt securities of Government Sponsored Enterprises and US financial institutions that are participating in the FDIC Guarantee Debt Program.
b. Asset Backed Securities	\$0.0	\$0.0	\$0.0		All information is domestic and estimated based on internal reporting data.	
2. Secured Lending (Repo, PB, Margin Lending)						
a. Average Total Matched Book (Repo/Reverse Repo) ¹	N/A	N/A	N/A			Secured lending is not separated from our other lending.
b. Average Total Debit Balances ²	N/A	N/A	N/A			
3. Underwriting						
a. Total Equity Underwriting	N/A	N/A	N/A			Northern Trust does not engage in equity underwriting.
b. Total Debt Underwriting	\$0.0	\$0.0	\$0.0		All information is domestic and estimated based on internal reporting data.	

Notes:
1. Not applicable if matched book activity does not exceed \$50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Northern Trust Corporation**

Reporting month(s): October – December 2008

Submission date: **01.30.09**

Person to be contacted regarding this report: **Patricia K. Bartler**

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Company Description: Northern Trust Corporation (NTC) provides investment management, asset and fund administration, fiduciary and banking services for corporations, institutions and successful individuals worldwide. As of December 31, 2008, our loans and leases totaled \$30.8 billion, a 21% increase from 12/31/07 and a 3% increase from 9/30/08. Assets under custody totaled \$3 trillion, and assets under management totaled \$575 billion.

In our institutional business, Northern Trust clients include non-profit foundations, college and university endowments, and retirement plans for corporations, unions, and local, state and national governmental agencies. In our personal business, Northern Trust clients include individuals and families, primarily in the United States. We provide mortgages and other personal loans to our clients, in addition to a breadth of financial planning services.

Businesses in which we have actively chosen to not participate include sub-prime mortgage underwriting, asset backed commercial paper conduits, credit cards, auto loans, and investment banking. Although our focus is principally on investment management and administration, we continue to use our balance sheet to provide loan and deposit services to our clients.

Residential Lending: While early in the process, we have seen a substantive increase in mortgage applications mainly consisting of the refinance of existing mortgages. Applicants are finding appraisal values have decreased making qualification more difficult to obtain. We are also aware of growing stresses for some of our residential borrowers.

Northern Trust's mortgage portfolio includes only traditional mortgage origination. Northern Trust has never been in the sub-prime market; does not routinely use mortgage brokers; and has no payment option adjustable rate mortgages. Moreover, Northern Trust does not sell or securitize pools of mortgages, so we are in a position to work directly with our clients on any payment problems.

We are endeavoring to provide tools for borrowers with short-term mortgage payment issues, and a willingness and ability to pay in the long term that might allow them to stay in their homes. Options we have utilized include: past due payment postponements; modifications; forbearance agreements; short sales; and deed-in-lieu of foreclosure. In addition, we have established a Homeownership Retention Program. As part of this Program, a committee will review all home mortgages with payment problems in order to avoid preventable foreclosures. These efforts provide for consistent and equitable treatment with regard to modifications, extensions, or foreclosure (if deemed appropriate).

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Northern Trust Corporation**

Reporting month(s): October – December 2008

Submission date: **01.30.09**

Person to be contacted regarding this report: **Patricia K. Bartler**

We have a very small number of foreclosures in progress nationally -- currently less than one quarter of one percent of the total number of mortgage loans outstanding. We have examined each situation closely to confirm that appropriate options have been considered.

Deposit Growth: Our deposit business continues to be strong with depositors of all types seeking confidence through strength of the institution in addition to the guarantees of FDIC. Our domestic deposits were \$24.3 billion at 12/31/08, a 53% increase from 12/31/07 and a 36% increase from 9/30/08.

Corporate & Institutional: In the large corporate market, we have seen more companies lose access to public funding sources (commercial paper and long-term public debt), and are thus relying primarily on their bank credit facilities. In the middle market segment, we continue to see opportunities to add new clients due to apparent capital constraints faced by other banks who have traditionally supported this segment. In addition, commercial loan growth has been helped by increased utilization of existing facilities. This growth has been offset by a slow down in lending in the Commercial Real Estate segment.

The public finance (health care, not-for-profit, municipal, etc.) market has returned to bank borrowing due to the demise of the auction rate securities market and a subdued market for variable rate demand bonds. In addition, foundations and endowments have become more aware of the need for liquidity lines of credit, particularly due to the illiquidity of some of their alternative investments. Utilization of facilities continues to be stronger than prior year.

Intermediation Activity: Northern Trust continues to use its capital to support high quality loan growth, benefiting consumers and institutions. Northern Trust has also taken these further actions on a voluntary basis to support clients, including consumers, businesses, and investors, to preserve assets and enhance liquidity:

- Allocated up to \$550 million to provide capital support for certain cash investment funds, thereby providing financial protection and confidence for consumers, businesses and others who invested retirement, pension and other assets in those funds;
- Provided \$167.6 million to support securities lending clients, including many that are pension funds, retirement funds, endowments and other entities that represent US consumers; and
- Established a program to purchase up to \$600 million illiquid auction rate securities from consumers, thereby restoring purchasing power and liquidity to many of our personal clients.