



# 262

February 25, 2009

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

Re: OMB Control No. 1505-0212

Dear Mr. Barofsky,

Pursuant to your letter dated February 6, 2009, I am writing on behalf of Treaty Oak Bancorp, Inc. (TOBI), and its wholly owned subsidiary Treaty Oak Bank (the Bank). I am president and CEO of both entities. On January 16, 2009 TOBI completed the sale of 3,268 shares of Class A Preferred Stock to the U.S. Treasury for \$3,268,000 (the TARP Proceeds). The use of the TARP Proceeds by TOBI will be the support of lending activities of the Bank either in the form of additional contributed capital to the Bank or the retirement of short-term debt incurred by TOBI for the purpose of contributing additional capital to the Bank to support loan growth. Once capital derived from the TARP Proceeds has been received at the Bank, it will use the funds to support continued lending and related expenditures.

Although the TARP funds have not physically been segregated from other TOBI funds, TOBI and the Bank will separately track the expenditure of all TARP Proceeds. During the fourth quarter of 2008 TOBI issued \$1,000,000 in short-term debt instruments for the purpose of additional capital contribution to the Bank which was approaching its highly capitalized limitation that would in effect curtail its lending efforts. With the contributed capital from TOBI, the Bank was able to continue its lending efforts throughout the 2008 fourth quarter during which time gross loan growth totaled more than \$10,000,000 or approximately 9.8 percent (loans grew at 8.3 percent on a net loan basis). This loan growth would not have occurred had it not been for the capital contribution that occurred from the TOBI short term debt issuance that was approved by TOBI's board of directors in anticipation of approval and receipt of TARP Proceeds. The short-term TOBI debt matures in March and April, 2009, and it is TOBI's intention to retire this debt with TARP Proceeds.

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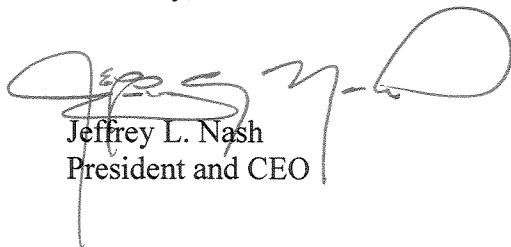
In anticipation of this requirement an additional \$1,000,000 in capital has been contributed to the Bank by TOBI from the TARP proceeds. The remaining balance of TARP Proceeds of \$1,268,000 will be utilized in 2009 to pay interest on the short-term TOBI debt and dividends on the Series A Preferred Stock of \$171,000, and to support loan growth and dividend payments through 2010.

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Regarding executive compensation, neither the requirements established by the Emergency Economic Stabilization Act of 2008 (EESA) nor those contained within the American Recovery and Reinvestment Act of 2009 impact compensation packages within Treaty Oak Bank. Furthermore, no future action will result in compensation agreements or payments that would be in conflict with the executive compensation limitations of these acts.

As the Chief Executive of Treaty Oak Bancorp, Inc. and Treaty Oak Bank, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, I certify that the statements, representations and supporting information provided is accurate.

Sincerely,



Jeffrey L. Nash  
President and CEO

Treaty Oak Bancorp, Inc.  
Budgeted Uses of Cash - Parent Only  
For the Year Ended December 31, 2009 and 2010  
(Dollars In Thousands)

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(b) (4)



101 Westlake Drive  
Austin, TX 78746

**FOR IMMEDIATE PRESS RELEASE**

January 16, 2009

**CONTACT:**

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Coralie S. Pledger  
Chief Financial Officer  
(512) 617-3600

**TREATY OAK BANCORP, INC.  
ANNOUNCES RECEIPT OF TARP FUNDS**

(Austin, Texas) January 16, 2009 - Treaty Oak Bancorp, Inc. ("Treaty Oak" or the "Company") announced today that it has received \$3.268 million as an approved participant in the U.S. Treasury Department's TARP Capital Purchase Program. The Company issued 3,268 shares of Series B preferred stock and 163 shares of Series C preferred stock upon exercise of warrants by the U.S. Treasury. Proceeds from the stock sale will be used for additional capital contribution to Treaty Oak's wholly owned subsidiary Treaty Oak Bank.

The TARP Capital Purchase Program, created by the U.S. Treasury, is a voluntary program in which selected, healthy financial institutions were encouraged to participate. Such participation is intended to support the economic development of communities in which participating banks operate, thereby supporting the economic well being of local, regional and national markets.

Jeffrey L. Nash, President and Chief Executive Officer of Treaty Oak Bancorp and Treaty Oak Bank said "We are very pleased the Treasury Department determined our organization an attractive investment opportunity. Our bank continues to grow requiring additional capital. We had not initially anticipated participating in the CPP Program but given our appetite for capital and the attractive terms of this issuance it was an easy decision for our board of directors when Treasury informed us they had selected our bank." The Series B preferred stock will pay a 5% dividend for the first five years it remains outstanding, thereafter increasing to 9%.

Treaty Oak Bank was well capitalized as measured by all regulatory guidelines prior to the securities sale. "I believe the strength of our balance sheet and the quality of our loan portfolio were factors in Treasury's selection of Treaty Oak to participate in the CPP Program" Nash added. "With many banks still awaiting word on their CPP applications, we're fortunate to conclude this transaction this early in the process" Nash concluded.

About Treaty Oak Bancorp

Treaty Oak Bancorp, Inc. (TOAK) is the privately held holding company parent of Treaty Oak Bank, a community bank with \$135 million in total assets located at 101 Westlake Drive at Bee Caves Road in West Lake Hills (Austin), Texas. The Bank has branches in Marble Falls and Texline, Texas as well as the Barton Creek Estates community of southwest Austin. The holding company and bank were organized in the Austin area, where more than 90 percent of its shareholders reside.

Cautionary Statement Regarding Forward-Looking Statements

Statements made in the press release, other than those containing historical information, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Act of 1995. Such statements include information about possible or assumed future results of our operations. When we use any of the words "expect", "hope", "anticipate", or similar expressions, we are making forward-looking statements. Many possible events or factors can create risks and uncertainties that may cause results to differ materially from those set forth in these statements. The Company cautions readers that results and events subject to forward-looking statements could differ materially from those in the forward-looking statements.

**\*\*End of Release\*\***