CITIZENS & NORTHERN BANK

Deposits   Loans   Rates   Credit Cards   Services   Insurance   Investments

C&N Insures for Its Future

On January 16th, 2009, Citizens & Northern Corporation received a $26.44 million government investment in senior preferred stock as part of the TARP Capital Purchase Program (CPP). The board and management of Citizens & Northern believe that this is a prudent thing to do given the scope of the current national and global economic uncertainties. As a result of the incredible national and world-wide economic and financial crisis, the CPP was developed and designed to provide capital directly to healthy U.S. financial services companies, as well as some of the more troubled big banks.

In addition to supporting the U.S. economy, the goal of the program is to restore confidence in and assure the future of the U.S. financial system. When banks have strong capital positions, they can maintain the availability of and increase loans to businesses and consumers. Community bank participation in the program is voluntary and available to those community institutions considered financially healthy. Although the program has been popularly and inaccurately described as a "bailout," the funds received are an investment by the U.S. government that will be repaid in full with dividends. The government investments through the CPP are considered "insurance policies" to protect against the unexpected during the current economic crisis. Many of the financial institutions participating in the program, including C&N, expect to redeem the preferred stock in the next 3 to 5 years, when the economy has recovered or is on its way to recovery. Until the investment is repaid, C&N will pay the government dividends of 5%, or more than $1.3 million per year for up to the first five years. Currently, the U.S. government is borrowing money for five years at a rate of 1.63%, which results in a profit for the government of nearly 3.4%. In other words, each year the government will net over $891,000 on its investment in C&N. Additionally, as a condition of the investment, the government was issued rights to purchase (warrants) 194,794 shares of C&N stock. These warrants have a 10-year life and provide the government with the ability to further profit from the investment by purchasing C&N stock at a fixed price anytime during that period. Each year during the period the government's investment is outstanding, in addition to the dividends of more than $1.3 million, we expect to pay $3 million to $5 million in federal taxes.

C&N is participating in the CPP to insure that we are able to absorb and withstand any unexpected, negative economic impacts during this period of economic crisis and uncertainty. We will use the funds to insure C&N's independence, continued financial strength and well-capitalized position. The bank's capital position could be negatively impacted by loan or securities losses due to the current economy. Among other things, the bank's strong capital position will assure its ability to continue to lend to consumers and businesses in our market. Our budget for 2009 assumes we will increase our loan portfolio by over $28 million. With the additional capital, as the economic climate stabilizes and improves, we will be in a position to expand the bank by extending more loans and making more investments. These additional assets will add to the bank's bottom line even as we pay the government a good return on its investment.

While there has been much misinformation spread by the media and by some in Congress about the CPP, the program will provide community banks, like C&N, with the capital to assure their ability to do what they do best: lend and invest in the people and communities they serve.

In short, C&N is open for business as usual and loans are available to all qualified borrowers in our market area.