MorrillBancshares, Inc.
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Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D.C. 20220

To Whom It May Concern:

On February 9, 2009, we received your request for information, dated February 6, 2009, regarding (1) our use of the funds received pursuant to the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP") and (2) our compliance with the executive compensation restrictions established by the Emergency Economic Stabilization Act of 2008 ("EESA"). The letter responds to your request by reciting the question and then providing a response.

I. A narrative response specifically outlining your (a) 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 your applied for such funds, or any actions that have taken that your would not have been able to take absent the infusion of TARP funds.

a. Anticipated Use of TARP Funds

We are a bank holding company in control of two subsidiary banks. On January 16, 2009, we received $13 million in CPP proceeds. As outlined in the cover letter for our CPP application, attached as Exhibit A, we anticipate using our CPP proceeds at both the holding-company and subsidiary-bank level to preserve liquidity, fortify our capital base and maintain strong capital ratios. Adherence to our plans will allow our subsidiary banks to continue extending credit to small- and medium-sized institutions, agricultural businesses, home purchasers and consumers within our target market.

Although we did not issue a formal press release regarding our TARP transaction, we did circulate an e-mail to all of our employees and to our board of directors. The e-mail, attached as Exhibit B, describes the reasons we decided to participate in the CPP. These reasons cited include (1) the need to protect against future economic hardships, (2) the desire to demonstrate to our employees, our subsidiaries' employees and our customers that we are in a strong economic position, (3) the desire to increase our overall liquidity and to boost capital reserves, (4) the desire to continue lending to creditworthy borrowers and (5) the ability to foster growth opportunities by drawing in new customers from institutions that are unable or unwilling to lend. Information in this e-mail was discussed with a local reporter.

b. Segregation of CPP Funds

As demonstrated in the financial report attached at Exhibit C, we have segregated the CPP funds received on our financial statements to reflect an $13 million increase of capital in the form of preferred stock at the holding company level, and we have also accounted for a $5 million capital injection into one of our subsidiary banks. The $8 million in proceeds that remains at the holding company level is in a separate account.

c. Actual Use of CPP Funds to Date

We received CPP funding on January 16, 2009, just over one month ago. As discussed in the previous paragraph, to date we have injected $5 million into one of our two subsidiary banks. While it is impossible to quantify the direct effect of that capital injection on our subsidiary bank's lending patterns over such a short time period, the combined loan volume at our subsidiary banks has increased from $364,698,537 on September 30, 2008 to $406,804,623 on February 28, 2009.

In addition, we are preparing to use $3.750 million of the CPP funds to purchase a short-term participation interest in a line of credit ("LOC") extended by one of our subsidiary banks, Morrill & Janes Bank ("MJB"). The LOC borrower ("Borrower") is a local residential mortgage warehouse lender and a longtime client of MJB. Borrower uses the proceeds of the MJB LOC to originate prime residential mortgage loans. Borrower warehouses the mortgage loans until they are sold in the secondary mortgage market. (In practice, almost all of the mortgages are "pre-sold" when Borrower originates them.) Borrower repays the LOC with proceeds from the mortgage sales.

Borrower sells almost all of the residential mortgages to GMAC Mortgage ("GMAC"). Because its personnel have been preoccupied with a sudden, massive influx of mortgage refinancing transactions, GMAC has been unable to process all of the sales currently contemplated by Borrower. As a result, the number of mortgages held by Borrower has increased materially. Although Borrower and GMAC both anticipate that GMAC will be able to process Borrower's mortgage purchases by March 31, 2009, Borrower must hold the mortgages in the meantime.

Because Borrower will be warehousing more mortgages than normal during March, MJB cannot continue to fund Borrower's LOC without violating legal lending limitations. Accordingly, we intend to use CPP proceeds to purchase a $3.750 million participation interest in Borrower's LOC, with the participation interest expiring on March 31, 2009, at which time Borrower anticipates having sold all of the residential mortgages currently in its warehouse to GMAC. We believe that this use of CPP funds will directly serve one of the primary purposes of the CPP by increasing liquidity in the local residential mortgage market.

d. Use of Unspent CPP Funds

See discussion in the preceding paragraph.

II. Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding the 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.

a. Specific Plans for Compliance

Our board of directors has conferred with the appropriate company personnel to verify compliance with EESA Section 111(b), as it existed on the closing date for our TARP CPP transaction. Since closing, the board of directors and the company's president have monitored the changes to EESA Section 111(b), as amended by the American Recovery and Reinvestment Act of 2009 (ARRA), and have reviewed our executive compensation packages in light of those changes. (Because the size of our CPP transaction is less than $25 million, we are not required under EESA to establish a compensation committee.)

Currently, we do not have any incentive compensation or bonus compensation in place for any executives subject to the CPP executive compensation restrictions on incentive compensation. The compensation packages offered to our CEO, CFO and five most highly paid employees do not contain any provisions that would violate the ban on golden parachutes as set forth in. ARRA. And our board of directors has adopted a resolution banning such arrangements while preferred shares issued pursuant to the CPP remain outstanding. The board is also working to satisfy all certification and other compensation review requirements set forth in EESA, as amended by ARRA, and all regulations that have been or will be promulgated under either statute.

b. Assessment of Impact of Loan Risks on Executive Compensation

Because our executive compensation is not incentive-based and is not directly linked to loan or other asset growth, we do not believe our compensation packages encourage unnecessary risk-taking. However, our board of directors will continue to confer with and receive guidance from the appropriate company personnel in this regard.

c. Impact of Executive Compensation Restrictions on Long-Term/Deferred Compensation

Because all of our compensation packages complied with TARP on the date of our CPP closing, the executive compensation restrictions did not impact our current executive compensation arrangements. Nevertheless, we will conduct a thorough review of existing employment agreements once the new Treasury regulations implementing ARRA's amendments to EESA Section 111(b) are published. We will make any needed adjustments to comply with those guidelines.

As the duly authorized senior executive officer of Morrill Bancshares, Inc., I hereby certify the accuracy of all statements, representations and supporting information contained herein, subject to the requirements and penalties set forth in Title 18 of the United States Code, Section 1001.

Sincerely,

Kurt M. Saylor

Chairman/CEO

Morrill Bancshares, Inc.

Exhibit A

(b) (8) [redacted]

Exhibit B

Internal E-Mail

Kurt Saylor

From: (b) (6) [redacted]

Sent: Monday, February 09, 2009 3:48 PM

To: Kurt Saylor

Subject: FW:

From: (b) (6) [redacted]
Sent: Monday, January 26, 2009 10:03 AM
To: Kurt Saylor
Subject:

Why did Morrill's Board of Directors choose to participate in the CPP program?

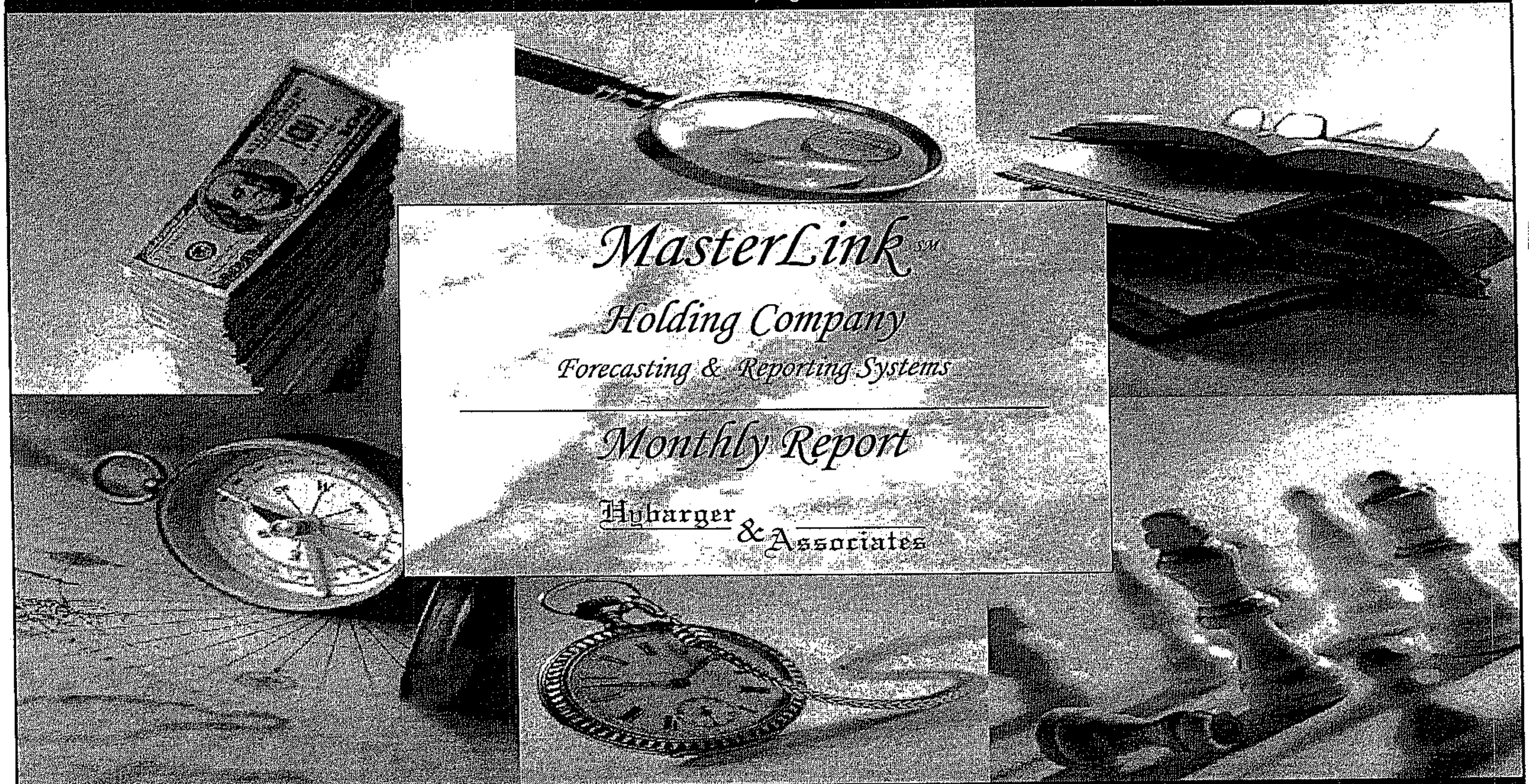
- These are unprecedented economic times and the future is unknown regarding how bad the economy may become.
- Participating in the CPP demonstrates to our employees and customers, Morrill's two subsidiary banks (Morrill & Janes Bank and Trust Co. and 1st Bank Oklahoma) are financially strong banks. (Employee & Customer Peace of Mind)
- CPP provides Morrill additional liquidity and capital reserves to provide additional financial support to its two subsidiary banks. It's important to note Morrill still wants its subsidiary banks continuing to make all types of prudent loans to their various customer segments. (Consumer loans, residential loans, agriculture loans, commercial loans, etc.)
- Participating in the CPP ensures Morrill's Regulatory Capital ratios will continue to be very, very strong.
- Morrill's subsidiary banks will have internal growth opportunities to take on new business from other banks that are having challenges or are unable or unwilling to serve their existing customers' needs.

Exhibit C

Financial Report

Morrill Bancshares, Inc.

Merriam, Kansas



MasterLink℠

Holding Company

Forecasting & Reporting Systems

Monthly Report

Hybarger & Associates

December 2008 Actuals

January 2009 Forecast

Morrill Bancshares, Inc.

	2009												
	January	February	March	April	May	June	July	August	September	October	November	December	
	Forecast	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Forecast*	*Avg or Total*

Balance Sheet

Assets

Cash & Due From Banks
Investment in Morrill & Janes Bank & Trust Co.
Investment in Century Capital Financial
Investment in FBC Financial Corp
Investment in Morrill Statutory Trust #1
Investment in Morrill Statutory Trust #2
Goodwill & Core Deposit Intangible
Capitalized Placement & Legal Fees
Other Assets
Total Assets

First Tennessee Bank, N.A.
Subordinated Debenture - "Trust Preferred #1"
Subordinated Debenture - "Trust Preferred #2"
Total Notes Payable
Accrued Interest Payable
Other Borrowings Fair Value Adjustment
Accrued Income Taxes
Deferred Tax Liability - CCFI
Total Liabilities
AFS-"Mark-to-Market"
Intangibles
Preferred Stock
Common Stock
Additional Paid-In Capital
Less: Treasury Stock
Dividends Paid (Cash)
Retained Earnings
Total Shareholders' Tangible Equity
Intangibles (Contra)
Total Liab. & Shareholders' Tangible Equity

*** Total Capital with A.F.S. Mark-to-Market**

Total Interest Income
Total Interest Expense
Net Interest Income
Equity in Earnings of M&J Bank & Trust Co.
Equity in Earnings of CCFI
Equity in Earnings of FBC Financial Corp
Equity in Earnings of Morrill Statutory Trust #1
Equity in Earnings of Morrill Statutory Trust #2
Other Operating Income
Non-Interest Income
Operating Expenses
Net Income Before Taxes
Provision for Fed Income Taxes
Net Income
Year-to-Date Income

Debt to Tangible Equity
(Debt minus Cash) to Tangible Equity
(Debt minus Debenture) to Tangible Equity

Return on Tangible Equity
Return on Tangible Equity (with A.F.S.)

Tangible Book Value Per Share (without A.F.S.)
Tangible Book Value Per Share (with A.F.S.)

[redacted] (b) (4)

2009	January Forecast	February Forecast	March Forecast	April Forecast	May Forecast	June Forecast	July Forecast	August Forecast	September Forecast	October Forecast	November Forecast	December Forecast	Total or Avg
Cash Flow Analysis													
Beginning Cash	[redacted] (b) (4)												
Tax Transfers/Refunds													
Tax Transfers from FBC Financial													
CCFI Stock Sale Proceeds													
Dividends Received - M&JB													
Dividends Received - CCFI													
Dividends Received - FBC													
Dividends Received - Morrill Stat. Trust #1													
Dividends Received - Morrill Stat. Trust #2													
Other Cash Sources													
Total Cash Receipts													
First Tennessee Bank, N.A.													
Subordinated Debenture - "Trust Preferred #1" (26th)													
Subordinated Debenture - "Trust Preferred #2" (17th)													
Preferred Stock													
Total Interest Paid													
First Tennessee Bank, N.A.													
Subordinated Debenture - "Trust Preferred #1" (26th)													
Subordinated Debenture - "Trust Preferred #2" (17th)													
Preferred Stock													
Total Principal Payments													
Professional Fees													
Board & Exec Comm Fees													
Salary Expense													
General Administration													
Capitalized Legal & Placement Fees													
Tax Payments													
Dividends Paid - Common													
Trust #1 Common Stock Purchase													
FBC Stock Acquisition													
Treasury Stock Acquisition													
Bank Capital Injection													
Total Operating Expenses													
Total Cash Requirements													
Net Cash Position													
Investment in Morrill & Janes Bank & Trust Co.													
Investment in Century Capital Financial													
Investment in FBC Financial Corp													
Investment in Nemaha Investment Company													
Investment in Morrill Statutory Trust #1													
Investment in Morrill Statutory Trust #2													
Investment in Morrill & Janes Bank & Trust Co.													
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