



# Farmers & Merchants Bank

#318

February 18, 2009

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

Subject: February 6, 2009 Letter Request

Dear Mr. Barofsky:

The following information is provided regarding the TARP funds received by F&M Bancshares, Trezevant, Tennessee on January 30, 2009.

(1) (a) The \$4.6 Million was immediately injected as additional capital into Farmers & Merchants Bank, Trezevant, Tennessee. It is anticipated that the monies will be used to expand the flow of credit to the bank's Core customer base which includes new mortgages, business loans and lines of credit, and credit in support of agricultural activities. (b) TARP funds are not specifically segregated from other institutional funds, (c) TARP funds will be used in support of the following specific loan requests which have been approved this month:

b(4), b(6)	\$655,000	Refinance low/moderate
b(4), b(6)	114,000	New Express Mortgage
	155,217	New Express Mortgage
	27,364	New Express Mortgage
	108,500	New Home Construction
	800,000	Credit Line Increase
	600,000	New Business Launch
	600,000	Credit Line Increase
	231,511	New Express Mortgage
	1,877,000	Multi-unit Housing
	b(4), b(6)	1,200,000

When the bank made application for TARP funds, it was envisioned that proceeds would be used for the following purposes:

1. The Treasury's Capital Purchase Plan provides an insurance policy that the \$175 Million bank can work through existing and potential loan problems attributable to a weakening economy. The bank has a lengthy history of service dating back to 1916, and has traditionally worked with small business and mortgage customers experiencing financial difficulties to resolve such hardships through term modifications and occasional forbearance rather than forced liquidations. The Trouble Asset Relief Program ensures sufficient capital to continue this important philosophy as unemployment ratios move toward double digits locally. The bank now has almost 11% Tier One Capital and will now likely be positioned to aid economic transitions with its customer base indefinitely thanks to this program.
2. TARP funds will be used to underwrite higher input costs associated with Agriculture Lines of Credit which will increase farm commodities production in 2009 and beyond.
3. TARP funds can support the general business and consumer credit needs of existing and potential customers. Farmers & Merchants Bank's Loan to Deposit Ratio totals more than 90% and the additional funds support a culture and willingness to aggressively lend.

(2) None of the TARP funds have been used to increase compensation, salaries, incentives, or other compensation. (b) (4)

(b) (4)

This is a non relevant issue for F&M Bancshares, Inc. or its principal operating subsidiary, Farmers & Merchants Bank.

It is the belief of management of F&M Bancshares, Inc. and its subsidiary, Farmers & Merchants Bank's that usage of Trouble Asset Relief Program funds acquired through the Capital Purchase Program have been used in a manner consistent with the intent of Congress. The U.S. Treasury will be rewarded with dividends of 5% per annum and it is the banking company's intent to fully repay principal funds at the end of five years. Please let me know if any additional information is needed.

Sincerely,



J. Barry Cary  
President

Farmers & Merchants Bank