

CAROLINA BANK

March 6, 2009

Mr. Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220

Dear Mr. Barofsky,

In response to your letter of February 6, 2009 related to your audit of the use of funds and compliance with EESA's executive compensation requirements, I provide the following information on behalf of Carolina Bank Holdings, Inc.:

1. We plan to primarily use our CPP funds to make loans to support the credit needs of businesses and individuals in our marketplace. We received CPP funds of \$16 million on January 9, 2009 at Carolina Bank Holdings, Inc. which we deposited at Carolina Bank, our wholly owned banking subsidiary. In February 2009, \$10 million of the CPP funds were invested in Carolina Bank to increase the capital level of the Bank. It is anticipated that this additional capital will allow us to continue to grow our loans outstanding at a double digit annual percentage rate in 2009 and 2010. Our loans held for investment have grown at an annual five year compounded rate of 23.8% as of December 31, 2008 and grew over \$100 million in 2008. Of the remaining \$6 million of CPP funds, \$5,920,000 remains on deposit at Carolina Bank and \$80,000 was been used to make the first dividend payment to the United State Treasury on the preferred stock.

The following is a summary of our loan growth at Carolina Bank since November 30, 2008 when we anticipated that we might receive funds from the United States Treasury in the form of preferred stock:

	<u>Loans held for investment</u>	<u>Loans held for sale (a)</u> (in thousands)	<u>Totals</u>
November 30, 2008	\$ 491,914	\$ 17,326	\$ 509,240
February 28, 2009	514,884	25,715	540,599
Total Increase	<u>\$ 22,970</u>	<u>\$ 8,389</u>	<u>\$ 31,359</u>

(a) excludes the positivee adjustment to mark to market



Loans held for investment are loans that we make to businesses and individuals, primarily in our marketplace, with the intention of retaining in our portfolio. Loans held for sale are first mortgage home loans, primarily conforming to FHLMC/FNMA standards or FHA/VA, that are originated through brokers and other banks and are sold to investors. Total loans originated in our loans held for sale portfolio approximated \$154.5 million for the three months ended February 28, 2009. Attached are general ledger printouts showing our total month end loan balances for the aforementioned periods.

2. None of our executive officers earned more than \$500,000 in total compensation in 2008. Our Board Governance committee, consisting entirely of independent directors, has reviewed the compensation plans and arrangement for executive officers and in consideration of the Department of Treasury guidelines. All executive officers have signed executive compensation modification agreement that ensure compliance with the requirements of the CPP and that include "claw back" provisions relating to incentive compensation. Our governance committee and executive officers do not believe that our incentive plans encourage unreasonable loan risks.

Please feel free to call me at 336-286-8740 or email me at b.braswell@carolinabank.com if you have questions or concerns about this report. I hereby certify that all statements, representations and supporting information in this response are accurate, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,



Robert T. Braswell
President and CEO

	CURRENT BALANCE	PCT OF ASSETS	DOM BAL OCT'08	NET BAL CHANGE	AVG BAL NOV'08	AVG BAL JAN-NOV 2008
1046099 ACCUM PRFM-US AGENCY	22,939.82		23,566.97	627.15	23,546.06	30,553.00
1047099 ACCUM DISC-US AGENCY	72,334.91		36,334.83	36,160.08	37,540.16	97,993.42
1048099 UNREAL GAIN/LOSS-AGENCY	2,337,696.97		2,315,281.84	22,415.13	2,315,070.87	7,222,064.42
TOTAL US GOV'T AGENCY	38,842,236.44		37,845,093.27	997,143.17	39,371,797.76	36,843,364.14
1050099 MBS SECURITIES	79,818.16		81,996.06	2,177.90	81,923.45	94,930.34
1051099 ACCUM PRFM-MBS	257,026.70		234,206.03	22,820.67	260,837.58	254,907.46
1052099 ACCUM DISC-MBS	127,020.70		127,020.70	340,310.21	115,677.02	350,095.79
1053099 UNREAL GAIN/LOSS MBS	38,878,317.41		37,565,862.60	1,312,454.81	39,077,206.61	37,033,482.81
TOTAL MBS	4,084,224.26		3,672,724.26	411,500.00	4,037,917.59	3,574,738.95
1060099 PHLB STOCK AND OTHER	5,350,000.00		5,350,000.00	981.01	5,350,000.00	4,175,366.71
1061099 OTHER DEBT INVESTMENTS	64,517.33		65,498.34	981.01	65,465.63	65,953.49
1061199 ACCUM PRFM - OTHER DEBT	1,317,239.61		1,479,022.99	161,783.38	1,473,630.20	368,320.08
1061599 UNREAL GAIN/LOSS EQUITY	8,181,501.98		7,609,199.61	572,302.37	7,979,753.02	7,447,739.07
TOTAL DEBT INVESTMENTS	58,922,856.46		56,820,583.65	2,102,272.81	58,975,906.77	61,704,273.49
TOTAL INVESTMENTS	295,912,297.36		288,595,720.99	7,316,576.37	291,354,046.56	276,005,460.64
1100099 COMMERCIAL LOANS-VARIABLE	136,922,435.92		136,839,770.38	82,665.54	136,644,299.25	126,005,110.43
1101099 COMMERCIAL LOANS-FIXED	5,038,006.35		5,061,065.60	23,060.25	5,050,543.68	5,256,590.33
1102099 PARTICIPATIONS SOLD-FIXED	13,381,609.62		12,917,828.13	463,781.49	13,442,822.12	18,549,374.27
1102599 PARTICIPATIONS SOLD-VARIABLE	5,502,827.91		5,513,780.96	10,953.05	5,508,979.21	5,485,764.03
1103099 PART PURCHASED-FIXED	13,147,356.41		12,480,185.51	667,170.90	12,706,805.09	8,090,088.43
1103599 PART PURCHASED-VARIABLE	61,355.21		60,409.04	946.17	61,257.62	6,677.61
1108299 TOWNE FINANCE	433,003,947.42		425,390,155.07	7,613,792.35	427,659,506.69	391,727,417.07
1630099 GROSS NON-ACCR INT PAID CREDIT						
1630099 PARTI NON-ACCR INT PAID CREDIT						
TOTAL COMMERCIAL LOANS	3,167,921.40		3,218,748.09	50,826.69	3,170,997.35	3,351,853.51
1110099 CONSUMER LOANS-VARIABLE	9,154,264.80		8,601,385.24	552,879.56	8,658,855.78	6,898,744.73
1111599 EXECUTIVE LINES OF CREDIT	294,436.17		295,796.78	1,360.61	301,875.10	364,177.40
1112099 DDL OVERDRAFT PROTECTION	13,052,397.41		12,534,030.80	518,366.61	12,550,091.30	10,889,850.25
TOTAL CONSUMER LOANS	262,692.87		262,692.87	224,367.85	262,692.87	264,942.94
1120099 REAL ESTATE LOANS-VARIABLE	3,742,381.81		3,518,013.96	224,367.85	3,616,049.51	3,645,396.33
1121099 REAL ESTATE LOANS-FIXED	40,268,291.22		38,488,649.58	1,779,647.64	39,240,008.95	34,686,820.41
1122099 EQUITY LINE 01	668,265.85		720,207.87	51,942.02	680,270.44	656,354.79
1123099 EQUITY LINE 02	1,926,771.52		1,950,044.25	23,272.73	2,003,759.03	1,287,906.05
1124099 CONSUMER CONSTRUCTION LOANS	450,000.00		450,000.00	.00	450,000.00	450,000.00
1125099 CONTRA LOAN - RANKIN SCHOOL	46,418,409.27		44,489,608.53	1,928,800.74	45,352,780.80	40,091,420.52
TOTAL REAL ESTATE LOANS	19,804,876.46		20,082,982.08	278,105.62	20,858,295.03	14,069,368.55
1130099 REAL ESTATE LOANS-VARIABLE-AFS	.00		.00	.00	.00	.00
1131099 REAL ESTATE LOANS-FIXED-AFS	.00		.00	.00	.00	.00
1132099 EQUITY LINE 01-AFS	.00		.00	.00	.00	.00
1134099 CONSUMER CONSTR LOANS-AFS	101,569.23		108,352.52	6,783.29	108,126.41	93,163.74
1140099 UNREALIZED GAINS/LOSSES	19,906,445.69		20,191,334.60	284,888.91	20,966,421.44	14,821,922.99
TOTAL REAL ESTATE LOANS-AFS	797,339.70		856,322.49	58,982.79	827,410.20	836,730.37
1170099 DEFERRED FEES RESERVE	747,794.42		746,113.92	1,680.50	739,138.98	701,780.13
1175099 DEFERRED LOAN COSTS	49,545.28		110,208.57	60,663.29	88,271.22	134,950.24
TOTAL DEFERRED FEES & COSTS						

11/30/08

Total Loans

509,372

Less Mark to Mark

<1627

509,270

	CURRENT BALANCE	PCT OF ASSETS	DOM BAL OCT'08	NET BAL CHANGE	AVG BAL NOV'08	AVG BAL JAN-NOV 2008
TOTAL OVERDRAFTS	126,911.36		33,279.26	93,632.10	53,833.89	59,365.77
1180099 OVERDRAFTS	126,911.36		33,279.26	93,632.10	53,833.89	59,365.77
1190099 NON POST LOAN DEBITS	113,853.92		763,299.13	649,445.21-	318,522.72	189,286.11
1191099 NON POST LOAN CREDITS	1,137,468.61-		516,531.00-	620,937.61-	549,240.73-	470,244.91-
1192099 NON POST DDL DEBITS	.00		.00	.00	3.33	643.05
1193099 NON POST DDL CREDITS	25.61-		56,000.00-	55,974.39	4,440.24-	1,610.24-
1197099 DDL IN PROCESS	.09		.09	.00	.09	.09
1198099 LAS IN PROCESS	52.67		.00	52.67	1.63-	1,105.42
1199099 PAYMENTS IN PROCESS	2,092,889.72-		1,467,964.03-	624,925.69-	843,676.18-	2,211,200.27
TOTAL IN PROCESS	3,116,477.26-		1,277,195.81-	1,839,281.45-	1,078,832.64-	1,930,379.79
TOTAL GROSS LOANS	509,342,088.61		501,251,003.88	8,091,084.73	505,415,530.26	459,385,406.15
1200099 LOAN LOSS RESERVE	5,630,639.70-		5,529,458.39-	101,181.31-	5,529,235.47-	5,012,068.27-
TOTAL LOAN LOSS RESERVE	5,630,639.70-		5,529,458.39-	101,181.31-	5,529,235.47-	5,012,068.27-
TOTAL NET LOANS	503,711,448.91		495,721,545.49	7,989,903.42	499,886,294.79	454,373,337.88
1300099 LAND	3,823,633.44		3,823,633.44	.00	3,823,633.44	3,823,633.44
1310099 BUILDING & IMPROVEMENTS	6,563,101.44		6,563,101.44	.00	6,563,101.44	6,563,101.44
1315099 ACCUM DEPR-BUILD & IMPROVE	761,850.96-		749,064.46-	12,786.50-	751,195.53-	686,547.63-
1320099 LEASEHOLD IMPROVEMENTS	413,957.47		413,957.47	.00	413,957.47	413,957.47
1325099 ACCUM DEPR-LEASEHOLD IMPROVE	347,608.90-		330,570.53-	17,038.37-	333,410.25-	293,609.66-
1330099 FURNITURE, FIXTURES & EQUIPMENT	3,775,652.79		3,732,403.78	43,249.01	3,763,239.57	3,145,359.59
1335099 FREE ACCUM DEPRECIATION	1,666,645.49-		1,633,775.61-	32,869.88-	1,639,207.35-	1,507,801.03-
1340099 CAPITALIZED LEASES-FF&E	.00		.00	.00	.00	.00
1345099 ACCUM DEPR-CAPITALIZED LEASES	516,975.80		503,044.92	13,930.88	514,653.98	482,006.62
1350099 COMPUTER SOFTWARE	382,463.89-		376,320.90-	6,142.99-	377,344.70-	348,099.95-
1355099 ACCUM DEPR-COMPUTER SOFTWARE	7,275,858.88		7,203,495.63	72,363.25	7,229,853.22	5,060,947.47
1360099 CONSTRUCTION IN PROCESS	496,718.86		496,718.86	.00	496,718.86	496,718.86
1370099 LAND IMPROVEMENTS	78,285.11-		75,525.55-	2,759.56-	75,985.46-	62,032.60-
1375099 ACCUM DEPR-LAND IMPROVEMENTS	19,724.40		19,724.40	.00	19,724.40	6,115.98
1380099 INVENTORY - FF&E	8,828.34		8,828.34	.00	8,828.34	1,675.16
1385099 DEPOSITS - FF&E	19,657,598.07		19,599,651.23	57,946.84	19,656,567.43	17,091,537.74
TOTAL BANK PREMISES AND FF&E						
1400099 INT REC-INT BEARING OTHER BANK	.00		.00	.00	.00	.00
1401099 INT REC-CD'S OTHER BANKS	.00		.00	.00	.00	.00
1405099 INT REC - FED FUNDS SOLD	.00		.00	.00	.00	.00
TOTAL INT REC - PFS & INT BEARING OTHER BA	.00		.00	.00	.00	.00
1500099 INT REC MUNIS	128,791.17		102,304.38	26,486.79	103,187.27	111,229.82
1501099 INT REC US GOVT AGENCY	9,444.45		5,277.78	4,166.67	5,416.66	54,965.78
1502099 INT REC SCM	202,241.33		196,838.35	5,402.98	197,018.44	193,922.48
1504099 DIVIDENDS REC PHLB STOCK	15,925.94		7,642.70	8,283.24	7,918.80	18,059.53
1505099 INT/DIV REC OTHER INVESTMENTS	159,164.19		125,488.72	33,675.47	126,611.23	62,568.78
TOTAL INT REC - INVESTMENTS	515,567.08		437,551.93	78,015.15	440,152.40	440,746.39
1600099 INT REC COMMERCIAL LOANS-VAR	908,390.76		944,025.64	35,634.88-	918,216.57	993,770.17
1601099 INT REC COMMERCIAL LOANS-FIXED	523,498.89		500,098.03	23,400.86	458,766.84	475,934.94
1602099 INT DUE PARTS SOLD-FIXED	17,820.18-		19,057.08-	1,236.90	18,595.84-	20,109.55-
1602599 INT DUE PARTS SOLD-VARIABLE	50,088.47-		48,225.74-	1,862.73-	48,455.13-	70,492.35-
1603099 INT REC PART PORCH - FIXED	42,442.71		47,188.58	4,745.87-	50,274.29	49,839.52

	CURRENT BALANCE	PCT OF ASSETS	EOM BAL JAN'09	NET BAL CHANGE	AVG BAL FEB'09	AVG BAL JAN-FEB 2009
TOTAL US GOV'T AGENCY	2,326,037.25		2,345,616.99	19,579.74	2,344,218.43	2,353,517.49
TOTAL MBS	37,200,768.49		37,769,451.06	568,682.57	37,678,051.99	37,959,563.13
TOTAL INVESTMENTS	60,400,687.52		62,208,624.87	1,807,937.35	60,800,710.41	61,824,283.75
TOTAL DEBT INVESTMENTS	8,344,085.22		7,624,385.22	719,700.00	8,176,974.50	8,206,306.11
TOTAL REAL ESTATE LOANS-VARIABLE	261,331.09		261,780.44	459.35	261,370.30	261,585.80
TOTAL REAL ESTATE LOANS-FIXED	3,623,615.35		3,660,502.49	163,112.86	3,771,459.50	3,714,736.95
TOTAL DEFERRED FEES & COSTS	14,378.96		7,195.10	21,574.06	8,899.52	9,646.20
TOTAL	718,724.52		744,925.77	26,201.25	720,425.57	740,459.27

2/28/09
 ① Total Lower 540,752
 ② Less Mark To Market (152)
 540,600

	CURRENT BALANCE	PCT OF ASSETS	EQM BAL JAN'09	NET BAL CHANGE	AVG BAL FEB'09	AVG BAL JAN-FEB 2009
TOTAL OVERDRAFTS	178,277.11		207,948.19	29,671.08-	128,320.92	119,821.51
1190099 NON POST LOAN DEBITS	166,026.00		421,524.09	255,498.09-	127,354.84	99,450.61
1191039 NON POST LOAN CREDITS	793,121.00-		1,301,373.61-	508,252.55	326,613.06-	344,427.01-
1192099 NON POST DDL DEBITS	.00		.00	.00	.00	119.05
1193099 NON POST DDL CREDITS	9.95		1,984.16-	1,994.11	2,812.91-	1,377.87-
1198099 LAS IN PROCESS	9.10-		24.84-	15.74	132.14-	1,105.24-
1199099 PAYMENTS IN PROCESS	1,340,477.22-		1,449,999.60	2,790,476.82-	988,722.24	1,474,886.02
TOTAL IN PROCESS	1,967,571.43-		568,141.08	2,535,712.51-	786,288.65	1,227,435.41
TOTAL GROSS LOANS	540,752,072.34		535,216,959.14	5,535,113.20	539,879,649.58	533,160,981.02
TOTAL LOAN LOSS RESERVE	5,941,754.88-		5,985,219.36-	43,464.48	5,976,878.82-	5,866,854.36-
TOTAL LOAN LOSS RESERVE	5,941,754.88-		5,985,219.36-	43,464.48	5,976,878.82-	5,866,854.36-
TOTAL NET LOANS	534,810,317.46		529,231,739.78	5,578,577.68	533,902,770.76	527,294,126.66
1300099 LAND	3,823,633.44		3,823,633.44	.00	3,823,633.44	3,823,633.44
1310099 BUILDING & IMPROVEMENTS	6,563,101.44		6,563,101.44	.00	6,563,101.44	6,563,101.44
1315099 ACCUM DEPR-BUILD & IMPROVE	787,423.85-		787,423.85-	.00	787,423.85-	781,138.95-
1320099 LEASEHOLD IMPROVEMENTS	7,063,813.69		7,063,813.69	.00	7,072,011.49	7,072,011.49
1325099 ACCUM DEPR-LEASEHOLD IMPROVE	363,206.93-		363,206.93-	.00	363,206.93-	363,206.93-
1330099 FURNITURE, FIXTURES & EQUIPMENT	3,985,630.39		3,980,850.23	4,780.16	3,981,907.41	3,986,425.28
1335099 FFE ACCUM DEPRECIATION	1,731,500.49-		1,731,500.49-	.00	1,731,500.49-	1,714,612.67-
1340099 CAPITALIZED LEASES-FFE	.00		.00	.00	.00	.00
1345099 ACCUM DEPR-CAPITALIZED LEASES	516,975.80		516,975.80	.00	516,975.80	516,975.80
1350099 COMPUTER SOFTWARE	394,467.00-		394,467.00-	.00	394,467.00-	391,590.84-
1355099 ACCUM DEPR-COMPUTER SOFTWARE	.00		.00	.00	.00	.00
1360099 CONSTRUCTION IN PROCESS	1,003,579.30		1,003,579.30	.00	1,003,579.30	1,003,579.30
1370099 LAND IMPROVEMENTS	97,738.38-		97,738.38-	.00	97,738.38-	95,012.17-
1375099 ACCUM DEPR-LAND IMPROVEMENTS	3,023.00		3,023.00	.00	3,023.00	2,485.90
1380099 INVENTORY - FFE	.00		.00	.00	.00	.00
1385099 DEPOSITS - FFE	19,585,420.41		19,580,640.25	4,780.16	19,581,697.43	19,622,651.09
TOTAL BANK PREMISES AND FFE						
1400099 INT REC-INT BEARING OTHER BANK	.00		.00	.00	.00	.00
1401099 INT REC-CD'S OTHER BANKS	.00		.00	.00	.00	.00
1405099 INT REC - FED FUNDS SOLD	.00		.00	.00	.00	.00
TOTAL INT REC - FFS & INT BEARING OTHER BA	.00		.00	.00	.00	.00
1500099 INT REC MUNIS	173,564.34		173,564.34	.00	173,564.34	153,594.42
1501099 INT REC US GOVT AGENCY	17,777.79		17,777.79	.00	17,777.79	15,729.76
1502099 INT REC SCM	206,343.25		206,343.25	.00	206,343.25	207,843.79
1504099 DIVIDENDS REC PHLB STOCK	4,090.66		4,090.66	.00	4,090.66	4,090.66
1505099 INT/DIV REC OTHER INVESTMENTS	44,315.76		44,315.76	.00	44,315.76	59,480.98
TOTAL INT REC - INVESTMENTS	446,091.80		446,091.80	.00	446,091.80	440,739.61
1600099 INT REC COMMERCIAL LOANS-VAR	774,450.06		981,207.30	206,757.24-	975,379.44	960,519.80
1601099 INT REC COMMERCIAL LOANS-FIXED	455,960.10		506,166.04	50,145.94-	473,186.12	464,735.77
1602099 INT DUE PARTS SOLD-FIXED	15,960.28-		19,133.91-	3,173.63	20,703.25-	18,659.70-
1602599 INT DUE PARTS SOLD-VARIABLE	41,335.66		41,724.87-	2,610.82-	54,410.62-	53,892.73-
1603099 INT REC PART PURCH - FIXED	40,140.88		43,511.68	3,370.80-	44,872.97	45,053.01