



LIBERTY BANCSHARES, INC.

P.O. Box 7514 • Jonesboro, Arkansas 72403 • (870) 934-9000

March 6, 2009

VIA EMAIL AND MAIL

Special Inspector General—TARP
1500 Pennsylvania Avenue, NW Suite 1064
Washington DC 20220

RE: RESPONSE TO YOUR LETTER OF FEBRUARY 6, 2009

This is in response to your letter of February 6, 2009 to Liberty Bancshares, Inc. ("Bancshares"), regarding its participation in the Troubled Asset Relief Program.

As you know, banks and bank holding companies were encouraged to participate in the Capital Purchase Program by the United States Department of Treasury as well as all federal banking regulatory authorities (including the Federal Reserve Board and the Federal Deposit Insurance Corporation). Our company made a decision to participate in the Capital Purchase Program based on the information then available. We continue to feel that establishment of this program is beneficial to the financial well-being of the nation and will continue to be beneficial to our company's ability to continue its service to our communities. We do, however, express our concern on the recent changes to the terms of the program as well as on discussions of further additional changes. While we totally agree that the CPP should have appropriate oversight, we do have a continuing concern about "after the fact" attempts to change the program guidelines.

As background information, Liberty Bancshares is a one-bank holding company with our subsidiary bank, Liberty Bank of Arkansas ("Bank") operating 45 locations across northern and western Arkansas. Our organization was formed in 2001. Our company's consolidated total assets as of December 31, 2008 were \$2.62 billion. It is not a SEC reporting company and its stock is not publicly traded. As a result, the actions it takes for its shareholders are for their long term best interests.

Bancshares has no business activities other than its ownership of Liberty Bank of Arkansas. As such, Bancshares is dependent on dividends received from Liberty Bank to provide funds to Bancshares to service indebtedness and other for operating expenses, including the dividends that are required to service the TARP preferred stock.

Bancshares received TARP funds of \$57,500,000 in January 2009. The TARP funds are not segregated from other institutional funds. During January, \$50,000,000 of the TARP funds was contributed by Bancshares as a capital injection into Liberty Bank. The remaining \$7,500,000 was retained in Bancshares for debt service and working capital purposes. Of the \$7,500,000, Bancshares utilized \$7,100,000 to reduce to a zero balance the company's revolving line of credit with another financial institution, thereby reducing the need for the Bank to declare dividends to Bancshares in order for it to service this indebtedness.

As the TARP funds, at both the Bancshares and Bank level, are not segregated from other funds, there is no "spent" or "unspent" classifications. The \$50,000,000 which was utilized as a capital injection into Liberty Bank is now comingled with the bank's other funding sources. These other funding sources include deposits of \$1.96 billion, other borrowings and liabilities of \$367 million, and bank equity capital of \$293.1 million (all 12/31/08 amounts).

The issuance of the Capital Purchase Program preferred stock served to increase Bancshares tier 1 equity capital ratio by approximately 265 basis points (to a proforma ratio as of 12/31/08 of 12.42%) and the capital injection by Bancshares into Liberty Bank of Arkansas increased the Bank's tier 1 equity capital ratio by approximately 225 basis points (to a proforma ratio as of 12/31/08 of 12.41%). While both Bancshares and Bank were both well capitalized prior to participation in the Capital Purchase Program, the additional preferred stock funds served to further strengthen the capital base of both Bancshares and the Bank as well as increase the lending capacity of the Bank.

As stated earlier, with approximately \$2.6 billion of assets, the asset side of our balance sheet is somewhat dynamic with significant amounts of maturities of loans as well as maturities and calls of investment securities. The funding side of the balance sheet is also dynamic, with many depositors with large balances, as well as significant amounts of certificates of deposit.

The TARP funds are not segregated from other funds sources. As such, it is not possible to distinguish the utilization of those funds as compared to other funds. However, the Bank continues to fulfill the credit needs of the communities in which we operate. Attached Exhibit 1 and 2, respectively, provide financial information in regard to both lending activity and purchases of investment securities for the months of January and February 2009. As this data demonstrates, the Bank continues to make new loans to qualified borrowers and also continues to service the borrowing needs of previous customers whose loans have matured and who have requested renewal of their borrowing.

The Bank also continues to invest funds in appropriate investment securities, predominately securities issued by the Federal Home Loan Bank and the Federal Farm Credit Bank. The Bank is a member of the Federal Home Loan Bank of Dallas, whose mission statement provides that its primary mission is of supporting home ownership, affordable housing, and community lending through its member institutions. The mission of the Farm Credit system is to provide sound and dependable credit for agricultural producers, cooperatives, and certain farm-related businesses.

Both our actual use of TARP funds to date and expected use of TARP funds are consistent with our anticipated use of TARP funds at the time that we applied for such funds. Attached Exhibit 3 is the minutes (redacted to exclude unrelated matters) of the Bancshares board of directors' meeting of January 21, 2009 during which participation in CPP was discussed and approved.

Exhibit 4 attached are the minutes of our company's stockholder meeting of December 26, 2008 at which stockholder approval was obtained for amendment to the Articles of Incorporation to permit issuance of preferred stock. Also included are October 27 and December 10 correspondence to stockholders in regard to this meeting.

Your letter asked if any actions have been taken that we would not have been able to take absent the infusion of TARP funds. As outlined above, our balance sheet structure

is dynamic in nature. It is not possible to ascertain any particular actions that were taken that would not have been able to have been taken absent the infusion of TARP funds. Funds utilized as described above possibly could have been obtained from sources other than TARP. However, such funds received from any other reasonably available sources would have been in the form of liabilities, either in the form of deposits or in the form of borrowings. Neither of these other sources of funds would have served to increase Bancshares or Bank equity capital and tier 1 equity ratios, nor would they have resulted in an increase in the Bank's legal lending limit.

Regarding executive compensation requirements, we have conducted a preliminary review of all of our existing benefit plans for senior executive officers. We do not have any compensation programs containing any conflicts or issues in relation to the TARP guidelines. This preliminary review has been performed by management, with the assistance of legal counsel.

Within the 90 day time provisions contained in the TARP funding, Bancshares' board of directors, or an appropriate committee thereof, will complete an additional review of executive compensation arrangements and provide the necessary certifications of the conclusions it reaches.

We have obtained a letter agreement from each of our five senior executive officers whereby they agree to amend or modify any benefit provisions conflicting with the TARP requirements. Additionally, our board of directors passed an omnibus resolution to continue to comply with the current rules and any future rules.

The company will not make any golden parachute payments. The company will also comply with the restrictions on deductibility on remuneration of senior executive officers.

The board will, in the future, perform the required annual assessment and certification regarding executive compensation arrangements.

Certainly, please let us know if any additional information is needed to properly respond to your letter of February 6, 2009.

I hereby certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18 United States Code, Section 1001.

Sincerely,



Wallace W. Fowler
Chairman and CEO

(b) (6)

cc: Federal Reserve Bank of St. Louis
Arkansas State Bank Department

Attachments

EXHIBIT 1

EXHIBIT 1
LENDING ACTIVITY

NEWLY ORIGINATED LOANS

	January <u>2009</u>	February <u>2009</u>
<u>Number of New Loans</u>		
Consumer	202	209
Commercial	81	87
Real Estate		
Secondary Market Residential	74	105
Other Residential	89	76
Non Residential	<u>24</u>	<u>43</u>
Total Number	<u>470</u>	<u>520</u>
 <u>Dollar Amount of New Loans</u>		
Consumer	\$ 2,022,000	\$ 1,972,000
Commercial	10,745,000	5,659,000
Real Estate		
Secondary Market Residential	6,270,000	9,881,000
Other Residential	12,172,000	5,064,000
Non Residential	<u>1,023,000</u>	<u>8,798,000</u>
Total Amount	<u>\$32,232,000</u>	<u>\$31,374,000</u>

RENEWALS/EXTENSIONS OF PREVIOUSLY ORIGINATED LOANS

	January <u>2009</u>	February <u>2009</u>
<u>Number of Renewal/Extension Loans</u>		
Consumer	100	95
Commercial	86	107
Real Estate		
Other Residential	87	111
Non Residential	<u>68</u>	<u>71</u>
Total Number	<u>341</u>	<u>384</u>
 <u>Dollar Amount of Renewal/Extension Loans</u>		
Consumer	\$ 1,765,000	\$ 1,475,000
Commercial	18,783,000	21,973,000
Real Estate		
Other Residential	12,816,000	15,266,000
Non Residential	<u>17,095,000</u>	<u>30,542,000</u>
Total Amount	<u>\$50,459,000</u>	<u>\$69,256,000</u>

EXHIBIT 2

EXHIBIT 2

INVESTMENT SECURITIES PURCHASES

<u>ISSUER</u>	<u>PURCHASES</u>	
	January <u>2009</u>	February <u>2009</u>
<u>Number of Issues Purchased</u>		
Federal Home Loan Bank	4	5
Federal Farm Credit Bank	15	12
Municipalities and Schools	<u>2</u>	<u>1</u>
Total Number	21	18
<u>Amount of Issues Purchased</u>		
Federal Home Loan Bank	\$19,098,000	\$20,671,000
Federal Farm Credit Bank	79,477,000	53,661,000
Municipalities and Schools	<u>180,000</u>	<u>245,000</u>
Total Amount	\$98,755,000	\$74,577,000

EXHIBIT 3

EXHIBIT 3

MINUTES LIBERTY BANCSHARES, INC. BOARD OF DIRECTORS JANUARY 21, 2009

The Board of Directors of Liberty Bancshares, Inc. ("LBSI") met on January 21, 2009 in the board room of Liberty Bank of Arkansas in conjunction with the meeting of the board of directors of Liberty Bank of Arkansas.

Directors were provided an update on the special stockholders' meeting held on December 26, 2008. The only item of business conducted at the special meeting was for the stockholders to consider and vote upon a proposal to amend Liberty Bancshares, Inc. Articles of Incorporation to increase the authorized capital stock of the company from 10 million shares of common stock, \$0.01 par value, to 10 million shares of common stock, \$0.01 par value and five million shares of preferred stock, \$0.01 par value. The proposed amendment would therefore authorize issuance of preferred stock by the company. This amendment was necessary in order for the company to be eligible to participate in the U.S. Treasury Department's Capital Purchase Program. Chairman Fowler advised that the meeting went well with numerous questions from stockholders in regard to the plan. A total 940,277 shares were represented in person or by proxy at the meeting which was approximately 81% of the company's outstanding shares. Following the lengthy discussion, the stockholders approved the amendment to the Articles of Incorporation with approximately 99% of shares represented voting in favor of the proposed amendment.

White provided a review of the proposed 2009 budgets for both the bank and the holding company. He reviewed the board package materials for the bank budget, providing information in regard to each of the major assumptions associated with the budget. As will be discussed further in conjunction with the proposed participation of the company in the Capital Purchase Program, the holding company budget reflects anticipated issuance of preferred stock in January of \$57.5 million. The budget for the bank reflects anticipated capital injection by the holding company to the bank of \$50 million in January.

The holding company budget reflects the anticipated repayment in full of the holding company's line of credit with _____ and the resulting elimination of interest expense associated with the line of credit.

McCracken provided a review of the proposed participation in the U.S. Treasury Capital Purchase Program. An information packet was provided to each of the directors regarding the program. Various aspects of the program were previously discussed at the November board meeting. As was approved at the November meeting, Liberty Bancshares made application under the Capital Purchase Program for \$57,500,000 of preferred stock. The company's application has been preliminarily approved and the company has been working with our legal counsel as well as legal counsel for the U.S. Treasury in regard to document preparation. The directors reviewed and discussed various aspects of the program, including but not limited to financial aspects associated with the preferred stock issuance by Liberty Bancshares, dividend requirements, capital impact, redemption provisions, various restrictions resulting from the plan including common stock dividend restrictions, common stock repurchases, executive

compensation provisions, as well as provisions associated with warrants for additional preferred stock.

As discussed above, the special meeting of the stockholders of Liberty Bancshares was held on December 26, 2008 and the stockholders approved an amendment to the Articles of Incorporation of the company to permit issuance of preferred stock.

McCracken advised that it was anticipated that \$50 million of the preferred stock proceeds would be utilized as a capital injection by the holding company into Liberty Bank of Arkansas. This capital injection would increase capital levels of Liberty Bank which would increase the bank's legal lending limit, as well as providing funds for both lending purposes as well as for the purchase of investment securities which primarily would be securities associated with lending activities in the home mortgage markets. It is also anticipated that approximately \$7.1 million of the Capital Purchase Program funds will be utilized to repay the holding company's present revolving line of credit to _____ Bank. The line of credit matures on February 1, 2009. Directors were reminded that dividends from the bank to the holding company are required for the holding company to service the debt. Therefore, repayment of the line will reduce the amount of future dividend payments from the bank to the holding company over the five-year period. The remaining \$400,000 of Capital Purchase Program funds will be retained in the holding company for working capital purposes. Since the holding company relies on dividend payments from the bank to fund the holding company's expenses, this will also serve to reduce future dividend requirements from the bank to the holding company.

McCracken also reviewed the projected impacts on bank and holding company earnings resulting from the proposed Capital Purchase Program funds and utilization of those funds, as well as the projected impact on various ratios of both the bank and the holding company (b) (4)

While the CPP funds will cause a boost in reported earnings, due to the extremely low general market interest rates for both loans and investment securities, it is not presently possible to invest the CPP funds at an interest rate sufficient to provide an after-tax return high enough to service the dividend requirements on the preferred stock. Therefore, at least for the near-term future, the dividend payments on the preferred stock will exceed the earnings boost resulting from the funds, which will therefore result in a net negative impact over the near-term future on the bank and company's capital ratios.

Following the discussions, the directors reviewed resolutions to authorize participation in the Capital Purchase Program and a resolution regarding compliance with program provisions.

On a motion by (b) (6), second by (b) (6), the directors unanimously approved a resolution authorizing participation in the Capital Purchase Program and a resolution regarding compliance with provisions of Section 111 of the Emergency Economic Stabilization Act of 2008, copies of said resolutions are attached and hereby made part of these minutes.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
LIBERTY BANCSHARES, INC.**

WHEREAS, Liberty Bancshares, Inc. (the “Corporation”) has applied and received approval from the U.S. Department of the Treasury (the “Treasury”) to participate in the Treasury’s Troubled Asset Relief Program – Capital Purchase Program (“CPP”), whereby the Treasury will purchase shares of preferred stock in the Corporation (the “Preferred Shares”); and

WHEREAS, in connection with the Corporation’s proposed issuance of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the “Preferred Shares”) to the Treasury, the Corporation will be required to issue to the Treasury a warrant (the “Warrant”) to purchase Fixed Rate Cumulative Perpetual Preferred Stock, Series B of the Corporation (the “Warrant Preferred”); and

WHEREAS, in order to participate in the CPP, the Corporation must enter into a Letter Agreement, including a Securities Purchase Agreement and a Warrant and other schedules and annexes thereto (collectively, the “Letter Agreement”), with the Treasury which sets forth the terms of the issuance and sale to the Treasury of the Preferred Shares, the Warrant and the Warrant Preferred; and

WHEREAS, the board of directors deems it desirable and in the Corporation’s best interest to participate in the CPP and to enter into the Letter Agreement and to issue the Preferred Shares, the Warrant and the Warrant Preferred for the purposes of raising additional capital for the Corporation and assisting in the nation’s economic recovery;

NOW, THEREFORE, it is hereby:

RESOLVED, that the officers of the Corporation be and hereby are authorized and directed to execute and enter into on behalf of the Corporation the Letter Agreement, including the Securities Purchase Agreement and the Warrant and the other schedules and annexes thereto, with the Treasury pursuant to the CPP, and the board of directors hereby approves the Letter Agreement in substantially the form attached hereto; and further

RESOLVED, that the officers of the Corporation be and hereby are authorized and directed to execute such documents and to take such actions as necessary or appropriate to reserve or cause to be reserved for issuance to the Treasury 57,500 authorized shares of Preferred Shares of the Corporation or such other amount of authorized Preferred Shares as agreed upon by the officers of the Corporation and the Treasury and as set forth in the Letter Agreement as to be purchased by the Treasury, and to issue or cause to be issued to the Treasury such Preferred Shares according to the terms of the Letter Agreement, and to instruct the Corporation’s transfer agent to take any necessary action to reserve the Preferred Shares for issuance and to issue such Preferred Shares in accordance with the Letter Agreement; and further

RESOLVED, that the officers of the Corporation be and hereby are authorized and directed to execute such documents and to take such actions as necessary or appropriate to reserve or cause to be reserved for issuance 2,875.02875 authorized shares of Warrant Preferred of the Corporation or such other amount of authorized shares of Warrant Preferred as agreed upon by the officers of the Corporation and the Treasury and as set forth in the Warrant as to be issuable to the Treasury upon exercise of the Warrant in accordance with its terms, and to issue or cause to be issued such Warrant Shares upon exercise of the Warrant by the Treasury according to the terms of the Warrant, and to instruct the Corporation's transfer agent to take any necessary action to reserve the Warrant Shares for issuance and to issue such Warrant Shares upon exercise of the Warrant in accordance with its terms; and further

RESOLVED, that the officers of the Corporation be and hereby are authorized and directed to execute such other documents and to take or cause to be taken such other actions as may be necessary or appropriate in order to undertake and complete the transactions contemplated by the Letter Agreement and this resolution; and further

RESOLVED, that any actions taken by the officers of the Corporation or caused by such officers to be taken prior to this resolution in furtherance of the actions authorized by this resolution are hereby approved and ratified.

DATED January 21, 2009.

**RESOLUTION OF THE BOARD OF DIRECTORS OF
LIBERTY BANCSHARES, INC.**

WHEREAS, Liberty Bancshares, Inc. (the “Corporation”) has applied and received approval from the U.S. Department of the Treasury (the “Treasury”) to participate in the Treasury’s Troubled Asset Relief Program – Capital Purchase Program (“CPP”); and

WHEREAS, pursuant to the certain Letter Agreement which the Corporation must enter into with the Treasury to participate in the CPP, the Corporation must comply with the restrictions and requirements of Section 111 of the Emergency Economic Stabilization Act of 2008 (“EESA”) relating to executive compensation and corporate governance; and

WHEREAS, the board of directors deems it desirable and in the Corporation’s best interest to participate in the CPP and to enter into the Letter Agreement for the purposes of raising additional capital for the Corporation and assisting in the nation’s economic recovery;

NOW, THEREFORE, it is hereby:

RESOLVED, that, at all times until the Treasury ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, the Corporation shall comply with the provisions of Section 111 of the EESA and related guidance and regulations issued by the Secretary of the Treasury. In particular, the Corporation shall:

(1) Make no “golden parachute payment,” as defined in the regulations and guidance promulgated by the Secretary of the Treasury under the EESA, to any “senior executive officer,” as defined by the EESA and the Treasury regulations and guidance promulgated thereunder, of the Corporation (generally, the chief executive officer, chief financial officer and the three other mostly highly paid executive officers of the Corporation) (each a “Senior Executive Officer” and, collectively, the “Senior Executive Officers”).

(2) Recover any bonus or incentive compensation paid to a Senior Executive Officer based on financial statements or any other performance criteria metric determined to be materially inaccurate.

(3) Amend all compensation, bonus, incentive and other benefit plans, arrangements and agreements of the Corporation to the extent necessary to comply with Section 111 of the EESA.

(4) Require that the Board of Directors or a duly appointed committee thereof, within 90 days after the Treasury’s purchase of securities from the Corporation under the CPP, review the compensation and benefit plans of the Senior Executive Officers and identify any features that could encourage the Senior Executive Officers to take

unnecessary or excessive risks that could threaten the value of the Corporation, and to review such compensation arrangements with the Corporation's senior risk officer(s), or other personnel acting in a similar capacity, to ensure that the Senior Executive Officers are not encouraged to take such risks.

(5) Require that the Board of Directors or a duly appointed committee thereof meet at least annually with the Corporation's senior risk officer(s), or other personnel acting in a similar capacity, to discuss and review the relationship between the Corporation's risk management policies and procedures and the Senior Executive Officers' incentive compensation arrangements;

and further

RESOLVED, that the Board of Directors or a duly appointed committee thereof be and hereby is authorized and directed to take such actions as may be necessary or appropriate to ensure the Corporation's compliance with Section 111 of the EESA and the Treasury regulations and guidance promulgated thereunder and with the provisions of this resolution.

DATED January 21, 2009.

EXHIBIT 4

EXHIBIT 4
MINUTES
LIBERTY BANCSHARES, INC.
SPECIAL STOCKHOLDERS' MEETING
DECEMBER 26, 2008

A special meeting of stockholders' of Liberty Bancshares, Inc., Jonesboro, Arkansas was held on Friday, December 26, 2008 at 9:00 a.m. at the Liberty Bank of Arkansas headquarters building in Jonesboro.

Notice of the special stockholders' meeting was provided on October 27, 2008. A proxy statement was sent to all stockholders on December 10, 2008.

Chairman Wallace W. Fowler opened the meeting and welcomed all stockholders in attendance. Corporate Secretary Lloyd McCracken, Jr. advised that a quorum was present. A total of 940,277 shares were represented in person or by proxy which is approximately 80.99% of the company's outstanding shares of 1,161,021.

Chairman Fowler reminded the stockholders that they had each received a proxy statement which provided a review of the Capital Purchase Program of the United States Treasury Department. While the Liberty Bancshares board of directors may or may not decide that participation in the Capital Purchase Program is in the best interest of the company and stockholders, the item of business to be voted on at today's meeting is a proposal to amend the company's Articles of Incorporation to permit the issuance of preferred stock. Approval of the proposed amendment to the Articles of Incorporation will not automatically result in the company's participation in the Capital Purchase Program or in the issuance of preferred stock. Assuming the proposed amendment is approved by stockholders, the company's board of directors and management will continue its review of the provisions of the Capital Purchase Program and, following completion of that review, make a final decision regarding participation.

Chairman Fowler then opened the meeting for questions. Chairman Fowler and Chief Financial Officer McCracken responded to numerous questions on various topics including the Capital Purchase Program's provisions on dividends, the anticipated effect on the company's capital, earnings, stock value, dilution, as well as other aspects of the program.

The proposal presented to the stockholders is to amend Article 4 of the Articles of Incorporation of Liberty Bancshares, Inc. to replace the current Article 4 in its entirety with the following:

"4. The total amount of the authorized capital stock of this corporation is 10,000,000 shares of common stock with a par value of \$0.01 per share and 5,000,000 shares of preferred stock with a par value of \$0.01 per share. The Board of Directors may determine, without any vote by the shareholders, the preferences, limitations and relative rights of (a) the shares of preferred stock before the issuance of any shares of preferred stock or (b) one or more series of the shares of preferred stock before the issuance of any shares of that series. Before issuing any shares of preferred stock or series of preferred stock, the corporation shall deliver to the Secretary of State of Arkansas for filing, Articles of Amendment, effective without shareholder action, in accordance with Arkansas law."

On a motion by (b) (6), second by (b) (6), the stockholders approved the amendment with 930,284 shares (98.94%) voting in favor, and 9,993 shares (1.06%) voting against.

Chairman Fowler thanked the stockholders for their attendance.

There being no further business, the meeting adjourned at 9:50 a.m.



LIBERTY BANCSHARES, INC.

P.O. Box 7514 • Jonesboro, Arkansas 72403 • (870) 934-9000

October 27, 2008

TO: SHAREHOLDERS / PARTNERS OF LIBERTY BANCSHARES, INC.

FROM: WALLACE W. FOWLER, (b) (6)

RE: ANNOUNCEMENT OF SPECIAL SHAREHOLDERS' MEETING

As you may know from media reports, the United State Treasury Department, the Federal Deposit Insurance Corporation, the Federal Reserve Bank, and the Office of the Comptroller of the Currency, have asked for all eligible banks and bank holding companies to participate in their program to boost the amount of equity capital in banks in order to increase the level of lending activities in their respective markets.

While the regulators have released general information in regard to how the program will work for banking organizations that are publicly traded, thus far there has been no information released in regard to how the program will involve privately held banking organizations such as Liberty Bancshares.

However, based on very preliminary and tentative information, it appears that participation in this initiative will involve issuance of preferred stock by all banking organizations. Because Liberty Bancshares does not have any preferred stock authorized, it will be necessary to amend our company's Articles of Incorporation to increase the authorized capital stock of Liberty Bancshares to include preferred stock.

Ordinarily amendments to our Articles of Incorporation would be handled at our regular annual shareholders' meeting. However, federal regulators hope to have this program completed by December 31, 2008. Arkansas law requires that corporations who wish to amend their articles to increase their authorized capital stock provide not less than 60 days advance notice to shareholders of the meeting to approve the increase.

The combination of the Arkansas law provisions and the federal regulator goals of completing this program by year-end necessitate our notification to you as follows:

You are hereby notified that a Special Meeting (the "Special Meeting") of the shareholders of Liberty Bancshares has been called to be held on Friday, December 26, 2008, at 9:00 a.m., local time, at Liberty Bank of Arkansas Headquarters, 3rd Floor, 2901 East Highland Drive, Jonesboro, Arkansas 72401. At the Special Meeting, shareholders will consider and vote upon a proposal to amend Liberty Bancshares' Articles of Incorporation to increase its authorized capital stock from 10,000,000 shares of common stock, \$0.01 par value, to 10,000,000 shares of common stock, \$0.01 par

value, and 5,000,000 shares of preferred stock, \$0.01 par value. The Board of Directors may add other matters to be considered at the Special Meeting. In the event that circumstances require the Special Meeting to be postponed or adjourned to a later date, this 60 day Notice shall be effective for any postponement or adjournment of the Special Meeting. The record date for determining the shareholders who will be entitled to vote at the Special Meeting is October 27, 2008.

We regret that we are unable to provide you with additional information at this time. However, the regulatory agencies simply have not yet issued information about the program. Therefore, your board of directors has not yet made any decision regarding whether or not Liberty Bancshares will participate in this program. It is likely that it will be several weeks before sufficient information will be available in order for your board to make a decision on participation. If the board concludes that participation is in the best interests of our shareholders, we will provide to you, prior to the shareholders' meeting, additional information regarding the program, including the text of the Amendment to our Articles of Incorporation. In the event that our board of directors concludes that it is not in the best interests of our company to participate, then the shareholders' meeting will be cancelled.

Again, we wish we could provide additional details at this time. And we apologize that a combination of Arkansas law provisions requiring a 60 day advance notice of the shareholder meeting to increase the authorized capital stock and the regulator goals of completing the program by December 31 result in a need for a shareholders' meeting in late December.

We of course will continue to keep you informed.

(b) (6)



LIBERTY BANCSHARES, INC.

P.O. Box 7514 • Jonesboro, Arkansas 72403 • (870) 934-9000

December 10, 2008

TO: SHAREHOLDERS / PARTNERS OF LIBERTY BANCSHARES, INC.

FROM: WALLACE W. FOWLER, (b) (6)

RE: SPECIAL SHAREHOLDERS' MEETING

As you recall, in October we provided you notice of a special meeting of shareholders of Liberty Bancshares, Inc. which is scheduled to be held on Friday, December 26, 2008, at 9:00 a.m. at Liberty Bank of Arkansas headquarters, 3rd floor, 2901 East Highland Drive, Jonesboro, Arkansas, 72401.

Presently, the only item of business to be conducted at the special meeting is to consider and vote upon a proposal to amend Liberty Bancshares Articles of Incorporation to increase its authorized capital stock from 10,000,000 shares of common stock, \$0.01 par value to 10,000,000 shares of common stock, \$0.01 par value and 5,000,000 shares of preferred stock, \$0.01 par value.

The United States Department of Treasury has introduced a special program that provides banks across the country with additional funds to loan in our local communities. While Liberty Bank of Arkansas is in no particular need for additional capital, your company's board of directors unanimously has made a preliminary determination that we should choose to participate in this program as it is in the best interest of our customers and shareholders. Assuming you approve the proposed amendment, the board of directors will make a final decision after receiving full and complete information on the program.

Rest assured that your board has seriously deliberated this matter before reaching the decision.

While the board of directors may add other matters to be considered at this special meeting, no other matters are currently contemplated.

The attached proxy statement provides information in regard to the special meeting.

While your attendance at the special meeting is welcome, we solicit your proxy to indicate your vote on the proposed amendment to the Articles of Incorporation. **Your board of directors recommends voting in favor of Proposal 1 to amend your company's Articles of Incorporation.**

We ask that all shareholders indicate your vote on the enclosed proxy form, sign the form in the space provided at the bottom, and return the form in the enclosed postage paid envelope.

Attachments

(b) (6)



LIBERTY BANCSHARES, INC.

P.O. Box 7514 • Jonesboro, Arkansas 72403 • (870) 934-9000

PROXY STATEMENT

This proxy statement and the enclosed proxy form are being mailed to you in connection with the solicitation of proxies by the board of directors (the "Board") of Liberty Bancshares, Inc. ("Liberty" or the "Company") for use at the special meeting of shareholders to be held on December 26, 2008.

THE SPECIAL MEETING

The special meeting of shareholders of Liberty Bancshares, Inc. will be held on Friday, December 26, 2008, at 9:00 a.m. local time at Liberty Bank of Arkansas headquarters, 3rd floor, 2901 East Highland Drive, Jonesboro, Arkansas, 72401.

PURPOSE OF SPECIAL MEETING

The special meeting of shareholders has been called to consider and to vote on a proposed amendment to the Articles of Incorporation to permit the issuance of up to 5,000,000 shares of preferred stock, \$0.01 par value.

TEXT OF THE AMENDMENT

The proposed amendment to Article 4 of the Articles of Incorporation of Liberty Bancshares, Inc. is to replace the current Article 4 in its entirety with the following:

"4. The total amount of the authorized capital stock of this corporation is 10,000,000 shares of common stock with a par value of \$0.01 per share and 5,000,000 shares of preferred stock with a par value of \$0.01 per share. The Board of Directors may determine, without any vote by the shareholders, the preferences, limitations and relative rights of (a) the shares of preferred stock before the issuance of any shares of preferred stock or (b) one or more series of the shares of preferred stock before the issuance of any shares of that series. Before issuing any shares of preferred stock or series of preferred stock, the corporation shall deliver to the Secretary of State of Arkansas for filing, Articles of Amendment, effective without shareholder action, in accordance with Arkansas law."

VOTING

All shareholders of the company as of the record date, October 27, 2008, are eligible to vote on this proposal.

All shareholders eligible to vote may attend the meeting or have their duly appointed proxy attend the meeting.

The enclosed proxy form may be utilized to vote the shares you own. Please indicate your vote for, against, or abstain and sign and return the form in the enclosed postage paid envelope. **The board of directors unanimously recommends you vote “for” the proposal.**

As of the date of this proxy statement, the board knows of no other business that may properly be, or is likely to be, brought before the special meeting. If any other business comes before the meeting, the proxy holders will vote as recommended by the board of directors.

As of the record date the company has 1,161,021 common shares outstanding. An affirmative vote of the majority of the shares present, in person or by proxy, is required to approve the proposal.

If you execute and return the enclosed proxy form and later change your mind about your vote, you can submit a new proxy form at any time prior to the meeting or you may execute a document revoking the proxy. Additionally, the proxy form is automatically revoked if you attend the special meeting in person and vote on the proposal.

REASON FOR PROPOSED AMENDMENT TO ARTICLES OF INCORPORATION

The United States Department of the Treasury (“Treasury”) recently announced the TARP Capital Purchase Program (“CPP”) under the Emergency Economic Stabilization Act of 2008. The Treasury, the Federal Deposit Insurance Corporation, the Federal Reserve Bank, and the Office of the Comptroller of the Currency, have asked all eligible banks and bank holding companies to participate in the CPP to boost the amount of equity capital in banks in order to increase the level of lending activities in their respective markets. Under this program, eligible healthy financial institutions, such as Liberty, will be able to issue senior perpetual preferred shares on standardized terms to the Treasury in an amount not less than 1% nor more than 3% of the company’s risk weighted assets.

While the program is completely voluntary, all banking regulatory organizations recommend participation. While Liberty has no need for additional capital, is well capitalized under regulatory guidelines, and has adequate sources of liquidity as well as earnings to support anticipated growth, your board of directors believes that it is desirable to participate in this voluntary program. In order to participate, it is necessary to amend the Articles of Incorporation to permit the issuance of the preferred shares.

SUMMARY OF PROVISIONS RELATED TO CAPITAL PURCHASE PROGRAM

In October the United States Treasury Department announced the “Capital Purchase Program (CPP)” for publicly banking institutions. Terms of the CPP for non-publicly traded bank holding companies were issued on November 17, 2008 and differ in several aspects from the provisions for publicly traded companies.

Key components of the Capital Purchase Program for non-publicly traded companies as they apply to Liberty are summarized below and are subject to change. This summary is not intended to encompass all provisions of the CPP. The Treasury has yet to announce several aspects of the program for non-publicly traded companies.

- **Eligibility**—although all banks and holding companies are technically eligible for the program, supplemental announcements have indicated that only financial institutions in satisfactory condition will be eligible. Regulators have stated that the CPP will not be available to troubled financial institutions.
- **Application Date**—the deadline for non-publicly traded banks to apply was 12/8/08. Liberty submitted its CPP application on November 25, 2008.
- **Funding Date**—no anticipated funding date has yet been announced for non-publicly traded companies, although it likely will be within 30–60 days following acceptance of application.
- **Preferred Stock**—capital purchases will be funded through the issuance of senior perpetual preferred stock by the top tier bank holding company and the preferred stock will be issued to the U.S. Department of Treasury.
- **Amount of Preferred Stock**—companies can apply for capital amounts not less than 1% and not more than 3% of risk weighted assets. For Liberty this is approximately \$19.7 million minimum to \$59.0 million maximum. An applicant decides what amount to apply for, within the minimum and maximum range. The Company has made application for CPP in the amount of \$57,500,000. Liberty has received no indication from the Treasury regarding approval of its application. Additionally, even if the application is approved as filed, Liberty's board of directors may, prior to issuance of the preferred stock, decide to reduce the amount of preferred stock to be issued.
- **Capital Impact**—the preferred stock will count as tier one equity capital in each of the company's regulatory capital ratio calculations.
- **Preferred Stock Dividend**—the dividend payment required for the preferred stock is 5% annually for the first five years and 9% thereafter. Dividends are cumulative and are paid quarterly. These dividend payments are not deductible for income tax purposes.
- **Redemption of Preferred Stock**—companies can redeem the preferred stock as follows: (1) After three years, companies can redeem the preferred shares by repurchasing them at par value. (2) Within the first three years of issuance, the company can redeem the preferred stock at par value provided that the company has a qualified equity offering which results in proceeds to the company in an amount at least 25% of the preferred share redemption amount.

Any redemption shall be subject to the prior approval by the company's primary federal regulator.

Upon redemption of all preferred stock, all CPP restrictions automatically terminate.

- **Common Stock Dividend Restrictions**—for the first three years following issuance, dividends on common stock cannot be increased unless approved by

the Treasury. For years four through ten, Treasury approval is required only if the increase in common stock dividends is greater than 3% per annum. Additionally, if dividend payments on the preferred shares have been suspended, no dividend payments to common shareholders may be made. After the tenth year, no dividends can be paid on common stock until the preferred stock is redeemed in full.

- **Restrictions on Common Stock Repurchases**—no common stock repurchases or trust preferred securities redemptions by the company are permitted unless approved in advance by the Treasury. After the tenth year, no common stock repurchases will be permitted until all preferred stock is redeemed.
- **Executive Compensation Provisions**—the principal aspects of the executive compensation provisions are as follows: (1) No incentive compensation plans that encourage unnecessary and excessive risks. (2) No golden parachute payments. (3) No deduction for Federal income tax purposes of annual executive compensation in excess of \$500,000 for each senior executive officer (senior executive officers are generally defined as the CEO, CFO, and next three most highly compensated executive officers).
- **Warrants**—for non-publicly traded banks the Treasury will receive warrants to purchase additional preferred stock (referred to as warrant preferred stock) in an amount equal to 5% of the original preferred stock investment. The warrants are priced at \$0.01 per share (therefore, the purchase price is essentially zero). While the warrants have a term of ten years, the Treasury has announced that it will immediately exercise the warrants.

The warrant preferred stock will have the same rights and terms as the preferred stock, except the warrant preferred will pay dividends at the rate of 9% per annum and the warrant preferred may not be redeemed until all of the preferred shares have been redeemed.

- **Dilution**—since the CPP involves the issuance of preferred shares only, and no common shares are issued, the program does not result in dilution of common shareholders. Additionally, the holders of the preferred shares (the U.S. Department of Treasury) will generally not be entitled to vote on matters considered by common shareholders in the future.

EFFECT OF THE VOTE AND FUTURE BOARD OF DIRECTORS' ACTION

Approval of the proposal to amend the Company's Articles of Incorporation will not automatically result in participation in the Capital Purchase Program or issuance of the preferred stock. Assuming the proposed amendment is approved, following receipt by the Company of full and complete information regarding the terms of the Capital Purchase Program, the board of directors will, at that time, make a final decision regarding participation in the program. Even if the board of directors decides not to participate in the program, having preferred stock authorized will better position Liberty in the future.