



# 150

Monday, March 2, 2009

Mr. Neil Barofsky  
Special Inspector General  
1500 Pennsylvania Avenue N.W. Suite 1064  
Washington, DC 20220

Dear Mr. Barofsky,

In connection with your request dated February 6, 2009, Magna Bank hereby provides the following responses to the information requested by your office (responses appear in numerical sequence corresponding to the item numbers in the original request):

1. (a) Anticipated use of TARP funds.

TARP funds were used to increase Magna's tier 1 risk-based capital from 10.51% as of September 30, 2008, to 12.73% as of December 31, 2008 (see exhibit A). Without this additional capital, Magna would have continued to execute on its strategy, begun at the end of the second quarter of 2008, of reducing its balance sheet in order to increase capital ratios, as the economies in the markets we serve continued to deteriorate. Between June 30, 2008 and December 31, 2008, Magna had reduced its outstanding loan balances by \$10.7 million, or 2.6% (see exhibit B). With the additional capital in place, Magna has curtailed the strategy of balance sheet reduction in favor of one of slow, steady growth.

(b) (4)

(b) (4)

1. (b) Segregation of TARP Funds.

Magna has not segregated the TARP funds from other general corporate resources as we have no specific methodology for identifying, and thus segregating, cash inflows and outflows from our operations. As you know, specific identification of cash is virtually impossible as financial assets and liabilities are originated, payments and advances are made, and these instruments are liquidated and the proceeds reinvested.

1.(c) Actual Use of TARP Funds to Date.

Loans grew by \$1.6 million during the month of January, 2009, the first full month since the sale of preferred stock to Treasury, as may also be seen on exhibit B.

1.(d) Expected Use of Unspent TARP Funds.

Magna expects to continue to leverage the TARP capital through additional loan growth as outlined in item 1.(a), above.

Mr. Neil Barofsky  
Office of the Special Inspector General  
March 2, 2009

2. Implementation of Plans to Address Executive Compensation.

Magna's Board Compensation Committee has reviewed and compared all of the incentive plans effective for its officers to the limitations imposed by the Emergency Economic Stimulus Act of 2008 and the American Recovery and Reinvestment Act of 2009. We understand that Treasury intends to issue regulations in the near future to provide guidance on compliance with the new requirements set forth in ARRA, and upon issuance of this guidance, the Bank will evaluate its executive compensation practices to ensure compliance with these new

(b) (4)

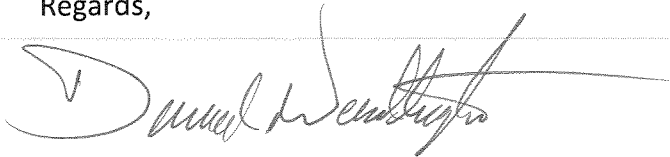
As part of their review, the Compensation Committee specifically addressed whether any of the incentive plans were structured so as to promote undue risk taking by the participant. Their conclusion was that none of the plans contained such a feature.

Magna's equity incentive plan for officers is limited to the award of non-qualified stock options, which are not allowed to be awarded to the Company's most highly compensated executive. Consequently, Magna's shareholders will be asked to approve a new equity incentive plan at the 2009 annual shareholders meeting adding restricted stock, which is awardable under ARRA.

We acknowledge your request that Magna segregate and preserve all documents referencing its use or anticipated use of TARP funds. Our policy is, and has always been, to follow a very strict document retention program so as to be able to respond to inquiries from our regulators and others. Be assured that those policies will not be amended or disregarded.

The undersigned hereby certifies that the information provided in this letter and the supplemental information attached is accurate, and acknowledges that the provision of false information is subject to penalties set forth in 18 U.S.C. Section 1001. Please feel free to contact me with any questions or concerns regarding Magna Bank and its participation in the TARP CPP.

Regards,



David C. Wadlington  
Executive Vice President/CFO

For information purposes only: not for data entry Association <div style="text-align: right; margin-right: 20px;">Magna Bank</div>	<b>Office of Thrift Supervision</b> <b>2008 Thrift Financial Report</b>  <b>Schedule CCR - Consolidated Capital Requirement</b> Original Submitted on Jan/30/2009 02:10 PM
Docket <span style="float: right;">15525</span> Report Date <span style="float: right;">12-2008</span>	

<b>TOTAL RISK-BASED CAPITAL REQUIREMENT: - continued</b>		(Report in Thousands of Dollars)
	Lines	Bil   Mil   Thou
100% Risk-Weight:		
Securities Risk Weighted at 100% (or More) Under the Ratings-Based Approach _____	CCR501	8,190
All Other Assets _____	CCR506	381,521
Total (501 + 506) _____	CCR510	389,711
100% Risk-Weight Total (510 x 100%) _____	CCR55	389,711
Amount of Low-Level Recourse and Residual Interests Before Risk-Weighting _____	CCR605	0
Risk-Weighted Assets for Low-Level Recourse and Residual Interests (605 x 12.5) _____	CCR62	0
Assets to Risk-Weight (420 + 455 + 485 + 510 + 605) _____	CCR64	570,573
Subtotal Risk-Weighted Assets (40 + 45 + 50 + 55 + 62) _____	CCR75	456,802
Excess Allowances for Loan and Lease Losses _____	CCR530	0
Total Risk-Weighted Assets (75 - 530) _____	CCR78	456,802
Total Risk-Based Capital Requirement (78 x 8%) _____	CCR80	36,544
<b>CAPITAL AND PROMPT CORRECTIVE ACTION RATIOS:</b>		
Tier 1 (Core) Capital Ratio _____ (Tier 1 (Core) Capital ÷ Adjusted Total Assets)	CCR810	10.28%
Total Risk-Based Capital Ratio _____ (Total Risk-Based Capital ÷ Risk-Weighted Assets)	CCR820	12.73%
Tier 1 Risk-Based Capital Ratio _____ ((Tier 1 (Core) Capital - Deduction for Low-level Recourse and Residual Interests) ÷ Risk-Weighted Assets)	CCR830	11.72%
Tangible Equity Ratio _____ ((Tangible Capital + Cumulative Perpetual Preferred Stock) ÷ Tangible Assets)	CCR840	10.28%

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Magna Bank

Docket 15525

Report Date 09-2008

Office of Thrift Supervision  
2008 Thrift Financial Report

Schedule CCR - Consolidated Capital Requirement

Amended Submitted on Dec/10/2008 03:31 PM

TOTAL RISK-BASED CAPITAL REQUIREMENT: - continued

(Report in Thousands of Dollars)

	Lines	Bil	Mil	Thou
100% Risk-Weight:				
Securities Risk Weighted at 100% (or More) Under the Ratings-Based Approach	CCR501		11,606	
All Other Assets	CCR506		383,076	
Total (501 + 506)	CCR510		394,682	
100% Risk-Weight Total (510 x 100%)	CCR55		394,682	
Amount of Low-Level Recourse and Residual Interests Before Risk-Weighting	CCR605		0	
Risk-Weighted Assets for Low-Level Recourse and Residual Interests (605 x 12.5)	CCR62		0	
Assets to Risk-Weight (420 + 455 + 485 + 510 + 605)	CCR64		577,378	
Subtotal Risk-Weighted Assets (40 + 45 + 50 + 55 + 62)	CCR75		459,846	
Excess Allowances for Loan and Lease Losses	CCR530		0	
Total Risk-Weighted Assets (75 - 530)	CCR78		459,846	
Total Risk-Based Capital Requirement (78 x 8%)	CCR80		36,788	

CAPITAL AND PROMPT CORRECTIVE ACTION RATIOS:

Tier 1 (Core) Capital Ratio (Tier 1 (Core) Capital + Adjusted Total Assets)	CCR810		8.37%	
Total Risk-Based Capital Ratio (Total Risk-Based Capital + Risk-Weighted Assets)	CCR820		10.51%	
Tier 1 Risk-Based Capital Ratio (Tier 1 (Core) Capital - Deduction for Low-level Recourse and Residual Interests) + Risk-Weighted Assets	CCR830		9.66%	
Tangible Equity Ratio (Tangible Capital + Cumulative Perpetual Preferred Stock) + Tangible Assets	CCR840		8.37%	

**MAGNA BANK**  
**CHANGE IN GROSS LOANS BETWEEN JUNE 30, 2008 AND DECEMBER 31, 2008**  
(\$ in 000's)

TFR LINE					Increase	
<u>REF</u>	<u>DESCRIPTION</u>	<u>1/31/2009</u>	<u>12/31/2008</u>	<u>6/30/2008</u>	<u>(Decrease)</u>	<u>%</u>
SC26	Mortgage Loans <sup>1</sup>		\$ 356,548	\$ 361,755	\$ (5,207)	1.4%
SC31	Non-mortgage Loans		37,209	43,617	(6,408)	14.7%
			393,757	405,372	(11,615)	2.9%
	Add: Allowance for Loan Losses					
SC283	Mortgage Loans		4,567	3,490	1,077	-30.9%
SC357	Non-mortgage Loans		60	48	12	-25.0%
			4,627	3,538	1,089	-30.8%
	Less: Accrued Interest Receivable					
SC272	Mortgage Loans		(1,563)	(1,723)	160	9.3%
SC348	Non-mortgage Loans		(594)	(547)	(47)	-8.6%
			(2,157)	(2,270)	113	5.0%
SC275	Less: Escrow advances		(742)	(415)	(327)	-78.8%
	<b>GROSS LOANS</b>	<b>\$ 397,111</b>	<b>\$ 395,485</b>	<b>\$ 406,225</b>	<b>\$ (10,740)</b>	<b>2.6%</b>

1 Excludes loans held for sale (i.e. portfolio loans only).

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Office of Thrift Supervision  
2008 Thrift Financial Report

Schedule SC - Consolidated Statement of Condition

Original Submitted on Jan/30/2009 02:10 PM

		(Report in Thousands of Dollars)	
ASSETS		Lines	Bil   Mil   Thou
<b>Cash, Deposits and Investment Securities:</b>	<b>Total</b>	<b>SC11</b>	<b>16,131</b>
Cash and Non-Interest-Earning Deposits		SC110	6,355
Interest-Earning Deposits in FHLBs		SC112	332
Other Interest-Earning Deposits		SC118	0
Federal Funds Sold and Securities Purchased Under Agreements to Resell		SC125	1,556
U.S. Government, Agency, and Sponsored Enterprise Securities		SC130	4,760
Equity Securities Subject to FASB No. 115		SC140	13
State and Municipal Obligations		SC180	0
Securities Backed by Nonmortgage Loans		SC182	0
Other Investment Securities		SC185	2,825
Accrued Interest Receivable		SC191	290
<b>Mortgage-Backed Securities:</b>	<b>Total</b>	<b>SC22</b>	<b>54,941</b>
Pass-Through:			
Insured or Guaranteed by an Agency or Sponsored Enterprise of the U.S.		SC210	23,700
Other Pass-Through		SC215	0
Other Mortgage-Backed Securities (Excluding Bonds):			
Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC217	0
Collateralized by Mortgage-Backed Securities Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC219	3,605
Other		SC222	27,580
Accrued Interest Receivable		SC228	56
General Valuation Allowances		SC229	0
<b>Mortgage Loans:</b>	<b>Total</b>	<b>SC26</b>	<b>380,763</b>
Construction Loans on:			
1-4 Dwelling Units		SC230	15,639
Multifamily (5 or More) Dwelling Units		SC235	10,075
Nonresidential Property		SC240	19,590
Permanent Mortgages on:			
1-4 Dwelling Units:			
Revolving, Open-End Loans		SC251	43,189
All Other:			
Secured by First Liens		SC254	116,307
Secured by Junior Liens		SC255	24,778
MultiFamily (5 or More) Dwelling Units		SC256	18,395
Nonresidential Property (Except Land)		SC260	94,155
Land		SC265	40,897
Accrued Interest Receivable		SC272	1,563
Advances for Taxes and Insurance		SC275	742
Allowance for Loan and Lease Losses		SC283	4,567

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Docket 15525

Report Date 12-2008

**Office of Thrift Supervision  
2008 Thrift Financial Report**

**Schedule SC - Consolidated Statement of Condition**

Original Submitted on Jan/30/2009 02:10 PM

(Report in Thousands of Dollars)

		Lines	Bil	Mill	Thou
<b>Nonmortgage Loans:</b>	<b>Total</b>	<b>SC31</b>			<b>37,209</b>
<b>Commercial Loans:</b>	<b>Total</b>	<b>SC32</b>			<b>33,256</b>
Secured		SC300			21,743
Unsecured		SC303			11,513
Lease Receivables		SC306			0
<b>Consumer Loans:</b>	<b>Total</b>	<b>SC35</b>			<b>3,419</b>
Loans on Deposits		SC310			90
Home Improvement Loans (Not secured by real estate)		SC316			0
Education Loans		SC320			0
Auto Loans		SC323			192
Mobile Home Loans		SC326			0
Credit Cards		SC328			0
Other, Including Lease Receivables		SC330			3,137
Accrued Interest Receivable		SC348			594
Allowance for Loan and Lease Losses		SC357			60
<b>Repossessed Assets:</b>	<b>Total</b>	<b>SC40</b>			<b>2,794</b>
<b>Real Estate:</b>					
Construction		SC405			1,838
1-4 Dwelling Units		SC415			956
Multifamily (5 or More) Dwelling Units		SC425			0
Nonresidential (Except Land)		SC426			0
Land		SC428			0
U.S. Government-Guaranteed or -Insured Real Estate Owned		SC429			0
Other Repossessed Assets		SC430			0
General Valuation Allowances		SC441			0
Real Estate Held for Investment		SC45			0
<b>Equity Investments Not Subject to FASB No. 115</b>	<b>Total</b>	<b>SC51</b>			<b>3,903</b>
Federal Home Loan Bank Stock		SC510			3,903
Other		SC540			0
Office Premises and Equipment		SC55			5,721

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Magna Bank

Docket 15525

Report Date 06-2008

**Office of Thrift Supervision  
2008 Thrift Financial Report**

**Schedule SC - Consolidated Statement of Condition**

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(Report in Thousands of Dollars)

<b>ASSETS</b>		Lines	Bil   Mil   Thou
<b>Cash, Deposits and Investment Securities:</b>	<b>Total</b>	<b>SC11</b>	<b>16,647</b>
Cash and Non-Interest-Earning Deposits		SC110	6,221
Interest-Earning Deposits in FHLBs		SC112	294
Other Interest-Earning Deposits		SC118	0
Federal Funds Sold and Securities Purchased Under Agreements to Resell		SC125	1,808
U.S. Government, Agency, and Sponsored Enterprise Securities		SC130	103
Equity Securities Subject to FASB No. 115		SC140	1,817
State and Municipal Obligations		SC180	0
Securities Backed by Nonmortgage Loans		SC182	0
Other Investment Securities		SC185	6,193
Accrued Interest Receivable		SC191	211
<b>Mortgage-Backed Securities:</b>	<b>Total</b>	<b>SC22</b>	<b>52,691</b>
Pass-Through:			
Insured or Guaranteed by an Agency or Sponsored Enterprise of the U.S.		SC210	17,329
Other Pass-Through		SC215	0
Other Mortgage-Backed Securities (Excluding Bonds):			
Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC217	0
Collateralized by Mortgage-Backed Securities Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC219	3,848
Other		SC222	31,452
Accrued Interest Receivable		SC228	62
General Valuation Allowances		SC229	0
<b>Mortgage Loans:</b>	<b>Total</b>	<b>SC26</b>	<b>393,670</b>
Construction Loans on:			
1-4 Dwelling Units		SC230	20,136
Multifamily (5 or More) Dwelling Units		SC235	17,572
Nonresidential Property		SC240	46,845
Permanent Mortgages on:			
1-4 Dwelling Units:			
Revolving, Open-End Loans		SC251	41,716
All Other:			
Secured by First Liens		SC254	121,575
Secured by Junior Liens		SC255	24,229
MultiFamily (5 or More) Dwelling Units		SC256	16,603
Nonresidential Property (Except Land)		SC260	62,656
Land		SC265	43,690
Accrued Interest Receivable		SC272	1,723
Advances for Taxes and Insurance		SC275	415
Allowance for Loan and Lease Losses		SC283	3,490



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**Office of Thrift Supervision  
2008 Thrift Financial Report**

Magna Bank

Docket 15525

Report Date 06-2008

**Schedule SC - Consolidated Statement of Condition**

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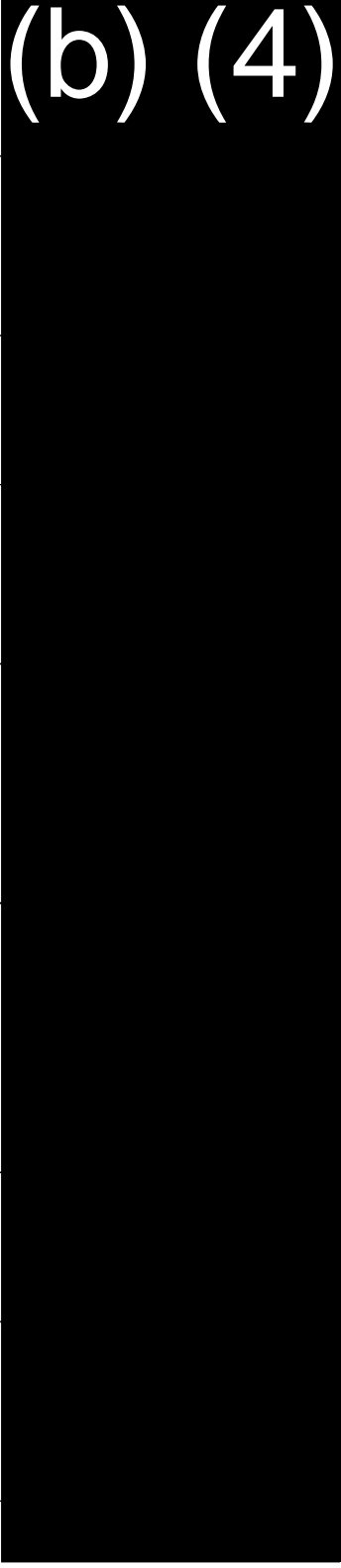
(Report in Thousands of Dollars)

		Lines	Bil   Mil   Thou
<b>Nonmortgage Loans:</b>	<b>Total</b>	<b>SC31</b>	<b>43,617</b>
<b>Commercial Loans:</b>	<b>Total</b>	<b>SC32</b>	<b>39,629</b>
Secured		SC300	27,853
Unsecured		SC303	11,776
Lease Receivables		SC306	0
<b>Consumer Loans:</b>	<b>Total</b>	<b>SC35</b>	<b>3,489</b>
Loans on Deposits		SC310	125
Home Improvement Loans (Not secured by real estate)		SC316	0
Education Loans		SC320	0
Auto Loans		SC323	231
Mobile Home Loans		SC326	0
Credit Cards		SC328	0
Other, Including Lease Receivables		SC330	3,133
Accrued Interest Receivable		SC348	547
Allowance for Loan and Lease Losses		SC357	48
<b>Repossessed Assets:</b>	<b>Total</b>	<b>SC40</b>	<b>502</b>
<b>Real Estate:</b>			
Construction		SC405	0
1-4 Dwelling Units		SC415	502
Multifamily (5 or More) Dwelling Units		SC425	0
Nonresidential (Except Land)		SC426	0
Land		SC428	0
U.S. Government-Guaranteed or -Insured Real Estate Owned		SC429	0
Other Repossessed Assets		SC430	0
General Valuation Allowances		SC441	0
Real Estate Held for Investment		SC45	0
<b>Equity Investments Not Subject to FASB No. 115</b>	<b>Total</b>	<b>SC51</b>	<b>3,851</b>
Federal Home Loan Bank Stock		SC510	3,851
Other		SC540	0
Office Premises and Equipment		SC55	5,703



**PROJECTED YEAR END BALANCE SHEETS**

	Month End 12-2008	Projected 12-2009	Var \$
<b>ASSETS</b>			
Cash and Due From Banks	6,307,173		
ShortTerm Investments	1,887,844		
Securities Available For Sale	50,944,920		
Securities Held to Maturity	15,441,866		
<b>Total Securities</b>	<b>66,386,787</b>		
1-4 Mortgage Loans	91,268,632		
Construction/Land Loans	61,846,645		
Comm'l Real Estate Loans	132,345,296		
Other Real Estate Loans	28,085,609		
<b>Total Real Estate Loans</b>	<b>313,546,183</b>		
Commercial Loans	33,255,730		
Home Equity LOC	43,315,309		
Consumer & Other Loans	3,416,474		
<b>Total Non Real Estate Loans</b>	<b>79,987,514</b>		
Loan Clearings	3,476		
Non-Accrual Loan	2,770,322		
<b>Gross Loans</b>	<b>396,307,494</b>		
Allowance For Loan Loss	-5,283,639		
<b>Net Loans</b>	<b>391,023,855</b>		
Mortgage Loans HFS	24,214,907		
Fixed Assets	5,721,304		
Mortgage Servicing Rights	9,287,775		
Accrued Interest Receivable	2,501,910		
REO & FHA/VA Claims Receivable	4,139,913		
Other Assets	9,575,998		
<b>TOTAL ASSETS</b>	<b>521,047,466</b>		
<b>LIABILITIES &amp; EQUITY</b>			
Servicing Escrow A/C's	10,086,205		
Non-Interest Bearing Trans A/C	14,968,665		
Interest Bearing Transaction	18,178,918		
MMDA & Sweep A/C's	43,888,193		
Regular Savings	40,964,893		
Certificates of Deposit	181,311,411		
Brokered Deposits	64,032,996		
<b>Total Deposits</b>	<b>373,431,280</b>		
Short Term Borrowings	10,600,000		
FHLB Term Advances	75,500,000		
<b>Total Borrowings</b>	<b>86,100,000</b>		
Taxes Payable	993,682		
Accrued Interest Payable	2,767,975		
Accrued Expenses	934,850		
A/C Payable & Other Liab	3,472,262		
<b>Total Other Liabilities</b>	<b>8,168,768</b>		
<b>EQUITY</b>			





PROJECTED YEAR END BALANCE SHEETS

	Month End 12-2008	Projected 12-2009	Var \$
Preferred Stock Series A	13,795,000		
Common Stock	5,448,209		
Treasury Stock	-200,374		
Additional Paid-in Capital	31,214,117		
Retained Earnings	4,253,365		
MTM G/L Security	-1,162,899		
<b>Total Equity Capital</b>	<b>53,347,417</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>521,047,466</b>		