



March 4, 2009


Mr. Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky,

On behalf of Citizens South Banking Corporation (the “Company”), which participated in the Troubled Asset Relief Program (“TARP”) Capital Purchase Plan (“CPP”) through the sale on December 12, 2008, to the U.S. Treasury Department (“Treasury”) of \$20.5 million of preferred stock and a warrant to purchase 428,870 shares of the Company’s stock and as requested in your letter dated February 6, 2009, I am providing the following information.

- (1) (a) The primary purpose for obtaining the additional capital raised through the CPP was to improve our capital ratios and thereby increase the Company’s ability to lend money in our local market area in the future; (b) upon receipt of the \$20.5 million in proceeds from the sale of the preferred stock, the funds were deposited into the general operating account of the Company. Therefore, there was no segregation of these funds from other corporate funds; (c) since the sale of the preferred stock, the Company has 1) injected an additional \$15.0 million in capital to the Company’s wholly-owned subsidiary, Citizens South Bank; 2) originated 185 loans totaling \$21.0 million and initiated loan commitments totaling \$16.5 million through Citizens South Bank. These are generally loans to individuals and small to medium size businesses; 3) opened a new loan production office in a new market; and 4) created a \$20.5 million program (the amount of the funds received from the CPP) to fund new low-interest rate residential mortgage loans. A copy of the press release announcing the program and a summary of the details of the program are included as attachments to our response. Our new low-interest rate mortgage program was featured in an article in the *Washington Post* by business columnist Steven Pearlstein (copy of article attached). As a result of this exposure in the *Washington Post*, our program was also featured on national news broadcasts such as NBC Nightly News with Brain Williams, Fox and Friends, and CNBC, as well as several local print and television outlets (copies of articles attached). We officially began advertising this program on Friday, February 20, 2009. However, as of February 28, 2009, we have already closed one loan for \$65,000 under this program and have two other commitments totaling \$280,000. Had our Company not raised the \$20.5 million in capital, we would not have created our low-interest rate mortgage loan program; (d) we expect that we will fulfill our \$20.5 million pledge to fund low-interest rate residential mortgage loans before the end of 2009.

2)

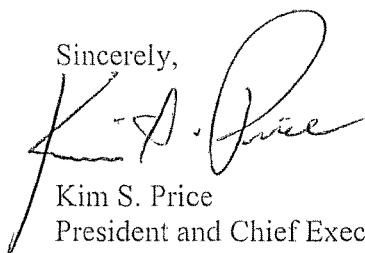
 b(4)
On February 19, 2009, the Company’s Internal Auditor conducted an Executive Incentive Compensation Review for the Company’s Compensation Committee. This report was presented to the Company’s Audit Committee and Compensation Committee on March 4, 2009. The conclusion of the review was that the Company’s Executive Annual Incentive Plan does not encourage senior

executives to take unnecessary and excessive risks that could threaten the value of the Company.

b(4)

We trust that these responses fully answer the questions posed in your February 6, 2009, letter. Should you need any additional information, please feel free to contact me at (704) 884-2260. I hereby certify, to the best of my knowledge, that the information provided herein is accurate and correct.

Sincerely,

A handwritten signature in cursive script, appearing to read "K. S. Price". The signature is written in dark ink and is positioned above the printed name and title.

Kim S. Price
President and Chief Executive Officer

OFFICE OF THE SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

February 6, 2009

Ms. Kim S. Price
Citizens South Bank
519 South New Hope Road
Gastonia, NC 28054-4040

Dear Ms. Kim S. Price,

The Emergency Economic Stabilization Act of 2008 ("EESA") that established the Troubled Asset Relief Program (TARP) also created the Office of the Special Inspector General for Troubled Asset Relief Program (SIGTARP). SIGTARP is responsible for coordinating and conducting audits and investigations of any program established by the Secretary of the Treasury under the act. As part of an audit into TARP recipients' use of funds and their compliance with EESA's executive compensation requirements,

I am requesting that you provide my office, within 30 days of this request, the following information:

- (1) A narrative response specifically outlining (a) your 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 you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.
- (2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding 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.

February 6, 2009

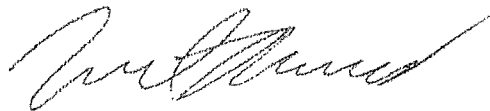
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In connection with this request:

- (1) We anticipate that responses might well be quantitative as well as qualitative in nature regarding the impact of having the funds, and we encourage you to make reference to such sources as statements to the media, shareholders, or others concerning your intended or actual use of TARP funds, as well as any internal email, budgets, or memoranda describing your anticipated use of funds. We ask that you segregate and preserve all documents referencing your use or anticipated use of TARP funds such as any internal email, budgets, or memoranda regarding your anticipated or actual use of TARP funds.
- (2) Your response should include copies of pertinent supporting documentation (financial or otherwise) to support your response.
- (3) Further, I request that, your response be signed by a duly authorized senior executive officer of your company, including a statement certifying 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.
- (4) Responses should be provided electronically within 30 days to SIGTARP at SIGTARP.response@do.treas.gov, with an original signed certification and any other supporting documentation mailed to: **Special Inspector General – TARP; 1500 Pennsylvania Avenue, NW; Suite 1064; Washington, D.C. 20220.**

We think this initiative is vital to providing transparency the TARP program and the ability of SIGTARP and others to assess the effectiveness of TARP programs over time. If you have any questions regarding this initiative, please feel free to contact Mr. Barry W. Holman, my Deputy Inspector General for Audit at (202) 927-9936.

Very truly yours,



Neil M. Barofsky
Special Inspector General

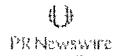
OMB Control No. 1505-0212
(Expires August 2009)

An agency is not authorized to conduct, and persons are not required to respond to, an information collection request unless it displays a valid control number. Response is mandatory for all selected participants in the TARP program.



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Press Release

Source: Citizens South Bank

Citizens South Bank to Use Entire TARP Allocation for Low-Interest Mortgage Program Designed to Boost the Sluggish Housing Market

Thursday February 5, 12:23 pm ET

GASTONIA, N.C., Feb. 5 /PRNewswire-FirstCall/ -- Citizens South Bank (Nasdaq: [CSBC](#) - [News](#)) announced today that it will use all of its \$20.5 million in federal Troubled Assets Relief Program (TARP) money to create a 30-year residential loan program with a starting interest rate of 3.5 percent in an effort to stimulate the local housing market.

The loan program, which uses the bank's entire \$20.5 million in federal TARP funds allocated under the Capital Purchase Program (CPP), has a maximum rate of 5.5 percent and waives closing costs. Citizens South has continued to lend as the financial crisis has unfolded.

"CPP funds issued as part of the TARP are intended to stimulate the economy by enabling banks to increase lending, and we are glad to utilize the funds we received under the program as Congress intended," said Kim S. Price, president and CEO of Citizens South Bank. "We are participating in the program from a position of financial strength and our new reduced-rate mortgage program represents an expansion of our current lending."

The new Citizens South program will bring together builders and developers, who are Citizens South customers and have extra housing stock or residential lots ready for sale, with consumers who are looking for the best possible mortgage rate. Participating builders and developers will agree to pay the closing costs on the mortgages as a form of assistance to qualified homebuyers.

"Recent consumer surveys show that lower interest rates provide people with the assistance they need to purchase a home," Price said. "We believe this program is the best use of our CPP funds because it promotes home ownership and generates work for builders, developers, construction workers and real estate agents."

While the program sets the interest rate for the first 24 months of the loan at 3.5 percent and adjusts the rate to 5.5 percent at the start of the 25th month, all applicants will be qualified as if they were receiving a 5.5 percent interest rate for the life of the loan.

"We have always been a conservative institution and we want to make sure we continue to make responsible loans while assisting our community in recovering from the recession," Price added. "Additionally, all of these loans will stay with our bank and not be resold."

About Citizens South

Citizens South Banking Corporation is the parent corporation for Citizens South Bank, which was established in 1904 and is headquartered in Gastonia, N.C. The Bank has 15 full-service banking offices located in the Charlotte, N.C. region. As of December 31, 2008, the Company had consolidated assets of \$817 million, outstanding loans of \$627 million, total deposits of \$581 million and stockholders' equity of \$105 million.

Source: Citizens South Bank

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Citizens South Bank

C P P – Mortgage Program

- **3½% fixed interest rate for the first two years**
- **5½% fixed interest rate beginning in 25th month**
- **30-year term**
- **80% loan to value (“LTV”) ratio based on the lesser of value or cost** *(75% LTV for jumbo loans)*
- **90% LTV ratio with mortgage insurance**
- **No closing costs**
Citizens South to waive origination fee, builder to pay all other closing costs including but not limited to commitment fee, appraisal fee, flood, title insurance, attorneys fees, etc
- **Construction / Permanent loans are included in the CPP Mortgage program**
- **Only owner-occupied residential properties are eligible for this program** *(No second homes or investment properties)*
- **This program is available exclusively to the buyers of homes and lots currently financed for participating builder and developer customers of Citizens South Bank**
- **Limited Time Offer**

Our mortgage rate of 3.5%* is big news.

The fact that a bank is doing the right thing shouldn't be.

Contact the following builders and developers:

CHARLOTTE
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jeffrey.todd@citizensouth.com

Rickenbaker Construction
Company – Ed Rickenbaker
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Steve Gammons
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Ashley Place Paflo Homes –
Harold Robinson
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Rudisill Development, LLC –
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Sunset Valley Subdivision – Steve Sisk
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Reeger Builders, Inc. – Ron Reeger
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Robert Robinson Builder – Bob Robinson
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Thomas Properties, Inc. –
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Colony Custom Homes, Inc. –
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Bryon Brush Construction, Inc. –
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Advanced Technology Construction, Inc. –
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Bost Construction Co. Inc. – Tom Bost
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Tsumas Real Estate and Development –
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htsumas@tsumasrealestate.com

PMA Investments, LLC – Valerie Stevens
704-658-5514
valerie@pmainvestmentsllc.com

For some reason, a bank working with its community is big news these days. Well, we've been doing it for years. And now, we're using our federal TARP funds to help stimulate the local housing market. Our new 30-year residential loan program starts with an interest rate of 3.5% for the first 24 months and then adjusts to a low 5.5% for the life of the loan with a 5.169% annual percentage rate. Plus, all closing costs are waived. This is only available for select properties offered by participating builders and developers, so give one of the builders or developers above a call or contact your local Citizens South banker and let's start making good news for a change.



citizensouth.com

*For a \$200,000 30-year term loan example with an initial interest rate of 3.50% for the first 24 months and then adjusting to a rate of 5.50% for the remaining term and no closing cost has an Annual Percentage Rate (APR) of 5.169%. Terms of payment are based on initial principal and interest payments of \$898.00 per month for the first 24 months then adjusting to \$1,122.31 per month on the 25th month for the remaining term. Loan example assumes a loan to value (LTV) of 80% or less on primary residence valued at \$250,000. Loans are subject to credit approval.



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Steven Pearlstein

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Big Lessons in Finance From a Little Bank You've Never Heard Of

By *Steven Pearlstein*

Wednesday, February 11, 2009; Page D01

Wall Street is not pleased.

Hunkered-down executives and hyperactive traders were more than a little disappointed with what they heard from our straight-shooting new Treasury secretary as he unveiled his plans for Bank Bailout 2.0.

THIS STORY

Big Lessons in Finance From a Little Bank You've Never Heard Of

Transcript: Steven Pearlstein on Timothy Geithner's Bailout

Not enough clarity, they complained. Still no light at the end of the tunnel, bemoaned others. Like spoiled, petulant children, they demonstrated their dissatisfaction by driving stock prices down another 5 percent.

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By now, I hope you've learned enough not to be taken in by the self-serving floor patter. These guys won't be happy until the government agrees to relieve them of every last one of their lousy loans and investments at inflated prices, recapitalize every major bank and brokerage and insurance company on sweetheart terms and restore them to the glory days, so they can once again earn inflated profits and obscene pay packages by screwing over

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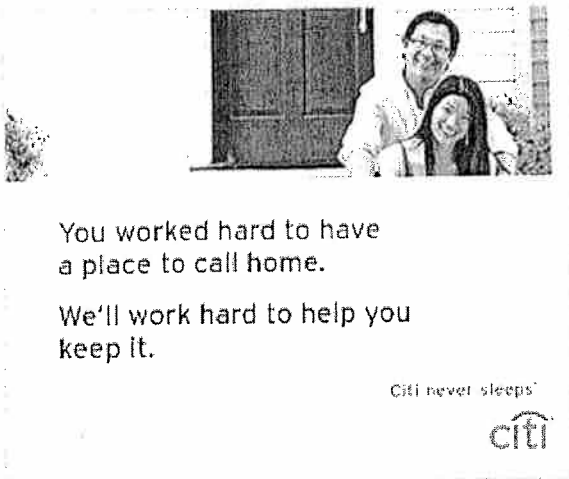
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their customers and their shareholders.

For the Wall Street wise guys, bailout politics is just another game to be played, another market to be manipulated, another set of risks to be arbitrated.

Later today, nine Titans of Finance will testify before the unwieldy House Financial Services Committee about the fine mess they have got us into and how the first \$350 billion in bank bailout money was used. The chief executives have probably wised up enough to know to leave the Gulfstream back home and

fly in commercial with the hoi polloi. But don't hold your breath waiting for an expression of contrition or gratitude, let alone any clarity on their own plans for using the government's bailout money.

In that regard, the committee probably would have learned more if they'd left the big boys to wallow in their gilded bunkers and invited Kim Price up from Gastonia, N.C.

Price is the president of Citizens South, a 104-year-old community bank with about \$800 million in assets, 15 offices and 150 employees that operates in the shadow and under the radar of the big national banks -- Bank of America and Wachovia -- headquartered across the river in Charlotte.

Citizens is among the stronger and more conservative banks in the Charlotte market. Despite setting aside \$3.2 million last year for expected loan losses, the bank managed to post a profit of \$3.1 million, down from \$5.7 million the year before. Citizens never got into subprime lending or 100 percent loans, and for its caution lost a lot of business during the go-go years. Now, however, its reward is that its nonperforming loans are less than half of 1 percent of all its loans.

Like many healthy banks, Citizens late last year figured it was in for a tough couple of years with the national recession and the continued turmoil in financial services, which anchors the regional economy. So it applied and won \$20.5 million in bailout funds from the Treasury Department on the usual terms requiring a 5 percent annual dividend payment to the government. A few weeks ago, while reading a newspaper article, Price came up with an ingenious plan for how to use it.

The article was about the reluctance of people to buy a house in the current market, and what kinds of incentives had been used successfully by builders and bankers to get them to close a deal. Two stood out: lower rates and the waiving of closing costs. And that got Price to thinking: What if Citizens were to use its federal bailout money to offer below-market mortgage rates with no closing costs to consumers who would buy a house, or a house lot, from builders and developers who had borrowed money from Citizens?

Price asked some of his loan officers to check with the builders and developers, who not surprisingly were excited enough about the project to be willing to chip in some money to help cover a portion of the forgone closing costs. So last week, Citizens launched its

marketing campaign for the \$20.5 million program, in collaboration with its builder-developer customers, offering 30-year loans with an initial teaser rate of 3.5 percent for the first two years, rising to a fixed 5.5 percent rate (the current market rate) for the balance of the loan.

"As we see it, it's a win-win-win situation all round," Price explained to me. The builders and developers win by having a tool to help move their unsold inventory. The consumer wins by getting a cut-rate loan. And Citizens wins because it lowers the risk that it will have to write off even more of its commercial loans while taking a modest step to help stimulate the local economy. And, of course, the public relations bump isn't bad either.

What's striking, however, is the attitude Price expresses in talking of the new program. He's enough of a profit-making businessman to know that when the government is offering 5 percent equity money, he'd be a damn fool not to take it, even if his bank is already well capitalized. And yet he's sensitive enough about obligation that he feels comes with taking taxpayer money that he was anxious to use it in a visible way to benefit his community and his customers, as well as his shareholders.

In truth, Citizens won't literally be using its federal bailout money to make these mortgage loans. In fact, no bank would -- using money that costs 5 percent to make 5.5 percent loans won't get you very far in the banking business. But what each dollar of government capital does for Citizens, or any other bank, is give it the ability to go out and borrow another \$9 from depositors or the Federal Home Loan Bank at a rate of 2.5 percent or less.

By the way, Kim Price would have had no trouble meeting the Obama administration's new \$500,000 salary cap for executives at banks taking bailout money. His total pay package last year was \$456,146, including a base salary of \$250,000; a bonus of \$64,800; \$63,920 worth of Citizens stock; and \$33,415 in other perks, including country club membership and a company car (driver not included).

And get this: Somehow the directors of Citizens South managed to attract and retain a chief executive who turned in respectable profits during good times and bad, and yet was able to pay him only 10 times the salary of the average employee. Pretty neat, huh?

So here's a question the House Financial Services Committee might put to the Titans of Finance: How is it that Kim Price, a community banker with an undergraduate degree from Appalachian State University, a tiny executive staff and a pay package that you would consider insulting, somehow managed to come up with a more creative use for his government bailout money than any of you?

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Beware the Backlash.

For the past two years, Asians and Europeans have tended to view their own financial and economic problems as largely imported from the United States. The impacts on their own economies, they reasoned smugly, would be modest and short-lived.

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FEBRUARY 13, 2009, 9:57 AM

A Happy Banking Tale, and Faint Praise We Can Live With

By STEPHEN J. DUBNER

Interesting piece here by *Washington Post* columnist **Steven Pearlstein** about a relatively small North Carolina bank called Citizens South, which avoided bad loans, has remained profitable, and then applied for and won \$20.5 million in TARP bailout funds.

Writing on the eve of the testimony by eight gigantic bankers before the House Financial Services Committee, Pearlstein lauds Citizens South and its president, **Kim Price**, for the sanity and creativity with which they put that \$20.5 million to use:

A few weeks ago, while reading a newspaper article, Price came up with an ingenious plan for how to use it.

The article was about the reluctance of people to buy a house in the current market, and what kinds of incentives had been used successfully by builders and bankers to get them to close a deal. Two stood out: lower rates and the waiving of closing costs. And that got Price to thinking: What if Citizens were to use its federal bailout money to offer below-market mortgage rates with no closing costs to consumers who would buy a house, or a house lot, from builders and developers who had borrowed money from Citizens?

Price asked some of his loan officers to check with the builders and developers, who not surprisingly were excited enough about the project to be willing to chip in some money to help cover a portion of the forgone closing costs. So last week, Citizens launched its marketing campaign for the \$20.5 million program, in collaboration with its builder-developer customers, offering 30-year loans with an initial teaser rate of 3.5 percent for the first two years, rising to a fixed 5.5 percent rate (the current market rate) for the balance of the loan.

“As we see it, it’s a win-win-win situation all round,” Price explained to me.

Pearlstein is particularly impressed that Price’s total pay package last year was just \$456,146, a rounding error for most of the eight banking kings who came to talk to Congress. This leads Pearlstein to deliver a zesty kicker to his column:

So here’s a question the House Financial Services Committee might put to the Titans of Finance: How is it that Kim Price, a community banker with an undergraduate degree from Appalachian State University, a tiny executive staff, and a pay package that you would consider insulting, somehow managed to come up with a more creative use for his government bailout money than any of you?

Some graduates of Appalachian State University (ahem, ahem) might take offense at Pearlstein’s insinuation. But this strikes me as a case of faint praise that such people should happily accept.

(Hat tip: **Craig Popelars**.)

Charlotte Business Journal - March 2, 2009
<http://charlotte.bizjournals.com/charlotte/stories/2009/03/02/story12.html>

CHARLOTTE BUSINESS JOURNAL

Friday, February 27, 2009

Gastonia banker's TARP loans win fans across U.S.

Citizens South CEO in the spotlight for using bailout money for mortgages
Charlotte Business Journal - by [Adam O'Danie!](#) Staff writer

Kim Price sees himself as a small-town banker who's just using common sense. But his plan to allocate government bailout money for new mortgages is anything but common.

Price, chief executive of **Citizens South Banking Corp.**, is catching the eye of people across the country who are frustrated with bailouts and finicky lenders. When *NBC Nightly News* and *The Washington Post* did stories on Price's plan, Gastonia-based Citizens South Bank became a populist poster child.

Now Price is gaining favor with local home builders and adding his voice to the calls for simpler solutions to the recession.

Citizens South applied for \$20.5 million from the Troubled Asset Relief Program last fall. Price decided to leverage the government capital to add as much as \$100 million to Citizens South's mortgage portfolio. In doing so, he reasoned, the bank would give the struggling local economy a modest boost.

The bank's new mortgage product offers home buyers a 3.5% introductory interest rate for the first 24 months. The rate then increases to a fixed 5.5% for the rest of the 30-year term.

To qualify, buyers must purchase a home or lot from a builder financed by Citizens South. The builder pays the closing costs, and the bank waives origination fees.

Gastonia banker's TARP loans win fans across U.S. - Charlotte Business Journal:

The initiative is designed to attract buyers from the sidelines and help builders sell houses so they can pay their debts and stay afloat. "It's just not that complicated," Price says.

Still, he's receiving phone calls every day from fellow bankers and the news media. He keeps handwritten notes in his shirt pocket in case another reporter calls.

Price doesn't understand the fascination. "You design the program to meet the demand. That's just the way I think."

National attention

Sam Caldwell, an analyst with New York-based Keefe, Bruyette & Woods Inc., says he predicted Price's spin on the TARP money would generate some local publicity. But he didn't expect the national buzz.

"Clearly, it paid off," he says. Caldwell says he's unaware of any other bank with a similar offer. "I think it makes a lot of sense, especially if the loans are structured carefully."

Price says his bank will underwrite the TARP mortgages conservatively, requiring an 80% loan-to-value ratio and sound credit history.

"And you should probably have a job," he quips. "I'm joking. Of course you need a job. Excuse my French, but I'm just so pissed off at the subprimers who got us into this mess."

Price believes stabilizing the housing market will stabilize the economy.

And he has another idea for encouraging a housing rebound. Instead of offering confusing tax credits that won't benefit taxpayers until next year, he proposes allowing new home buyers to submit their closing settlement statement to the Internal Revenue Service for an immediate tax rebate.

"That would put money right back into the hands of people who will spend it," he says. "What's the first thing your wife does when you buy a new house? She goes to Lowe's for paint and carpet. Maybe buys a new bedroom suite."

Peter Harakas, a Gastonia home builder and Citizens South customer, hopes more bankers start thinking like Price. Harakas, owner of **Colony Custom Homes Inc.**, watched his business halt in recent months. But after Citizens South launched its new mortgage offering last month, his company became the first to sell a home under the program.

Gastonia banker's TARP loans win fans across U.S. - Charlotte Business Journal:

"It's the simple ideas that people often miss," says Harakas, whose company specializes in patio homes priced up to \$350,000. "And community bankers are the innovators. They're the ones dealing directly with customers on a daily basis."

Humble beginnings

Price fostered his down-to-earth business sense through personal experience. He grew up in a rented house on a mill hill in Shelby; that was all his family could afford. He paid his way through Appalachian State University when higher-pedigree colleges didn't fit his middle-class budget. After college, Price then moved up through small community banks around the state. He had a stint as a banking regulator before taking the reins at Citizens South 12 years ago.

His conservative leadership at Citizens South kept the bank from taking a bath in subprime losses — as many competitors did. Price never made a subprime loan. Citizens South boasts past-due loans at only 0.48% of its total lending. The state average is almost 2%.

The bank managed to post a \$3.08 million profit in 2008, down from about \$5.7 million in 2007.

And, with Wachovia Corp.'s sale to Wells Fargo & Co., Citizens South's \$817 million in assets rank second (albeit a distant second) to Bank of America Corp. among banks based in the Charlotte region.

Price's office, decorated with a photo of his two children, is smaller than most people's bedrooms. When NBC News shadowed him last week, the cameras caught him eating pasta with his wife at home. During an interview, his slight Southern drawl takes nervous pauses as he collects his thoughts. But that doesn't stop him from voicing his disapproval of some measures coming from Washington.

"We need to apply more Main Street ideas and less Wall Street," Price says. "We need less regression analysis, more common sense."

aodaniel@bizjournals.com

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Business

Thursday, February 17, 2009
 BAP 593 93.71 ▲6.58 ▲5.92
 NASDAQ 1,530.15 ▲5.77
 DOW 7,299.82 ▲50.85
 6-MO BILLS 3.50%
 30-YR T-BONDS 3.50%
 CRUDE OIL 130.91 ▲1.61
 EURO 1.2911 ▲0.0039
 GOLD 1,249.43 ▲30.10

REPORT: SIRIUS XM PREPARES FOR BANKRUPTCY

Sirius XM Radio Inc. has hired advisers to prepare for a possible bankruptcy filing, which could come in days, according to a news report. The New York Times said documents and analysis of a potential Chapter 11 filing are nearly complete, say people close to the company. Sirius has struggled to refinance its debt load at a time when banks are tight-lipped about lending. About \$1 billion worth of debt comes due in 2009.

— The Associated Press



HAPPENING HERE

The Gaston Regional Chamber of Commerce will sponsor a "Business After Hours" networking event 5:30 p.m. Feb. 19 at Gaston Day School, 2001 Gaston Day School Road, B.S.P. at 704-867-3521 or www.gastonchamber.com.

The Lake Wylie Chamber of Commerce will hold its first Business After Hours of 2009 at Anytime Fitness on Feb. 19 from 5:30-7:30 p.m. The event will be the official grand opening for Anytime Fitness and will be held at the center new facility on S.C. 30 at Evergreen Road (next to the 101 station).

Chap. Summersville & Co., a local financial planning firm, is hosting a series of educational workshops every Thursday in February. The workshops will be held at its office at 1422 Burtonwood Drive, Suite 201 in Gastonia, from 5:15-6:30 p.m. Light refreshments will be served.

Topics include: "Investment Strategies for the Obama Era," Feb. 19, "Income Strategies," and Feb. 26, "Estate Planning."

If you are interested in learning more about these workshops or their firm, contact 704-867-2323. Seating is limited.

A workshop explaining state and local resources for private business is scheduled for Feb. 20 at Gaston College in the Pearson Life Skills Building.

Speakers at the workshop will talk about incumbent worker training, grants, customized industry training, state and local economic incentives for existing businesses and Career Readiness Certification through Gaston Career Clinic. The workshop is from 9 a.m. to noon with registration at \$20 a person. Reservations should be emailed to Pat Bradley at or faxed to 704-862-7839.

Citizens South receives national praise for stimulus program Gaston's banking \$ecret is out

On a day that saw executives from the nation's most powerful banks lambasted in congressional hearings for their use of federal stimulus money, Gaston's Citizens South Bank received national praise for creativity and good stewardship.

Last week, Kim Price, president and CEO of the community bank, announced it would use all of its \$20.5 million from the Troubled Asset Relief Program to fund low-interest mortgages on new-home sales with builders that financed construction through Citizens South. In addition to below-market interest rates starting at 4.5 percent, the bank would waive closing costs for buyers.

On Wednesday, *Washington Post* columnist Steven Pearlstein's column on the front of the *Business Week* was titled, "Big lessons in finance from a little bank you've never heard of."

"So here's a question the House Financial Services Committee might put to the Titans of Finance: How is it that Kim Price, a community banker with an undergraduate degree from Appalachian State University, a tiny executive staff and a pay package that you would consider insulting, somehow managed to come up with a more creative use for his government bailout money than any of you?" Pearlstein wrote in the column.

Price, who was attending a conference in New York Wednesday, said the *Post* column didn't create a big stir among colleagues who get news from the *New York Times* and *Wall Street Journal*. But Price said he did receive several complimentary calls, including a voice message



from the commissioner of banking. "It's very flattering that the *Washington Post* picked up on it. It's flattering that they perceive and acknowledge our bank for trying to be responsive with the money and implement good ideas to help our economy," Price said.

The *Post* article described Citizens South as being "among the strongest and most customer-friendly banks in the Charlotte market," pointing out that more than 95.5 percent of the bank's loans are still performing because it never got into the subprime market.

Citizens South sold preferred stock to the government, announcing a 5 percent annual dividend in returns. Price said he was reading a survey by the American Homebuilders Association, when he figured out how to use the TARP money. The bargain-rate mortgages will be available to qualified customers at 15 locations throughout the Charlotte region until the stimulus money is gone, Price said.

"So far it's been pretty overwhelming," Price said of homebuilders' response to the program. "The big question is how the consumer will view it. We will have to gauge whether this will be enough spur them to action."

The nation's eight top bankers appearing before Congress Wednesday were men with deep skepticism from lawmakers who aggressively quizzed them on how

they have used more than \$740 billion in taxpayers' money. Repeatedly, lawmakers were scolded and treated the financial heavyweight almost like naughty schoolchildren, ordering them to raise their hands to indicate their responses to bluntness questions about their own use of perils and any policy changes made since accepting the bailout money.

"You created the mess we're in," scolded Michael Caputo, D-Mass. "And now you're saying 'Sorry, Trust us.' America doesn't trust you anymore."

Price said he doesn't know if the program implemented by Citizens South could be a model for all banks, but he hopes it inspires some creative ideas. Provisions in a stimulus bill passed by the Senate — including a one-time \$15,000 tax credit for homebuyers — should also help the cause, Price said.

"The optimism that spring will be a new beginning for homebuyers that will permeate throughout our economy in the second half of this year," Price said. "We're just trying to do our part."

The *Associated Press* contributed to this report.
 You can reach Business Editor David Jackson at 704-867-1833.

Peanut Co. owner refuses to testify to Congress

Mr. Chairman and members of the committee, on advice of my counsel, I respectfully decline to answer your questions based on the protections afforded me under the U.S. Constitution.

Stewart Parnell
 owner, Peanut Corp.
 of America

WASHINGTON (AP) — See the full congressional transcript of Stewart Parnell, holding up a container of the peanut seller's products and asking if he'd dare eat them. Parnell pleaded the Fifth.



LEFT: From left, Jeffrey Almer, Lou Tomaino and Peter K. Harby, are sworn in on Capitol Hill in Washington prior to testifying before the House Energy and Commerce subcommittee on Oversight and Investigations hearing to examine the recent salmonella outbreak associated with peanut products manufactured by the Peanut Corporation of America. Almer's brother died after eating tainted peanut butter, associated with the outbreak. Harby's son was sickened from tainted peanut butter crackers but has recovered. RIGHT: House Energy and Commerce subcommittee on Oversight and Investigations Chairman Rep. Earl Blunt, left, watches as Rep. Greg Walden, right, holds up a container of food items that were pulled due to the recent salmonella outbreak associated with peanut products manufactured by the Peanut Corp. of America.

small subpoena, the owner of Peanut Corp. of America repeatedly invoked his right not to incriminate himself at the House Energy and Commerce subcommittee hearing on the salmonella outbreak that

has sickened some 600 people, may be linked to nine deaths — the latest reported in Ohio on Wednesday — and resulted in one of the largest product recalls of more than 1,900 items. Parnell sat stiffly in

hands folded in his lap at the witness table, as Rep. Greg Walden, R-Or., held up a jar of his company's products wrapped in crime-scene tape and asked if he would eat them. "Mr. Chairman and

members of the committee, on advice of my counsel, I respectfully decline to answer your questions based on the protections afforded me under the U.S. Constitution," Parnell responded.

SP-500 RANKING												LOCAL STOCKS											
NAME	TICKER	LO	H	CHG	CHG %	VOL	YTD	52W	YTD	52W	YTD	NAME	TICKER	LO	H	CHG	CHG %	VOL	YTD	52W	YTD		
AT&T Inc	T	22.90	24.88	-12	-0.5	Y	-14.2	-28.0	25622	11	14.2	AMER	AMER	24.20	26.20	+2.0	+8.3	Y	+1.8	+18.4	9432	12	
Alcoa Inc	AA	1.34	1.34	-0.01	-0.7	Y	-1.0	-2.0	527	11	1.0	Bank of America	BAC	27.75	29.75	+2.0	+7.2	Y	+2.4	+9.5	1274	16	
Alcoa Indus	AAI	1.26	1.26	-0.01	-0.8	Y	-1.0	-2.0	527	11	1.0	Bank of New York	BNY	22.10	24.10	+2.0	+9.0	Y	+1.2	+25.0	102	15	
Alcoa Indus	AAI	1.26	1.26	-0.01	-0.8	Y	-1.0	-2.0	527	11	1.0	Bojiack	BOJ	1.00	1.00	0.00	0.0	Y	0.0	0.0	0	0	
Alcoa Indus	AAI	1.26	1.26	-0.01	-0.8	Y	-1.0	-2.0	527	11	1.0	Bojiack	BOJ	1.00	1.00	0.00	0.0	Y	0.0	0.0	0	0	
Alcoa Indus	AAI	1.26	1.26	-0.01	-0.8	Y	-1.0	-2.0	527	11	1.0	Bojiack	BOJ	1.00	1.00	0.00	0.0	Y	0.0	0.0	0	0	

Business

DUKE ENERGY, BofA PROFITS VARY WILDLY

Two Charlotte-based companies announced fourth-quarter earnings Thursday. Duke Energy Corp. said its Q4 profit rose 36 percent as unusually cold weather drove demand for energy despite a big drop in industrial demand in some areas as the recession took hold. B of A Corp. shares rebounded as reports surfaced that the government may modify accounting rules that have been blamed for contributing to banks' troubles.



Index	1181.76	Change	+13.62
DOW	10607	Change	+106.41
S&P 500	1181.76	Change	+13.62
NASDAQ	1341.24	Change	+31.19
10-YEAR BOND	4.01	Change	-0.01
CRUDE OIL	54.17	Change	+0.85
EURO	1.2766	Change	-0.0060
GOLD	1192.69	Change	+12.00

More peanut products recalled

Tropical Nut & Fruit of Charlotte is recalling select snack products, because they could be contaminated with salmonella, an organism that can cause serious and sometimes fatal infections, especially in young children, the elderly and those with weakened immune systems. No illness has been reported.

The snacks were distributed in stores and foodservice outlets in North Carolina, South Carolina, Tennessee, Georgia, Alabama, Mississippi, Louisiana, Texas, Arkansas, Nebraska, Kansas, Missouri, Oklahoma, Iowa, Minnesota, South Dakota, North Dakota, Kentucky, West Virginia, Virginia, Maryland and Delaware. Details by phone at 800-430-4470.

This recall includes the following products:

- French Bunt Peanut; Item 550061; 14-pound box; all codes prior to 03489; UPC 09418420224
- Boston Baked Beans; Item 550051; 12-pound box; all codes prior to 03405; UPC 09418420163
- Honey Mustard Mix; Item 870076; 9-ounce plastic packages; all best before dates prior to 08/02/08; UPC 09418451240
- Honey Mustard Mix; Item 870077; 9-ounce plastic packages; All best before dates prior to 08/02/08 - UPC 09418404260

—The Associated Press



The corporate office of Citizens South at 619 S. New Hope Road in Gastonia. The bank has 15 offices in the Charlotte region, including seven in Gaston County.

Citizens South Bank unveils low-interest lending with bailout money

Lending a hand

By DANIEL JACKSON
djackson@gastongazette.com

Gastonia-based Citizens South Bank announced Thursday that it plans to use all of the \$20.5 million from the federal Troubled Asset Relief Program to create a residential loan program designed to stimulate the local housing market.

The loan program has a starting interest rate of 3.5 percent and waives closing costs on new homes or residential lots from builders and developers, who are Citizens South customers with properties ready for sale. So far, 100 percent of developers approached by the bank have agreed to participate and pay closing costs to assist qualified homebuyers, said Kim Price, president and CEO of the bank.

"Recent consumer surveys show that lower interest rates provide the assistance they need to purchase a home," Price said. "We believe this program is the best use of our CFP funds because it promotes home ownership and generates work for

builders, developers, construction workers and real estate agents." Larger banks have come under fire for their role in the subprime mortgage crisis, after President Obama admonished Wall Street firms for paying out more than \$10 billion in end-of-year bonuses even as they accepted billions in taxpayer assistance. And Wells Fargo, which has accepted \$25 billion in federal aid, decided to cancel a private employee appreciation trip to Las Vegas.

Spending of the first half of the \$200 billion federal bailout has received heavy criticism for focusing too heavily on bank and financial institution bailouts and on helping millions of homeowners facing foreclosure of home mortgages.

The government is expected to release next week strict guidelines for how the second half of the federal stimulus could be spent. Price said the new residential loan program is not a response to public criticism or political rhetoric, but resulted from a survey by the National Association of Homebuilders that potential homebuyers are looking for low interest rates and no down payment.

"The housing market is really the beginning and the cause of

this and in our opinion, it will be housing that leads us out of this," Price said. "We think it's a win for homebuyers for builders and developers, for construction workers, for the bank. It's a win for the economy."

Citizens South was the first bank headquartered in Gaston County to sell preferred stock to the federal government as part of the Capital Purchase Plan. On Jan. 23, Gastonia-based Alliance Bank & Trust also received \$3.5 million from the program.

Dan Ayscue, AD&T president and CEO, said the bank has not yet designed formal plans for the TARP money, but plans are to use the money to strengthen the bank's capital position, make high-quality loans and potentially expand the bank's footprint.

While banks have been criticized for not investing more in Main Street, Ayscue said regulators are at the same time advising banks to hold more capital in reserve. Like any financial institution, Ayscue said he is sensitive to public opinion, but critics' has- tle been directed at community

banks. "I'm also not out buying jets or taking huge bonuses," Ayscue said. "I don't think community banks as a whole are doing that type of thing."

Both Price and Ayscue said the money would not be used to make risky or subprime loans. And Price said any loans made with federal funds would be kept on the bank's books and would not be resold to another institution for servicing.

Citizens South's new program sets the interest rate for the first 24 months of the loan at 3.5 percent and adjusts the rate to 5.5 percent after that. All applicants will be qualified if they were receiving a 5.5 percent interest rate for the life of the loan.

The program is open to any of the communities served by Citizens South, which has 15 full-service offices in the Charlotte region, Price said. But the program will only last for a limited time, he said.

"It's going to go small that moment's gone," Price said. "We can't do this on an unlimited basis because the pricing is at a bargain basement."

You can reach Business Editor Daniel Jackson at 704-669-1833.

HAPPENING HERE

Bill Gray, president of shortline operator Carolina Central Railway, accompanied by Gina Arnold of CSX and Christopher Spiceland of Norfolk Southern, will be discussing the reactivation of the state-owned, 23-mile P&W Railroad between Gastonia and Charlotte at the Gaston Regional Chamber First Friday Focus today from 7:30-9 a.m. at the City Club of Gastonia, 532 S. New Hope Road. To RSVP call 704-669-2623 or visit www.gastonchamber.org.

Belmont Bicycles, at 105 S. Main St. in Belmont, is planning grand opening for Saturday from 10 a.m.-5 p.m. For more information, call Belmont Bicycles at 704-825-BIKE.

The Mount Holly Community Development Foundation hosts a meeting of the Downtown Revitalization Committee Tuesday at 7 p.m. at the Citizens Center Training Room.

The public is invited to learn about or volunteer for numerous activities being planned, including the annual photo contest, Youth Art Zone at Springtree in the Ayscue Hollydays Art Gallery, the 5K run and the Autumn on Main harvest festival. For people who love gardening and landscape design, the new Gateways and Signage sub-committee could use ideas.

For more information, e-mail committee chairwoman, Ann Dantz at ajdantz@ccwthink.net.

Local Stocks

SYMBOL	PRICE	CHANGE	PERCENT	52-WK RANGE	OPEN	HIGH	LOW	CLOSE	CHG	CHG %	VOL	MARKET	YTD	YTD %	PERF
AKA	20.95	+0.20	+0.96	18.00-21.00	20.75	21.15	20.50	20.95	+0.20	+0.96	100	AKA	+0.20	+0.96	100
AKA	1.74	+0.01	+0.57	1.70-1.75	1.73	1.74	1.73	1.74	+0.01	+0.57	100	AKA	+0.01	+0.57	100
AKA	45.10	+0.10	+0.22	44.00-46.00	45.00	45.20	44.90	45.10	+0.10	+0.22	100	AKA	+0.10	+0.22	100
AKA	7.76	+0.01	+0.13	7.70-7.80	7.75	7.76	7.74	7.76	+0.01	+0.13	100	AKA	+0.01	+0.13	100
AKA	4.42	+0.01	+0.23	4.40-4.45	4.41	4.42	4.40	4.42	+0.01	+0.23	100	AKA	+0.01	+0.23	100
AKA	18.42	+0.01	+0.54	18.40-18.45	18.41	18.42	18.40	18.42	+0.01	+0.54	100	AKA	+0.01	+0.54	100
AKA	0.46	+0.01	+2.17	0.45-0.47	0.46	0.46	0.45	0.46	+0.01	+2.17	100	AKA	+0.01	+2.17	100
AKA	1.46	+0.01	+0.69	1.45-1.47	1.46	1.46	1.45	1.46	+0.01	+0.69	100	AKA	+0.01	+0.69	100
AKA	10.78	+0.01	+0.93	10.75-10.80	10.77	10.78	10.76	10.78	+0.01	+0.93	100	AKA	+0.01	+0.93	100
AKA	1.26	+0.01	+0.79	1.25-1.27	1.26	1.26	1.25	1.26	+0.01	+0.79	100	AKA	+0.01	+0.79	100
AKA	22.27	+0.01	+0.45	22.25-22.30	22.26	22.27	22.25	22.27	+0.01	+0.45	100	AKA	+0.01	+0.45	100
AKA	21.46	+0.01	+0.47	21.45-21.50	21.46	21.46	21.45	21.46	+0.01	+0.47	100	AKA	+0.01	+0.47	100
AKA	21.00	+0.01	+0.48	21.00-21.05	21.01	21.01	21.00	21.01	+0.01	+0.48	100	AKA	+0.01	+0.48	100
AKA	37.20	+0.01	+0.27	37.15-37.25	37.20	37.20	37.19	37.20	+0.01	+0.27	100	AKA	+0.01	+0.27	100
AKA	22.50	+0.01	+0.44	22.45-22.55	22.50	22.50	22.49	22.50	+0.01	+0.44	100	AKA	+0.01	+0.44	100
AKA	43.00	+0.01	+0.23	42.95-43.05	43.00	43.00	42.99	43.00	+0.01	+0.23	100	AKA	+0.01	+0.23	100
AKA	2.30	+0.01	+0.43	2.28-2.32	2.29	2.30	2.29	2.30	+0.01	+0.43	100	AKA	+0.01	+0.43	100
AKA	0.34	+0.01	+2.94	0.33-0.35	0.34	0.34	0.33	0.34	+0.01	+2.94	100	AKA	+0.01	+2.94	100
AKA	2.50	+0.01	+0.40	2.48-2.52	2.49	2.50	2.49	2.50	+0.01	+0.40	100	AKA	+0.01	+0.40	100
AKA	28.23	+0.01	+0.35	28.20-28.25	28.23	28.23	28.22	28.23	+0.01	+0.35	100	AKA	+0.01	+0.35	100
AKA	2.35	+0.01	+0.43	2.33-2.37	2.34	2.35	2.34	2.35	+0.01	+0.43	100	AKA	+0.01	+0.43	100
AKA	16.00	+0.01	+0.63	15.95-16.05	16.00	16.00	15.99	16.00	+0.01	+0.63	100	AKA	+0.01	+0.63	100
AKA	11.00	+0.01	+0.91	10.95-11.05	11.00	11.00	10.99	11.00	+0.01	+0.91	100	AKA	+0.01	+0.91	100
AKA	28.11	+0.01	+0.36	28.05-28.15	28.11	28.11	28.10	28.11	+0.01	+0.36	100	AKA	+0.01	+0.36	100
AKA	1.00	+0.01	+1.00	0.95-1.05	1.00	1.00	0.99	1.00	+0.01	+1.00	100	AKA	+0.01	+1.00	100
AKA	19.00	+0.01	+0.53	18.95-19.05	19.00	19.00	18.99	19.00	+0.01	+0.53	100	AKA	+0.01	+0.53	100
AKA	1.00	+0.01	+1.00	0.95-1.05	1.00	1.00	0.99	1.00	+0.01	+1.00	100	AKA	+0.01	+1.00	100
AKA	12.00	+0.01	+0.83	11.95-12.05	12.00	12.00	11.99	12.00	+0.01	+0.83	100	AKA	+0.01	+0.83	100
AKA	11.00	+0.01	+0.91	10.95-11.05	11.00	11.00	10.99	11.00	+0.01	+0.91	100	AKA	+0.01	+0.91	100
AKA	12.00	+0.01	+0.83	11.95-12.05	12.00	12.00	11.99	12.00	+0.01	+0.83	100	AKA	+0.01	+0.83	100
AKA	11.00	+0.01	+0.91	10.95-11.05	11.00	11.00	10.99	11.00	+0.01	+0.91	100	AKA	+0.01	+0.91	100
AKA	12.00	+0.01	+0.83	11.95-12.05	12.00	12.00	11.99	12.00	+0.01	+0.83	100	AKA	+0.01	+0.83	100

Bank Notes

Citizens South starts low-interest loan program

Citizens South Banking Corp. announced Thursday that it will use all the money it's received from the U.S. Treasury for a low-interest mortgage program.

The Gastonia bank has received about \$20 million from the government's Troubled Asset Relief Program, or TARP, which is meant to get credit flowing again to consumers. Many banks have come under criticism for spending on bonuses, corporate jets and other items seen as superfluous after taking government money. Citizens South chief executive Kim Price said his bank was "glad to utilize the funds we received under the (government) program as Congress intended."

The new program will offer 30-year mortgage loans with a starting interest rate of 3.5 percent, increasing to 5.5 percent after two years. — CHRISTINA REXRODE



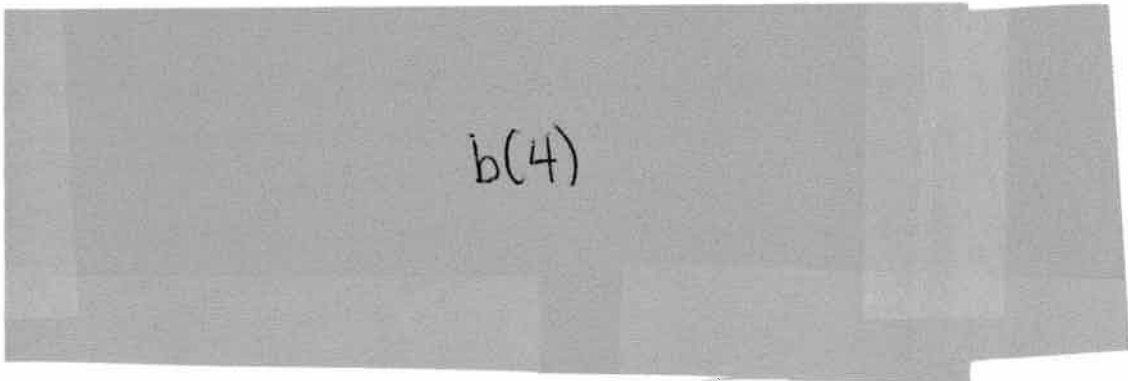
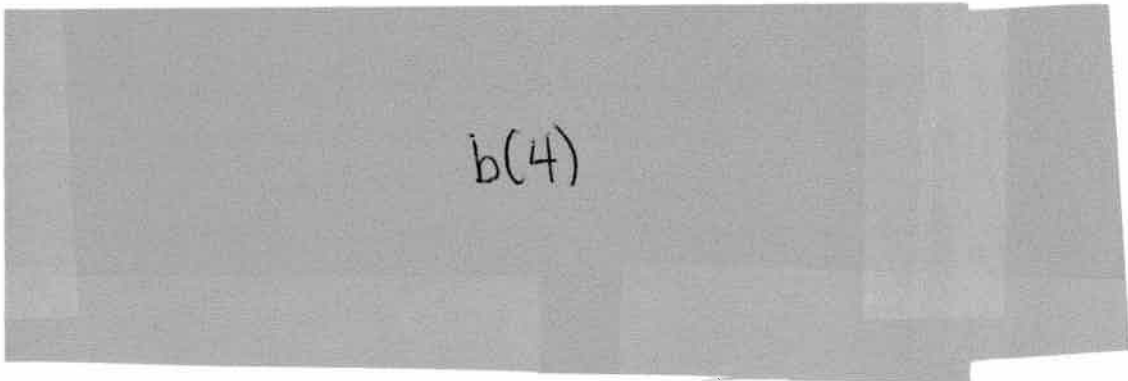
Executive Incentive Compensation Review

March 4, 2009

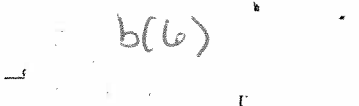
On December 12, 2008, Citizens South Banking Corporation received an investment from the U.S. Treasury Department by the issuance of senior preferred stock under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP). The U.S. Treasury Department issued interim final rules on January 16, 2009, for reporting and recordkeeping requirements under the executive compensation standards of the Trouble Asset Relief Program's Capital Purchase Program. The interim final rule imposes compensation restrictions on the amounts paid to the principal executive officer ("PEO"), chief financial officer ("CFO"), plus the next three most highly compensated senior executive officers ("SEOs"). The five Senior Executive Officers identified in December 2008 pursuant to the TARP rules are CEO Kim S. Price, CFO Gary F. Hoskins, EVP Daniel M. Boyd, IV, EVP Paul L. Teem, Jr., and SVP Ira McD. Flowe, Jr.

Within 120 days of the closing date of the Securities Purchase Agreement between the financial institution and the Treasury, the CEO is required to certify that the Compensation Committee has reviewed the senior executives' incentive compensation arrangements with the financial institution's senior risk officer (^{b6} [REDACTED] Internal Audit) to ensure that these arrangements do not encourage senior executives to take unnecessary and excessive risks that could threaten the value of the financial institution. The CEO must provide the 120-day certification to the TARP Chief Compliance Officer.

Internal Audit met with the Citizens South Banking Corporation Compensation Committee on March 4, 2009, to discuss the senior executives' incentive compensation arrangements. Based on Internal Audit's interpretation of the interim final rules issued on January 16, 2009, by the U.S. Treasury Department, Internal Audit concludes that Citizens South Bank's Executive Annual Incentive Plan does not encourage senior executives to take unnecessary and excessive risks that could threaten the value of the financial institution. This conclusion is based on the following components of the Citizens South Bank Executive Annual Incentive Plan:

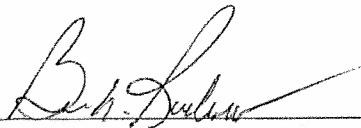
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Due to the fact that the rules issued on January 16, 2009, by the U.S. Treasury Department are "interim", Internal Audit will continue to monitor for any updates in the rules and requirements to ensure that Citizens South Banking Corporation is in full compliance with the U.S. Treasury Department's executive compensation standards of the Troubled Asset Relief Program's Capital Purchase Program.

 b(6)

Vice President, Internal Audit

3/4/09
Date



Ben R. Rudisill, II
Compensation Committee Chairman

3/4/09
Date