



## CONGAREE BANCSHARES, INC.

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March 6, 2009

Special Inspector General – TARP  
1500 Pennsylvania Avenue, NW; Suite 1064  
Washington, D.C. 20220

This letter is in response to the Office of the Special Inspector General's request dated February 6, 2009, for a narrative discussion of the anticipated use and actual use of the funds that Congaree Bancshares, Inc. (the "Company") received under the Troubled Asset Relief Program ("TARP"), as well as the Company's compliance with the executive compensation requirements associated with the funding.

### **Use of TARP Funds**

The Company is a South Carolina corporation organized to operate as a bank holding company for Congaree State Bank (the "Bank"). The Bank currently maintains a main office in Cayce, South Carolina and opened for business in October 2006.

#### Anticipated Use of TARP Funds:

- When the Company applied for TARP funds in November, 2008, we believed that the investment would strengthen our capital position and allow us to continue to serve our markets as we had done historically, by making prudent loans to individuals and the small and medium-sized businesses that form the backbone of our economy.
- In addition, we anticipate the TARP funds might help with decline in credit quality as the economy continues to slide to help offset any losses that might result from holding of Freddie and Fannie Securities.

#### Were the TARP funds segregated from other institutional funds?

- These funds were not segregated from other funds at the holding company level. Those funds were noted as TARP funds when the wire was received. We are able to track the funds through reconciling the account.

#### Provide the Company/Bank's actual use of TARP funds to date:

- Since receiving the TARP funds, the Bank has continued to be a source of credit to our community. The Company filed a press release and SEC Form 8K filing stating the receipt of the investment from Treasury and the intended use. Our budget for 2009 calls for continued loan growth.
  - The use of funds:
    - The bank has closed 21 new loans totaling \$1,643,943 through March 5, 2009. Of the 21 loans, 11 are consumer purpose totaling \$767,024 and 10 are commercial purpose totaling \$876,024.
    - The bank received injection of capital totaling \$3 million.
    - The bank purchased with the funds, a SBIC 2009 P10A Issue for \$400,000 and a FNMA Pool for \$970,525.

#### Expected Use of Unspent Funds

- The Company intends to use the remaining unspent funds as Capital for the bank to maintain capital ratios as the bank continues to be a source of credit to our community.

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- Without access to the TARP capital, our asset growth rate would have had to slow dramatically because if we were to continue to grow at our historic pace, our capital would have begun to restrict our growth in 2009.

#### **Executive Compensation**

##### Note plans to implement TARP compensation requirements:

Prior to April 9, 2009, the Company's Compensation Committee will adopt a resolution affirming the Committee's review of executive compensation arrangements and will discuss such arrangements with the Company's senior risk officer to ensure that the senior executive officer's incentive compensation arrangements do not encourage any senior executive officer to take unnecessary or excessive risks that threaten the value of the Company.

The Company will also include a non-binding shareholder vote to approve the compensation of its senior executive officers as part of its proxy statement for its 2009 Annual Meeting to be held in May. In addition, the Company has also reviewed the additional requirements and restrictions on executive compensation contained in the recently enacted American Recovery and Reinvestment Act of 2009. These restrictions will be followed by the Board Compensation Committee in making future compensation decisions.

The Company's undersigned officer certifies the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United State Code, Section 1001.

  
Charlie Lovering

Interim CEO