C&F Financial Corporation

March 4, 2009

Mr. Neil M. Barofsky
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky:

This letter is provided in response to your request dated February 6, 2009 to outline our use of TARP funds and our plans to address executive compensation requirements associated with the funding. Accordingly, this letter is presented in two parts: (1) Use of TARP Funds and (2) Executive Compensation.

Use of TARP Funds

C&F Financial Corporation ("Corporation") is committed to providing lending programs to support economic development in the communities which we serve, and the TARP funds we received will be applied in these programs which include initiatives to increase lending activity to both new and existing consumer and commercial borrowers, and to support borrowers during times of economic hardship. The Corporation is ready and willing to extend new credit in an innovative fashion with the use of TARP funds, and to deal with customers to prudently address credit facilities that are or may become stressed.

Segregation of Funds. As part of our ongoing liquidity management, TARP funds are not segregated from other institutional funds. We allocate our available funds on a daily basis in a manner that best supports the activities of our three primary business segments, as well as our liquidity and investment strategies. Specifically segregating TARP funds would be inconsistent with our short-term and long-term liquidity management practices.

Actual Use of Funds. The Corporation operates in a decentralized manner in three principal business segments: (1) retail/commercial banking through C&F Bank, (2) mortgage banking through C&F Mortgage Corporation ("C&F Mortgage") and (3) consumer finance through C&F Finance Company ("C&F Finance"). C&F Bank provides traditional consumer and commercial lending activities through its branch network and commercial loan offices. C&F Mortgage offers a wide variety of residential mortgage loans, the majority of which are originated for sale to numerous investors. C&F Finance is an indirect lender that provides automobile financing to customers in the "non-prime" market who have limited access to traditional automobile financing. C&F Finance generally purchases automobile retail installment

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sales contracts from manufacturer-franchised dealerships with used-car operations and through selected independent dealerships. TARP funds will be deployed through each of these three business segments.

The tables below summarize our lending activity on a month-over-month basis for the month before and for the two months we have had the use of TARP funds. We request that the information in these tables be given confidential treatment.

C&F Bank

		Consumer	
	31-Dec-2008	31-Jan-2009	28-Feb-2009*

[redacted]

		Commercial	
	31-Dec-2008	31-Jan-2009	28-Feb-2009*

[redacted]

b(4)

C&F Mortgage

	31-Dec-2008	31-Jan-2009	28-Feb-2009*

[redacted]

b(4)

C&F Finance

	31-Dec-2008	31-Jan-2009	28-Feb-2009*

[redacted]

* Based on preliminary month-end data

In addition to the above, C&F Bank has provided concessions, since mid December 2008, to existing troubled consumer borrowers. These activities are summarized in the table below. We request that the information in this table be given confidential treatment.

Principal Loan Amount	Savings/Benefit to Customer	Description of Bank's Action
[redacted]		

b(4)

In addition to the above, we are currently in negotiations with other consumer customers who are struggling with their payment obligations because of a loss of job or various other reasons.

With respect to commercial loans, we are working with several of our builder and acquisition and development customers to restructure their loans in order to avoid foreclosure where it is clear the borrower can service the loan. We are attempting to be flexible in an effort to come to a mutually agreeable resolution consistent with prudent practices, taking into consideration the drop in real estate values, which in many cases results in loan-to-value ratios of close to 100%, and in some cases in excess of 100%.

Expected Use of Funds. The Corporation intends to continue to lend money in a manner consistent with its past practices described and illustrated above in Actual Use of Funds. Further, the Corporation has commissioned an internal task force to develop special financing programs. Descriptions of these special programs and lending initiatives underway at our significant subsidiaries are as follows:

C & F Bank

At C & F Bank, special programs and lending initiatives are geared toward providing liquidity to existing customers who are residential builders and developers and extending credit to potential home buyers in underserved markets. So far C&F Bank has extended financing offers to two large builder and developer customers to help sell existing home and lot inventories. These offers provide credit promotions to their potential customers at below market rates and with limited down payment requirements and more flexible repayment terms than would otherwise be available. In addition to the flexible terms, C&F Bank is also paying closing costs associated with these transactions. The details of these programs are provided in Appendices 1 through 3.

C&F Bank is offering its residential builder customers promotional credit programs for their potential customers that include lower rates and reduced or eliminated fees. These programs also allow the builders to participate in further lowering rates to the end borrower by buying down rates. The details of these programs are provided in Appendix 4.

Since February 2008, C&F Bank has been offering 30-year fixed residential mortgages with no closing costs. It is our intention to continue to offer this program for the foreseeable future. The details of this program are provided in Appendix 5. Additionally, Appendix 6 shows the initial print advertisement that was published in local newspapers from February 13, 2008 – April 25, 2008. Appendix 7 shows the current print advertisement that has been running in local newspapers since February 11, 2009.

[redacted] b(4)

Appendix 8 provides preliminary details of this program.

C & F Mortgage

C&F Mortgage posted record months in terms of new origination volume for the months of January and February. As mortgage rates decreased, C&F Mortgage increased loan production. While uncertainty exists as to the impact the various government stimulus programs will have on the depressed housing market, C&F Mortgage expects to continue to lend in order to accommodate the increased loan demand that such programs intend to create. In addition to the loans that are originated for sale in the secondary market, C&F Mortgage has partnered with C&F Bank to originate loans for which no secondary market is currently available. These are loans that C&F Bank will retain and service.

C & F Finance

C&F Finance continues to originate new auto loans in a time where many of its competitors have reduced or even ceased origination activities due to the weak economic environment and ongoing dislocations in the capital markets that have made securitization transactions difficult to execute. While mindful of the current recessionary economic environment and the impact on the non-prime consumer credit segment including significant increases in defaults and loan charge-offs, C&F Finance expects to continue to lend to customers in this segment.

Summary

By participating in TARP, our already well-capitalized status has been enhanced. This has allowed us to provide products and programs we might not have otherwise provided. In addition, in the current economic environment, one strategy would have been to shrink the balance sheet in an effort to preserve capital. This strategy has been avoided by participating in TARP.

The Corporation continues to lend and wants to lend! While loan balances have declined over the past two months because of the slow-down in the economy, we continue to offer our traditional lending products and we have created new products or programs to enhance our production and in many cases help customers. We have been and will continue to be willing to work with customers who are struggling with their payments in an effort to avoid foreclosure.

Our decision to apply for participation in TARP was based on several considerations, including a desire to supplement our already well-capitalized position as we encounter uncertain economic times, and thus enhance our ability to provide credit to consumers and businesses on competitive terms. Because of our business practices, which are rooted in the principles of safety and soundness, we have not experienced the magnitude of losses as some other financial institutions. As we face the worst economic situation since the Great Depression, prudent lending is not only what is required of us, but it is the only way we know to do business. While we will continue to abide by the rules and the spirit of TARP, as we have demonstrated in this response, we will not participate in irresponsible lending practices like those that have contributed to the current weakness in the economy and now imperil other financial institutions.

Executive Compensation

Risk Assessment Review. To comply with the requirements of the TARP Capital Purchase Program ("CPP"), the Compensation Committee of the Board of Directors (the "Committee") is currently conducting the initial required risk assessment review of the incentive compensation of its "senior executive officers" as determined under the terms of the CPP. Currently the "senior executive officers" are the Chief Executive Officer and the Chief Financial Officer of the Corporation and the President and Chief Executive Officer of C&F Mortgage. The purpose of the Committee's risk assessment review is to ensure that the Corporation's incentive compensation arrangements do not encourage these officers to take unnecessary and excessive risks that threaten the Corporation's value. The Committee will perform such risk assessment reviews on an on-going basis during the period Treasury owns the preferred stock it purchased from the Corporation and will make changes to the Corporation's incentive compensation arrangements in the event it determines, as a result of its review, that such changes are required to ensure that the Corporation's incentive compensation arrangements do not encourage these officers to take unnecessary or excessive risks. Upon completion of each required review, the Committee will make those certifications required by the executive compensation provisions applicable to CPP participants.

Omnibus Amendment to Benefit Plans. As a condition to closing the transaction under the CPP, on January 9, 2009, the Corporation executed a Capital Purchase Program Agreement Regarding Executive Compensation Limitations (the "Omnibus Benefit Plan Amendment") to modify the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements of the Corporation to comply with the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 ("EESA"), which were subsequently amended on February 17, 2009 by the American Recovery and Reinvestment Act of 2009 (the "ARRA"). Also on January 9, 2009, each of our affected executives executed a consent to the Omnibus Benefit Plan Amendment, including any future amendments necessary to comply with the EESA, and executed a waiver voluntarily waiving any claim against the U.S. Treasury or the Corporation for any changes to his compensation or benefits that are required by the executive compensation provisions applicable to CPP participants. These executive compensation provisions generally impose limitations on bonuses, retention awards, incentive compensation and "golden parachute payments" during the TARP Period.

The ARRA includes a provision requiring that CPP participants such as the Corporation, during the period in which any obligation arising from the assistance provided under the CPP remains outstanding, permit a separate shareholder advisory vote at an annual meeting of shareholders to approve the compensation of executives as disclosed pursuant to the compensation rules of the SEC. Accordingly, our shareholders will be given the opportunity to cast an advisory vote to approve the Corporation's executive compensation in our 2009 Proxy Statement.

As required by the new rules, the Committee has always been active in determining compensation packages for its "senior executive officers" and has made every attempt to align these packages with sound risk management principles that encourage a long-term perspective on creating economic value for shareholders. However, the Committee is still determining what other impact the provisions mentioned above may have on its compensation arrangements.

Future Compliance with Requirements of Capital Purchase Program. Your letter asks for specific plans including assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Treasury guidelines; and whether any such limitations may be offset by other changes to other longer-term or deferred forms of executive compensation. In light of the recent enactment of the ARRA, the Committee is still reviewing what additional changes may be required to comply with the executive compensation provisions applicable to CPP participants. Therefore, it is difficult to address these specific items at this time. The ARRA directs the Treasury to issue regulations implementing the new legislation, and the Committee expects that this additional guidance will help it determine what additional changes, if any, may be necessary with respect to 2009 executive compensation.

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We appreciate Treasury's confidence in our Corporation as evidenced by the purchase of our preferred stock. Attached to this letter are examples of some of the lending programs described above and other examples of public documents that discuss our anticpated use of TARP funds. We request confidential treatment be given to the information that we designated as confidential both in this letter and the attachments. If you have further questions, please do not hesitate to call me at 757-741-2214.

Sincerely,

Thomas F. Cherry

Thomas F. Cherry
Executive Vice President & CFO

Certification

I, Thomas F. Cherry, Executive Vice President and Chief Financial Officer of C&F Financial Corporation located in the city of West Point, Commonwealth of Virginia, do hereby certify the accuracy of all statements, representations, and supporting information provided herein, subject to the requirements and penalties as set forth in Title 18, United States Code, Section 1001.

Thomas F. Cherry
Executive Vice President and Chief Financial Officer

Appendix Contents

1. Customer #1 – Lot Financing Program
2. Customer #1 – Spec Home Special Financing Program
3. Customer #2 – Lot Financing Program
4. C&F Builder Home & Lot Financing Program
5. C&F Bank 30-Year Fixed Mortgage Promotion
6. 30-Year Promotion Print Advertisement
7. 30-Year Promotion Print Advertisement
8. [redacted] b(4)
9. "Banks use TARP funds variously", Richmond Times Dispatch, February 8, 2009
10. Excerpt from our President's Letter to Shareholders to be included in our 2008 Annual Report
11. Excerpt from our 2008 earnings release

Appendix 1

Customer #1 - Lot Financing Program
TARP CPP

Appendix 2

Customer #1 Spec Home Special Financing Program
TARP CPP

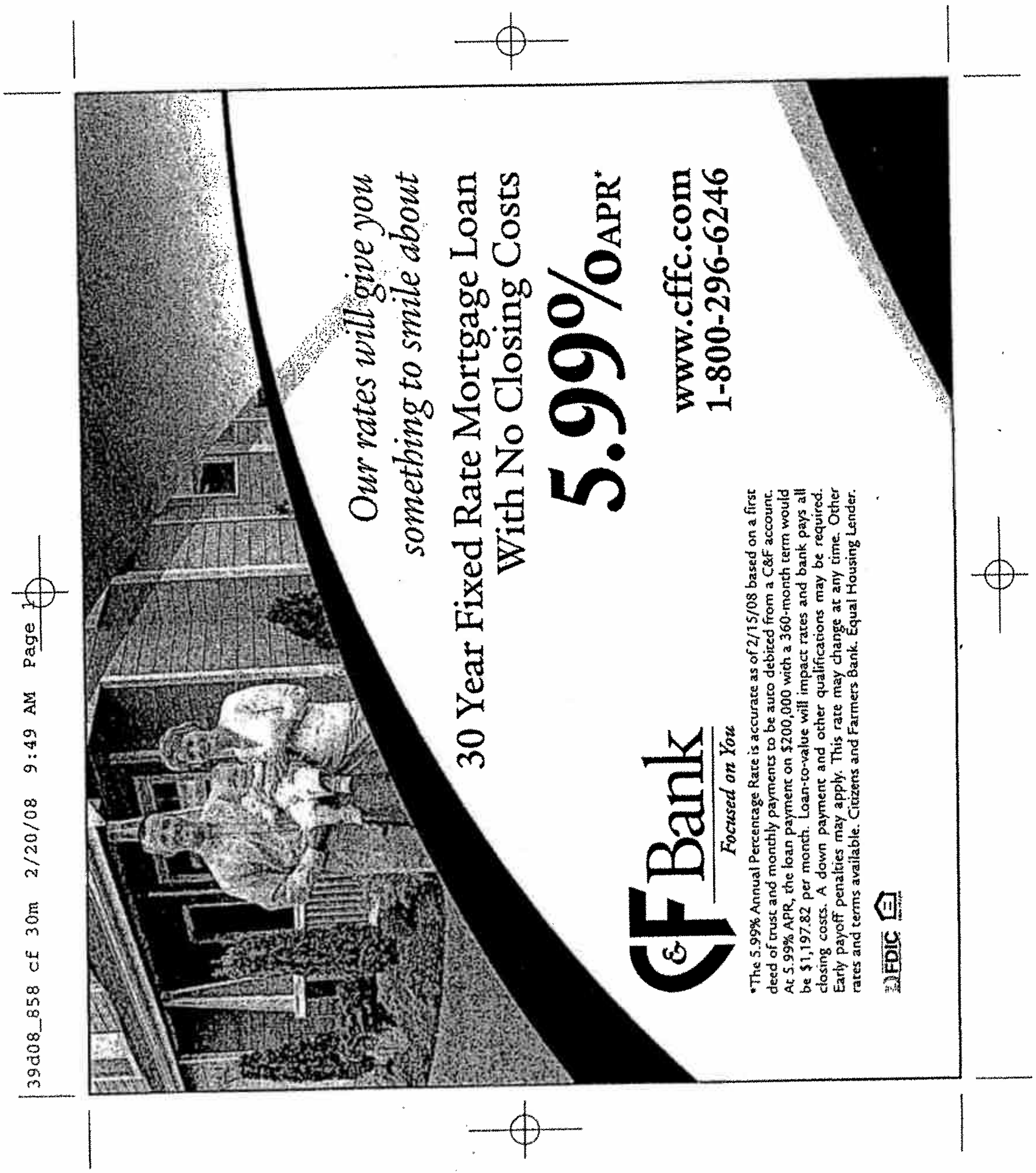
Customer #2 Lot Financing Program
TARP CPP

Appendix 4

<u>C&F Builder Home & Lot Financing Program</u>
<u>TARP CPP Initiative</u>

30-Year Fixed Mortgage Promotion

Appendix 6



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*The 5.99% Annual Percentage Rate is accurate as of 2/15/08 based on a first deed of trust and monthly payments to be auto debited from a C&F account. At 5.99% APR, the loan payment on $200,000 with a 360-month term would be $1,197.82 per month. Loan-to-value will impact rates and bank pays all closing costs. A down payment and other qualifications may be required. Early payoff penalties may apply. This rate may change at any time. Other rates and terms available. Citizens and Farmers Bank. Equal Housing Lender.
FDIC

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Appendix 7

b(4)

Appendix 9

Richmond Times-Dispatch

OPINION: | Editorials | Letters | Commentary
Tuesday, February 24, 2009 |
Richmond, VA 39° Feels Like: 34° Partly Cloudy

Banks use TARP funds variously

Text size: small | medium | large

NEIL H. SIMON MEDIA GENERAL NEWS SERVICE
Published: February 8, 2009

WASHINGTON -- One Richmond-area bank expanded its business into Maryland. Another says it saved a homeowner from foreclosure. A third says it can continue making loans.

These are three ways 19 Virginia banks are using a total of $4.1 billion received through the federal government's Troubled Assets Relief Program.

Community Bankers Trust Corp., based in western Henrico County, received $17.7 million from the Treasury on Dec. 19.

Six weeks later, the bank holding company announced it had acquired Suburban Federal Savings Bank with $312 million in deposits and seven branches in the Baltimore-Washington area.

C&F Financial Corp. of West Point used some of the $20 million it received Jan. 9 to take slightly riskier approaches to lending -- including giving a homeowner more time to make a house payment.

Central Virginia Bankshares plans to use the $11.4 million from Treasury to help bolster the capital it can lend after taking major losses on preferred stock in Fannie Mae and Freddie Mac last year.

Of the 19 Virginia banks that have gotten help so far, the median amount is $20 million.

...

Despite the sour economy, Community Bankers is growing.

The company leapfrogged two states in November to buy from federal regulators four branches of The Community Bank of Loganville, a failed community bank in suburban Atlanta. It assumed about $600 million in Georgia bank's deposits.

Community Bankers acquired Suburban Federal Savings Bank in late January. The company credited the Treasury bailout money with helping it expand.

"The enhancement allows us to continue growing the bank," said Gary A. Simanson, vice chairman of Community Bankers. "We would have still looked at transactions whether we raised the Treasury funding or not."

Borrowers are unlikely to see a difference in lending based on the added capital from Treasury, Simanson said, calling the government funds "an insurance policy for un certain times."

"We're not functioning any different today than we were [before the government infusion]," Simanson said, adding that the bank maintains conservative lending standards.

Community Bankers operates 13 locations across Virginia, including branches for the Bank of Essex, Bank of Powhatan, Bank of Goochland and Bank of Louisa.

At year-end, the bank's capitalization ratio, a measurement of strength, was 15.9 percent. The Federal Deposit Insurance Corp. considers anything above 10 percent well-capitalized.

. . .

Officials of C&F Financial, which operates 18 branches of C&F Bank between Hampton Roads and Richmond, said the Treasury money is making a more tangible difference.

After Congress passed the bailout, C&F officials had no plans to apply for the money.

But "there were regulators out there saying if you can get it, you should take it," said Tom Cherry, the company's chief financial officer. Some borrowers have already felt a loosening of credit, he said.

For example, he said, a Virginia veteran who had bought a house and then lost his job faced foreclosure on his mortgage. Instead, C&F deferred interest on the loan, allowing the veteran more time to find new income without worrying about the full house payment.

"I don't know in the past [if]we would have done that," Cherry said. "We are thinking differently with the TARP money and trying to live by the spirit of it."

In another instance, he said, the bank helped restart a stalled construction project through a slightly riskier loan than it would have granted without the added capital from the government.

. . .

Powhatan-based Central Virginia Bankshares received $11.4 million from Treasury on Jan. 30. Company officials were initially split on whether to seek the government money, said Charles F. Catlett III, the bank's chief financial officer.

But after losing $17.8 million in preferred stock in Fannie Mae and Freddie Mac last year, the company was in serious need of new capital.

"We would have preferred to raise this in the private markets, but you can't . . . right now," Catlett said.

The TARP funds will help the company continue to make what he called "plain vanilla" home loans. "It adds to our ability to absorb any future losses if the economy continues to decline," he said.

But he said bank officials find it "frightening" that Treasury could change the nature of the program at any time.

. . .

Treasury has invested $195.3 billion in 359 institutions in 45 states and Puerto Rico as of Jan. 30.

The money goes to banks in the form of preferred stock purchases, which means the government gets paid back first when the bank pays dividends to stockholders. If the stock improves, the government gets a better return on its investment. If the bank goes under, the money is gone.

The preferred shares pay a dividend of 5 percent a year for the first five years and 9 percent annually thereafter, unless redeemed. Treasury also will get warrants, with a term of 10 years, to buy common stock.

The TARP program was originally billed as a Wall Street bailout.

Then Treasury morphed it into the current capital-purchase program. The change made banks that had been skeptical eager to obtain the extra capital, analysts said.

"At first, certainly healthy banks thought there was going to be some stigma with the money," said Susan Chaplinsky, professor of business administration at the University of Virginia's Darden School of Business. That stigma, she said, "is fading as people see a need for more lending."

Some bankers worry that the Obama administration will put new rules on how the money can be used.

Virginia bankers said they were less concerned about restrictions on CEO pay or lavish expenditures than having the government require banks to loan money to certain borrowers or offer certain rates.

"A lot of banks would say this is not what we signed up for," C&F's Cherry said.

If the rules change, he said, banks should be able to give the money back. "We were trying to be good citizens."

Reader Reactions

Posted by (mark) on February 09, 2009 at 12:08 am

Zerro, man, go get your GED and then come back and post comments.

Report Inappropriate Comment

Posted by (zerro) on February 08, 2009 at 7:27 am

“"TARP"“,,we must give $$ to banks because thay r to big to fail"“sounds like they are only getting BIGGER"“ ,,WHATS NEXT !!more $$ because they are now even bigger,,i mean really,really way to big to FAIL!!,,and should not that money have stayed in VIRGINIA,,and helped virginians !!

Report Inappropriate Comment

Page 1 of 1

Except from 2008 Letter to Shareholders – Larry Dillon

"Our capital and liquidity positions at the Bank remain strong. As we began to see the credit markets tightening last year, we obtained several new lines of credit that could be used during a liquidity crunch. We wanted to have many options available to us to obtain liquidity should the credit crisis worsen. We now feel that we are in an excellent position. Also, at year-end the Bank's total capital well exceeded regulatory guidelines for well-capitalized status.

Even though we knew we were well-capitalized, we took advantage of the U. S. Treasury's TARP (Troubled Asset Relief Program) Capital Purchase Program by selling $20 million of preferred stock to the Treasury on January 9, 2009. Our ultimate decision to participate in this program took several turns. Initially, we had no interest in the Capital Purchase Program because we were well-capitalized. As the Treasury's discussions progressed, however, the initiative changed to being one of assuring that the healthiest banks survived the economic crisis by infusing them with more capital. At the encouragement of both of our regulators, the FDIC and the State Bureau of Financial Institutions, we reconsidered submitting an application. We certainly wanted to be recognized as one of the healthiest banks in the country and given that the dividend rate on the preferred stock was reasonable, we believed this to be an appropriate way to help further assure our future.

This was not "bailout" money. We have to pay a 5% annual dividend on the preferred stock and we issued a warrant, which allows the Treasury to purchase approximately 168,000 shares of our common stock. The Treasury will actually receive a reasonable return through both the dividend and the right to purchase our stock through the warrant and then resell it at a profit. We believe that being one of the first 200 banks in the country to sell stock under this program has distinguished C&F as one of the healthiest banks in the country.

The picture has changed as Congress has become more involved. Congress wants banks to leverage this capital by making more loans. At first glance this may look like a good plan, yet we must remember that part of what got us into this situation to begin with was their encouragement for banks to make loans that should not have been made. Congress should remember that bankers want to make ALL the good loans they can but bankers also want to know that they are making loans that will be repaid as agreed. If the government continues to change the rules of participation in the Capital Purchase Program, we may consider the merits of paying it back sooner rather than later.

We are doing everything we can to make as many good loans as possible, with or without the government's encouragement. To incent buyers to act now, we are offering special financing rates for real estate that we have acquired through foreclosure, as well as real estate owned by our developers and builders who are experiencing slow sales of their properties. This helps our customers and C&F. We are also working with our customers to do everything possible to avoid foreclosures. We want to do everything we can to help pull us all out of this crisis – for everyone's sake."

Except from 2008 Earnings Announcement – January 30, 2009

"The capital and liquidity positions at the Bank remain strong," said Dillon. "At December 31, 2008, the Bank's total capital exceeded regulatory guidelines for well-capitalized status. On January 9, 2009, the Bank's total capital increased further when, as part of the federal government's Capital Purchase Program, the corporation issued and sold to the U.S. Treasury Department fixed rate cumulative perpetual preferred stock and a warrant to purchase shares of the corporation's common stock for an aggregate purchase price of $20.0 million. The Capital Purchase Program was established by the U.S. Treasury Department to provide capital to healthy financial institutions in order to help stabilize the financial system. This additional capital will make our already strong capital position stronger, will allow for continued profitable growth, and will fund loan demand from qualifying commercial and consumer borrowers in the communities we serve. This capital will also allow us the flexibility to work with existing borrowers who may be experiencing difficulty servicing their debt during these economic times by adjusting terms or allowing for higher loan-to-value ratios than normally would be allowed. In addition, we are exploring products that would allow for attractive financing on previously foreclosed properties."