

March 6, 2009

VIA E-MAIL (SIGTARP.response@do.treas.gov) AND U.S. MAIL

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

Attention: Mr. Neil M. Barofsky – Special Inspector General

Re: Your information request of February 6, 2009

Dear Mr. Barofsky,

With regard to the information request referenced above, I submit the following responses on behalf of Community 1st Bank.

Question #(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 the 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.*

Response: (a) Community 1st Bank (the “Bank”) anticipates utilizing TARP funds to augment the capital position of the bank, both in terms of dollars in the capital account, and in terms of an improved capital ratio. The Bank met the definition of well-capitalized, for regulatory purposes, at the time of application, is currently well-capitalized, and its goal is to remain well-capitalized throughout this economic cycle.

I anticipate that the additional capital we received under the TARP Capital Purchase Program should support growth in the assets of the Bank. The additional capital may provide support for the Bank to make additional loans. To the extent that quality loan demand is insufficient, we anticipate that the Bank would make a mix of investments designed to provide yields in excess of the yield on Federal Funds Sold.

(b) Under the TARP Capital Purchase Program the Bank issued shares of Noncumulative Perpetual Preferred Stock, Series A and Noncumulative Perpetual Preferred Stock, Series B to the United States Treasury. The funds received from the Treasury Department in consideration of the issuance of the shares of Preferred Stock are carried on the Bank’s balance sheet in Shareholders’ Equity under the caption Preferred Stock.

(c) As noted above, the funds received under the TARP Capital Purchase Program constituted a contribution to the capital accounts of the Bank. Banks do not make loans

from capital. The Bank accepts deposits which are used to fund loan demand. Thus, the Bank is in a position to continue, and arguably, to increase the level of loans made by the Bank because the capital that supports growth in assets, including loans, was increased by the TARP capital contribution. To the extent that the increase in assets supported by the TARP capital contribution is not in the loan category, such are invested short term pending identification of new qualifying loan opportunities.

(d) As discussed above, we anticipate that the balance of the capital contribution received by the Bank under the TARP Capital Purchase Program will be used to support growth in the assets of the Bank, which may involve support for the Bank to make additional loans.

The information set forth above is consistent with the Bank's anticipated use of the TARP Capital Purchase Program capital contribution at the time that the Bank applied for approval to participate in that program. I do not believe that the Bank has taken any actions since the receipt of the capital contribution under the TARP Capital Purchase Program that the Bank would not have been able to take absent the capital contribution received by the Bank under the TARP Capital Purchase Program.

Question #(2): *Your specific plans, and the status 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 deferred forms of executive compensation.*

Response: The Bank is in the process of taking the steps necessary to comply with the Treasury Department executive compensation guidelines as currently in effect.

Those guidelines include the following:

- The Compensation Committee of the Board of Directors must identify the features in the Bank's senior executive officer ("SEO") compensation arrangements that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Bank.
- The Compensation Committee must review the SEO incentive compensation arrangements with the Bank's senior risk officer, or other personnel acting in a similar capacity, to ensure that SEOs are not encouraged to take such risks.
- The review with the Bank's senior risk officer, or other personnel acting in a similar capacity, must be made within 90 days after the purchase under the TARP Capital Purchase Program.
- Any features of the SEOs' incentive arrangements that would lead the SEOs to take unnecessary and excessive risks should be limited.

- The Compensation Committee must meet at least annually with the senior risk officer to review the relationship between the Bank's risk management policies and the SEO incentive arrangements.
- The Compensation Committee must certify that it has completed the reviews discussed above, in a filing with the Federal Deposit Insurance Corporation, the Bank's primary federal regulatory agency.

As noted above, the issuances by the Bank under the TARP Capital Purchase Program occurred on January 16, 2009. The Bank intends to complete the above-mentioned review within the required 90 day period and to certify the completion of the review to the Federal Deposit Insurance Corporation.

In addition to the initial executive compensation guidelines posted by the Treasury Department in October, 2008, the Treasury Department posted additional guidelines in January, 2009, which require that certain certifications be provided by the principal executive officer to the Chief Compliance Officer of the TARP, as follows:

- Within 120 days after the Treasury's purchase under the TARP Capital Purchase Program, a certification that within 90 days of the Treasury's purchase the Compensation Committee reviewed the SEO incentive compensation arrangements with the Bank's senior risk officer to ensure that SEOs are not encouraged to take unnecessary and excessive risks that could threaten the value of the Bank.
- Within 135 days of the completion of each fiscal year during any part of which the Bank has participated in the CPP, a certification that the Bank is in compliance with each of the following requirements:
 - the Compensation Committee has met at least once during the most recently ended fiscal year with the Bank's senior risk officers to discuss and review the relationship between the risk management policies and practices of the Bank and the incentive compensation arrangements of its SEOs to ensure that SEOs are not encouraged to take unnecessary and excessive risks that could threaten the value of the Bank;
 - the Compensation Committee has certified to its review of the SEO incentive compensation arrangements as discussed above;
 - the Bank has required that SEO bonus and incentive compensation be subject to recovery or "clawback" if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;
 - the Bank has prohibited any golden parachute payments to any SEO payable in connection with an applicable severance from employment, as defined for purposes of Section 111(b) of EESA;
 - the Bank has instituted controls and procedures to limit the deduction for remuneration for federal income tax purposes to \$500,000 for each SEO for the prior fiscal year;
 - that the Bank has in fact limited such deduction for remuneration; and

- the names of the SEOs for the current fiscal year based on such individuals' compensation during the prior fiscal year.

Some of elements described above with respect to the principal officer certification have been superseded by provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), e.g., the provision regarding golden parachute payments. Subject to future guidelines posted by the Treasury Department implementing provisions of ARRA and eliminating any conflicts with previous Treasury Department guidelines, it is the intention of the Bank to comply with the Treasury Department executive compensation guidelines. In that regard, the initial certification by the principal executive officer of the Bank is due within 120 days after January 16, 2009, the date of the Treasury's purchase under the TARP Capital Purchase Program.

I note that the Bank is a three-year old community bank. Based on our current review of the Bank's SEO compensation arrangements, we do not believe that the Bank's loan policy or loan procedures include risks that are related to the Bank's executive compensation arrangements.

We are currently working with legal counsel to assure compliance with the Treasury Department executive compensation guidelines as currently in effect, and will continue to do so as additional guidelines are made public. The Compensation Committee of the Board of Directors is in the process of reviewing the Bank's SEO employment agreements and compensation programs, with the goal of implementing any required changes.

The Bank has also engaged an independent third-party compensation consulting firm to:

- assist the Compensation Committee and the Board of Directors in their efforts to implement employment agreements that will assist with key executive retention;
- provide a competitive compensation study to assist with development of an equitable executive compensation program; and
- develop due diligence materials to support the programs developed and adopted.

To date we have had two substantial meetings with the compensation consulting firm to address education of the Board of Directors on relevant issues, and to present comprehensive information related to company programs as measured against peer institution programs. Initial recommendations have been outlined and additional information has been requested. I anticipate that, upon receipt of a comprehensive recommendation for consideration, the Compensation Committee and the Board of Directors will consider making such modifications to the SEO compensation arrangements as are consistent with Treasury Department guidelines as then in effect.

At the present time, the Bank does not have any longer-term deferred forms of executive compensation, with the exception of a 401(k) plan. Accordingly we do not believe that there is an issue with respect to any limitations on executive compensation being offset by changes to such forms of compensation.

The undersigned has reviewed this response, and, based on my knowledge, this response does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

A handwritten signature in black ink, appearing to read 'Mark A. Lund', written over a horizontal line.

Mark A. Lund,
President and Chief Executive
Officer