

MONARCH
FINANCIAL
HOLDINGS, INC. 

February 26, 2009

Special Inspector General - TARP
1500 Pennsylvania Ave., N.W.
Suite 1064
Washington, D.C. 20220

Dear Special Inspector General,

We received your letter of February 6, 2009, requesting information pertaining to Monarch Financial Holdings, Inc.'s use of funds and compliance with The Emergency Economic Stabilization Act of 2008. The original questions, as stated in your request, are listed in bold below along with our response.

(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 TARP funds. In your response, please take into consideration your anticipated use of unspent 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.

Monarch Financial Holdings, Inc., through our subsidiaries Monarch Bank and Monarch Mortgage, anticipated using the \$14.7 million in TARP Capital Purchase Program (CPP) funds to supplement our existing capital base to support continued growth of balance sheet loans and mortgage banking operations. These funds were segregated on the balance sheet to provide for the proper accounting and dividend payments, but are considered part of our total capital base to support our continued growth.

Having these funds allowed us to fund a major increase in mortgage activity and closings. When we received these funds on December 19, 2009, we immediately put those funds to use funding our mortgage pipeline, which grew from \$26.1 million on December 19th to \$54.4 million on December 31, 2008. Since that time we have funded over \$150 million in mortgage loans that were primarily refinanced conforming mortgage loans that were sold to correspondent mortgage companies and banks. This helped reduce mortgage loan payments for clients, allowed adjustable rate clients to obtain a fixed rate of interest, and allowed others to repay their home equity loan and mortgage in return for one fixed rate loan.

Due to the addition of this capital we recently launched an on-balance sheet jumbo residential mortgage loan product.

(b) (4)

Based on past history we have grown our balance sheet, almost exclusively with loans, on average \$92 million per year.

(b) (4)

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(b) (4)

Without this capital injection we would have to limit our mortgage and loan growth until the capital markets stabilized.

(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.

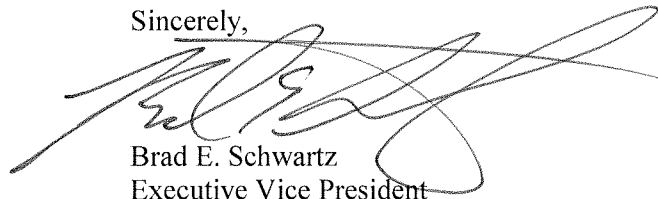
Prior to our acceptance of the TARP Capital Purchase Program funds we completed a thorough review of our compensation programs including employment contracts, change of control agreements, bonus plans, and retirement plans. Based on our review of the executive compensation requirements published at the time of our acceptance, the Company's five senior executive officers signed letter agreements that address compensation issues and give the Company the right to adopt amendments to plans in line with Department of Treasury guidelines. Our belief is that those letter agreements have implemented the executive compensation limitations in line with Department of Treasury guidelines.

The company's Compensation Committee is reviewing our compensation plans to determine whether or not any of those plans provide incentives to take excessive or unnecessary risks that could threaten the value of the Company. This review is not complete, and our Compensation Committee will attest to this fact when we release our proxy statement of March 31, 2009. Our compensation committee is committed to ensure we meet the Department of Treasury's guidelines for executive compensation. As our executive officers are not compensated based on loan growth, and due to the fact we use a multi-level approval system for lending that includes strong oversight for new loans, we do not feel it will be determined that our compensation systems encourages excessive risk.

Attached are exhibits to support the comments above, including internal accounting records detailing the growth in funding of our mortgage lending and our annual financial press release where we discussed our use of the CPP funds.

To my knowledge and belief this letter and the attached supporting information are accurate. Please contact me at (b) (6) with any additional questions.

Sincerely,



Brad E. Schwartz
Executive Vice President

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

February 6, 2009

Mr. Brad E. Schwartz
Monarch Financial Holdings, Inc.
1101 Executive Blvd.
Chesapeake, VA 23320

Dear Mr. Brad E. Schwartz,

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.

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**.

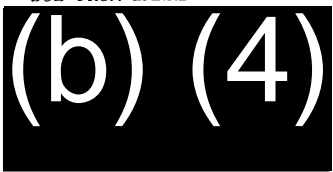
Very truly yours,



Neil M. Barofsky
Special Inspector General

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

Account Number	Description	Daily Balance 19-Dec-2008	Daily Balance 18-Dec-2008	Difference	Percent
ASSETS					
CASH AND CASH ITEMS					
100001	Cash	1,283,121.68	1,545,681.86	262,560.18-	16.99-
100002	Cash in Transit	0.00	512,150.00	512,150.00-	100.00-
100003	Teller Cash Transfer	0.00	0.00	0.00	
100004	Branded ATM Cash	1,356,340.00	1,356,340.00	0.00	
100005	Cash Box Checks	1,034,888.06	709,182.37	325,705.69	45.93
100006	Cash Residual	13,290.00	26,390.00	13,100.00-	49.64-
100007	Teller Batch Processing	5,861,642.19	710,088.72-	6,571,730.91	925.48-
100008	ATM Branch Settlement	3,123.87	14,700.87	11,577.00-	78.75-
100009	ATM Switch Settlement	79,725.74-	88,232.23-	8,506.49	9.64-
100010	ATM in Process SWIM	0.00	0.00	0.00	
100012	ACH in Process	6,127.12	5,090.98	1,036.14	20.35
100013	Food Stamps Redeemed	0.00	0.00	0.00	
100014	Teller Electronic Transfer	0.00	0.00	0.00	
100015	Savings Bonds Redeemed	657.60	0.00	657.60	
100020	Cash Items	0.00	0.00	0.00	
100021	Returned Dep Items in Proce	0.00	0.00	0.00	
100022	Foreign Items in Process	0.00	0.00	0.00	
100116	Wires in process	1,713,481.85-	1,706,621.61-	6,860.24-	0.40
TOTAL CASH AND CASH ITEMS		7,765,982.93	1,664,593.52	6,101,389.41	366.54
DUE FROM BANKS					
100029		7,380.99	7,380.99	0.00	
100030		14,047,249.02-	165,311.27	14,212,560.29-	8,597.45-
100031		25,000.00	25,000.00	0.00	
100032		25,764.16	10,764.16	15,000.00	139.35
100033		522,110.67	3,138,558.00	2,616,447.33-	83.36-
100034		1,068.81	1,068.81	0.00	
100035		10,000.00	10,000.00	0.00	
100038		1,020,728.83	16,779,271.17-	17,800,000.00	106.08-
TOTAL DUE FROM BANKS		12,435,195.56-	13,421,187.94-	985,992.38	7.35-
INVESTMENT SECURITIES-AFS					
100040	Corporate Bonds & Other Sec	1,000,000.00	1,000,000.00	0.00	
100041	Discount - Corp Bonds & Oth	0.00	0.00	0.00	
100042	Premium - Corp Bonds & Othe	27,250.13	27,250.13	0.00	
100043	US Agencies - Par	4,500,000.00	4,500,000.00	0.00	
100044	Discount - US Agencies	0.00	0.00	0.00	
100045	Premium - US Agencies	36,428.56	36,428.56	0.00	
100047	Mortgage Backed Securities	781,620.56	781,620.56	0.00	
100048	Discount - Mortgage Backed	0.00	0.00	0.00	
100049	Premium - Mortgage Backed S	274.11	274.11	0.00	
100051	Taxable Municipal - Par	0.00	0.00	0.00	
100052	Discount - Taxable Municipa	0.00	0.00	0.00	
100053	Premium - Taxable Municipal	0.00	0.00	0.00	
100054	Tax-Exempt Municipal - Par	0.00	0.00	0.00	
100055	Discount - Tax-Exempt Munic	0.00	0.00	0.00	
100056	Premium - Tax-Exempt Munic	0.00	0.00	0.00	
100057	Held-to-Maturity Securities	500,000.00	500,000.00	0.00	
100058	Discount - HTM Securities	0.00	0.00	0.00	
100059	Premium - HTM Securities	0.00	0.00	0.00	
100060	AFS - Unrealized Gains (Los	90,191.24-	90,191.24-	0.00	
TOTAL INVESTMNT SECURITIE		6,755,382.12	6,755,382.12	0.00	
FEDERAL FUNDS SOLD					
100070	Federal Funds Sold - SunTru	711,132.43	711,127.49	4.94	
100071	Federal Funds Sold - Centur	0.00	0.00	0.00	
100072	Federal Funds Sold - Comm B	0.00	0.00	0.00	
100073	Federal Funds Sold - Compas	3,550,000.00	810,000.00	2,740,000.00	338.27
TOTAL FEDERAL FUNDS SOLD		4,261,132.43	1,521,127.49	2,740,004.94	180.13
100092	MM - Line of Credit	26,112,278.00	23,125,962.00	2,986,316.00	12.91
TOTAL LOANS HELD FOR SALE		26,112,278.00	23,125,962.00	2,986,316.00	12.91
COMMERCIAL LOANS					
100080	Commercial Loans - Fixed	151,178,000.06	151,113,359.30	64,640.76	0.04
100081	Commercial Loans - Variable	98,099,807.05	98,448,374.16	348,567.11-	0.35-
100082	Commercial Loans Sold	29,326,643.91-	29,326,643.91-	0.00	
TOTAL COMMERCIAL LOANS		219,951,163.20	220,235,089.55	283,926.35-	0.13-
REAL ESTATE LOANS					
100090	R E Construction - Land Dev	133,439,912.46	133,512,257.54	72,345.08-	0.05-
100091	Constructn Loans Sold to Pa	0.00	0.00	0.00	
100094	Mortgage Loans Sold	9,024,229.67-	9,024,229.67-	0.00	
100095	Commercial R E Loans	31,104,494.72	31,104,494.72	0.00	
TOTAL REAL ESTATE LOANS		155,520,177.51	155,592,522.59	72,345.08-	0.05-
MONARCH MORTGAGE LOANS					
100086	C/P Loans	17,447,963.69	17,392,663.61	55,300.08	0.32
100087	Monarch Mortgage Lot Loan	0.00	0.00	0.00	
100088	Consumer Mortgage	14,927,695.90	14,928,011.66	315.76-	
TOTAL MONARCH MORTGAGE LO		32,375,659.59	32,320,675.27	54,984.32	0.17
CONSUMER LOANS					
100085	Consumer Loans	2,969,677.37	2,973,429.86	3,752.49-	0.13-



*MORTGAGE
 LOANS
 HELD FOR
 SALE*

Account Number	Description	Month End Bal. Dec 2008	Month End Bal. Dec 2007	Difference	Percent
ASSETS					
CASH AND CASH ITEMS					
100001	Cash	1,771,748.63	1,563,373.17	208,375.46	13.33
100002	Cash in Transit	356,500.00	254,425.00	102,075.00	40.12
100003	Teller Cash Transfer	1,000.00-	0.00	1,000.00-	
100004	Branded ATM Cash	1,883,240.00	1,287,440.00	595,800.00	46.28
100005	Cash Box Checks	414,652.43	1,914,480.42	1,499,827.99-	78.34-
100006	Cash Residual	111,365.00	31,775.00	79,590.00	250.48
100007	Teller Batch Processing	2,523,491.33	0.00	2,523,491.33	
100008	ATM Branch Settlement	10,025.01	103,788.14	93,763.13-	90.34-
100009	ATM Switch Settlement	76,963.07-	273,679.60-	196,716.53	71.88-
100010	ATM in Process SWIM	0.00	0.00	0.00	
100012	ACH in Process	39.50	185.00-	224.50	121.35-
100013	Food Stamps Redeemed	0.00	0.00	0.00	
100014	Teller Electronic Transfer	0.00	0.00	0.00	
100015	Savings Bonds Redeemed	695.10	3,656.84	2,961.74-	80.99-
100020	Cash Items	0.00	0.00	0.00	
100021	Returned Dep Items in Proce	0.00	275.00	275.00-	100.00-
100022	Foreign Items in Process	0.00	0.00	0.00	
100116	Wires in process	274,065.48	125,738.64-	399,804.12	317.96-
TOTAL CASH AND CASH ITEMS		7,267,859.41	4,759,610.33	2,508,249.08	52.70
DUE FROM BANKS					
100029	(b) (4)	7,005.99	5,407.70	1,598.29	29.56
100030	(b) (4)	57,071.40	17,009.50	40,061.90	235.53
100031	(b) (4)	25,000.00	29,430.57	4,430.57-	15.05-
100032	(b) (4)	10,979.48	10,016.73	962.75	9.61
100033	(b) (4)	503,741.92	4,043,115.18	3,539,373.26-	87.54-
100034	(b) (4)	1,068.81	0.00	1,068.81	
100035	(b) (4)	10,000.00	0.00	10,000.00	
100038	(b) (4)	111,634.28	992,539.27	880,904.99-	88.75-
TOTAL DUE FROM BANKS		726,501.88	5,097,518.95	4,371,017.07-	85.75-
INVESTMENT SECURITIES-AFS					
100040	Corporate Bonds & Other Sec	500,000.00	2,003,000.00	1,503,000.00-	75.04-
100041	Discount - Corp Bonds & Oth	0.00	0.00	0.00	
100042	Premium - Corp Bonds & Othe	0.00	63,991.35	63,991.35-	100.00-
100043	US Agencies - Par	4,500,000.00	5,810,000.00	1,310,000.00-	22.55-
100044	Discount - US Agencies	0.00	18,306.81-	18,306.81	100.00-
100045	Premium - US Agencies	35,427.67	0.00	35,427.67	
100047	Mortgage Backed Securities	769,874.52	1,041,375.03	271,500.51-	26.07-
100048	Discount - Mortgage Backed	0.00	0.00	0.00	
100049	Premium - Mortgage Backed S	247.79	861.92	614.13-	71.25-
100051	Taxable Municipal - Par	0.00	77.18-	77.18	100.00-
100052	Discount - Taxable Municipa	0.00	0.00	0.00	
100053	Premium - Taxable Municipal	0.00	0.00	0.00	
100054	Tax-Exempt Municipal - Par	0.00	0.00	0.00	
100055	Discount - Tax-Exempt Munic	0.00	0.00	0.00	
100056	Premium - Tax-Exempt Munic	0.00	0.00	0.00	
100057	Held-to-Maturity Securities	500,000.00	22,100,000.00	21,600,000.00-	97.74-
100058	Discount - HTM Securities	0.00	15,440.63-	15,440.63	100.00-
100059	Premium - HTM Securities	0.00	0.00	0.00	
100060	AFS - Unrealized Gains (Los	41,367.25	27,105.09-	68,472.34	252.62-
TOTAL INVESTMNT SECURITIE		6,346,917.23	30,958,298.59	24,611,381.36-	79.50-
FEDERAL FUNDS SOLD					
100070	Federal Funds Sold - SunTru	66,367.26	0.00	66,367.26	
100071	Federal Funds Sold - Centur	0.00	0.00	0.00	
100072	Federal Funds Sold - Comm B	0.00	8,000.00	8,000.00-	100.00-
100073	Federal Funds Sold - Compas	0.00	55,000.00	55,000.00-	100.00-
TOTAL FEDERAL FUNDS SOLD		66,367.26	63,000.00	3,367.26	5.34
100092	MM - Line of Credit	54,369,215.00	18,792,568.00	35,576,647.00	189.31
TOTAL LOANS HELD FOR SALE		54,369,215.00	18,792,568.00	35,576,647.00	189.31
COMMERCIAL LOANS					
100080	Commercial Loans - Fixed	150,091,850.93-	118,971,226.64	31,120,624.29	26.16
100081	Commercial Loans - Variable	98,781,852.93	73,363,810.44	25,418,042.49	34.65
100082	Commercial Loans Sold	29,114,243.91-	7,734,432.32-	21,379,811.59-	276.42
TOTAL COMMERCIAL LOANS		219,759,459.95	184,600,604.76	35,158,855.19	19.05
REAL ESTATE LOANS					
100090	R E Construction - Land Dev	128,583,772.71	127,967,722.62	616,050.09	0.48
100091	Constructn Loans Sold to Pa	0.00	0.00	0.00	
100094	Mortgage Loans Sold	8,824,229.67-	7,045,152.73-	1,779,076.94-	25.25
100095	Commercial R E Loans	31,126,143.11	25,405,326.90	5,720,816.21	22.52
TOTAL REAL ESTATE LOANS		150,885,686.15	146,327,896.79	4,557,789.36	3.11
MONARCH MORTGAGE LOANS					
100086	C/P Loans	17,556,718.53	3,532,535.90	14,024,182.63	397.00
100087	Monarch Mortgage Lot Loan	0.00	0.00	0.00	
100088	Consumer Mortgage	14,925,712.53	8,130,366.26	6,795,346.27	83.58
TOTAL MONARCH MORTGAGE LO		32,482,431.06	11,662,902.16	20,819,528.90	178.51
CONSUMER LOANS					

MORTGAGE
LOANS
HELD FOR
SALE

#1 DAILY STATEMENT OF CONDITION--DETAILED

Account Number	Description	Daily Balance 04-Feb-2009	Daily Balance 03-Feb-2009	Difference	Percent
ASSETS					
CASH AND CASH ITEMS					
100001	Cash	1,606,128.90	1,941,239.29	335,110.39-	17.26-
100002	Cash in Transit	564,000.00	206,775.00	357,225.00	172.76
100003	Teller Cash Transfer	0.00	2,800.00	2,800.00-	100.00-
100004	Branded ATM Cash	874,280.00	874,280.00	0.00	
100005	Cash Box Checks	1,107,800.50	805,172.64	302,627.86	37.59
100006	Cash Residual	11,365.00	11,365.00	0.00	
100007	Teller Batch Processing	3,681,469.71	3,392,507.57	288,962.14	8.52
100008	ATM Branch Settlement	12,138.97	6,605.37	5,533.60	83.77
100009	ATM Switch Settlement	73,620.67-	65,820.54-	7,800.13-	11.85
100010	ATM in Process SWIM	0.00	0.00	0.00	
100012	ACH in Process	46.71	46.71	0.00	
100013	Food Stamps Redeemed	0.00	0.00	0.00	
100014	Teller Electronic Transfer	0.00	0.00	0.00	
100015	Savings Bonds Redeemed	1,809.72	1,809.72	0.00	
100020	Cash Items	0.00	0.00	0.00	
100021	Returned Dep Items in Proce	0.00	0.00	0.00	
100022	Foreign Items in Process	0.00	0.00	0.00	
100116	Wires in process	6,831,322.78-	4,717,771.75-	2,113,551.03-	44.80
TOTAL CASH AND CASH ITEMS		954,096.06	2,459,009.01	1,504,912.95-	61.20-
DUE FROM BANKS					
100029	(b) (4)	8,028.22	8,028.22	0.00	
100030	(b) (4)	1,098,786.65	241,877.58	856,909.07	354.27
100031	(b) (4)	28,265.00	28,561.22	296.22-	1.04-
100032	(b) (4)	25,457.42	25,457.42	0.00	
100033	(b) (4)	591,880.42	453,655.08	138,225.34	30.47
100034	(b) (4)	5,090.34	5,090.34	0.00	
100035	(b) (4)	10,000.00	10,000.00	0.00	
100038	(b) (4)	652,009.36	499,009.36	153,000.00	30.66
TOTAL DUE FROM BANKS		2,419,517.41	1,271,679.22	1,147,838.19	90.26
INVESTMENT SECURITIES-AFS					
100040	Corporate Bonds & Other Sec	500,000.00	500,000.00	0.00	
100041	Discount - Corp Bonds & Oth	0.00	0.00	0.00	
100042	Premium - Corp Bonds & Oth	0.00	0.00	0.00	
100043	US Agencies - Par	4,494,687.50	4,494,687.50	0.00	
100044	Discount - US Agencies	0.00	0.00	0.00	
100045	Premium - US Agencies	34,434.06	34,434.06	0.00	
100047	Mortgage Backed Securities	758,638.90	758,638.90	0.00	
100048	Discount - Mortgage Backed	0.00	0.00	0.00	
100049	Premium - Mortgage Backed S	221.57	221.57	0.00	
100051	Taxable Municipal - Par	0.00	0.00	0.00	
100052	Discount - Taxable Municipa	0.00	0.00	0.00	
100053	Premium - Taxable Municipal	0.00	0.00	0.00	
100054	Tax-Exempt Municipal - Par	0.00	0.00	0.00	
100055	Discount - Tax-Exempt Munic	0.00	0.00	0.00	
100056	Premium - Tax-Exempt Munici	0.00	0.00	0.00	
100057	Held-to-Maturity Securities	500,000.00	500,000.00	0.00	
100058	Discount - HTM Securities	0.00	0.00	0.00	
100059	Premium - HTM Securities	0.00	0.00	0.00	
100060	AFS - Unrealized Gains (Los	42,186.11	42,186.11	0.00	
TOTAL INVESTMNT SECURITIE		6,330,168.14	6,330,168.14	0.00	
FEDERAL FUNDS SOLD					
100070	Federal Funds Sold - SunTru	312,831.31	312,829.14	2.17	
100071	Federal Funds Sold - Centur	0.00	0.00	0.00	
100072	Federal Funds Sold - Comm B	0.00	0.00	0.00	
100073	Federal Funds Sold - Compas	1,375,000.00	0.00	1,375,000.00	
TOTAL FEDERAL FUNDS SOLD		1,687,831.31	312,829.14	1,375,002.17	439.54
100092	MM - Line of Credit	103,122,140.00	94,215,079.00	8,907,061.00	9.45
TOTAL LOANS HELD FOR SALE		103,122,140.00	94,215,079.00	8,907,061.00	9.45
COMMERCIAL LOANS					
100080	Commercial Loans - Fixed	148,278,860.11	148,301,326.21	22,466.10-	0.02-
100081	Commercial Loans - Variable	99,001,450.77	99,056,679.21	55,228.44-	0.06-
100082	Commercial Loans Sold	27,747,856.16-	27,747,856.16-	0.00	
TOTAL COMMERCIAL LOANS		219,532,454.72	219,610,149.26	77,694.54-	0.04-
REAL ESTATE LOANS					
100090	R E Construction - Land Dev	130,183,407.58	130,302,546.54	119,138.96-	0.09-
100091	Constructn Loans Sold to Pa	0.00	0.00	0.00	
100094	Mortgage Loans Sold	8,529,229.67-	8,529,229.67-	0.00	
100095	Commercial R E Loans	31,082,945.61	31,087,141.29	4,195.68-	0.01-
TOTAL REAL ESTATE LOANS		152,737,123.52	152,860,458.16	123,334.64-	0.08-
MONARCH MORTGAGE LOANS					
100086	C/P Loans	18,105,636.88	18,095,636.88	10,000.00	0.06
100087	Monarch Mortgage Lot Loan	0.00	0.00	0.00	
100088	Consumer Mortgage	14,920,357.60	14,920,357.60	0.00	
TOTAL MONARCH MORTGAGE LO		33,025,994.48	33,015,994.48	10,000.00	0.03
CONSUMER LOANS					
100085	Consumer Loans	3,030,155.99	3,030,155.99	0.00	

PEAK
 MORTGAGE
 LOANS
 HELD FOR
 SALE

MONARCH

MONARCH FINANCIAL REPORTS STRONG GROWTH IN LOANS, DEPOSITS AND CAPITAL

Chesapeake, VA - Monarch Financial Holdings, Inc. (Nasdaq: MNRK), the bank holding company for Monarch Bank, reported continued strong loan, deposit and capital growth. Total assets at December 31, 2008 were \$597.2 million, up \$94.0 million or 19% from \$503.2 million one year prior. Total loans increased \$85.6 million to \$504.7 million, up 20% from 2007. Deposits increased \$106.4 million to \$496.1 million, up 27% from 2007. Demand deposit accounts grew 22% to \$94.3 million and now represent 19% of total deposits.

The Bank's capital position remains extremely strong with total regulatory capital growing to \$77.8 million at December 31, 2008, a 54% growth rate for the year. Regulatory capital includes \$10 million in trust preferred subordinated debt, \$14.7 million in preferred stock issued as part of the U.S. Treasury's Capital Purchase Program, and the allowance for loan losses. The company also raised \$7.2 million in new equity capital in June 2008. Monarch is rated as "Well Capitalized," the highest rating of capital strength by bank regulatory standards.

"I am extremely proud of our performance and strength during this unprecedented global economic crisis. While our core operating performance exceeded the previous year's results, we saw a need to build our allowance for loan losses. In the current economic environment, we felt it was prudent to set aside these additional funds. Unfortunately the movement of these funds, which continues to remain part of our total capital, has to run through our income statement creating a loss in the fourth quarter," stated William 'Tree' Rountree, President and Chief Executive Officer. "We are pleased to report a record year of earnings for our non-banking groups at Monarch Mortgage, Virginia Asset Group, and Monarch Capital. Non-interest income growth along with strong loan growth offset the decline in our net interest margin at Monarch Bank due to the rapid drop in interest rates in 2008. Except for one secured relationship, asset quality remained strong at year-end. Our local markets remain stronger than those in most of our nation, and we see the current disruption in the financial marketplace as an excellent opportunity to grow our franchise and client base in 2009".

* } The Company announced it had already invested all of the \$14.7 million provided by the Treasury's Capital Purchase Program it received on December 19, 2008 in new loans. "Many people

A think the government was giving a handout to banks when in fact it provided this capital to healthy community banks to get our economy moving again,” stated Brad E. Schwartz, Chief Operating and Financial Officer. “This is no handout. We will pay the taxpayers a dividend and warrants on this capital, and use the funds to grow loans and help build our local economy. We remain committed to lending to our clients.”

Net income was \$1,132,883 for 2008, down 64% from 2007 when net income was \$3,158,174. The large increase in provision expense taken to support growth of the allowance for loan losses had a negative effect on net income. The annualized return on average assets (ROA) was 0.20%, and the annualized return on average equity (ROE) was 2.66%. Basic earnings per share were \$0.21, compared to \$0.66 the previous year. The company recorded a net loss for fourth quarter of 2008 of \$1,534,678, with over \$3.7 million expensed to build the allowance for loan losses during the 4th quarter. The Company expensed over \$5 million in provision expense during the year, compared to less than \$1 million the previous year, which was the primary driver in the decline in net income. The majority of conservative community banks took similar steps in 2008 in response to declining external economic conditions.

Net interest income declined 9.9% or \$1.6 million in 2008 compared to 2007 due to an unprecedented reduction in rates by the Federal Reserve Bank, despite the fact loans grew \$85.6 million during the year. The 94% drop in the stated federal funds rate and the related 55% drop in the prime rate in 2008 reduced interest income from loans. The deposit market failed to respond to these declines at the same pace due to growing demand for funding from troubled commercial and investment banks. The net interest margin was 2.96% for 2008 compared to 4.29% in 2007, with yields on earning assets declining faster than the cost of interest-bearing liabilities. With most banks now pricing loans with floor rates and at higher risk-adjusted premiums, we anticipate earning asset yields to improve in 2009 while funding costs appear to be coming down due to the recent decline in global interest rates and the government’s injection of liquidity into the marketplace. We have already placed interest rate floors on 32% of our floating rate loans, and will continue to reprice market and credit risk as loans mature. We also remain focused on growing lower cost demand deposits and money market deposits to offset the higher cost of retail certificates of deposit.

Non-interest income grew 151% from the same period in 2007, fueled by increased production at Monarch Mortgage, growth in bank deposit fees, and investment and insurance revenues from Virginia Asset Group. Virginia Asset Group was the top performing bank investment group for the mid-Atlantic region in 2008 for broker-dealer Infinex Financial Group. Non-interest income represented 42% of total revenues in 2008, compared to 22% in 2007. Non-interest expense grew 54%, with the majority of the increase related to the expansion of Monarch Mortgage.

Monarch Mortgage closed \$577 million in mortgage loans in 2008, up from \$197 million during its startup year in 2007. For the fourth quarter of 2008 mortgage loan applications were \$214 million, with \$146 million in loans closed. Monarch Mortgage is focused on the retail A-paper mortgage market and does not participate in the sub-prime or wholesale mortgage markets. Monarch does not hold any sub-prime mortgage loans or related securities.

Non-performing assets represented 1.35% of total assets at year end 2008 compared to 0.89% on September 30, 2008 and 0.10% the previous year-end. There were no loans 90 days or more past due and still accruing, \$7.5 million in non-accrual loans, and \$533,000 in other real estate. One local developer with two real estate developments represents 93% of the non-accrual loan total, with both of these loans secured by land and improvements and in the process of collection and resolution. The other real estate represents three single family homes generated through our mortgage operations, with all three valued at market net of any selling costs. One has already been sold and the others are in the process of being sold. The Company continues to aggressively deal with problem assets. The allowance for loan losses now represents 1.59% of total loans, compared to 0.95% one year earlier. The company continues to experience better asset quality performance than its national peer group.

Monarch Financial Holdings, Inc. is the one-bank holding company for Monarch Bank. Monarch Bank is a community bank with two offices in Chesapeake, four offices in Virginia Beach, and two offices in Norfolk, Virginia. OBX Bank, a division of Monarch Bank, operates one office in Kitty Hawk, North Carolina. Services are also provided through over fifty ATMs located in the South Hampton Roads area and the Outer Banks of North Carolina, and “Monarch Online” consumer and business internet banking (monarchbank.com and OBXBank.com). Monarch Mortgage and our affiliated mortgage companies have twelve offices with locations in Chesapeake, Norfolk, Virginia Beach (2), Suffolk, and Richmond, Virginia as well as Rockville (2), Waldorf, Crofton and Greenbelt, Maryland. Our subsidiaries/divisions include Monarch Bank, OBX Bank, Monarch Mortgage (secondary mortgage origination), Coastal Home Mortgage, LLC (secondary mortgage origination), Home Mortgage Solutions, LLC (secondary mortgage origination), Virginia Asset Group, LLC (investment and insurance solutions), Real Estate Security Agency, LLC (title agency) and Monarch Capital, LLC (commercial mortgage brokerage). The shares of Monarch Financial Holdings, Inc. are publicly traded on the Nasdaq Capital Market under the symbol “MNRK”.

This press release may contain "forward-looking statements," within the meaning of federal securities laws that involve significant risks and uncertainties. Statements herein are based on certain assumptions and analyses by the Company and are factors it believes are appropriate in the circumstances. Actual results could differ materially from those contained in or implied by such statements for a variety of reasons including, but not limited to: changes in interest rates; changes in accounting principles, policies, or guidelines; significant changes in the economic scenario; significant changes in regulatory requirements; and significant changes in securities markets. Consequently, all forward-looking statements made herein are qualified by these cautionary statements and the cautionary language in the Company's most recent Form 10-K and 10-Q reports and other documents filed with the Securities and Exchange Commission. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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