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March 5, 2009

RE: Oak Valley Bancorp Use of TARP Funds

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

Dear Mr. Neil Barofsky:

As Executive Vice President and Chief Financial Officer of Oak Valley Bancorp, I am writing in response to your letter dated February 6, 2009 requesting information relating to our participation in the Capital Purchase Plan under the Troubled Asset Relief Program.

On December 5, 2008, Oak Valley Bancorp received the investment of $13.5 million from the U.S. Treasury corresponding to the Capital Purchase Program (CPP), under the guidance of the Treasury's statement that it intends to invest in healthy, viable banks to promote financial stability, maintain confidence in the financial system, and permit institutions to continue meeting the credit needs of American consumers and businesses. As stated in a letter to shareholders of Oak Valley Bancorp on December 16, 2008,

> "The capital infusion:
>
> - Enables us to do our part to continue making quality, relationship-based loans to stimulate growth and economic activity in the communities we serve; and,
> - Enhances our ability to capitalize on opportunities that may arise within our footprint; and,
> - Is accounted for as a component of regulatory Tier I capital and allows us to bolster an already solid capital position. As such, Oak Valley Bancorp's risk-based capital will now exceed 13.5%."

Oak Valley Bancorp grew to over $500 million in assets in 2008, operating as a community bank in the Central Valley of California. The bank began in 1991, and has achieved consistent and quality growth over the eighteen year period, to become a vital component in the commerce of the communities we serve. Despite the economic downturn and significant impact of the Central Valley of California, Oak Valley Bancorp remains profitable, healthy and in a position to continue to meet the credit needs of American consumers and businesses. The addition of the capital, from the CPP, allows the bank to continue to grow through this period of credit demand, hindered by limited availability of capital resources.

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The TARP funds were not specifically segregated in an effort to track the investment of the $13.5 million, as the mission of Oak Valley Bancorp is consistent with the intent of the CPP, as evidenced by our Core Value of "Community, which is the commitment to strengthening the success and health of the communities we call home." Furthermore, our utilization of the TARP funds is not limited to the $13.5 million Treasury investment, but is dependent upon the confidence in the financial system and our ability to leverage the investment with growth in deposits.

Though the confidence in the financial system remains low and the savings rate of our customers has been suppressed, our bank has continued to experience account growth, as new customers search for a quality financial relationship. The bank rapidly deployed its additional liquidity with $16.9 million in net loan growth, to qualified businesses and consumers, during the period beginning December 5, 2008 (TARP investment date) to February 28, 2009. As stated above, our ability to leverage our capital and continue to meet the financial needs of the communities we serve is dependent upon the confidence in the financial system, and our ability to generate deposits. We remain diligent in our commitment to strengthen our communities and foster opportunities for prudent growth.

In an effort to ensure compliance with the EESA's executive compensation requirements, Oak Valley Bancorp reviewed all compensation components of each Senior Executive Officer (SEO), and confirmed adherence to EESA guidelines. As a result of the American Recovery and Reinvestment Act 2009 (ARRA), which was signed into law by President Obama on February 17, 2009, further review is underway by the Compensation Committee of Oak Valley Bancorp, and legal counsel to ensure adherence to the amendment of Section 111 of the EESA. The Compensation Committee, comprised of the entire Oak Valley Bancorp Board of Directors, will ensure that compensation of senior management is not structured in any manner that would encourage risk-generating activities.

I, Rick McCarty, certify that: I have reviewed this response and the supporting documents, and, based on my knowledge, this response and the supporting documents do 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 statement were made, not misleading.

Sincerely,

Rick McCarty
EVP/CFO

Attachments:

- Press Release dated December 4, 2008: Oak Valley Bancorp Selected to Participate in the U.S. Treasury Capital Purchase Program
- Letter to Shareholders dated December 16, 2008 (available to shareholder and customers on the bank's website at www.ovcb.com)
- Press Release dated January 30, 2009: Oak Valley Bancorp Reports 4th Quarter Results

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Exhibit 99.1

PRESS RELEASE

For Immediate Release

Date: December 4, 2008
Contact: Ron Martin/Chris Courtney/Rick McCarty
Phone: (209) 848-2265
www.ovcb.com
www.escbank.com

OAK VALLEY BANCORP SELECTED TO PARTICIPATE IN U.S. TREASURY CAPITAL PURCHASE PROGRAM

OAKDALE, CA – Oak Valley Bancorp (OTCBB: OVLY), the bank holding company for Oak Valley Community Bank, announced today that they have received preliminary approval from the Treasury Department for a $13.5 million investment under the government's direct investment program for U.S. banks. This voluntary program is available to healthy financial institutions and will allow Oak Valley Bancorp to increase credit availability to local, creditworthy, businesses and consumers.

"Oak Valley Bancorp maintains a strong financial position and is considered well-capitalized by FDIC regulatory guidelines. We view the additional capital as an opportunity to bolster an already solid capital position," commented Ron Martin, CEO. "Being selected to participate in this program is an indicator that the Treasury Department recognizes our stability. It will enhance our ability to capitalize on opportunities that may arise within our footprint and enable us to continue making quality, relationship-based loans in the communities we serve," Martin concluded.

On the anticipated funding date of December 5, Oak Valley Bancorp plans to issue the Treasury approximately $13.5 million in senior preferred shares with a 5% coupon for 5 years and 9% thereafter. Warrants to purchase 350,346 shares of common stock at a per share exercise price of $5.78 will be attached and immediately exercisable. The warrants expire 10 years after the issuance date. The securities issued to the Treasury will be accounted for as components of regulatory Tier 1 capital. With the addition of this capital, Oak Valley Bancorp's risk-based capital will exceed 13.5%.

Established in 1991, Oak Valley Community Bank offers a variety of loan and deposit products dedicated to serving the needs of individuals and small businesses. As of September 30, 2008, the Bank's assets were $490 million. The Bank currently operates through 12 conveniently located branches: Oakdale, Sonora, Turlock, Stockton, Patterson, Ripon, Escalon, two branches in Modesto, and three branches in their Eastern Sierra Division, which includes Bridgeport, Mammoth Lakes and Bishop.

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December 16, 2008

Dear Shareholder:

I am writing this letter to address recent developments in the financial industry and the proactive steps your bank has taken in response. The pace of change has been nothing short of astounding and the diligence with which your bank was built will not only see us through these tough times, but also position Oak Valley Community Bank for opportunity.

As many of you know, the U.S. Treasury has recently begun investing in a number of healthy financial institutions as a means of ensuring confidence in the U.S. banking system so vital to this nation's economy and global markets in general. This initiative, known as the Capital Purchase Program, was made available to banks on a voluntary basis. Approval to participate has generally been seen as an indicator of being a healthy financial institution capable of weathering the economic storm, which currently has a grip on our communities and our country.

On December 5, 2008, the U.S. Treasury invested $13.5 million in Oak Valley Bancorp. We want to make certain you understand the terms of this investment and how it positions the bank for the future. The capital infusion:

- Enables us to do our part to continue making quality, relationship-based loans to stimulate growth and economic activity in the communities we serve; and,

- Enhances our ability to capitalize on opportunities that may arise within our footprint; and,

- Is accounted for as a component of regulatory Tier 1 capital and allows us to bolster an already solid capital position. As such, Oak Valley Bancorp's risk-based capital will now exceed 13.5%.

Management and the Board carefully evaluated the program and determined it to not only to be a cost effective source of capital, but a prudent buffer in uncertain times. This is not a government handout. For their investment, the Treasury will receive:

- 13,500 shares of senior preferred stock with a 5% coupon for 5 years and 9% thereafter. The stock has a liquidation value of $1,000 per share and the company has the right to repurchase these shares at any time after three years from issue; and,

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- Warrants (options) to purchase 350,346 shares of common stock at a per share exercise price of $5.78 will be attached and immediately exercisable. The warrants expire 10 years after the issuance date.

As a result, the Treasury has the opportunity to receive a preferred return on their investment and profit from increases in the company's stock price in the coming years.

We cannot predict the magnitude of the current economic downturn, but we can prepare for it to the best of our abilities. This program offers us protection against further economic decline and also positions us to continue making quality loans; or even expand, should other lenders in our area be unwilling or unable to provide.

We have a responsibility to you, our shareholders, to maximize returns. Management and the Board agree that this addition of low-cost capital puts us in a better position to accomplish that, regardless of whether tomorrow brings a tough new challenge or a unique opportunity.

If you have further questions about the matters discussed above, please do not hesitate to contact me at the number below or call President, Chris Courtney at (209) 844-7528 or CFO, Rick McCarty at (209) 844-7538.

Sincerely,

RMart

Ronald C. Martin
Chief Executive Officer
Oak Valley Bancorp
(209) 844-7540

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Exhibit 99.1

PRESS RELEASE

For Immediate Release

Date:	January 30, 2009
Contact:	Ron Martin/Chris Courtney/Rick McCarty
Phone:	(209) 848-2265
	www.ovcb.com

OAK VALLEY BANCORP REPORTS 4th QUARTER RESULTS

OAKDALE, CA - Oak Valley Bancorp (NASDAQ: OVLY), the bank holding company for Oak Valley Community Bank and Eastern Sierra Community Bank, recently reported financial results for the fiscal year ended December 31, 2008. Total assets exceeded $500 million, increasing to $508.2 million for the year ended December 31, 2008, an 11.8% increase from the prior year. Net income for 2008 totaled $2.2 million compared to $3.9 million for 2007. Diluted earnings per common share were $0.27 in 2008 compared to $0.53 in 2007. For the three months ended December 31, 2008, net income totaled $283 thousand compared to $950 thousand, for the same period in 2007. Diluted earnings per common share were $0.03 for the quarter ended December 31, 2008, compared to $0.12 in the same quarter of 2007.

"Reaching the $500 million asset mark is a milestone for us, one which we are happy to have achieved in a steady and consistent manner over the Bank's eighteen year history. Although we are not delighted with our net income relative to last year, we are pleased to be in a position to report positive net income; a profit, amidst these turbulent times faced by the financial sector and the country as a whole," stated Ron Martin, CEO. "Despite the decrease in net earnings, operating income remains healthy, non-performing loans remain below peer average and the bank took cautionary measures to fortify the balance sheet by strengthening an already well-capitalized position by injecting additional capital," Martin concluded.

At December 31, 2008 gross loans totaled $428.2 million, an increase of $40.4 million, or 10.4%, during 2008. The Bank's loan loss provision totaled $2.2 million in 2008, including $1.0 million during the fourth quarter of 2008. This compares to $555 thousand in loan loss provision for the year ended December 31, 2007. The increases in loan loss provisions reflect 2008 charge-offs, strong loan growth and increased allocation for economic uncertainty. Net charge-offs totaling $1.1 million for 2008 primarily relate to construction loans secured by real property, where the value of the collateral has declined.

"The bank experienced loan growth of $40 million in 2008, and while growth is part of the general plan, we are definitely pleased with our good fortune under these economic circumstances. Though we are not overly optimistic about 2009 production potential, we believe opportunities continue to exist that will allow us to grow with quality loans," commented Chris Courtney, President. "Careful credit decisions and adherence to a style of relationship lending requires a deeper understanding of the borrower, which has, and will continue to serve the bank well even in hard economic times," Courtney concluded.

The allowance for loan losses as a percentage of loans totaled 1.30% at December 31, 2008, compared to 1.16% at December 31, 2007. The increase represents the increased allocation for economic uncertainty. At December 31, 2008 non-performing assets totaled $6.8 million, or 1.34% of total assets, compared to $9.1 million, or 2.00% of total assets, at December 31, 2007. Write-downs on OREO properties represented $1.3 million of the decrease in non-performing assets during 2008.

Total deposits were $378.2 million at year-end 2008, compared to $377.3 million at December 31, 2007. Despite the nominal growth in total deposits, the number of deposit accounts increased by 2.4 thousand, or 15%, during 2008, to over 18.3 thousand deposits accounts at December 31, 2008. Average balances per account have declined as a result of the impact of the weak economic environment, on both commercial and retail customers.

Net interest income of $20.5 million for the year ended December 31, 2008, increased by $1.7 million, or 8.9%, over the prior year. The increase reflects the growth in earning assets and expansion of the Bank's net interest margin. The Bank's net interest margin was 4.72% for the year ended December 31, 2008, compared to 4.53% for the year ended December 31, 2007. The increase is a result of the Bank's ability to reduce its cost of funds more rapidly than the decline in the yield on earning assets, through the declining rate environment of 2008.

Non-interest expense of $17.9 million for the year ended December 31, 2008, increased by $3.7 million, or 25.7%, over the prior year. The increase includes write-downs and expenses associated with OREO properties, higher personnel and facilities costs associated with expansion, higher FDIC premiums and professional fees associated with the formation of the bank holding company.

In the fourth quarter, Oak Valley Bancorp voluntarily elected to participate in the U.S. Treasury's Capital Purchase Program (TCPP) in which the Company issued $13.5 million in senior preferred shares to the Treasury. With the infusion of these funds, the Company's total risk-based capital ratio expanded to over 13.2% as of December 31, 2008, from 11.1% at December 31, 2007. Further details about the TCPP participation are available at www.ovcb.com in the Investor Relations section on the About Us tab. "In taking part in the TCPP, we enhance our ability to support the communities we call home and simultaneously strengthen our financial footing by expanding our capital base," noted Rick McCarty, CFO.

Oak Valley Bancorp operates Oak Valley & Eastern Sierra Community Bank, through which it offers a variety of loan and deposit products to individuals and small businesses. The Company currently operates through 12 conveniently located branches: Oakdale, Sonora, Turlock, Stockton, Patterson, Ripon, Escalon, two branches in Modesto, and three branches in their Eastern Sierra Division, which includes Bridgeport, Mammoth Lakes and Bishop.

For more information call 1-866-844-7500 or visit us online at www.ovcb.com.

This press release includes forward-looking statements about the corporation for which the corporation claims the protection of safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the corporation's possible or assumed future financial condition, and its results of operations and business. Forward-looking statements are subject to risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Those factors include fluctuations in interest rates, government policies and regulations (including monetary and fiscal policies), legislation, economic conditions, including increased energy costs in California, credit quality of borrowers, operational factors and competition in the geographic and business areas in which the company conducts its operations. All forward-looking statements included in this press release are based on information available at the time of the release, and the Company assumes no obligation to update any forward-looking statement.

Oak Valley Community Bank
Statement of Condition (unaudited)

Profitability **($ in thousands, except per share)**	**4th Quarter 2008**	**3rd Quarter 2008**	**2nd Quarter 2008**	**1st Quarter 2008**	**4th Quarter 2007**
Selected Quarterly Operating Data:					
Net interest income	$ 5,333	$ 5,292	$ 5,081	$ 4,809	$ 4,792
Provision for loan losses	1,001	602	440	145	120
Non-interest income	602	634	672	614	562
Non-interest expense	4,712	4,535	4,562	4,057	3,897
Income before income taxes	222	789	751	1,221	1,337
Provision for income taxes	(61)	240	198	445	387
Net income	283	549	553	776	950
Preferred stock dividends and accretion	(64)	—	—	—	—
Net income available to common shareholders	219	549	553	776	950
Earnings per common share - basic	0.03	0.07	0.07	0.10	0.12
Earnings per common share - diluted	0.03	0.07	0.07	0.10	0.12
Dividends declared per common share (1)	0.03	0.05	—	—	—
Return on average common equity	2.31%	4.91%	5.01%	7.16%	8.93%
Return on average assets	0.23%	0.45%	0.47%	0.68%	0.83%
Net interest margin (2)	4.72%	4.76%	4.77%	4.60%	4.50%
Efficiency Ratio (2)	78.30%	76.03%	78.04%	73.70%	72.00%
Capital - Period End					
Book value per share	$ 7.57	$ 5.77	$ 5.71	$ 5.69	$ 5.57
Credit Quality - Period End					
Nonperforming assets/assets	1.34%	1.33%	1.35%	1.60%	2.16%
Loan loss reserve/loans (3)	1.30%	1.12%	1.08%	1.09%	1.16%
Period End Balance Sheet **($ in thousands)**					
Total assets	$ 508,203	$ 490,111	$ 476,094	$ 463,044	$ 454,259
Gross Loans	428,177	416,664	400,537	387,647	387,809
Nonperforming assets	6,824	6,538	6,435	7,395	9,808
Allowance for credit losses (3)	5,569	4,650	4,321	4,225	4,507
Deposits	378,248	365,230	358,159	362,760	377,348
Common Equity	57,986	44,151	43,735	43,302	42,361
Non-Financial Data					
Full-time equivalent staff	117	119	128	130	125
Number of banking offices, domestic and foreign	12	12	12	12	12
Common Shares outstanding					
Period end	7,661,627	7,658,252	7,658,252	7,611,377	7,607,780
Period average - basic	7,660,526	7,658,252	7,641,534	7,610,039	7,606,506
Period average - diluted	7,723,711	7,743,091	7,697,681	7,696,308	7,727,570
Market Ratios					
Stock Price	$ 6.00	$ 6.30	$ 7.00	$ 8.49	$ 8.25
Price/Earnings	52.82	22.14	24.12	20.69	16.64
Price/Book	0.79	1.09	1.23	1.49	1.48

Profitability **($ in thousands, except per share)**	YEAR TO DATE 12/31/2008	12/31/2007
Selected Quarterly Operating Data:		
Net interest income	$ 20,515	$ 18,831
Provision for loan losses	2,188	555
Non-interest income	2,522	2,198
Non-interest expense	17,865	14,213
Income before income taxes	2,984	6,260
Provision for income taxes	822	2,335
Net income	2,162	3,925
Preferred stock dividends and accretion	(64)	—
Net income available to common shareholders	2,098	3,925
Earnings per common share - basic	0.27	0.53
Earnings per common share - diluted	0.27	0.52
Dividends declared per common share (1)	0.08	0.19
Return on average common equity	4.80%	10.11%
Return on average assets	0.46%	0.88%
Net interest margin (2)	4.72%	4.53%
Efficiency Ratio (2)	76.55%	66.79%
Capital - Period End		
Book value per share	$ 7.57	$ 5.57
Credit Quality - Period End		
Nonperforming assets/assets	1.34%	2.16%
Loan loss reserve/loans (3)	1.30%	1.16%
Period End Balance Sheet **($ in thousands)**		
Total assets	$ 508,203	$ 454,259
Gross Loans	428,177	387,809
Nonperforming assets	6,824	9,808
Allowance for credit losses (3)	5,569	4,507
Deposits	378,248	377,348
Common Equity	57,986	42,361
Non-Financial Data		
Full-time equivalent staff	117	125
Number of banking offices, domestic and foreign	12	12
Common Shares outstanding		
Period end	7,661,627	7,607,780
Period average - basic	7,642,775	7,364,681
Period average - diluted	7,733,881	7,524,505
Market Ratios		
Stock Price	$ 6.00	$ 8.25
Price/Earnings	21.86	15.48
Price/Book	0.79	1.48

(1) Cash dividends of $382,943 and $191,542 paid in the 3rd and 4th quarter of 2008, respectively.
(2) Ratio computed on a fully tax equivalent basis using a marginal federal tax rate of 34%.
(3) Adjusted for Allowance for Off-Balance Sheet Credit Exposure.