



**Trustmark**

Trustmark Corporation  
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March 6, 2009

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

Dear Mr. Barofsky,

We received your letter dated February 6, 2009, requesting information regarding the use of the funds received through Trustmark Corporation's (Trustmark) participation in the Troubled Asset Relief Program - Capital Purchase Program (TARP CPP) as well as the status of Trustmark's plan for addressing the executive compensation requirements associated with the funding. In responding to your request, we have also taken into account the American Recovery and Reinvestment Act of 2009 (ARRA) as well as Treasury guidance provided to date.

In an effort to position Trustmark for continued success in this challenging environment, the Corporation issued \$215 million in Senior Preferred stock to the U.S. Treasury as part of the government's voluntary initiative for financial institutions to support the economy. This capital supports Trustmark's growth and expansion opportunities, reinforces our strong capital position, supports our foreclosure mitigation programs, and advances the Treasury's efforts to facilitate additional lending in our markets.


Prior to application for participation in the TARP CPP, Trustmark conducted extensive stress testing and analyzed numerous scenarios to determine the effect to our capital ratios under deteriorating credit markets. The results of this analysis indicated Trustmark would continue to be well-capitalized even during a prolonged and severe recession. Additionally, Trustmark analyzed the potential impact of the infusion of the TARP CPP funds to determine the appropriate level of participation as well as the best use of the capital. (b) (8)

[REDACTED] Trustmark believes this program provides an opportunity for strong, healthy financial institutions to support the recovery of the U.S. economy.

## Use of Funds

Trustmark established the CPP Compliance Committee, comprised of senior executive management, to oversee, approve, and monitor the use of the TARP CPP funds. The TARP CPP funds have not been segregated from Trustmark's other funds, and thus we are not able to directly trace those funds through our balance sheet. However, by supplementing Trustmark's capital, the TARP CPP funds will support the activities discussed below.

The TARP CPP capital will provide flexibility in managing the balance sheet, and as such will support Trustmark's residential mortgage lending and other lending activity as well as our ongoing foreclosure mitigation efforts. Additionally, the balance sheet flexibility afforded by the infusion of the capital will provide defensive positioning against a prolonged economic downturn. (b) (4)



Based on analysis of the market conditions at the time of issuance of the Senior Preferred stock to the U.S. Treasury, Trustmark determined that the funds initially would be best deployed in residential mortgage-related securities until loan demand improved. Trustmark retained \$10 million of the proceeds in the parent company to provide for the 2009 dividend payments on the Senior Preferred stock issued under the TARP CPP and invested the remaining \$205 million in our principal commercial bank, Trustmark National Bank. In turn, Trustmark National Bank increased its investment in U.S. Government Agency-backed Collateralized Mortgage Obligations (CMOs), pending deployment in more permanent uses as described herein. With these investments, Trustmark provided incremental liquidity to the residential mortgage markets and at the same time obtained products that generate cash flow. Trustmark is holding the CMO assets on its balance sheet as available-for-sale. Trustmark intends to utilize its cash flows, including those derived from its CMO investments and the proceeds of any sale or disposition of its CMO investments, to fund commercial and residential loans that meet Trustmark's long-standing prudent lending standards as the demand for high-quality loans rises in the markets we serve, as well as to advance foreclosure mitigation efforts and otherwise support our business.

Trustmark is committed to making credit available to the markets it serves and fulfilling the needs of our customers. To insure that all lending growth opportunities were addressed, Trustmark restructured its Senior Loan Committee to form two new committees, composed of senior and executive management: the Commercial Loan Committee and the Real Estate Loan Committee. Additionally, senior leaders of our company were placed in lending roles specializing in acquiring loan products to address the needs of our existing and prospective clients. In certain sectors, such as commercial lending, loan demand has diminished consistent with the overall economy as this customer base has taken a conservative direction and postponed expansion. Conversely, residential mortgage activity increased in December and January in response to favorable interest rates and new government agency programs. While the TARP CPP funds have not been segregated and this increased lending is not directly traceable in a dollar for dollar manner to the TARP CPP, the strengthening of Trustmark's balance sheet by the TARP CPP investment will directly facilitate such increased lending activity.

Another area of importance is Trustmark's ongoing foreclosure prevention and loan modification programs to assist homeowners. Loss mitigation counselors and additional support staff have been added to accommodate the high levels of loss mitigation activity. Likewise, Trustmark is following

the Fannie Mae and Freddie Mac guidelines for foreclosure moratoriums in our portfolio of loans serviced.

### **Executive Compensation Requirements**

Trustmark has complied and will continue to comply with the executive compensation and corporate governance requirements of each of (i) the Emergency Economic Stabilization Act (EESA) of 2008, (ii) the Treasury Department guidance thereunder issued on October 20, 2008 and (iii) the ARRA, which was signed into law on February 17, 2009 by President Obama.

On November 11, 2008, the Board of Directors of Trustmark Corporation approved a resolution to adopt an omnibus amendment to all compensation plans. This amendment, which conforms all of Trustmark's benefit plans to the EESA and which applies to any senior executive officer (SEO) thereunder, includes the following:

- Clawback Provision
- Golden Parachute Limitation
- Signed Consent by all SEO's

As required by the EESA and ARRA, Trustmark will further limit the 162(m) tax deduction for executive compensation to \$500,000 per year for any SEO.

An executive compensation risk assessment was performed by Trustmark's senior risk officers within 90 days of Treasury's purchase of the securities. Based on the materials reviewed and discussions with subject matter experts, Trustmark's senior risk officers concluded that the executive compensation and incentive program does not encourage the SEOs to take unnecessary and excessive risks. The findings of this risk assessment were presented to the Human Resources Committee of the Trustmark Corporation Board of Directors on January 14, 2009. The final Executive Compensation Risk Assessment Conclusion Memorandum was provided to this committee on February 18, 2009. A certification statement will be included within the Human Resources Committee Report of the Trustmark 2009 Proxy Statement. This risk assessment process will occur each year in which Trustmark is a participant in the TARP CPP. In addition, the Human Resources Committee, which is composed entirely of independent directors, will discuss Trustmark's compensation arrangements in light of such a risk assessment at least semi-annually.

Trustmark is awaiting definitive Treasury guidance and will continue to review the requirements of the ARRA and all regulations adopted thereunder to ensure compliance with each of the provisions, including all matters related to retention, incentive and bonus compensation as well as all matters concerning excessive or luxury expenditures.


Trustmark's 2009 Proxy Statement will permit a non-binding shareholder vote to approve the compensation of Trustmark's executives.

### **Document Retention**

Trustmark is in the process of implementing a document retention policy for all TARP CPP related information and communication.

**Certification Statement**

I certify that I have reviewed this response and 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, in light of the circumstances under which such statements were made, not misleading.

A handwritten signature in black ink, reading "Richard G. Hickson". The signature is written in a cursive style with a horizontal line underneath the name.

Richard G. Hickson  
Chairman of the Board, President  
and Chief Executive Officer  
Trustmark Corporation