

CDCI ANNUAL USE OF CAPITAL SURVEY - 2013



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Vernon Bancshares, Inc.

| | | | |
|-----------------------------------------------|-----------------------|------------------------------------------------------------------|---------|
| Person to be contacted regarding this report: | Samuel Andrew Johnson | RSSD: (For Bank Holding Companies) | 382537 |
| UST Sequence Number: | 1199 | Holding Company Docket Number: (For Thrift Holding Companies) | |
| CPP/CDCI Funds Received: | 6,245,000 | FDIC Certificate Number: (For Depository Institutions) | 51 |
| CPP/CDCI Funds Repaid to Date: | 0 | Credit Union Charter Number: (For Credit Unions) | |
| Date Funded (first funding): | Sep 29, 2010 | City: | Vernon |
| Date Repaid ¹ : | N/A | State: | Alabama |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

| | | |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | Increase lending or reduce lending less than otherwise would have occurred. | Loan Demand in rural areas is still pretty weak. We have been able to maintain a very high loan to deposit ratio compared to our peers and most banks in general. We are the primary lender in our market and continue to make small business loans. |
| <input type="checkbox"/> | To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.). | |
| <input checked="" type="checkbox"/> | Increase securities purchased (ABS, MBS, etc.). | We have maintained a higher level of securities in recent years as a percent of assets than we would have at our current size. Most of our purchases have been bullet maturities and lower risk weighted assets which have a more stable WAL, while providing liquidity. |

| | | |
|-------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | Make other investments | We have invested in FDIC and NCUA secured CD's as an alternative to Fed Funds. These do not provide liquidity as bonds do, but we have used these to fulfill our internal goals as a CDFI for investing in other CDFI's when feasible. This allows those CDFI's to fund their loan demand. |
| <input checked="" type="checkbox"/> | Increase reserves for non-performing assets | We have maintained a higher than normal ALLL while holding the CDCI capital. We have also been able to maintain and grow our capital during this period. |
| <input checked="" type="checkbox"/> | Reduce borrowings | While we planned to reduce borrowings as the economy slowed several years ago, having CDCI capital allowed us to do this in a manner that reduced expenses and improved the overall efficiency of the bank. |
| <input type="checkbox"/> | Increase charge-offs | |
| <input type="checkbox"/> | Purchase another financial institution or purchase assets from another financial institution | |
| <input type="checkbox"/> | Held as non-leveraged increase to total capital | |

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

We have remained committed to small business lending in our target markets in the face of some very sluggish loan demand. The capital from the CDCI program allows us to maintain a higher loan to deposit ratio than we would likely have been able to otherwise. We hope that the local economy will improve and we can put more of the capital to work in the next 12-24 months, while seeing more organic growth. Due to the terms of the CDCI program we can focus on that type of growth, rather than short term success that might not be in the best interest of our target market.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The ability to reduce wholesale funding in a manner that saved us significant amounts of interest expense, provided a bump to earnings and capital that would not have happened otherwise. During a time of turbulent interest rate markets, we were able to find significant discounts for prepaying wholesale borrowings that would not have been an option without the capital from the CDCI program. We did not use the capital directly, but rather were able to use the funds set aside for repayment at an earlier time as markets presented very unusual and favorable repayment terms.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.