

CPP ANNUAL USE OF CAPITAL SURVEY - 2012

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bank/First Alliance Bancshares, Inc.

Person to be contacted regarding this report:	Melanie L. Cooley, EVP	RSSD: (For Bank Holding Companies)	36440041
UST Sequence Number:	1209	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	3,422,000	FDIC Certificate Number: (For Depository Institutions)	35245
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Cordova
Date Repaid ¹ :	N/A	State:	Tennessee

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.	12/31/12 Loan portfolio totaled \$95,799,463. The loan portfolio grew by \$4,222,410 or 4.6% from 12/31/11 (\$91,577,053) to 12/31/12. C&I lending increased from 19.5% of the loan portfolio at 12/31/2011 to 25.30% of the loan portfolio at 12/31/2012.
<input checked="" 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.).	The bank continues to be successful in its strategic plan to diversify the loan portfolio mix from its traditional market residential real estate to small business, commercial and owner occupied real estate loans.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	12/31/2012 ALLL was \$2,243,917 or 2.34% of the loan portfolio. 2012 contribution totaled \$235,707. 12/31/2012 OREO Reserve was \$197,481 or 4.41% of total OREO. 2012 contribution totaled \$197,481.
<input checked="" type="checkbox"/>	Reduce borrowings	FHLB Borrowings were reduced by approximately \$2 million from \$8,556,437 at 12/31/11 to \$6,500,000 at 12/31/12.
<input checked="" type="checkbox"/>	Increase charge-offs	12/31/2012 net charge-offs totaled \$248,926 compared to \$1,510,319 at 12/31/2011 and \$656,894 at 12/31/2010.
<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?

The CPP funds are directly related to the bank's ability to maintain well capitalized status and continue its lending programs. The bank continues to be successful in its efforts to diversify the loan portfolio from the traditional 1-4 family construction loans, residential lot loans and residential development loans to commercial and industrial loans including small business loans, asset based lines of credit and equipment loans in addition to owner-occupied real estate loans.

The bank has been successful in its efforts to shift the real estate risk in the loan portfolio and remains in compliance with the interagency regulatory CRE guidelines of 100%/300% at 12/31/2012.

Year-End Portfolio Mix by Call Report Categories:

	12/31/2012	12/31/2011	12/31/2010
Construction	11.40%	12.50%	15.80%
1-4 family	28.5%	30.80%	29.40%
Multifamily	1.50%	1.60%	1.40%
Non-Farm			
Non-Residential	30.60%	32.60%	31.90%
(Owner-Occupied)	(20.0%)	(20.75%)	(21.63%)
C&I	25.30%	19.50%	18.60%
Consumer	2.70%	2.80%	2.90%

The CPP funds are also directly related to the bank's ability to maintain adequate capital ratios and fund new loans.
12/31/2012 capital ratios: 8.33%, 10.53% and 11.79%

2012 New Loan Commitments:	Consumer	Commercial
	\$1,089,660	\$16,191,155

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

CPP funds allowed the bank to retain a very experienced senior lender to manage the lending staff. The senior lender has been successful in developing a strong small business lending program which focuses lender efforts towards small business relationships versus the bank's historical transactional market real estate loans.

CPP funds enabled the bank to allocate experienced personnel in the areas of special assets, credit administration and compliance to manage problem loans, other real estate owned and other repossessed assets. The bank continues to devote substantial resources in these areas to ensure the best possible results.

Also, the CPP funds assisted the bank in covering the hard costs associated with managing and carrying problem assets, other real estate owned and other repossessed assets. The "other loan and collection expense" continues to be a substantial portion of the bank's budget.

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.