ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Crescent Financial Corporation

Person to be contacted regarding this report:	Bruce W. Elder
UST Sequence Number:	201
CPP Funds Received:	24,900,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Jan 9, 2009
Date Repaid[1]:	N/A

RSSD: (For Bank Holding Companies)	3027709
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	35006
City:	Cary
State:	North Carolina

[1]If 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). To answer that question, Treasury is seeking responses that describe generally how the CPP 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 investment was deployed or how many CPP 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 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 funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	We have been able to reduce lending less than otherwise would have occurred given current economic conditions. We created a successful "special" financing product for purchasers of homes held in inventory by our residential home builder customers.
☒	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.).	Residential mortgage loans
☒	Increase securities purchased (ABS, MBS, etc.).	We made significant investments in GSE issued residential home loan securities.

☐	Make other investments	
☒	Increase reserves for non-performing assets	While we would have increased reserves on non-performing loans with or without the CPP funds, the funds allowed us to increase reserves without a detrimental impact on the Company's risk based capital ratios.
☐	Reduce borrowings	
☒	Increase charge-offs	Again, the receipt of the CPP funds were not the reason that charge-offs increased, but it allowed the Company to charge-off non-performing assets without having a detrimental impact on capital ratios.
☐	Purchase another financial institution or purchase assets from another financial institution	
☐	Held as non-leveraged increase to total capital	

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

Participation in the CPP program has allowed us some flexibility with respect to when we raise additional capital. In hindsight, based on what the balance sheet would have looked like at December 31, 2009 had we not participated in the program, the bank subsidiary still would have remained "well capitalized." However, in late 2008 the outlook for the US economy and the banking industry was very uncertain. Had we elected to not participate in the CPP program and economic conditions caused losses far in excess of what we actually experienced, we would have had a critical need to raise capital in a very difficult capital markets environment (at least for community banks). If capital were made available to Crescent, the price would have caused our current shareholders a tremendous amount of dilution. The CCP program provided Crescent with an insurance policy.

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

We were able to develop a "special" financing program to help stimulate residential home sales in our markets. We introduced a program offering 3.95% financing for a 10 year fixed rate mortgage with a 30 year amortization period. As this was designed to be a portfolio product, there was only a $250 origination fee and private mortgage insurance was not required. The offer required a down payment equal to 10% of the loan amount. This loan financing was offered to the end purchaser of any new construction residential home that Crescent was financing for a builder loan customer. This offer was also extended to any foreclosed assets held by Crescent. The program was designed to help our builder customers move inventory and help those credit worthy individuals who were first-time or move-up home buyers.

During 2009, we closed 24 such loans totaling $10.1 million. Had we not participated in the CPP program, this program would have been difficult to offer. To date this has been a successful way to help our builder clients move stale inventory in the markets we serve.

We were informed by our external accountants recently that guidance issued by the Comptroller of the Currency in December 2008 could impact the potential successes of this program. Loans made at less than market value, which could be construed as a concession, would require the bank to record a charge to the allowance for loan losses in an amount equal to the difference between the present value of cash flows using the stated loan rate and that using a market rate. The quantified amount of the adjustment for Crescent in 2009 was immaterial , but as rates begin to rise and loan volumes increase, the difference between the present value calculations will widen and become more material.

This new development has caused Crescent to modify the special financing program. Rates offered to end purchasers of our builder loan client's inventory will now be based off the comparable 10/1 ARM market rate at the time the loan is approved. While the program will continue to offer some benefits to the purchaser as compared to obtaining financing in the traditional mortgage lending space, the rate will cause the product to not be as attractive as it once was, and therefore, we would anticipate that the volume of lending under this special program to moderate in 2010.

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