



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Farmers & Merchants Bank - F&M Bancshares, Inc +

Person to be contacted regarding this report:	Laura L McAlexander	RSSD: (For Bank Holding Companies)	1135806
UST Sequence Number:	650	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Received:	8,144,000	FDIC Certificate Number: (For Depository Institutions)	08439
CPP Funds Repaid to Date:	0	City:	Trezevant
Date Funded (first funding):	01/31/2009	State:	Tennessee
Date Repaid ¹ :	N/A		

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). 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).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	CPP Funding has greatly aided this small bank's effort to boost lending activities within its four county service area.
<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.).	Home mortgages have risen by 25% year over year. Funds used for 2.9 million (13%) increase in agricultural-based lending(crop production& long term land loans) 1.8 million const/perm loan for student housing at Bethel University and over 3 million in new church expansion loans are noted.
<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	Reserves were boosted in 2009 by 1.4 million with funds used to write down toxic assets. High levels of Reserve Provisions are anticipated for the foreseeable future.
<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	Asset losses exceeding 1.2 million were absorbed last year.
<input checked="" type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	4 million in CPP funds currently held at parent company level awaiting further investment. The bank is in negotiations with FDIC to potentially acquire some failed bank assets.
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	See above response

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

Helped to head off a mounting credit crisis for many F&M customers and kept the flow of credit to small businesses and consumers. Funds enabled the bank to fully accommodate credit needs of existing customers and to add new high quality loan clients. Farmers and Small Business operators received credit necessary to operate and in some cases expand. The Agriculture segment continues to thrive but input costs have necessitated more credit availability to accommodate production costs. CPP funds kept bank from having to "cut back" on new loan fundings.

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

The increased capital enabled Farmers & Merchants to actively promote single family home lending via its Express Mortgage Program and capacity to lend. As noted earlier, year over year home mortgage growth exceeds 25%.

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

It permitted loan growth in many segments and helped solidify the institution's reputation as a "fortress bank" which reassures existir