



## ANNUAL USE OF CAPITAL SURVEY - 2009

### NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First M&F Corporation and bank subsidiary Merchants and Farmers Bank

Person to be contacted regarding this report:	John G. Copeland	RSSD: (For Bank Holding Companies)	1095982
UST Sequence Number:	344	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Received:	30,000,000	FDIC Certificate Number: (For Depository Institutions)	9361
CPP Funds Repaid to Date:	0	City:	Kosciusko
Date Funded (first funding):	Feb 27, 2009	State:	Mississippi
Date Repaid <sup>1</sup> :	N/A		

<sup>1</sup>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).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	In view of the Bank's additional capital funding from TARP, the Bank did not consider in any way any overall curtailment of lending activities, with the exception of the intentional reduction of disproportionate risk categories such as Acquisition, Construction and Development.
<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.).	Leveraged initial receipt of \$30 million and push-down to bank sub of \$20 million by buying \$80 million of MBS/Agency securities in the face of low loan demand **. Discontinued leveraging program as yields fell.

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Initially, FMFC injected \$20 million of \$30 million received to bank subsidiary M&F Bank (February, 2009). Throughout 2009 M&F Bank recognized impairments through provision for loan loss/reserve for loan loss on collateral-dependent construction and development non-perf loans
<input checked="" type="checkbox"/>	Reduce borrowings	The additional TARP funding has also partially supported the Bank's de-leveraging program by providing a portion of the additional liquidity needed to support the reduction of wholesale funding on the balance sheet.
<input checked="" type="checkbox"/>	Increase charge-offs	Impairments supported by the TARP funds were charged off throughout 2009.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	From February, 2009 to September, 2009 First M&F Corporation retained \$10 million of the \$30 million TARP at the parent. At September 30, 2009 parent injected \$5 million into bank capital, leaving \$5 million in cash at the parent company.

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

Capital infusion allowed bank subsidiary M&F Bank to remain "well-capitalized" while recognizing \$50 million in impairments during 2009 by reserving for (primarily) impaired collateral-dependent construction and development loans. This allowed the bank to avoid:

1. attempting to access the capital markets at a time when new capital was not available or, if available, at a time when such capital would have been issued at severely unfavorable terms and
2. decreasing banking services offered, decreasing retail and consumer deposit product choices and drastically shrinking the balance sheet at the cost of severely limiting customer services and access to products.

\*\* although loan demand is down by dollar volume, our loan volume in number of loans is increasing as we focus more on small business and consumer lending.

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

The Company was able to maintain the Bank's "well-capitalized" status.

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