

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

F&M Financial Corporation

Point of Contact:	C. DeWayne Olive, EVP/CFO	RSSD: (For Bank Holding Companies)	#0741330
UST Sequence Number:	778	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	17,243,000	FDIC Certificate Number: (For Depository Institutions)	9963
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	February 13, 2009	City:	Clarksville
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).

Increase lending or reduce lending less than otherwise would have occurred.

During the twelve months following the CPP injection, F&M Bank increased real estate lending (residential & commercial) 7% or \$35M. This category represented 95% of total lending increase. Life to date F&M has maintained the increase in real estate loans.

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.).

Life to date 1-4 family loans incr \$24.8M; multi-family incr \$1M; land development decr \$5.9M; 1-4 construction decr \$22.4M; HELOC incr \$18.7M; commercial decr \$6.7M; comm R/E incr \$20.3; agriculture incr \$3.5M; Farmland incr \$306K; consumer decr \$6.1M

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Increase securities purchased (ABS, MBS, etc.).

Investment in CMO's and MBS's (GNMA / FNMA / FHMC) increased from \$43.8M in 02/09 to \$51.7M at 05/11.

Make other investments.

Increase reserves for non-performing assets.

General loan loss reserve increased \$1.1M since receipt of CPP funds.

Reduce borrowings.

Retired an \$8M holding company loan with CPP funds.

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Increase charge-offs.

In November 2009 F&M Bank charged off \$8.2M related to borrower loan fraud. CPP funds assisted in absorbing the charge to capital. Claim was filed against bond carrier - remains open with bond carrier at 06/2011.

Purchase another financial institution or purchase assets from another financial institution.

Held as non-leveraged increase to total capital.

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

With the infusion of the CPP funds, F&M has been able to maintain its lending program throughout its franchise area. This funding was even more crucial given the unanticipated \$8.2M November 2009 loan fraud charge off. In addition to the CPP infusion, F&M issued \$7.5M in capital through a wholly-owned REIT during Q309. CPP and REIT capital was timely in allowing F&M to continue lending and avoid a stressed capital raise during the worst economic times for a raising financial institution capital.

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

F&M Bank has continued actively marketing for good credit loans, both residential, small business, agriculture, and commercial. F&MFC repaid a holding company loan which lowered F&M's interest costs, and importantly provided a significant loan reduction to the lending community bank at a time when the lending institution needed to reduce loan balances. F&M's CPP funding assisted two community banks.

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

Refer to previous response.