



March 5, 2009

Sent electronically to:
SIGTARP.response@do.treas.gov

Original mailed to:
Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

This is in response to your letter of February 6, 2009 requesting information regarding Crescent Financial Corporation's use of TARP funds and our compliance with EESA's executive compensation requirements.

As you know, on January 9, 2009 Crescent Financial Corporation received \$24.9 million under the U.S. Treasury Capital Purchase Program. We issued 24,900 non-voting shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock and provided the U.S. Treasury with warrants to purchase additional shares of our Company's common stock as part of the conditions under the Treasury's Capital Purchase Program.

Having received the funds seven weeks ago, Crescent is still in the process of fully developing its plan to deploy the TARP funds. To date we have allocated the full \$24.9 million towards establishing an in house residential mortgage lending program. Specifically, the dollars will be available to first-time homebuyers as well as consumers who wish to purchase certain more expensive homes. The benefits to consumers that take advantage of the program include long term amortizations, below market interest rates and little to no origination fees. As of this writing we have not closed on any of the loans, however, we do have six loans pending for approximately \$900,000. These loans are anticipated to close within the next 30 days. We have worked with the realtors marketing these homes and have included the special financing details in the local Multiple Listing Services. The objective with the above referenced actions is to make credit available to qualified borrowers, stimulate the economy in each of the communities we serve and assist builders in the sale of their homes so that they can begin new homes while at the same time gaining additional customers for our franchise through these mortgage lending products. Crescent would not have been in a position to offer its special reduced-rate financing program had we not received the TARP funds. The current economic environment has produced an excess of newly constructed, but unsold, homes in many of the areas Crescent serves. TARP funding has placed Crescent in a position to facilitate the purchase of homes with its special-interest financing, which should benefit homebuilders, home buyers and the economy in general.

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The funds invested in Crescent by the Treasury have not been segregated from other institutional funds.

Each of the executive officers executed an executive compensation modification agreement prior to the closing of the transaction with the Treasury. This agreement was designed to ensure that compliance with the executive compensation rules that apply to institutions that participate in the Capital Purchase Program would be achieved on an ongoing basis. To date, Crescent has never had any member of executive management receive annual monetary compensation of \$500,000 or more.

Crescent's compensation committee met on February 17, 2009 and fulfilled its obligations within the Department of Treasury guidelines. The committee determined that the compensation arrangements do not encourage the senior executive officers to take unnecessary and excessive risks that would threaten the Company's value. The compensation committee is satisfied the Company is aware, concerned and proactive regarding these risks.

Crescent has received media coverage regarding the acceptance and closing of the TARP funds. Additionally, we advised our customers and shareholders of our receipt of TARP funds through a direct mailing. The media has also publicized our use of proceeds and we have had numerous conversations with the local home builders and realtors. We will preserve all print media, internal communication and other memoranda describing the anticipated use of the funds.

As President and CEO of Crescent Financial Corporation, I certify the accuracy of the statements made in this letter and the supporting documentation.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael G. Carlton". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael G. Carlton
President & CEO