Guaranty Bank Strength. Growth. Vision.

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March 6, 2009

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, D.C. 20220

Re: TARP Response

VIA ELECTRONIC MAIL:
SIGTARP.response@do.treas.gov

Dear Mr. Barofsky:

Pursuant to your request dated February 6, 2009, the following is Guaranty Federal Bancshares, Inc. response to the utilization and impact of the $17 million in CPP funds received on January 30, 2009.

(1) Narrative response outlining (a) anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) actual use of TARP funds to date; and (d) anticipated use of unspent TARP funds.

(a) Anticipated Use of TARP Funds

- Protect against additional credit loss exposure as the economic conditions continue to worsen and the bank's Adversely Classified Assets in relation to Tier 1 Capital and the Allowance for Loan and Lease Losses has increased;
- Reduce concentration exposure to commercial real estate related credits as a percentage of capital. As of December 31, 2008, Guaranty Bank's total commercial real estate credits represent approximately 518 percent of risk based capital, a significant concentration of credit;
- Allow for loans to be made prudently and responsibly to creditworthy borrowers;
- Enable management to work with borrowers to preserve homeownership and avoid preventable foreclosures;
- Enable bank to allow existing creditworthy customers to draw on existing lines of credit to complete projects in the community and to obtain affordable financing to keep their homes;
- Maintain a strong capital position to bolster the bank's ability to withstand uncertain market conditions.

(b) Segregation of TARP Funds

- The TARP funds were not segregated from other institutional funds; however, management has devised a tracking sheet to monitor the use of all TARP proceeds on an ongoing basis.

(c) Actual Use of TARP Funds

Guaranty Federal Bancshares, Inc., a one-bank holding company, received $17 million in TARP funds from the U.S. Treasury on January 30, 2009.

- From the funds received, the holding company utilized $1,435,190 to pay off existing debt [redacted] and injected $12 million of capital funds into Guaranty Bank.

- Management continues to aggressively identify credits negatively impacted by the deteriorating economy, largely associated with declining real estate values in the personal and commercial markets. As such, management has made significant provisions to the Allowance for Loan and Lease Loss (ALLL) account to allocate for the risk exposure in the loan portfolio. As of January 31, 2009, the ALLL represents 2.39 percent of total loans;

- Reduced exposure to the bank's commercial real estate concentration from 518 percent of risk based capital to 428 percent after receipt of the TARP funds on January 30, 2009.

- During February 2009 the mortgage department of Guaranty Bank closed 61 loans totaling $7,970,178. Additionally, in the bank's pipeline for future closings are 58 loans totaling $7,367,315. Guaranty Bank continues to meet the mortgage credit needs of the community.

- During February 2009 the bank provided 117 new commercial and business loans totaling $16,468,415. In addition, due to the increased capital we were able to continue to provide credit to the business community by renewing 28 loans totaling $15,745,241. We remain dedicated to working with existing borrowers through these difficult economic times.

- Additionally, the bank is able to provide continued support to existing customers with projects to support community development and employment. The increase in capital provides additional support for our current unfunded commitments totaling $83.8 million.

- Management has been able to facilitate the purchase of $11.4 million in mortgage-backed securities since receipt of TARP funds [redacted]

- Management has purchased $20.5 million in U.S. Government Agency Securities since receipt of TARP funds.

- Management has committed to purchase $3 million in low income housing investments throughout southwestern Missouri.

- Improvement of the bank's reliance on non-core funds as evidenced by the Net Non Core Funding Dependence Ratio that declined from 39.9 percent at year-end 2008 to 27.6 percent as of January 31, 2009 with the TARP capital injection and core deposit initiatives.

(d) Anticipated Use of Unspent TARP Funds

- Continued support of estimated losses that arise in the loan portfolio as borrowers continue to suffer through economic vagaries.

- Assistance in reducing the bank's exposure to commercial real estate related credits.

- Meet credit needs by extending additional loans to credit worthy borrowers in the community and support local projects with existing customers.

- Assist bank in working with existing borrowers to avoid preventable foreclosures and mitigate other potential mortgage-related losses.

- Remain less reliant on non-core funding sources to support the bank's long term assets.

(2) Specific plans and the status of implementation of those plans, for addressing executive compensation requirements associated with funding. Information regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with the Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

a. In order to comply with the Emergency Economic Stabilization Act of 2008 executive compensation requirements, the Board of Directors at Guaranty Bank have implemented the following actions;

   - In January 2009, a coordinated review was conducted by the Compensation Committee and Director of Risk Management to ensure that the 2009 bonus plans do not incent or otherwise encourage the bank's senior executive officers to take unnecessary or excessive risks.
   - Specific measures are in place to ensure that as TARP funds are utilized to enhance the bank's overall financial position and senior executive officers are not incented to perform in a manner inconsistent with the bank's goals. Incentive plans are related to specific goals such as: growth in core deposits thereby reducing reliance on non-core funds, improvement in earnings performance, reduction in commercial real estate concentration exposure, proactively identifying and managing credits that show signs of weakening, and enhancing shareholder return.
   - Specific incentive plans have triggers for eligibility in consideration of a potential bonus payout which require satisfactory reviews by the Board of Directors after consideration of external audits, regulatory examinations, and any other applicable reviews.
   - All plans have the required clawback provisions for each senior executive officer of the bank.
   - The independent Risk Management department within the bank will monitor the risks and controls of the bank on an ongoing basis and report findings directly to the Compensation Committee and Board of Directors.
   - The executive compensation plans prohibit any golden parachute payments to senior executive officers.

Without the infusion of TARP funds, Guaranty Federal Bancshares, Inc. would have been hard pressed to find additional capital sources in the current turbulent economy. As stated above, the TARP funds have allowed the holding company to reduce debt and inject capital into Guaranty Bank. The injection to the bank has been a positive movement toward ensuring that Guaranty Bank can continue to meet the needs of the community as we have since 1913.

I, hereby certify that the information provided in this memorandum and all supporting documentation is accurate and reliable.

/Shaun A. Burke/

Shaun A. Burke

Date

President and Chief Executive Officer