



Parent Company of
TnBank



A Subsidiary of
Tennessee Valley Financial Holdings Inc.

March 6, 2009

Special Inspector General – TARP
1500 Pennsylvania Avenue, N.W., Suite 1064
Washington, DC 20220

Dir Sir:

This letter is in response to your letter of February 6, 2009, regarding the use of funds received by Tennessee Valley Financial Holdings, Inc. (the "Company") under the Troubled Asset Relief Program (TARP).

During the third quarter of 2008, Fannie Mae and Freddie Mac were both taken into receivership by the U.S. Treasury. Although the receivership action allowed the guarantee of debt, it virtually eliminated the value of all equity holdings. At 9/30/2008, TNBANK (the "Bank"), the bank subsidiary of the Company, wrote down these GSE holdings by approximately \$2,040,000. This non-cash charge was disclosed by a news release and specific shareholder letters. In spite of this unexpected event, the bank remained "well-capitalized" by regulatory standards. However, this unanticipated happening, along with the deepening recession, rising unemployment, and other events of uncertainty, including the decline in collateral values, especially real estate, prompted Bank management to consider participation in the Troubled Assets Relief Program (TARP) as a reasonable and viable option. It was anticipated that this supplemental capital was offered at a reasonable cost to the bank and could insure the flexibility of operations, including capital maintenance, during a declining and uncertain environment. The three million dollars of TARP funds that were received by the Company were integrated into the Bank's capital account in late December 2008. These funds were not segregated from other capital funds. This was a substantial help in mitigating the GSE loss. The inclusion of the TARP funds in capital has allowed the bank to maintain a higher capital level and contributes a degree of flexibility in dealing with troubled or potentially troubled borrowers. Since the infusion of TARP funds in late 2008, we have begun to identify consumer borrowers and small business borrowers with whom we have been able to work to mitigate the deteriorating economic environment. This is continuing in process and range from the orderly surrender of collateral to term and rate concessions where warranted. Additionally, the TARP infusion has allowed the bank to continue normal lending processes within prescribed regulatory guidelines and insures capital adequacy.

MAIN OFFICE

401 South Illinois Avenue • Oak Ridge, TN 37830
Phone (865) 483-9444 • Fax (865) 483-3535

WWW.TNBANK.NET

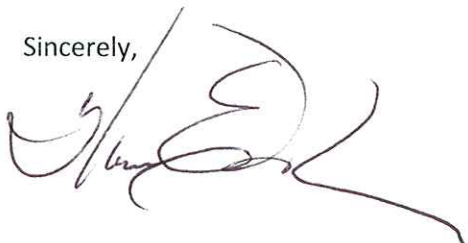
As you are aware, the acceptance of TARP funds required the execution of the Officer's Certificate concerning executive compensation. Within the Securities Purchase Agreement, five executive officers of the Company and the Bank were required to sign a Senior Executive Officer Waiver. (b) (4)

(b) (4)

Since the TARP injection was made the last week of December, we have only begun to develop budgets reflecting its inclusions. Due to the changing economic environment, our Board has opted to operate with a 6-month budget. I have attached a copy for your reference. I trust you will recognize the bank's limitations of executive compensation, both salaries and bonuses and curtailment of Board compensation. These were in place prior to the TARP application and subsequent capital purchase. These actions indicate our commitment to the well being of the institution, its capital preservation, and our efforts to maintain our ability to meet the needs of our community.

I certify the accuracy of all statements, representation, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,



Thomas E. Tuck, President & CEO

TNBANK

Account Number: 1012657
 Item Date: 12/23/2008
 Item Number: 2000006000030
 Amount: 3000000.00



■ ■ ■ ■ ■ **Checking Debit**

WE DEBIT YOUR ACCOUNT AS FOLLOWS:

DATE 12/23/08

move TARP money to Bank	3000000.00
to Surplus account	
TOTAL	3000000.00

BY: *[Signature]*
[Signature]
 ACCOUNT NUMBER 1012657

Tennessee Valley Financial
Holdings, Inc.

T/C _____

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General Ledger CREDIT Date: 12/23/08

Surplus

Treasury funds wired in from Bank of New York to TVEH, Inc. for TARP Program	
Prepared By: <i>[Signature]</i> Approved By: <i>[Signature]</i>	ACCOUNT NUMBER: 90041000 TOTAL AMOUNT: \$ 3000000.00

⑆5900⑉0425⑆

1 ITEM(S)

THB GL-90041000 12-23-2008 3,000,000.00

TNBANK
First 6 Months 2009
Statement of Condition (\$000)

Account Name

Assets

Total Cash & Due from Banks

Bank Owned Certificates Of Dep

Total Investment Securities

Fed Funds Sold

Non-Accrual Loans

Gross Loans

Deferred Fees

Reserve For Loan Losses

Net Loans

Total Bank Premises and Equipment

Total Interest Receivable

Total Other Assets

Total Assets

Liabilities & Equity

Total Demand Deposits

Total Time Deposits

Regular Savings

Treasury Tax & Loan

Total Deposits

Total Funds Purchased

Total Accrued Taxes Payable

Total Other Accrued Expenses

Total Accrued Interest Payable

Total Other Liabilities

Total Liabilities

Total Equity

Total Liabilities & Equity

Tier 1 Capital as % Total Assets

(b) (4)

TNBANK

First 6 Months 2009

Income Statement (\$000)

Account Name

Total Interest Income on Loans
Total Service Charges - Loans
Total Interest Income - Investments
Total Interest Income
Total Interest Expense
Net Interest Margin
Provision For Loan Losses
Net Interest Margin after Provision
Total Service Charges - Deposits
Total Service Charges - Other
Total Non-Interest Income

Total Salaries
Total Employee Benefits
Total Occupancy Expense
Total Equipment Expense
Other Operating Expense
Total Operating Expense
Other Expense
Total Non-Interest Expense

Net Income Before Taxes
Total Tax Expense
Net Income

