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Oak Ridge Financial Services
Banking As It Should Be
P.O. Box 2
Oak Ridge, NC 27310

March 13, 2009

Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Re: Oak Ridge Financial Services, Inc. use of TARP funds and Compliance with EESA's executive compensation requirements

Dear Mr. Barofsky:

We appreciate the opportunity to respond to your inquiry to us on February 6, 2009. Listed below you will find our answers to your request for information concerning our use of TARP funds.

Oak Ridge Financial Services, Inc. Anticipated Use of TARP Funds

On January 31, 2009, Oak Ridge Financial Services, Inc. received $7.7 million in TARP funds from the U.S. Treasury. To date, we have not utilized these funds and they remain at Oak Ridge Financial Services, Inc. However, we believe that we will begin to utilize these funds in 2009, and as they are needed the funds will be pushed down to the Bank of Oak Ridge (the Bank's holding company) to allow us to fund future growth.

The Bank has already developed three innovative programs that we believe meet the spirit and intent of the usage of the TARP proceeds. These programs are discussed in more detail below:

1. Bank of Oak Ridge Jumbo Mortgage Financing Program – this program attempts to meet the needs of our homebuilder customers and the needs of our community by providing mortgage financing to end purchasers of homes for which we have provided construction financing. For qualified borrowers, we are providing mortgage rates of 4.99% (for 5 years fixed, upon which it converts to a one-year adjustable rate mortgage) or 5.99% (fixed rate for 30 years). Jumbo mortgage financing is only available sporadically and at high rates in our market so we believe this fulfills a critical need to help our local community rebound from our recession. We plan to utilize TARP funds to fund this program, and we are actively marketing this program on our website and through other local advertising channels.
2. Bank of Oak Ridge Conventional Mortgage Program – in the conventional mortgage market, availability of financing for qualified buyers has largely been met by lenders other than Bank of Oak Ridge that have the economies of scale we do not possess to offer such financing at competitive rates and terms. However, prospective purchasers of homes often need some help to allow them to purchase homes. Therefore, for homes that we have financed for our homebuilder customers that are likely to be below the jumbo mortgage level, we are offering to pay the 1% origination fee and provide up to $600 towards closing costs. We plan to utilize TARP funds to fund this program, and we are actively marketing this program on our website and through other local advertising channels.

3. Bank of Oak Ridge Lot Financing Program – on lots that we have financed for homebuilder customers, we will offer special financing for qualified borrowers that want to buy and hold these lots for investment purposes, and offer the availability of construction permanent financing for qualified borrowers that want to build their own home. We plan to utilize TARP funds to fund this program, and we are actively marketing this program on our website and through other local advertising channels.

We have not yet done so, but could contemplate utilizing TARP funds for the following purposes:

- Allowing Bank of Oak Ridge to continue to make loans to meet the needs of our local community;
- Allowing Bank of Oak Ridge to remain well-capitalized, which is a key attribute of safety and soundness;
- Making contributions to community activities that we believe will contribute to hastening the community's recovery from the economic recession;
- Allowing Bank of Oak Ridge to absorb losses on foreclosed properties and on problem loans; and
- Other activities that we deem necessary to either meet the needs of our local community or our Bank.

Segregation of TARP Funds From Other Institutional Funds

The $7.7 million in TARP funds received by the Treasury on January 31, 2009, remains segregated in a Bank of Oak Ridge money market account.

Actual Use of TARP Funds to Date

To date, we have used less than $10,000 in TARP funds in developing and marketing the programs described above.

Expected Use of Unspent TARP Funds

The expected use of unspent TARP funds is described in the section above ("Oak Ridge Financial Services, Inc. Anticipated Use of TARP Funds").

Our Specific Plans, and the Status of the Implementation of Those Plans, for Addressing Executive Compensation Requirements Associated With the Funding

Our company plans to comply with the executive compensation requirements associated with the TARP program.

The board of directors and the executive officers of Oak Ridge Financial Services are aware of the executive compensation limitations associated with TARP and with receipt of Capital Purchase Program funds, including

1) Under the Emergency Economic Stabilization Act of 2008 and implementing rules and guidance issued by the Treasury Department in 2008 and in 2009:

- the requirement that incentive compensation arrangements exclude incentives for senior executive officers to take unnecessary and excessive risks that threaten the value of the company,

- the required recovery of bonus or incentive compensation paid based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate,

- the prohibition against payment of so-called golden parachute payments to a selected class of officers, and

- the $500,000 compensation deduction limit for compensation paid to a selected class of officers, and

2) Under the American Recovery and Reinvestment Act of 2009:

- the required annual submission of executive compensation arrangements to a non-binding, advisory vote of shareholders,
- under rules to be established by the Treasury Department, the prohibition of all bonus and incentive awards (other than restricted stock under limited conditions) to a selected class of officers, including at the very least the most highly compensated executive in the case of a company that, like Oak Ridge Financial Services, received less than $25 million of Capital Purchase Program funds,
- the required establishment of an independent compensation committee of the board,
- the mandatory adoption by the board of a policy governing luxury expenditures, and
- the potential claim by the Treasury Department for reimbursement of bonuses or other compensation paid to a selected class of officers before enactment of the American Recovery and Reinvestment Act of 2009.

As your office is aware, the new executive compensation limitations of the Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 are without precedent in Federal law, are barely five months old but have nevertheless changed significantly within that short period, are not absolutely clear and settled in all cases in which the limitations potentially apply, and in some cases will not even be effective until the Treasury Department issues additional rules and guidance. Nevertheless, we are working diligently to determine precisely how these new executive compensation limitations apply to the executive compensation arrangements of Oak Ridge Financial Services and Bank of Oak Ridge. The new executive compensation limitations will be taken into account by the board and by the board's compensation committee in future compensation decisions.

As required by section 111(e) of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009, at the 2009 annual meeting of shareholders Oak Ridge Financial Services will permit a separate shareholder vote to approve the executive compensation disclosed in Oak Ridge Financial Services' proxy statement for the meeting. The proposal will be non-binding, and the results of the shareholder vote will be advisory only. Information about the proposal to approve executive compensation will be included in Oak Ridge Financial Services' proxy statement, which we expect to mail to shareholders in April 2009.

As a public company with securities registered with the SEC under the Securities Exchange Act of 1934, Oak Ridge Financial Services has been required for many years to adhere to SEC compensation disclosure principles, including rules requiring detailed disclosures of executive compensation actually paid and detailed disclosures of the basis upon which compensation decisions are made. Consistent with SEC disclosure principles and evolving compensation practices in the industry, Oak Ridge Financial Services had already established an independent compensation committee of the board long before the Emergency Economic Stabilization Act of 2008 became law. Since the formation of Bank of Oak Ridge in 2000 and the subsequent bank holding company formation of Oak Ridge Financial Services in 2007, the role of the Corporate

Governance, Compensation and Nominating Committee (the "Compensation Committee") has grown and become more demanding, reflecting the increased attention paid to public company executive compensation practices by the SEC, by the media, and by stockholder advocates in recent years, particularly in times of crisis that have led to the enactment of legislation such as the Sarbanes-Oxley Act of 2002, the Economic Stabilization Act of 2008, and the American Recovery and Reinvestment Act of 2009.

Comprised entirely of outside directors who are independent of management, the Compensation Committee of Oak Ridge Financial Services' board of directors adopted a resolution affirming the committee's review of executive compensation arrangements. After discussions about the executive compensation arrangements, the committee determined that the executive compensation arrangements of Oak Ridge Financial Services and Bank of Oak Ridge for senior executive officers and others affected by the TARP-related executive compensation rules and guidelines exclude incentives that would lead the senior executive officers and others to take unnecessary and excessive risks that threaten the value of the corporation.

We expect that the Compensation Committee's role will expand in the coming years, now that executive compensation practices are no longer merely a matter of the exercise by a board of its obligation to exercise sound business judgement but are now also a matter of compliance with Federal law. We are working with our accounting and payroll department to ensure compliance with the $500,000 compensation deduction limitation applicable to compensation of selected officers. We have reviewed the employment agreements and salary continuation agreements of senior executive officers to determine whether the new executive compensation limitations have any impact on those agreements. We have determined that the executive compensation limitations do indeed have an impact on those agreements (b) (4) [redacted]

We also maintain an omnibus stock option plan (known formally as the Oak Ridge Financial Services, Inc. Stock Ownership and Long-Term Omnibus Plan) under which we may grant stock options, restricted stock, stock appreciation rights, and performance-based awards, potential awards that enhance our ability to attract and retain employees of outstanding ability and our ability to establish incentive for employees to make material contributions to our success. The value of awards under the omnibus plan can be contingent both upon the market performance of our common stock and the achievement of financial and other performance objectives.

No awards were made to the senior executive officers in 2007 under the omnibus plan, none were made in 2008, and none have been made in 2009. The omnibus plan is administered by the independent Compensation Committee of Oak Ridge Financial Services' board.

Cash bonuses were paid in accordance with the Bank of Oak Ridge 2007 and 2008 Annual Incentive Plan. The Bank of Oak Ridge 2007 and 2008 Annual Incentive Plan awards improvement in areas such as net income, return on average assets, loan growth, average core deposits, net interest margin, non-interest income. This program reinforces a culture in which employees' interests are closely aligned with those of our shareholders, promoting consistent, long-term earnings growth and superior shareholder returns while maintaining exceptional credit quality, efficient deployment of non-interest expenses, and a strong correlation between expansion and profitability. In short, we believe the terms of the Bank of Oak Ridge 2007 and 2008 annual Incentive Plan are entirely consistent with the admonition of the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 that executive compensation exclude incentives for senior executive officers to take unnecessary and excessive risks that threaten the value of the company. The 2009 Annual Incentive Plan in addition to rewarding improvement in areas such as net income, return on average assets, loan growth, average core deposits, net interest margin, non-interest income, also includes targets for minimizing loan delinquencies and charge offs. We expect that the Bank of Oak Ridge Incentive Plan will expand to include more targets that discourage unnecessary risk taking, although this has not been an issue for us during our nine-year history. So long as Oak Ridge Financial Services has preferred stock investment from the Treasury Department, CEO Ron Black will be excluded from participation in the Bank of Oak Ridge Annual Incentive Plan.

With assistance as necessary from compensation consultants and other independent advisors, the board and its independent Compensation Committee will continue to review the evolving executive compensation limitations of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009, including regulations and guidance issued by the Treasury Department. The board and committee will continue to analyze the application of those limitations to the specific executive compensation practices of Oak Ridge Financial Services and Bank of Oak Ridge, making changes as necessary and seeking to establish and refine an executive compensation program that promotes the long-term interests of all shareholders in a sound and prosperous financial institution. We believe our executive compensation practices are consistent with that goal, but the process of review and refinement is, always has been, and will always be ongoing, even when the Treasury Department no longer holds our preferred stock.

Thank you for the opportunity to address your request for our plans with TARP funding. We appreciate the Treasury's confidence in Oak Ridge Financial Services, Inc. in providing us the TARP funds. Furthermore, as Chief Financial Officer, I certify the accuracy of all statements, representations, and supporting documentation provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,

<u>s/s Thomas W. Wayne</u>
Thomas W. Wayne
Chief Financial Officer
Oak Ridge Financial Services, Inc.