



March 4, 2009

Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W. Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky,

This is in response to your letter of February 6, 2009. Southern Community Financial Corporation (Southern Community) received \$42,750,000 in Troubled Asset Relief Program (TARP) funds under the Treasury's Capital Purchase Program (CPP) on December 5, 2008. We are primarily a commercial bank making loans to small businesses, builders and tradesmen supporting the homebuilding industry in our markets. We have numbered our response to correspond with the requests in your letter.:

(1) (a) This additional capital gives Southern Community the ability to leverage approximately 10 times the amount received from the Program. Prior to CPP, we had unsuccessfully tried to raise capital several times during 2008. Our capital ratios were only slightly above our internal policy limits and the regulatory definition of "Well Capitalized". With this new capital, we now have the ability to make new loans, to expand into new markets, to add new products and to work with our customers who may be struggling to repay their obligations. Without this capital injection, we would need to reconsider our growth plans.

(b) Since the CPP funds were invested as capital by the Treasury, we did not segregate these funds from other institutional funds. The nature of these funds allows us to count them as Tier 1 Capital for purposes of calculating our Risk Based Capital ratios. Contemporaneously with the receipt of these funds, warrants were issued for the purchase of our common stock. Under generally accepted accounting principles, the receipt of this capital was accounted for by recording the issuance of preferred stock in the amount of \$40.66 million and the issuance of warrants by increasing the Company's common stock by \$2.09 million.

(c) The funding provided by the CPP funds has been fully utilized through extension of 428 loans totaling over \$47.7 million during the period from December 5, 2008 through February 25, 2009. These loans were made throughout our market areas; however, only 10 of the loans are in excess of \$1,000,000 and the average loan size is \$115,647.

We have specifically started two programs to help our customers. We have developed a program for our builders to provide support of up to \$10,000 per house to qualified purchasers of certain of their homes. This money will be applied at closing to their down payment and should be viewed as an extra incentive to the purchaser. We have also begun a special mortgage loan program under which a borrower may finance their home purchase in amounts exceeding the conforming loan limits of \$417,000 with an adjustable rate mortgage loan (5 year/ one year adjustable rate mortgage) at a lower than market rate. Since the inception of this program, we have booked \$1.7 million in new mortgage loans. The loans are underwritten to normal national investor standards.

In addition, we have the following programs in place which we believe will positively affect the markets where we operate.

1. More latitude in our Balance Plus (overdraft) program for customers
2. Providing forbearance on loans to assist customers, largely builders and developers, in working through cash flow issues. We have a relatively smaller than average mix of residential mortgage loans in our portfolio as our lending is focused on small businesses, builders and tradesman.
3. Completing regional banking centers in our two newest markets- Asheville and Raleigh we have been operating in more limited facilities in both markets over the past few years.
4. Placing an ATM machine in downtown Winston-Salem with an option to open a full service branch at this location in the future
5. Developed a new free business banking product for small businesses to allow up to 500 free transactions
6. Developed an "Easy Access" certificate of deposit which allows customers to withdraw all or part of their balance, one time during the term of the certificate.

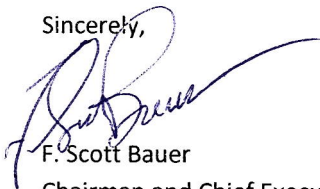
(d) We expect to continue to leverage the CPP capital as specified in (a) above.

(2) The five most highly compensated employees of the company have had the agreements governing their executive compensation and benefits amended to comply with CPP restrictions that were in place at the time of our receipt of CPP funds. At no time in the history of our company has any officer or employee been compensated based solely on loan growth numbers. Our top executives did not receive a bonus or salary increase for 2008 performance. We have not amended any longer term or other deferred compensation plan in order to offset the limitations on executive compensation required of us as a recipient of CPP funds.. We believe we have complied with the letter and the spirit of Treasury regulations regarding executive compensation to the extent that such regulations have been implemented and published as a final ruling.

If you have any questions concerning our Company's participation in the Capital Purchase program and our compliance with its provisions, please do not hesitate to contact either Jim Hastings or me.

I certify the foregoing information is true and correct to the best of my knowledge and belief, pursuant to Title 18, United States Code Section 1001.

Sincerely,



F. Scott Bauer

Chairman and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: (Date of Earliest Event Reported) February 27, 2009

Southern Community Financial Corporation

North Carolina
(State of incorporation)

000-33227
(Commission File Number)

56-2270620
(I.R.S. Employer
Identification No.)

4605 Country Club Road, Winston-Salem, North Carolina
(Address of principal executive offices)

27104
(Zip Code)

Issuer's telephone number: (336) 768-8500

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure.

Information is being furnished in Exhibit 99.1 with respect to a communication to shareholders and customers that addresses why Southern Community Financial Corporation (Nasdaq: SCMF; SCMFO) (the "Company") participated in the United States Treasury's Capital Purchase Program and the use of its proceeds.

This communication is also available on the Company's web site at www.smallenoughtocare.com. Southern Community Financial Corporation's Annual Report to Shareholders and its reports on Forms 10-K, 10-Q and 8-K and other publicly available information should be consulted for other important information about the Company.

Information contained herein, including Exhibit 99.1, shall not be deemed filed for the purpose of the Securities Exchange Act of 1934, nor shall such information and Exhibit be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Communication to Shareholders and Customers

This Current Report on Form 8-K (including information included or incorporated by reference herein) may contain, among other things, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, (i) statements regarding certain of the Company's goals and expectations regarding earnings, income per share, revenue, expenses and the growth rate in such items, as well as other measures of economic performance, including statements relating to estimates of credit quality trends, and (ii) statements preceded by, followed by or including the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," "outlook" or similar expressions. These statements are based upon the current belief and expectations of the Company's management and are subject to significant risks and uncertainties that are subject to change based on various factors, many of which are beyond the Company's control.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, Southern Community Financial Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Southern Community Financial Corporation

February 27, 2009

By: /s/ James Hastings

Name: James Hastings

Title: Executive Vice President and Chief Financial Officer



Dear Southern Community Shareholders and Customers,

Every day brings questions from our customers and shareholders about government stimulus programs including the TARP Capital Purchase Program. I want you to know exactly why Southern Community participated in this program and how we are using the \$43 million we received late last year.

The initial TARP program, a means by which the Treasury invested capital in financial institutions geared to healthy institutions, which could be expected to weather the recession and perhaps eventually acquire the assets of weaker banks. The idea was to support strong banks, and allow them to continue to make loans to customers. Southern Community was well-qualified to receive this capital infusion.

We chose to participate because traditional sources of capital were no longer available. Southern Community needed capital to continue to grow, to make loans, and to protect against the impact of what appears to be an extended economic downturn. Since we received the TARP capital on December 15, 2008, we have closed 428 new loans for a total of \$47.7 million through February 25, 2009. Our budget for 2009 calls for continued growth in our loan portfolio. We have always been prudent in lending and we are abiding by even more stringent guidelines dictated by this environment.

As you are aware, many of our best customers are in the construction industry, which has been particularly hard hit. Unlike many banks, we are not turning our backs on our builders. We are working with them, and doing what we can to insure that their businesses will survive. One program we have established is a Homebuyer Incentive Plan. If our builder has houses that we financed, that remain unsold after 12 months, we offer qualified buyers \$10,000 toward their purchase price, no strings attached. This helps the builders to move their inventory, makes the homes more affordable, and helps us get repaid.

We are not using the capital infusion to fund bonuses, corporate jets or junkets. Executive Management bonuses for their work in 2007 were paid in the first month of 2008. No one received bonuses in 2008, and there will be no salary increases for senior vice presidents and above in 2009. We are controlling expenses and still providing service and all services to our customers. We continue to develop attractive products, like the Free Business 500 checking account we just introduced. The capital enables us to proceed with our expansion plans, including the 2009 opening of full-service regional offices in Raleigh and Asheville.

I thank you for your continued trust in Southern Community Bank, and I pledge to you the best effort of our entire team to never violate that trust. We have a fiduciary responsibility to use the TARP capital prudently and as intended. This is a difficult time for everyone but I am confident in our country's ability to weather this storm. There will be brighter days ahead.

Please do not hesitate to call me directly if you ever have questions about Southern Community.

Sincerely,

A handwritten signature in black ink, appearing to be "D. J. ...", written over the word "Sincerely,".