



UNITED FINANCIAL BANKING
COMPANIES, INC.

March 5, 2009

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

OVERVIEW

United Financial Banking Companies, Inc. ("UFBC") is a one bank financial holding company organized under the laws of the Commonwealth of Virginia in February 1982. In July 1983, UFBC acquired all the outstanding common stock of The Business Bank (the "Bank"), a banking company organized under the laws of the Commonwealth of Virginia. UFBC also wholly owns Business Venture Capital, Incorporated (BVCI), a subsidiary that conducts limited lending and other investment activities, United Facilities LLC ("UFLLC") that holds Bank premises and UFBC Capital Trust I that conducts transactions related to trust preferred securities. Collectively, UFBC, the Bank, BVCI, UFLLC and UFBC Capital Trust I are referred to as United. Primarily through its banking subsidiary, United offers loan and deposit products and other financial services to commercial and retail customers in the Northern Virginia metropolitan area.

ORIGINAL ANTICIPATED USE OF TARP FUNDS

In the fourth quarter of 2008, the Bank was engaged in negotiations to purchase a troubled financial institution in its service area. After consultation with UFBC's three regulatory agencies (The Federal Reserve, the FDIC and the Virginia Bureau of Financial Institutions), UFBC was encouraged to pursue the use of TARP funds to support the acquisition of that organization. Subsequently, but after applying for TARP funds, the acquisition fell through and all negotiations were terminated. This alleviated any immediate use of the TARP funds.

Subsequently, at a joint UFBC and Bank Board of Directors meeting held on January 7, 2009, the joint Boards of Directors decided that the [REDACTED] (b) (4)

[REDACTED] (b) (4)

While UFBC and the Bank are both "well capitalized" by regulatory standards, the joint Boards of Directors concluded that adding more capital would provide a prudent capital cushion due to the current and future outlook of the economy.

SEGREGATION OF TARP FUNDS

The TARP funds received on January 16, 2009 were deposited and invested into a money market UFBC account which is held by the subsidiary Bank. Management prepared a proposed allocation (Exhibit A) of the TARP funds for presentation to the Joint Boards of Directors on

January 26, 2009. The proposal was approved. The distribution of funds was implemented in February 2009.

ACTUAL USE OF TARP FUNDS

While the TARP funds do represent a significant increase in capital for UFBC and the subsidiary Bank, they do not represent a significant increase in loanable funds (less than 3%); however, they do provide a sound capital base for the Bank to grow its deposits which will provide loanable funds.

In February 2009, UFBC infused \$4,000,000 into the Bank as capital. This will not impact the Bank's capital ratios or legal lending limit until the quarterly adjustment date of March 30, 2009. However, as mentioned before, the additional funds grew deposits which were and will be used to increase lending.

(b) (4)

(b) (4)

In the interim until the Bank's legal lending limit is increased at the March adjustment date, UFBC repurchased \$1,771,915 of loans sold to other financial institutions (participations). The Bank repurchased \$690,543 of loans sold to other financial institutions (participations). UFBC and the Bank took this course of action as the Bank experienced the lowest level of new loan applications and new loans booked in years during January 2009. In fact, no new borrowers approached the Bank for credit during January 2009. Management believes this is a temporary phenomenon due to the distractions of the changes in Washington and the general media hysteria which is frightening customers. Note, United and most specifically the Bank does not typically engage in 30 year mortgage lending and therefore has not benefited from the refinancing boom.

Also during February 2009, UFBC used \$270,000 of TARP funds to infuse capital into its subsidiary United Facilities LLC. The additional capital was used to pay down to zero a line of credit with the Bank on one of the Bank's offices which was at a higher interest rate than the TARP funds. The pay down of this small liability created an unencumbered asset which the Bank intends to use to arrange an external line of credit for back up liquidity needs and cash flow to help support UFBC if needed.

PROJECTED ANTICIPATED USE OF TARP FUNDS

During the next two months, management expects that the Bank to fund \$8,296,000 of loans currently in the pipeline.

(b) (4)

(b) (4)

(b) (4)

EXECUTIVE COMPENSATION

The Holding Company has employed a Compensation Committee for a number of years which oversees and polices Executive Compensation. In February 2009, the Compensation Committee was specifically tasked with monitoring and controlling Management's adherence to the rules and requirements of the Program's executive compensation guidelines. At this time we are in compliance with those guidelines and do not anticipate nor foresee any difficulties in maintaining compliance with the limitations. (b) (4)

(b) (4)

(b) (4)

I, Harold C. Rauner, President and CEO of United Financial Banking Companies, Inc. certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Respectfully,



Harold C. Rauner
United Financial Banking Companies, Inc.
President and CEO

EXHIBIT A

USE OF TARP FUNDS

- \$ - United Financial Banking Companies, Inc.
Cash balance at 12/31/08 = \$584,000
- approximately 2 years working capital

(b) (4)

\$ 5,658,000 Total Tarp Funds

(b) (4)