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Confidential Treatment Requested

March 5 2009

Mr. Neil M. Barofsky
Special Inspector General—TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

We are writing in response to your letter of February 6, 2009 regarding our use of the funds received in connection with the Department of Treasury's Troubled Asset Relief ("TARP") Capital Purchase Program and our compliance with the requirements of the Emergency Economic Stabilization Act of 2008 (the "EESA") relating to executive compensation.

For your convenience, I have restated your questions, followed by our responses.

Question 1:

Please provide a narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that you have taken that you would not have been able to take absent the infusion of TARP funds.

Response:

(a) Central Bancorp, Inc. (the "Company") received \$10.0 million in TARP funds on December 5, 2008. Prior to the Company's receipt of the TARP funds, Central Bank ("Central" or the "Bank"), the wholly owned subsidiary of the Company, held approximately \$10.0 million of preferred stock in the Federal National Mortgage Corporation ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"). Following the federal government's conservatorship of FNMA and FHLMC in September 2008, the Bank was required to take an other than temporary impairment charge related to its FNMA and FHLMC investments totaling \$9.4 million. As a result, the Bank fell below the level of total risk based capital required to be considered "well capitalized" under the federal prompt corrective action regulations. At that capital level, the Bank's ability to lend would have been substantially restricted until such time as the Bank had been able to return to "well capitalized" status.

After completing the TARP application process, the Company sold \$10.0 million in preferred stock, along with warrants to purchase 234,742 shares of the Company's common stock, to the Department of Treasury in a transaction completed on December 5, 2008. This capital injection allowed the Company to inject needed funds into the Bank, thereby increasing its capital to a level that would enable the Bank to be categorized as "well capitalized" under the federal prompt

corrective action regulations.

(b) The TARP funds were not segregated from other Company funds upon receipt. At that time, there had been no indication or suggestion that recipients of TARP funds should segregate those funds or earmark them for special purposes.

(c)

(d) We anticipate that the Bank will continue to leverage the capital provided by the TARP funds to make loans and grow its loan portfolio.

Question 2:

Please provide your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided 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 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.

Response:

Section 1.2(d)(iv) of the Securities Purchase Agreement – Standard Terms provides that, as a condition to receiving TARP funds, the Company take any action necessary to change its compensation arrangements for senior executive officers in order to comply with Section 111(b) of EESA. In connection with receiving the TARP funds, the Company entered into an Acknowledgement and Agreement with each of its senior officers (a form of the agreement is attached as Exhibit C to this letter). The Acknowledgement and Agreement modifies all compensation arrangements applicable to the senior executive officers to comply with the Securities Purchase Agreement.

In addition, rules promulgated by the Treasury establish the certain standards applicable to participants in the TARP Capital Purchase Program. The Company has addressed each of these standards as follows:

(a) *Review of SEO Compensation Arrangements by the Compensation Committee.* On February 19, 2009, the Compensation Committee of the Company met with the Company's Chief Financial Officer (designated as the senior risk officer) to review the incentive compensation arrangements applicable to the senior executive officers. As a result of the meeting, the compensation committee determined that the Company's incentive compensation arrangements do not encourage any senior executive officer to take unnecessary and excessive risks that threaten the value of the institution. The Company will continue this review process in the future as required by the Treasury and will make any necessary adjustments to its incentive compensation arrangements.

(b) *Clawback of Incentive Compensation.* By executing the Acknowledgement and Agreement, each of the Company's senior executive officers has agreed to a clawback of any bonus or other incentive compensation if the payment is based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(c) *Prohibition on Golden Parachutes.* By executing the Acknowledgement and Agreement, each of the Company's senior executive officers has agreed to a limitation on golden parachute payments.

(d) *Deduction Limit on Executive Compensation.* The Company has reviewed the overall compensation of its senior executive officers in order to determine the effect of Section 162(m)(5) of the Internal Revenue Code of 1986, as amended, regarding the \$500,000 deduction limit on compensation.

The American Recovery and Reinvestment Act of 2009 requires the Treasury to establish regulations to address further executive compensation restrictions contained in the Act. In accordance with information released by your office and absent more current guidance from the Treasury, our responses regarding executive compensation are submitted in accordance with the guidelines that are currently available from the Treasury.

* * *

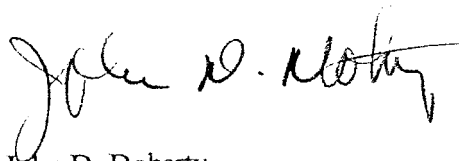
The Company requests confidential treatment of this letter. The financial information contained in this letter and the exhibits hereto is financial information that is not otherwise available to the public and, therefore, is confidential. For this reason, this letter is protected under 5 U.S.C. § 552(b)(4).

* * *

The undersigned duly authorized senior executive officer of the Company hereby certifies, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations, and supporting information provided in and with this letter are true and complete to the best of my knowledge.

Sincerely,

CENTRAL BANCORP, INC.



John D. Doherty
Chairman and Chief Executive Officer

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EXHIBIT C

[FORM OF TARP CAPITAL PURCHASE PROGRAM BENEFIT WAIVER]

[Name]

[Title]

Central Bancorp, Inc.
399 Highland Avenue
Somerville, Massachusetts 02144

Dear _____,

Central Bancorp, Inc. (the "*Company*") anticipates entering into a letter agreement ("*Agreement*") with the United States Department of the Treasury ("*Treasury*") that provides for the Company's participation in the Treasury's Capital Purchase Program (the "*CPP*"). If the Company does not participate in the CPP, this letter shall be of no further force and effect.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Agreement, the Company is required to meet specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

(1) *No Golden Parachute Payments.* The Company shall not make any golden parachute payment to you during any period during which (A) you are a senior executive officer and (B) Treasury holds an equity or debt position acquired from the Company in the CPP (a "*CPP Covered Period*").

(2) *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to you during a CPP Covered Period is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(3) *Compensation Program Amendments.* Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. If the payments and benefits provided under the Benefit Plans would exceed the golden parachute limitations of the CPP, the payments and benefits shall be reduced or revised, in the manner determined by you (subject to the next sentence), by the amount, if any, which is the minimum necessary to result in no portion of the payments and benefits exceeding the limitations. The Company, at its expense, will determine the extent of any reduction in the payments and benefits to be made pursuant to this letter. In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you, you and the Company agree to negotiate such changes promptly and in good faith.

(4) *Definitions and Interpretation.* This letter shall be interpreted as follows:

(i) "Senior executive officer" means the Company's "senior executive officers" as defined in subsection 111(b)(3) of EESA and 31 C.F.R. § 30.2.

(ii) "Golden parachute payment" has the meaning given to such term in Section 111(b)(2)(C) of EESA and 31 C.F.R. § 30.9.

(iii) "EESA" means the Emergency Economic Stabilization Act of 2008.

(iv) The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b). You are also delivering a waiver pursuant to the Agreement, and, as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

(v) The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11.

(vi) Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with Section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

(5) *Miscellaneous.* To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile will be deemed an original signature.

Yours sincerely,

CENTRAL BANCORP, INC.

Name: John D. Doherty

Title: President and Chief Executive Officer

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

Signature

Date: _____

APPENDIX A

Employment Agreement with Central Co-operative Bank

Severance Agreement with Central Co-operative Bank and

Executive Salary Continuation Agreement with Central Co-operative Bank

Executive Health Insurance Plan Agreement with Central Co-operative Bank

Life Insurance Endorsement Method Split Dollar Plan Agreement with Central Co-operative Bank

1999 Stock Option and Incentive Plan

Senior Management Incentive Plan

Central Bancorp, Inc. 2006 Long-Term Incentive Plan

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