



March 13, 2009

By FedEx and Email
(SIGTARP.response@do.treas.gov)

Mr. Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW, Suite 1064
Washington, D.C. 20220

Re: Information regarding participation by MetroCorp Bancshares, Inc. in the
Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP")

Dear Mr. Barofsky:

On behalf of MetroCorp Bancshares, Inc. (the "Company"), the purpose of this letter is to respond to your correspondence dated February 6, 2009 regarding the anticipated use of the funds the Company received under the CPP and certain other matters related to the Company's participation in the CPP. On January 16, 2009, the Company issued 45,000 shares of preferred stock, liquidation value \$1,000 per share, and a warrant to purchase up to 771,429 shares of the Company's common stock at an exercise price of \$8.75 per share to the U.S. Department of Treasury ("Treasury") for aggregate consideration equal to \$45.0 million. In order to help you better understand the Company, we have included some background information about the Company:

- The Company is the parent company of MetroBank, N.A., ("MetroBank"), headquartered in Houston, Texas, and Metro United Bank ("Metro United," and together with MetroBank, the "Banks") headquartered in San Diego, California. Through the Banks, the Company operates thirteen (13) branches in Texas, specifically the greater Houston and Dallas metropolitan areas, and six (6) branches in California.
- As of December 31, 2008, the Company had total assets of \$1.6 billion. Other than the acquisition of Metro United in 2005 and an additional branch of Metro United in 2006, the Company has not made any acquisitions.
- During 2008 and for each of the previous four years, the Company has grown its loans. As of December 31, 2004, total loans were \$594.5 million and as of December 31, 2008, total loans were \$1.3 billion.

- The Company decided to participate in the CPP and accept \$45.0 million from Treasury to guard against uncertainty in the capital and financial markets and to support the Banks' lending activities.

Use of CPP Funds

Anticipated Use of CPP Funds

The Company has no immediate plans to utilize CPP funds for activities other than to strengthen the capital position of the Company and the Banks, providing the Company with flexibility to meet future capital needs as they may arise, to fund prudent loans in its markets of the types the Company has historically originated and to support losses that may occur in the future.

(b) (4)

Segregation of CPP Funds

The Company has not segregated and does not plan to segregate the CPP funds. The Company will contribute cash as capital to the Banks on an as needed basis, to ensure that the Banks maintain capital in excess of well-capitalized levels, as defined by the Office of the Comptroller of the Currency with respect to MetroBank, and as defined by the Federal Deposit Insurance Corporation with respect to Metro United.

Actual Use of CPP Funds

Since January 16, 2009, the date the Company received the CPP funds, the Company has used \$25.0 million and \$10.0 million of such funds as new capital for MetroBank and Metro United, respectively. The remaining funds are being held at the Company for future use as stated above. The new capital added to the Banks has increased their capital ratios significantly above the well capitalized level, which will support the future lending activities of the Banks. (b) (4)
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Executive Compensation Matters

Plans for Addressing CPP Executive Compensation Requirements

Letter Agreement and Waiver of SEOs. The Company and each of the senior executive officers (the "SEOs"), who as of January 16, 2009 consisted of George M. Lee, Executive Vice Chairman, President and Chief Executive Officer, David C. Choi, Chief Financial Officer, Mitchell W. Kitayama, Executive Vice President, David Tai, Executive Vice President, and

Terrance J. Tangen, Chief Credit Officer and Executive Vice President of MetroBank, entered into a letter agreement (the "Letter Agreement") amending the compensation arrangements and benefit plans with respect to such SEO as may be necessary during the period that Treasury owns any debt or equity securities of the Company acquired pursuant to the Securities Purchase Agreement or the Warrant, to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 and related Treasury guidance. The SEOs also executed a waiver (the "Waiver") in conjunction with the closing of the CPP funding voluntarily waiving any claim against Treasury or the Company for any changes to such SEO's compensation or benefits that are required to comply with the regulations issued by Treasury under the CPP.

Based on the Company's preliminary analysis of total compensation earned in 2008, it appears that the five persons listed above will be included as an SEO for purposes of the executive compensation restrictions for the 2009 year.

Compensation Committee Involvement. The Compensation Committee of the Company's Board of Directors is comprised of three directors, each of whom the Board of Directors determined to be independent. On or before April 16, 2009, the Compensation Committee and the appropriate senior risk officers intend to meet and review the current executive compensation arrangements with the SEOs and the other highly-compensated employees of the Company to ensure that the compensation arrangements do not encourage such officers or employees to take unnecessary and excessive risks that threaten the Banks' or Company's value.

Further, the Compensation Committee and the appropriate executive officer will perform the annual analyses and make the certifications required by the CPP and will include those certifications in the Company's proxy statement for its 2009 annual meeting of shareholders (and for subsequent annual shareholder meetings) and will file such proxy statements with the Securities and Exchange Commission. The Company's appropriate executive officer also will submit required certifications to the TARP Chief Compliance Officer.

Loan Risk Assessment and Executive Compensation. The executive compensation program for the Company's SEOs includes five principal elements that the Company believes, taken together, constitute a flexible and balanced method of establishing total compensation. These elements are base salary, non-equity cash incentive program, long-term equity incentive program, 401(k) plan and various personal benefits.

The Company does not expressly assess loan risks in connection with establishing its executive compensation. However, the Company's Incentive Bonus Objectives (the "IBO"), which, among other things, provides for an annual cash incentive award to certain officers of the Company and its subsidiaries (other than the Chief Executive Officer), is based on certain Company and individual performance targets. The Company's performance targets are established annually and contain a component for financial performance, customer retention and growth and process improvement of the subsidiary banks, as applicable. In addition to an IBO

cash incentive award, historically the Compensation Committee could also award discretionary cash bonuses to the SEOs.

With respect to the cash incentive for the Chief Executive Officer, Mr. Lee has been provided with an incentive compensation plan based on certain predetermined performance measures set forth in his employment agreement. The performance criteria may include, but not be limited to, earnings per share growth, asset growth, operating efficiency, return on equity, loan concentration, asset durability and overall performance evaluation by the Board of Directors. In addition to any amounts payable to Mr. Lee pursuant to the incentive compensation plan, the Compensation Committee may also grant Mr. Lee a discretionary cash bonus.

Although the risks inherent in lending or actual loan losses are not an identified component within the performance targets, any such risks or losses will have an effect on financial performance, growth of the subsidiary banks, earnings per share growth, return on equity, asset durability, personal objectives and other criteria. Further, upon submission of the results of the applicable performance targets from the previous year, the Compensation Committee retains discretion to pay an additional bonus based on various factors and performance outcomes, which could include identified lending risks and/or losses.

Based on the recently adopted American Recovery and Reinvestment Act of 2009, because none of the SEOs have an employment agreement which provides for the payment of a bonus other than George M. Lee, going forward, such SEOs may only receive a bonus in the form of an award of restricted stock, subject to certain limitations. Any such awards would most likely be made based on the performance targets set forth in the IBO.

Implementation of Limitations. The Compensation Committee is responsible for developing and making recommendations to the Board with respect to the Company's executive compensation policies. The Compensation Committee's intent regarding compensation of executive officers is to provide salary levels and incentive compensation opportunities that (1) attract and retain key executives, (2) are strategically aligned with the annual budget as well as the Company's long-term business objectives and (3) include a variable or performance component to ensure a link between executive remuneration and the Company's overall performance, thereby aligning executive compensation with the interest of shareholders. The Compensation Committee intends to consider the limitations on executive compensation under the CPP and related laws and guidance in determining executive compensation so that such compensation is within the required parameters of the CPP.

No Plans to Offset. The Compensation Committee has no immediate plans to offset any of the executive compensation limitations under the CPP by other changes to other, longer-term or deferred forms of executive compensation.

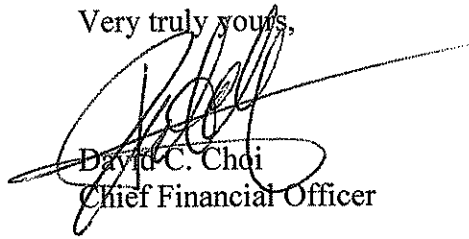
I, David C. Choi, Chief Financial Officer of the Company, certify that I have reviewed this response and, based on my knowledge, this response does not contain any untrue statement

Mr. Neil M. Barofsky, Special Inspector General
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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.

If you require further information regarding the Company's participation in the CPP, please contact me at (b) (6)

Very truly yours,



David C. Choi
Chief Financial Officer

cc:

(b) (6)