



Executive Offices

64 Old Highway 22 • Clinton, NJ 08809 • 908.730.7630 • Fax 908.730.8781

February 26, 2009

Via e-mail to SIGTARP.response@do.treas.gov
And Regular Mail

Neil M. Barofsky, Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, DC 20220

Re: Unity Bancorp, Inc.

Dear Mr. Barofsky:

In response to the request in your letter dated February 6, 2009, the following will address the issues raised in your letter:

Unity Bank is a 16 branch, New Jersey-based, community bank that provides retail and business loans in the markets it serves. In addition, Unity Bank has been a preferred SBA Lender that has frequently made loans outside of its trade area. As a result of the recent deteriorating performance of Unity's SBA portfolio in the fourth quarter of 2008, Unity has significantly curtailed SBA lending outside of its trade area and is now focusing its lending in markets within and contiguous to its branch footprint.

Unity Bank applied for the maximum TARP funds on October 30, 2008. These funds were received on December 5, 2008, and:

- (a) Unity intends to fully comply with the letter and spirit of the Program, and the additional capital provided will be used to fund future loan growth; and
- (b) The TARP funds have not been segregated, but rather are a part of our funding for loan growth, similar to those funds from our depositors, other borrowings and capital; and
- (c) New loan generation has slowed as a result of the economy; however, Unity is committed to generating prudent commercial and consumer loans. In December 2008 and January 2009, Unity funded \$6.4 million and \$4.8 million, respectively, of new loans. As disclosed in our marketing to the public, we are a well-capitalized institution that intends to continue to lend.

Corporate Office • 64 Old Highway 22 • Clinton, NJ 08809

www.unitybank.com

800.618.BANK

Subsidiary of Unity Bancorp, Inc.

Member FDIC • Equal Opportunity Lender • Equal Housing Lender 

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While we fully intend on growing the loan portfolio, on a short-term basis, we have utilized the TARP funds to enable us to grow Unity's investment portfolio in assorted investments, primarily mortgage-backed securities. These investments were structured to provide ample liquidity to allow us to continue lending for the foreseeable future and as loan demand from creditworthy borrowers permits.

Attached you will find a list of the enclosed excerpts from press release and external documentation, which clearly outline our following the letter and spirit of the TARP.

In connection with the December 2008 closing of the Treasury's investment in Unity, the Company reviewed its existing compensation agreements and determined that they were in compliance with all requirements of the Treasury's interim final rule implementing Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the "EESA"), as published in the Federal Register on October 20, 2008. The Company's Compensation Committee has met and mapped out a process by which it will meet with senior Company executives charged with overseeing enterprise risk, discuss the risks faced by the Company with those senior executives and review the Company's incentive compensation programs to ensure that they do not provide an incentive to senior executives to take excessive risk, which could threaten the value of the Company. The Compensation Committee will complete the required review and provide the certification required under Section 30.5 of the interim final Treasury regulation by the required deadline of March 5, 2009. In addition, the Compensation Committee will ensure that any incentive compensation payments made to executives of the Company will be subject to the required "claw-back" provision.

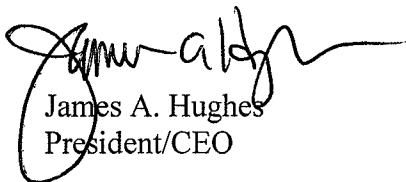
The Compensation Committee has also met with counsel to discuss the impact of the amendments to Section 111(b) of the EESA implemented through the American Recovery and Reinvestment Act of 2009 (the "ARRA"), signed into law on February 16, 2009. The Committee has determined that several agreements in place between the Company and certain senior executives provide for payments now prohibited under the terms of the ARRA, although they were permitted under the original terms of the EESA and the October 20th version of the Treasury's interim final regulation. The Compensation Committee is working with those executives to implement waivers of the severance payments so long as the Company is legally prohibited from making such payments under the EESA and implementing Treasury regulations.

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With regard to other restrictions under any of the EESA, Treasury regulations or the ARRA, no executive of the Company receives compensation in excess of \$500,000 per year. Finally, the Compensation Committee is aware of the prohibition on bonus compensation for the Company's most highly compensated employee implemented pursuant to the AARA, and the Compensation Committee is ensuring that the Company's compensation programs properly address this prohibition.

As President/CEO of Unity Bank and Unity Bancorp, Inc., I hereby certify the accuracy of the within statements, representations and supporting information provided, subject to the requirements and penalties set forth in Title 18, Unity States Code, Section 1001.

Very truly yours,



James A. Hughes
President/CEO

(b) (6)

Enclosures

List of Enclosures:

Schedule A: Press Release of November 24, 2008.

Unity Bancorp Announces Preliminary Approval to participate in the US Department of Treasury Capital Purchase Program;

Schedule B: Press Release of December 8, 2008

Unity Bancorp Announces Issuance of \$20,649,000 of Preferred Stock to the US Department of Treasury;

Schedule C - Unity Bank 2008-2009 Lending Advertising – Audio Piece;

Schedule D - Unity Bank 2008-2009 Lending Advertising – 35-Second Video Piece;

Schedule E – Unity Bank 2008-2009 Newspaper Lending Advertising.

Schedule A

Unity Bancorp Announces Preliminary Approval to Participate in the US Department of Treasury Capital Purchase Program

Company Release - 11/24/2008 18:00

CLINTON, N.J., Nov. 24 /PRNewswire-FirstCall/ -- Unity Bancorp, Inc. (Nasdaq: UNTY), parent company of Unity Bank, announced today that it received preliminary approval as of November 19th from the US Department of Treasury (Treasury) to sell \$20,649,000 of preferred stock to Treasury in the Capital Purchase Program. As part of the transaction, the Corporation will issue warrants to Treasury to purchase common stock of the Corporation with a market price equal to 15% of the preferred stock. The exercise price of the warrants will be \$4.04, based on the average closing price of the Company's stock for the 20 trading days ending November 18th. The Treasury's preliminary approval requires that the Company consummate the transaction within 30 days of the approval date.

At September 30, 2008, the Company's Leverage ratio, Tier 1 and Total risk based capital ratios were 7.42 percent, 9.08 percent and 10.34 percent, respectively. These regulatory capital ratios exceed those necessary to be considered a well-capitalized institution. Each of the regulatory capital ratios is expected to increase by approximately 300bp after the funding of the Treasury Capital Purchase Program.

James A. Hughes, Unity Bancorp's President and CEO said, "With the financial markets under severe stress, capital raising options are extremely limited. Participating in this program will significantly bolster our capital during these challenging times and enhance our lending operations."

Unity Bancorp, Inc. is a financial service organization headquartered in Clinton, New Jersey, with approximately \$864 million in assets and \$684 million in deposits. Unity Bank provides financial services to retail, corporate and small business customers through its 16 retail service centers located in Hunterdon, Middlesex, Somerset, Union and Warren Counties in New Jersey and Northampton County, Pennsylvania. For additional information about Unity, visit our website at www.unitybank.com, or call 800-618-BANK.

This news release contains certain forward-looking statements, either expressed or implied, which are provided to assist the reader in understanding anticipated future financial performance. These statements involve certain risks, uncertainties, estimates and assumptions made by management, which are subject to factors beyond the company's control and could impede its ability to achieve these goals. These factors include general economic conditions, trends in interest rates, the ability of our borrowers to repay their loans, and results of regulatory exams, among other factors.

SOURCE Unity Bancorp, Inc.

Contact: Alan Bedner, EVP, Chief Financial Officer, Unity Bancorp, Inc., +1-908-713-4308

Schedule B

Unity Bancorp Announces Issuance of \$20,649,000 of Preferred Stock to the US Department of Treasury

Company Release - 12/08/2008 18:00

CLINTON, N.J., Dec. 8 /PRNewswire-FirstCall/ -- Unity Bancorp, Inc. (Nasdaq: UNTY), parent company of Unity Bank, announced today that it issued \$20,649,000 of preferred stock to the US Department of Treasury under the Capital Purchase Program. As part of the transaction, the Corporation also issued warrants to the Treasury to purchase 767 thousand shares of common stock of the Corporation with a market price equal to \$4.04.

At September 30, 2008, the Company's Leverage ratio, Tier 1 and Total risk based capital ratios were 7.42 percent, 9.07 percent and 10.33 percent, respectively. These regulatory capital ratios exceed those necessary to be considered a well-capitalized institution. Each of the regulatory capital ratios is expected to increase by approximately 300 basis points from the sale of the preferred stock.

James A. Hughes, Unity Bancorp's President and CEO said, "The capital raised under the Treasury program will significantly strengthen our financial position during these challenging economic times. We will invest these funds to support future loan growth in the markets we serve."

Unity Bancorp, Inc. is a financial service organization headquartered in Clinton, New Jersey, with approximately \$864 million in assets and \$685 million in deposits. Unity Bank provides financial services to retail, corporate and small business customers through its 16 retail service centers located in Hunterdon, Middlesex, Somerset, Union and Warren Counties in New Jersey and Northampton County, Pennsylvania. For additional information about Unity, visit our website at www.unitybank.com

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SOURCE Unity Bancorp, Inc.

Contact: News Media & Financial Analysts: Alan Bedner, EVP, Chief Financial Officer, Unity Bancorp, Inc., +1-908-713-4308



2008-2009 Lending Advertising

Audio Piece

- ◆ *Played on Nassau Broadcasting's WODE-FM radio*
- ◆ *Available as part of an advertising campaign with Nassau Broadcasting's WODE-FM radio station, (99.9, the HAWK), on our sponsorship site:
http://www.999thehawk.com/site_sponsor2/*
- ◆ *Transcript:*

"Unity Bank is committed to supporting the residents and businesses of our communities through to better times. We have always followed sound lending practices which allow us to continue to lend to our communities.

Unity Bank president, James Hughes recently released this statement, 'Unity Bank is a well-capitalized bank ready to lend to consumers and businesses. Through these turbulent times, we are here to assist the financial needs of our community and continue to grow with you.'

Keep your home ownership and small business dreams alive. Call us at 800-618-BANK or visit a friendly, local Unity branch to discuss your lending needs. Equal Housing Lender, Member FDIC.



2008-2009 Lending Advertising

35-Second Video Piece

- ◆ Ran in all 16 retail branch locations, looped in a advertising lineup
- ◆ Available as part of an advertising campaign with Nassau Broadcasting's WODE-FM radio station, (99.9, the HAWK), on our sponsorship site: http://www.999thehawk.com/site_sponsor2/

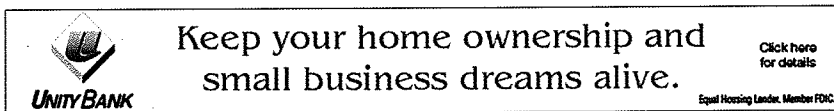


Video Screen Shots



nj.com Banner Advertisements

- ◆ "Long" and "Tall" animated gifs ran on <http://www.nj.com>



Ad Screen Shots



2008-2009 Lending Advertising

Newspaper


- ◆ Ran lending print ads throughout December 2008, January and February 2009 in: The Hunterdon Democrat, The Courier News, The Express Times, The Observer, and The Home News Tribune.

Hunterdon County Democrat
Business

PAGE B-4 THURSDAY, FEBRUARY 12, 2009

30 Showroom Displays www.maurosvolvow.com

unitybank.com ◆ 1 800 618 BANK (2265)





“Unity Bank is a community bank ready to lend to consumers and businesses.

Through these turbulent times, we are here to assist with the financial needs of our community and continue to grow with you.

James A. Hughes
President/CEO
Unity Bank

UNITY BANK

Mr. Banisch said the visiting, creating a conceptual plan for the centers, said the specific massage uses a form of techniques to and reduce pain in cost cartilage disorders, whiplash, carpal tunnel, plantar fasciitis and all other related ailments.

The Body Mill massage minutes and costs \$110. Regular massages members and \$45 for 45 minutes and go up to \$150 for 60- and 90-minute sessions. The center is off off any regular massage therapy.

For more information, Clinton Township, 6884 or the Whitehouse location at 534-7600.

Rago Arts & Online Opti

LAMBERTVILLE — new option available wish to bid online at Rago.

Beginning with the 20th-century design, to end 15, the auctioneer working with the online service The SaleRoom, to the firm Live Auction.

Based in the U.K., room has been providing bidding services for live for several years. The site has a support line open for bidders three times a week.

To register for The SaleRoom, either bid or simply wish to see its Quick Guide, go to www.ragoarts.com.

Rago will continue to Auctioneers as an online bidding service for those who wish to see its Quick Guide, go to www.ragoarts.com.

Clinton Patriots Invited To Ease Hunger

CLINTON — Shoppers on Valentine's Day will be invited to donate to the High Bridge food bank. The event will be held at the Clinton High School gymnasium. The drop-off items include canned goods, non-perishable items, and other non-food items. Many of the participating stores will offer discounts.

The Share the Love event is sponsored by the Clinton Patriots and marks the final day for shoppers to donate for eight prizes at the Clinton High School gymnasium. For information, visit www.tonguild.com.