



March 4, 2009

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

Dear Mr. Barofsky,

In response to your letter dated February 6, 2009, below is the information requested as part of an audit into TARP recipients' use of funds and their compliance with EESA's executive compensation requirements.

As an introduction, please allow me to provide your audit team with a brief overview of Leader Bank, National Association and why we voluntarily elected to take TARP funds.

Leader Bank opened in May of 2002 as Massachusetts' newest community bank. We are dedicated to fostering the continued growth of our surrounding communities through a diverse array of products and services. Our staff of experienced commercial and retail bankers are committed to understanding the financial needs of our customers and their business. At Leader Bank, we are devoted to helping businesses and individuals achieve their financial goals by offering competitive solutions in residential and commercial lending and private and retail banking. In less than seven years our assets have grown to \$272 million as of January, 31, 2009. These assets consist of residential and commercial real estate loans, home equity lines of credit, commercial & industrial loans and consumer loans totaling in excess of \$232 million. As of that date funding for these loans came from customer deposits totaling \$194 million, Federal Home Loan Bank of Boston borrowings of \$45 million and \$25 million of capital, which includes the \$5.83 million of TARP funds. Also, during this period our conservative standards for underwriting have helped us to avoid the credit quality problems other banks have encountered. Since 2002, we have charged off four loans, totaling \$169,000.

We distinguish ourselves by providing unmatched customer service to each and every one of our clients. We offer localized, knowledgeable decision-making designed to create long-lasting relationships within the community. At Leader Bank, we can deliver a customized

solution to suit client needs, including large commercial loans to small personal loans. Our staff understands that the success of Leader Bank depends upon the success of our clients.

**Why did Leader Bank participate in the Treasury’s Capital Purchase Program (CPP)?**

The capital purchase program was established by the U.S. Treasury to attract participation by healthy financial institutions to retain the confidence of depositors, investors and counterparties alike. The aim of the CPP is to encourage financial institutions to increase lending activities to businesses and customers and to support the economy. The availability, timing and process for procuring additional capital at a reasonable cost were the reason why Leader Bank voluntarily participated in the Treasury’s CPP. The additional capital will allow the bank to increase its lending programs and deposit gathering within our surrounding communities for the foreseeable future. We believe that our intended use is in accordance with Treasury’s program announced on October 14, 2008.

Given this brief summation of our organization here are the responses to your questions.

**1 (a) What are your anticipated uses for the TARP funds?**

Leader Bancorp, Inc., the holding company for Leader Bank, received \$5.83 million under the CPP on December 23, 2008 and immediately contributed \$5.79 million of the net proceeds to provide additional capital to its already well-capitalized subsidiary, Leader Bank. We intend to use the proceeds for loan originations,

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additional capital will assist in maintaining total risk based capital ratio of more than 10%, the measure for the bank to be classified a “Well Capitalized Bank”.

**1 (b) Were the TARP funds segregated from other institutional funds?**

No. The funds received were not segregated from other institutional funds. The funds were added to existing capital to further strengthen Leader Bank. Additional capital allows the bank to increase lending, investments and deposits and provides a cushion for loan losses during these strained economic times.

## **1 (c) What has been your actual “to date” use of spent TARP funds?**

As a practical matter, we cannot specifically account dollar for dollar how the bank has spent the TARP funds or our existing capital to date. But we can proudly demonstrate that the additional TARP funds have been prudently deployed since December 23, 2008 through February 20, 2009.

During this period we have accomplished the following:

- **Originated and closed 348 residential loans totaling \$103,941,930. including 313 loans that were refinanced for a lower rate. As a result of the lower rate, we estimate the monthly mortgage payments for this pool of loans will generate an annually savings of approximately \$520,000. This amount was based on the assumption of an average rate reduction of 0.5% on the refinanced loan.**
- **Originated, closed and have in process 15 commercial loans totaling \$6,289,700.**
- **Hired seven new loan origination and support staff.**
- **Provided rate relief to two residential loan customers based on extenuating circumstances. The outstanding loan amounts total approximately \$550,000.**
- **Provided short term waiver of principal for two commercial customers. The outstanding loan amounts total approximately \$600,000.**

## **1 (d) What are your expected uses for the unspent TARP funds?**

As previously stated, we cannot specifically distinguish between TARP funds and existing capital to determine the remaining TARP funds. However, we can provide assurance that the bank is committed to investing and lending of our capital prudently as evidenced by the following:

- **In addition to the 348 residential loans closed through February 20, 2009, there are 303 new loans that have been originated and in process of closing during the next few months totaling \$105 million, including refinancing that will provide further savings for customers. Assuming that all of these loans close, the bank will have originated and closed in excess of \$208 million in residential loans in three to four months. In 2008, the bank closed \$160 million in residential loans. We are committed to being a significant lender during this crisis by offering attractive and innovative products while maintaining our underwriting standards.**

- Included in the loans closed were 35 second mortgage loans in the amount of \$2,291,874. These loans were written to assist borrowers in refinancing their first mortgage to a lower interest rate.
- Continue to be active in originating prudent commercial loans within our local market.
- Leverage the capital to continue to increase lending.
- Continue to provide superior products, services and industry leadership and to promote economic growth and stability within the communities we serve.

**2. Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding.**

Leader Bank's executive compensation program includes the following components:

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For the year ended December 31, 2008 total compensation for the three executive officers of Leader Bank was as follows:

Position	Salary	Bonus
<b>(b)</b>	<b>(4)</b>	

**(b) (4)**

The Compensation Committee ensures that the compensation paid to executive officers does not encourage unnecessary and excessive risks that threaten the value of the financial institution. **(b) (4)**

**(b) (4)**

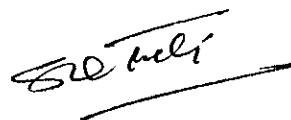
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With regard to how limitations on executive compensation will be implemented in accordance with Department of Treasury guidelines, the Compensation Committee is reviewing the guidelines and preparing its certification report due within 90 days after the receipt of TARP funds. The report is due no later than March 23, 2009.

I certify the accuracy of all statements, representations and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,



**Sushil K. Tuli**  
Chairman, President and Chief Executive Officer  
Leader Bancorp, Inc.