



Stewart E. McClure, Jr.
President and CEO

March 5, 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,

By way of background, and as a frame of reference, we are a 10 year old community bank in the central part of Northern New Jersey. We are just shy of \$300 million in assets and have six branches. Historically, we have focused on providing primarily commercial and retail deposit and loan products to small to mid-sized local companies and individual consumers. We were highly capitalized prior to participating in TARP, with approximately \$36 million of common equity capital, and our shares are traded publicly on the NASDAQ. We have been profitable, liquid and have only one non-performing loan with a balance of \$125,000.

As you can see, we didn't need TARP funds as a "bailout". Instead, we believed that as a strong bank who qualified, we should issue the capital to provide extra protection against a possible long, deep or severe recession. Our views on this were influenced by the position of FDIC Director Sheila Bair, who stated that all eligible institutions should participate in the TARP. We believed this "belt and suspenders" approach would insure against our becoming a troubled bank, so that regardless of economic conditions we could continue our traditional role as a source of credit for creditworthy borrowers in our local communities. Despite weak loan demand, we continue to be an active lender at this time and expect to continue to seek safe and sound loans. It is, and always has been, how we make most of our income.

We have attached as Exhibit A our loan pipeline reports which show we have been an active lender since January 1, 2009. (b) (4)

(b) (4)

While this is a relatively short period of time, I believe you will get a good sense of how active we are in our communities with new loans, as well as reinstated and restructured loans, both to consumers and businesses. We are also processing a substantial pipeline of new loan applications. You will also note that we have found most borrowers, commercial and consumer, are not borrowing unless they absolutely have to, and are paying off or paying down debt as fast as they can. As we have all read, both consumers and businesses are deleveraging, and it is appropriate that they do that for their own economic health.

The Bank also owns a mortgage company which continues to make mortgages to consumers. We originate and sell those mortgages rather than retain them on our balance sheet, which allows us to make more mortgages. The Bank provides the warehouse financing on its balance sheet which allows the mortgage company to close these mortgages and stay active in the business. We anticipate continuing to provide this financing and note that at the present time the majority of mortgage volume represents refinancing transactions with very few requests for purchase money mortgage loans.

On January 16, 2009, we completed our TARP transaction and received an investment of \$7.4 million from the U.S. Treasury. These funds are currently held as capital at our holding company, but are available for contribution to our bank as capital if the need arises. The funds have not been segregated from other holding company funds. However, as we assess the government's changes to the TARP program, the public perception of participants in the TARP program and our best estimate of future loan demand, our Board is also exploring the possibility of redeeming the Treasury's preferred stock and warrants.

Going forward, regardless of whether we redeem the Treasury's preferred stock and warrants or retain the TARP investment, we will look for opportunities to make additional loans in our local communities. They will include commercial and consumer

loans to qualified prospects and existing customers. Our pipeline of potential loans has finally started to grow, albeit slowly, following a period in 2008 when it consistently shrank. We hope that this is the beginning sign of growing economic activity which will allow us to grow our lending activity and loan outstandings in a healthy and profitable way.

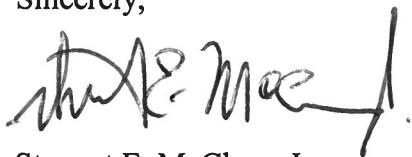
In connection with the January 2009 closing of the Treasury's investment in Somerset Hills Bancorp, the Company reviewed its existing compensation agreements and determined that an amendment was required to my employment agreement to ensure that the severance provisions were in compliance with all requirements of 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. Since then, 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, April 16, 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 "clawback" 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. The Committee has determined that my employment agreement provides for payments now prohibited under the terms of the ARRA, although they were permitted under the original terms of the EESA and the October 20 version of the Treasury's interim final regulation. The Compensation Committee is working with me to implement a waiver of the severance payments so long as the Company is legally prohibited from making such payments under the EESA and implementing Treasury regulations.

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 ARRA, and the Compensation Committee is ensuring that the Company's compensation programs properly address this prohibition.

This letter shall serve as the certification required by your letter of February 6, 2009. I hereby certify, subject to 18 USC 1001, that the statements, representations and supporting information provided in this letter are accurate, to the best of my knowledge.

Sincerely,

A handwritten signature in black ink, appearing to read "Stewart E. McClure, Jr.", with a stylized flourish at the end.

Stewart E. McClure, Jr.

President and CEO

SOMERSET HILLS BANK
Commercial Loan Department - Pipeline Report

Key to Request Types:
 BRL - Bridge Loan
 CMG - Comm'l Mtge
 CSL - Construct. Loan
 L/C - Letter of Credit

Key to Status Types:
 Accepted: Approved/accepted; awaiting closing
 Approved: Borrower has not yet accepted loan
 Pending: Awaiting info, underwriting, proposal

LOC - Line of Credit
TML - Time Loan (<12 months)
TRL - Term Loan (>12 months)
RMG - Residential Mortgage

Officers:
 (b)(6) Senior Vice President
 (b)(6) Senior Vice President
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Call Date	Customer Name	City	Open CM	Exist Cust?	Request Amount	Net SHB Amount	Fund at Closing	Collateral	Total Exp.	Req. Type	Status	Officer Code
02/20/09	(b)(4), b(6)	(b)(4)	X	N	\$350	\$350	\$350	1st Mortgage	\$350	BRL	Accepted	(b)(6)
10/15/08	(b)(4), b(6)	(b)(4)	X	Y	\$500	\$500	\$500	1st Mortgage	\$2,575	CMG	Accepted	(b)(6)
09/10/07	(b)(4), b(6)	(b)(4)	X	Y	\$1,600	\$1,600	\$1,600	1st Mortgage	\$1,600	CMG	Accepted	(b)(6)
Subtotal - Mar. 2008 Closings												
Subtotal - Apr. 2009 Closings												
Subtotal - Unscheduled												
TOTAL ACCEPTED:												
10/15/08	(b)(4), b(6)	(b)(4)	X	Y	\$250	\$250	\$250	1st Mortgage	\$2,575	CMG	Approved	(b)(6)
10/15/08	(b)(4), b(6)	(b)(4)	X	Y	\$250	\$250	\$250	1st Mortgage	\$2,575	CMG	Approved	(b)(6)
01/15/09	(b)(4), b(6)	(b)(4)	X	Y	\$100	\$100	\$0	2nd mortgage	\$100	LOC	Approved	(b)(6)
02/15/09	(b)(4), b(6)	(b)(4)		Y	\$100	\$100	\$0	UCC	\$675	LOC	Approved	(b)(6)
APPROVED/PENDING:												
TOTAL:												
11/06/08	(b)(4), b(6)	(b)(4)		Y	\$2,200	\$1,300	\$1,300	1st Mortgage	\$2,940	CMG	Pending	(b)(6)
01/06/09	(b)(4), b(6)	(b)(4)		Y	\$2,266	\$1,479	\$0	1st Mortgage	\$1,466	CSL/CMG	Pending	(b)(6)
01/13/09	(b)(4), b(6)	(b)(4)		Y	\$250	\$250	\$0	1st Mortgage	\$250	CSL	Pending	(b)(6)
02/03/09	(b)(4), b(6)	(b)(4)		N	\$450	\$450	\$0	1st Mortgage	\$450	CSL	Pending	(b)(6)
02/05/09	(b)(4), b(6)	(b)(4)		N	\$1,500	\$1,500	\$1,500	1st Mtg/UCC	\$1,500	CMG/TRL	Pending	(b)(6)
02/10/09	(b)(4), b(6)	(b)(4)		Y	\$250	\$250	\$0	Business Assets	\$1,850	LOC	Pending	(b)(6)
02/11/09	(b)(4), b(6)	(b)(4)		N	\$1,400	\$1,400	\$1,400	1st Mortgage	\$1,400	CMG	Pending	(b)(6)
02/11/09	(b)(4), b(6)	(b)(4)		N	\$920	\$920	\$920	1st Mortgage	\$920	CMG	Pending	(b)(6)
02/12/09	(b)(4), b(6)	(b)(4)		N	\$1,200	\$1,200	\$0	1st Mortgage	\$500	CSL	Pending	(b)(6)
02/12/09	(b)(4), b(6)	(b)(4)		N	\$425	\$425	\$425	1st Mortgage	\$425	CMG	Pending	(b)(6)

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Call Date Customer Name City Open CM Exist Request Amount Net SHB Amount Closing Fund at Collateral Total Exp. Type Status Officer Code

Call Date	Customer Name	City	Open	CM	Exist	Request Amount	Net SHB Amount	Closing Fund at	Collateral	Total Exp.	Req. Type	Status	Officer Code	
02/12/09	(b) (4), b(6)	(b) (4)			N	\$500	\$500	\$500	1st Mortgage	\$500	CMG	Pending	(b) (6)	
02/18/09	(b) (4), b(6)	(b) (4)			Y	\$225	\$225	\$50	2nd Mortgage	\$625	LOC	Pending	(b) (6)	
02/20/09	(b) (4), b(6)	(b) (4)			N	\$2,000	\$2,000	\$2,000	Business Assets	\$2,000	LOC	Pending	(b) (6)	
02/24/09	(b) (4), b(6)	(b) (4)			N	\$1,000	\$1,000	\$1,000	Securities	\$1,000	LOC	Pending	(b) (6)	
IN PROCESS/PENDING:														
							\$12,899	\$9,095						
CURRENT PIPELINE GRAND TOTAL														
							\$16,399	\$12,395						
CLOSED IN MARCH 2009														
CLOSED IN MARCH:														
							\$0	\$0						
CLOSED IN FEBRUARY 2009														
*01/23/09	(b) (4), b(6)	(b) (4)			Y	\$25	\$25	\$0	1st Mortgages	\$425	LOC	CLOSED	(b) (6)	
*01/23/09	(b) (4), b(6)	(b) (4)			Y	\$200	\$200	\$0	1st Mortgage	\$200	LOC	CLOSED	(b) (6)	
*01/13/09	(b) (4), b(6)	(b) (4)			Y	\$1,000	\$1,000	\$1,000	1st Mortgage	\$1,570	CMG	CLOSED	(b) (6)	
							\$1,225	\$1,000						
CLOSED IN FEBRUARY:														
							\$3,685	\$2,185						
CLOSED IN JANUARY 2009														
*07/28/08	(b) (4), b(6)	(b) (4)			N	\$1,780	\$1,780	\$1,780	1st Mortgage	\$1,750	CMG	CLOSED	(b) (6)	
*11/13/08	(b) (4), b(6)	(b) (4)			Y	\$405	\$405	\$405	1st Mortgage	\$1,870	CMG	CLOSED	(b) (6)	
*12/05/08	(b) (4), b(6)	(b) (4)			Y	\$200	\$0	\$0	Liquid	\$1,300	L/C	CLOSED	(b) (6)	
11/26/08	(b) (4), b(6)	(b) (4)			Y	\$1,500	\$1,500	\$0	1st Mortgage	\$2,500	CSL	CLOSED	(b) (6)	

