BP | BOSTON PRIVATE
Wealth Management Group

David J. Kaye
Executive Vice President
Chief Financial Officer

March 5, 2009

VIA ELECTRONIC MAIL AND OVERNIGHT COURIER

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

Re: Boston Private Financial Holdings, Inc. – Use of TARP Funds

Dear Mr. Barofsky:

I am writing on behalf of Boston Private Financial Holdings, Inc. ("'BPFH" or the "Company") to provide you with the information you have requested in your letter of February 6, 2009 (the "Request Letter") regarding the Company's use of funds received under the Troubled Asset Relief Program ("TARP") established under the Emergency Economic Stabilization Act of 2008 ("EESA") and our compliance with the EESA executive compensation requirements.

As you know, the Company received $154 million in proceeds from the sale of its Fixed Rate Perpetual Preferred Stock, Series C (the "Preferred Stock") and related warrants as of November 21, 2008. In the Request Letter, you have asked for certain specific information regarding the use of these funds. For ease of reference, the relevant portion of the text of the Request Letter has been reproduced herein with management's responses set forth below each numbered comment

(1) 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.

(a) In our initial application for funding under TARP, we noted that the Company had raised $173 million (net) of equity capital during the third quarter of 2008 from a combination of a public and a private offering. The purpose of the capital raise was to allow BPFH (i) to continue to serve as a source of capital strength for its five Private Banking subsidiaries; (ii) to allow the flexibility to resolve aggressively the portfolio of troubled loans at its Southern California subsidiary; (iii) to ensure that BPFH would be able to meet pending

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funding obligations; (iv) and for general corporate purposes. As a result of the 2008 capital raise, the Company's capital levels were well in excess of regulatory limits and its liquidity position was more than adequate. However, in view of the existing economic environment, the Company's five Private Banking subsidiaries had curtailed their lending activities and were planning to curtail growth and preserve capital in 2009 if no additional capital was raised.

In our application, we noted that gaining access to the TARP Capital Purchase Program could be expected to provide BPFH and its Private Banking subsidiaries with the additional capital to fund lending opportunities generated by their respective clients. As noted in our original application letter, the Company has banking platforms across the country which could utilize the capital received as a result of the Program to support the national credit function. The client base of the Company's Private Banking subsidiaries consists of individuals and privately held companies who have witnessed an increasingly difficult credit environment that has significantly curtailed their access to funds. With the current volatility caused by overall market conditions and business combinations, BPFH Private Banking subsidiaries were seeing strong demand on the credit side and were expected to be able to use the TARP Capital to increase lending activities, thereby providing their clients with much needed liquidity. BPFH noted that it had applied to receive the government funds at the holding company level and intended to deploy the capital to its Private Banking subsidiaries to fund the anticipated loan demand on an as needed basis. The final use of the funds would be determined on an "as needed" basis, determined by the needs and best interests of the Company and its banking affiliates over the course of the next year or so.

(b) It is not the Company's corporate practice to segregate its cash assets as we consider all cash that is received to be fungible. We did, however, downstream 100% of the TARP funds to our Private Banking subsidiaries to increase their deposits and provide them with additional cash that positioned them to initiate a program to increase loan and other asset growth.

(c) Although not tracked on a dollar-for-dollar basis, in the first two months since receiving the TARP funds our Private Banking subsidiaries used these deposits to increase their investments in investment grade mortgage backed securities by $127 million and increase net loans by $47 million.

[redacted] b(4)

In the ten months preceding receipt of the TARP funds, the Company's average monthly loan growth was $14.1 million. In the two months since receiving the TARP funds, the average monthly loan growth was $23.5 million which represents an increase of 67% from the preceding ten month average. Further, with respect to the average growth in the ten months preceding receipt of the TARP funding, a high percentage of that growth took place at the beginning of that period (early in 2008), prior to the major shocks to the financial system. Looking at just the six months immediately preceding TARP funding, the Company's average outstanding loan balance decreased $10 million per month as we actively sought to manage our risk exposure and conserve capital. Accordingly, we believe that the addition of the TARP funding has been a major catalyst in increasing the lending activity of our Private Banking subsidiaries and has provided significant capacity for the continuation of this growth. Further, the growth noted above has been achieved in light of tightened credit standards at all of our Banks

(d) With respect to the unspent funds from the TARP, the Company plans to keep the funds at its Private Banking subsidiaries as deposits to allow them to continue to expand their lending programs and enhance their loan growth commensurate with their budgets.

(2) *Your specific plans, and the status of the implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessment 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 limitation my be offset by other changes to other, longer-term or deferred forms of executive compensation.*

Effective as of the date the Company became a participant in the TARP-CPP, the Company was required to comply with provisions of the EESA concerning executive compensation which compliance will be effective throughout the time the Treasury holds an interest in the Company pursuant to TARP. These requirements apply to all "senior executive officers" ("SEOs") of the Company, which Treasury defined as the Company's CEO, CFO and the next three highest paid executives. Presently, the Company's "senior executive officers" are the Named Executive Officers set forth in our proxy statement (specifically, Timothy L. Vaill, Chairman and Chief Executive Officer, David J. Kaye, Chief Financial Officer, Walter M. Pressey, President and Vice Chairman, J. H. Cromarty, CEO of the Investment Management and Wealth Advisory Groups, and James D. Dawson, CEO of the Private Banking Group). The specific provisions of the TARP relating to executive compensation restrictions and requirements and the Company's actions intended to comply with these restrictions and requirements are described below:

- *Limit on Tax Deduction*: The EESA added a new IRS Code Section 162(m)(5), which reduces the tax deduction for compensation paid to SEOs of TARP participant institutions from $1 million to $500,000. The Company contractually agreed to abide by this provision and the Company has applied the $500,000 tax deduction limit to the compensation of each of the SEOs.
- *Golden Parachutes*: The EESA contained an amendment to Section 208G of the IRS Code to provide that an institution participating in TARP may not pay any

"golden parachute" to a SEO so long as the Treasury holds an interest in the institution. [redacted] b(4)

- *Claw-*[redacted]*rovision*: The EESA requires TARP participating institutions to claw-back or recover any bonus or incentive compensation paid to any SEO that is based on materially inaccurate financial statements or any other material inaccurate performance metric criteria[redacted] b(4)

The EESA also requires TARP participating institutions to eliminate incentives for SEOs to take unnecessary and excessive risks that threaten the value of the institution. Pursuant to this requirement, the institution must (a) review its SEO compensation arrangements with its senior risk officer (or other personnel acting in like capacity) to ensure that compensation arrangements do not encourage SEOs to take unnecessary and excessive risks, (b) meet at least annually with the senior risk officer to discuss and review the relationship between the institution's risk management policies and practices and SEO incentive compensation arrangements and (c) certify annually that it has complied with the above.

In January 2009, the Compensation Committee of the Board of Directors completed its initial annual risk review with the Company's Chief Risk Officer. The Compensation Committee reviewed the incentive compensation plan design features as part of this risk assessment. The features that were reviewed included the balance between base compensation, cash-based short term incentives and long-term stock-based incentives, the incentive compensation metrics themselves, the relationship between these performance metrics and the corresponding incentive payouts and the Company's executive stock ownership guidelines. As part of this review, the Compensation Committee consulted with its independent compensation consultant for determining whether existing and contemplated executive incentive compensation practices encouraged excessive or unnecessary risk. The Compensation Committee concluded that the balance of base compensation (intended to approximate one-third of total compensation), variable annual incentive bonuses determined based on Company and individual performance (intended to approximate one-third of total compensation) and long-term equity incentive compensation (intended to approximate the final one-third of total compensation) is weighted such that excessive or unnecessary risk taking will not be encouraged by the variable elements of compensation and that the long-term equity components of compensation will encourage the Company's executives to focus on elements of the Company's performance that will influence long-term value creation and share price appreciation.

In accordance with the final page of the Request Letter, I hereby certify, as Executive Vice President and Chief Financial Officer of the Company, and on behalf of the Company, that the statements, representations, and supporting information set forth herein is accurate in all material respects, as presented.

We hope the information contained in this letter and in the attached materials provides you with a complete overview of the Company's use of its TARP funds. If you should have any questions concerning the enclosed matters, please contact the undersigned at (617)912-3949.

Sincerely,

David J. Kaye

cc: Margaret W. Chambers,
General Counsel and Executive Vice President
Paul Lee, Esq.
Goodwin Procter LLP