



February 26, 2009

**VIA FEDEX**

Mr. Neil M. Barofsky  
Special Inspector General-TARP  
1500 Pennsylvania Avenue, NW  
Suite 1064  
Washington, D.C. 20220

**Re: Monadnock Bancorp, Inc.**

Dear Mr. Barofsky:

On December 19, 2008, Monadnock Bancorp, Inc. (the "Company") received a capital infusion from the U.S. Treasury Department in the amount of \$1,834,000 ("CPP Funds"). Immediately upon receipt, \$1,650,600 was contributed to Monadnock Community Bank (the "Bank") through the issuance of two series of preferred stock. The remainder was retained by the Company to fund the dividend payments on the preferred stock until the Bank received authorization to commence dividend payments to the Company to fund the preferred stock dividends. The Company has not segregated CPP Funds from other institutional funds.

The Bank's ultimate intended use of the CPP Funds is to increase lending in its local market area. The receipt of the CPP Funds allowed the Bank to increase its Tier I Leverage Ratio from 7.87% at September 30, 2008 to 8.19% at December 31, 2008. The additional capital will allow the Bank to grow in size, make larger loans, increase loan volume and take advantage of positive interest rate spreads to increase net interest income. The Bank used a portion of the CPP Funds for lending as described below. However, in the short term, in order to effectively deploy its new capital base and increase earnings, the CPP Funds were primarily used to purchase pools of mortgages from government sponsored entities, such as Fannie Mae. These securities are all held for sale and over time the Bank intends to deploy such funds into loans as appropriate opportunities arise in the Bank's market area. Increased income will also increase the Bank's capital base in retained earnings which will further permit expanded lending.

The additional capital from the CPP Funds allowed the Company to increase total assets by \$16.8 million, or 15.2%, to \$127.6 million at December 31, 2008 from \$110.8 million at September 30, 2008. The Bank purchased \$16.0 million of net mortgage-backed securities during the fourth quarter of 2008 while funding this leverage with \$11.8 million in FHLB advances and Federal Reserve borrowings in order to take advantage of positive interest rate spreads. In addition, the Bank originated \$5.1 million in new loans and commitments during the fourth quarter of 2008 to support individuals and businesses in our local market areas, while net loan growth was approximately \$1.0 million during the fourth quarter of 2008.

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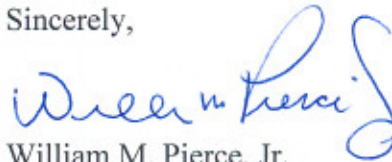
The Company has reviewed its benefit plans and believes they are compliant with the Emergency Economic Stabilization Act of 2008 as of December 31, 2008. However, the Company is currently studying the amendments to the law made by The American Recovery and Reinvestment Act of 2009 which was signed into law on February 17, 2009. The Company's executive compensation will be implemented in accordance with Department of Treasury guidelines. The Company has no employment contracts or bonus programs. The only benefit plans that the Company has are an Employee Stock Ownership Plan, stock option and restricted stock plans.

Enclosed with this letter is our press release dated December 23, 2008 announcing the completion of the Capital Purchase Program as well as our press release dated January 16, 2009 announcing our fourth quarter and year end results for 2008.

I certify that the information contained in this letter has been examined carefully by me and is true, correct, and complete, and is current as of the date of this submission to the best of my knowledge and belief. I acknowledge that any misrepresentation or omission of a material fact constitutes fraud in the inducement and may subject me to legal sanctions provided by 18 USC § 1001.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "William M. Pierce, Jr." with a stylized flourish at the end.

William M. Pierce, Jr.