United
Community Banks

CONFIDENTIAL TREATMENT REQUESTED

March 6, 2009

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

Dear Mr. Barofsky:

On behalf of United Community Banks, Inc. (the "***Company***"), I am responding to your request for information dated February 6, 2009. The $180 million that the U.S. Department of the Treasury ("***Treasury***") has invested in the Company has made a significant improvement in our balance sheet and is allowing us to continue to service the lending needs in our community. The information below will illustrate how the funds received through the TARP Capital Purchase Program ("***CPP***) are being utilized to support the mission of the TARP program.

For your convenience, I have restated your requests, followed by our response.

<u>Request 1</u>:

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. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that you have taken that you would not have been able to take absent the infusion of TARP funds.

<u>Response</u>:

(a) The Company applied for the CPP on October 22, 2008. [redacted] The CPP application was approved by the Treasury on November 18, 2008. A copy of the Company's CPP application, its supplemental information provided to the FDIC and the Treasury's approval letter are attached as <u>Exhibit A</u>.

The Company did not make specific public statements regarding its intended use of TARP funds. In a press release issued on November 18, 2008, the Company stated that participation in the CPP "will add to an already successful strategy of supporting the growth within our communities through smart, responsible lending to both existing and new customers. It also enables us to consider other strategic opportunities that may arise to expand our franchise." The release also said "[t]he investment by the Treasury will further strengthen the company's capital position". Following completion of the TARP

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transaction, the Company issued a press release on December 5, 2008 that said "the program further strengthens our already solid capital base and provides us with greater resources and flexibility for supporting our customers and communities in a challenging economic environment". That release went on to say that the "cost-effective capital will enhance United's ability to lend in our markets and consider strategic opportunities for expanding our franchise".

(b) The TARP funds were not segregated from other Company funds upon receipt on December 5, 2008.

(c) On December 16, 2008 the Company invested all $180 million of the TARP funds in the Bank as additional paid-in capital. The Bank's capital base is the foundation for all of its lending activities.

We wish to emphasize that the addition of capital does much more than provide the Bank with investable funds. Under applicable regulatory requirements, the Bank must maintain a ratio of total capital to risk-weighted assets of at least 10% to be qualified as "well-capitalized". Prior to receiving the TARP funds, the Bank was experiencing increased capital pressure. A bank's capital ratios are affected by changes in both the amount of capital (the numerator of the ratios) and by the amount of risk-weighted assets (the denominator of the ratios). Like many other banks, the Bank had seen its capital ratios decline because of a reduction in capital due net losses in earnings caused by higher provisions for loan losses and asset impairment charges.

Exhibit B illustrates the effect on the Bank's capital ratios of the receipt of a portion of the TARP funds. At September 30, 2008, the Bank's total risk-based capital ratio was 10.9%. Although the Bank's capital ratios were well in excess of the amounts required to be considered "well-capitalized", the current operating environment and the expectation of higher credit losses could potentially have limited the amount of new loans made by the Bank. As Exhibit B shows, the additional capital increased the Bank's risk-based capital ratio to 13.2% at December 31, 2008. With the additional capital, and the resulting improved capital ratios, the Bank gained the capacity to make a significant amount of new loans while remaining safely above the well-capitalized guidelines.

The Company has already made significant strides towards deploying the capital provided by the TARP funds. Exhibit C illustrates the number of new loans that have been made by the Bank since December 8, 2008, which is the first business day after the closing of the CPP transaction, and February 27, 2009. As this exhibit illustrates, the Bank committed to $178.8 million in new loans and has funded $128.2 million in new loans across its markets.

(d) The Bank's primary activity is the origination of loans for sale and investment. As of December 31, 2008, 66% of the Company's total assets were loans. We anticipate that the Bank will continue to leverage the capital provided by the TARP funds to make loans and grow its loan portfolio.

Request 2:

Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments 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 limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

Response:

Section 1.2(d)(iv) of the Securities Purchase Agreement – Standard Terms provides that it is a condition to the receipt of TARP funds that:

> "the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("*EESA*") as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date…."

In addition, rules promulgated by Treasury establish the following standards for the CPP: (a) limits on compensation that exclude incentives for senior executive officers (SEOs) of financial institutions to take unnecessary and excessive risks that threaten the value of the financial institution; (b) required recovery of any bonus or incentive compensation paid to a SEO based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; (c) prohibition on the financial institution from making any golden parachute payment to any SEO; and (d) agreement to limit a claim to a federal income tax deduction for certain executive remuneration.

In connection with the receipt of the TARP funds, the Company complied with its obligations under the Securities Purchase Agreement by having each of its SEOs execute a waiver that addresses several of the executive compensation requirements. The form of waiver is attached as Exhibit D.

While the Company believes its executive compensation programs currently in place are fully compliant with Section 1.2(d)(iv) of the Securities Purchase Agreement and the current rules promulgated by Treasury with respect to the CPP, it intends to have each of its SEOs and other relevant employees sign letter agreements with the Company once the new standards under the American Recovery and Reinvestment Act of 2009 are put in place to ensure that it has a binding agreement with each such individual that modifies his or her compensation arrangements as necessary to ensure compliance with all standards applicable to recipients of TARP funds.

With respect to future action, applicable Treasury regulations require the Company's compensation committee to identify the features in the Company's SEO incentive compensation arrangements that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the financial institution. The regulations require that the compensation committee review the SEO incentive compensation arrangements with the Company's senior risk officers, or other personnel acting in a similar capacity, to ensure that SEOs are not encouraged to take such risks. The regulations require such review promptly, and in no case more than 90 days, after the receipt of TARP funds.

In furtherance of its requirements under TARP, the Company's Board of Directors first discussed these requirements at a meeting on January 15, 2009. Thereafter, the Company's compensation committee identified the persons acting in a capacity similar to senior risk officers and met on February 24, 2009 to review SEO incentive compensation arrangements with those officers. Following review of the incentive programs and discussion of the risks facing the Company, the compensation committee concluded that no revisions to these programs were required to eliminate incentives to take unnecessary and excessive risk.

* * * * *

The Company requests confidential treatment of this letter. The financial information contained in this letter and the exhibits hereto is financial information that is not otherwise available to the public and, therefore, is confidential. For this reason, this letter is protected under 5 U.S.C. § 552(b)(4).

* * * * *

The undersigned duly authorized senior executive officer of the Company hereby certifies, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that I have reviewed this response and supporting documents and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Sincerely,

Jimmy C. Tallent
President and Chief Executive Officer

Exhibit A

CPP APPLICATION DOCUMENTS

See attachment.

[redacted] (b) (8)

Exhibit B

The following tables shows the Bank's actual capital ratios at September 30, 2008 and December 31, 2008, which was after giving effect to the receipt of TARP funds.

	September 30, 2008		December 31, 2008	
	Bank	**Holding Company**	**Bank**	**Holding Company**
Tier I Risk Based Capital	9.15%	8.66%	11.42%	11.21%
Total Risk Based Capital	10.90	11.40	13.18	13.87
Tier I Leverage	6.98	6.69	8.36	8.26

Exhibit C

The table below new loans made by the Bank from December 8, 2008 to February 27, 2009. The Company received the TARP funds on December 5, 2008.

Location	Loan Count	Loan Amt Booked	Total Funded	Total Unfunded
Adairsville	63	$982,186.79	$972,197.59	$18.00
Atlanta Southern Crescent Group	57	$4,208,285.16	$3,623,602.58	$559,537.28
Blairsville	263	$10,692,088.96	$7,892,783.72	$2,659,352.78
Blue Ridge	118	$5,765,223.27	$3,443,353.38	$2,300,641.91
Brunswick	100	$2,272,595.24	$1,540,131.05	$716,148.57
Cherokee	25	$2,033,031.30	$1,567,878.34	$459,820.23
Cobb	47	$4,344,884.24	$2,606,661.87	$1,729,719.55
Dawson	123	$3,333,555.09	$3,155,635.43	$168,297.52
Ellijay	79	$5,438,897.79	$2,978,133.54	$2,443,264.92
Forsyth	41	$3,356,346.83	$2,529,868.70	$792,941.72
Gwinnett	62	$18,105,228.00	$13,951,343.84	$4,117,317.82
Habersham	145	$4,318,985.43	$4,128,312.96	$173,061.84
Hall	178	$18,883,404.66	$13,444,164.89	$5,377,600.82
LPO	56	$11,344,728.00	$7,225,905.68	$4,086,947.32
Lumpkin	56	$1,305,901.10	$957,431.89	$340,324.28
McCaysville	54	$2,855,758.07	$2,076,101.63	$772,581.34
North Carolina	479	$17,622,785.58	$11,161,288.68	$6,355,763.24
Rabun County	88	$1,770,922.15	$1,479,246.00	$280,123.52
Rockdale-Henry	47	$4,515,589.27	$3,412,464.78	$1,082,555.43
Rome	126	$13,368,247.68	$11,614,728.06	$1,732,536.73
Savannah	27	$4,017,022.33	$2,968,205.96	$1,028,374.37
Summerville	189	$12,820,701.25	$7,329,189.82	$5,448,502.68
Tennessee	141	$9,619,247.54	$5,121,348.98	$4,470,816.65
TN Cleveland	46	$4,145,011.36	$3,791,745.01	$340,927.25
Towns County	69	$4,332,395.80	$3,282,205.83	$1,045,041.42
West Georgia	27	$2,018,750.01	$1,312,655.42	$701,039.50
White County	124	$5,333,035.40	$4,614,407.24	$685,407.64
TOTALS	**2830**	**$178,804,808.30**	**$128,180,992.87**	**$49,868,664.33**

Exhibit D

FORM OF WAIVER OF SENIOR EXECUTIVE OFFICERS

WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

____
Signature

____
Print Name

____
Title