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March 6, 2009

VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220
Email: SIGTARP.response@do.treas.gov

Re: Response to Letter of Inquiry dated February 6, 2009 from the Special Inspector General to AmeriServ Financial, Inc. ("AmeriServ")

Dear Mr. Barofsky:

This letter is in response to your letter dated February 6, 2009, in which you had requested information relating to (1) AmeriServ's anticipated use of funds received under the Troubled Asset Relief Program ("TARP") and a discussion of whether the TARP funds were segregated from other funds available to the institution, as well as its actual use of such TARP funds to date and expected use of unspent TARP funds, and (2) AmeriServ's specific plans, and the status of implementation of those plans, for addressing the executive compensation requirements under Section 111 of the Emergency Economic Stabilization Act of 2008, as may be amended from time to time ("EESA"), associated with AmeriServ's receipt of an investment under TARP.

AmeriServ has included a narrative response to these requests for information below under the headings "*Use of TARP CPP Funds*" and "*Plans for Addressing Executive Compensation Requirements*".

Background

As you know, the United States Department of the Treasury ("Treasury") has made a significant investment in AmeriServ pursuant to Treasury's TARP Capital Purchase Program ("TARP CPP"). AmeriServ received a letter, dated December 4, 2008, from Treasury approving an investment of up to \$21 million by Treasury under TARP CPP. On December 19, 2008, AmeriServ entered into a letter agreement with Treasury, pursuant to which AmeriServ agreed to issue and sell to Treasury (i) 21,000 shares of AmeriServ's Fixed Rate Cumulative Perpetual Preferred Stock, Series D, par value \$2.50 per share (the "Preferred Stock"), and (ii) a warrant to purchase 1,312,500 shares of AmeriServ's common stock, par value \$2.50 per share, for an

aggregate purchase price of \$21 million. The funds received from Treasury were not segregated from other funds available to AmeriServ and its wholly-owned banking subsidiary, AmeriServ Financial Bank (the "Bank").

Use of TARP CPP Funds

Prior to applying to participate in TARP CPP, in October 2008, management made a presentation to our Board of Directors detailing how AmeriServ and the Bank would use an investment of \$20 million by Treasury to, among other things, increase lending by the Bank. Excerpts from this presentation are attached as Annex A to this response. The funds from Treasury's investment would not be separately segregated from funds otherwise available to AmeriServ and the Bank. Based upon this model, [REDACTED] would be downstreamed from AmeriServ to the Bank [REDACTED]

[REDACTED] AmeriServ would use the [REDACTED] retained at the holding company to [REDACTED]

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Use of TARP CPP Funds to Date. Immediately after the investment, AmeriServ downstreamed \$5 million to the Bank to pursue a strategy outlined in the October 2008 Board Presentation. Annex B sets forth the Bank's lending since November 30, 2008. Because AmeriServ would receive a \$21 million investment, the Bank, unlike many other financial institutions, was able to continue to make loans, consistent with its underwriting standards, to families, businesses and students in the communities it serves. As a result, between November 30, 2008 and February 28, 2009, the Bank:

- originated \$65.9 million new loans, which includes:
 - \$48.5 million in new commercial/commercial real estate loans;
 - \$11.9 million in new residential mortgage loans;
 - \$3.1 million in new consumer and home equity loans; and
 - \$2.4 million in new student loans; and
- on a net basis after paydowns, loans increased by \$36.0 million or 5.2% (in excess of 20% on an annualized basis).

We believe that had AmeriServ not received an investment of \$21 million from Treasury, the Bank may not have been able to further improve its bank regulatory capital ratios during this period of loan growth and stressed market conditions while continuing to meet the credit needs of creditworthy borrowers in the communities it serves.

AmeriServ intends to retain \$11 million at the holding company level. Since December 19, 2008, AmeriServ has purchased over \$8 million of investment securities issued by Ginnie Mae and Fannie Mae and retained some funds in liquid short-term money market accounts. Details regarding the investment securities transactions are included on Annex C. But for Treasury's investment, AmeriServ would not have been able to be as active a participant in these secondary markets for mortgage loans.

Future Uses of TARP CPP Funds. In light of current market conditions, management continues to closely monitor its loan and investment securities portfolios and its bank regulatory capital and liquidity positions. Given that AmeriServ and the Bank continue to be "well capitalized" under applicable bank regulatory standards (see, for example, slide 14 of the October 2008 Board Presentation), however, we anticipate that we will continue to pursue a strategy of (i) increasing lending by the Bank to creditworthy borrowers [REDACTED]

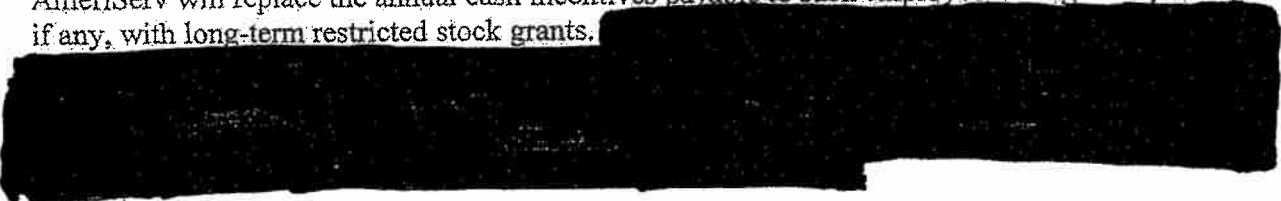
b(4) [REDACTED] and (ii) maintaining liquidity at the holding company while continuing to provide liquidity to secondary markets by purchasing investment securities issued by Ginnie Mae and Fannie Mae. We also continue to monitor our overall liquidity position and, to a lesser extent, the capital markets to evaluate whether AmeriServ can support its business while also permitting AmeriServ, after consultation with the Federal Reserve Bank of Philadelphia, to redeem the Preferred Stock investment by Treasury and maintain the "well capitalized" status of both AmeriServ and the Bank.

Plans for Addressing Executive Compensation Requirements

Subsequent to the date of your letter, the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law. As you are aware, the requirements of ARRA largely replace the executive compensation requirements previously imposed under Section 111 of EESA and previously issued guidance by Treasury. Thus, the specific plans set forth below are meant to comply with Section 111 of EESA, as amended by ARRA, and, to the extent necessary, will be amended to address any rules or regulations promulgated by Treasury thereunder.

In connection with Treasury's investment pursuant to TARP CPP, AmeriServ has entered into a letter agreement with the Treasury, which, among other things, states that the provisions of Section 111 of EESA, as amended by ARRA, shall apply to AmeriServ. [REDACTED]

In light of the prohibition on AmeriServ paying or accruing any bonus, retention award, or incentive compensation to its most highly compensated employee during the period in which any obligation arising from Treasury's investment pursuant to TARP CPP remains outstanding, AmeriServ will replace the annual cash incentives payable to such employee during such period, if any, with long-term restricted stock grants.



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[REDACTED]

AmeriServ also is ready to assist Treasury review of bonuses, retention awards, and other compensation paid to its senior executive officers and any of its next 20 most highly compensated employees in 2008 or 2009 in order for Treasury to determine whether such payments are inconsistent with the purposes of Section 111 of EESA, as amended by ARRA, or TARP, or are otherwise contrary to the public interest. If directed by Treasury, AmeriServ undertakes to negotiate with any such employee identified by Treasury an appropriate reimbursement identified by Treasury with respect to such compensation or bonuses.

At its upcoming annual meeting of shareholders in 2009, AmeriServ will be submitting a non-binding advisory proposal to its shareholders on its executive compensation. Such proposal is intended to comply with Section 111 of EESA, as amended by ARRA.

The Compensation Committee will review AmeriServ's executive compensation program to assess whether any aspect of the program would encourage any of AmeriServ's executives to take any unnecessary or excessive risks that could threaten the value of AmeriServ and will meet with AmeriServ's risk official to better understand the material risks, including reputational risk, that AmeriServ currently faces. This review was not done in connection with compensation programs for 2008 as AmeriServ received the proceeds from Treasury's investment on December 19, 2008 and such requirements were adopted in February 2009.

AmeriServ recognizes that the pursuit of annual and long-term financial and business objectives may lead to behaviors that focus executives on their individual enrichment rather than AmeriServ's long-term welfare. Accordingly, management expects the Compensation Committee to consider proposals that modify AmeriServ's executive compensation program to limit and mitigate these possibilities and ensure that its compensation practices and decisions are consistent with its risk profile. This proposal may include the following:

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[REDACTED]

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- Annual Incentives. In order to ensure that the interests of its executives are aligned with the interests of its shareholders and the public, management expects that the Compensation Committee will consider including the following attributes to its short-term incentive plan in 2009:

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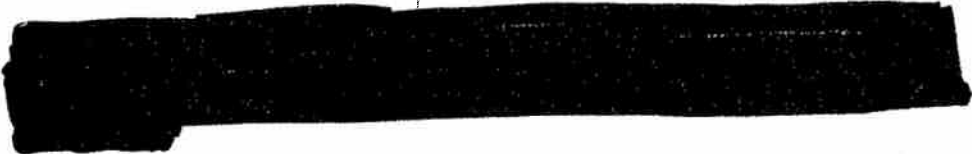
- Compensation Recovery Policy. Management expects that the Compensation Committee will consider a policy that provides

[REDACTED]

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If you have any questions or concerns, feel free to contract me at (814) 533-5319.

The undersigned duly authorized senior executive officer of AmeriServ hereby certifies to the addressee, on behalf of AmeriServ, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations, and supporting information provided are accurate to the best of such officer's knowledge.

Sincerely yours,

A handwritten signature in cursive script, which appears to read 'Allan R. Dennison', is written above the printed name.

Allan R. Dennison
President and Chief Executive Officer

- Annex A - Excerpts from October 2008 Board Presentation
- Annex B - Lending of AmeriServ Financial Bank since November 30, 2008
- Annex C - Purchases of Investment Securities by AmeriServ Financial, Inc. since December 19, 2008



TARP Capital Purchase Program

What is It and

What Does It Mean to AmeriSery?

TARP – Strategic Options for AmeriServ

- Lending Opportunities
- Acquisition Opportunities
- Protection Against Future Losses



TARP - Capital Purchase Program

Parent Receives Maximum Amount \$ 20,000,000

Annual Dividend/Interest Cost 5.0%

Annual Dividend/Debt Service \$ 1,000,000



TARP - Capital Purchase Program

Use of Proceeds

b(4) [REDACTED] retained at the Parent to support future strategic initiatives.

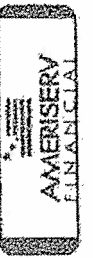
b(4) [REDACTED] down-streamed to Bank to support additional commercial loan growth.



TARP - Capital Purchase Program

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TARP - Capital Purchase Program

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TARP - Capital Purchase Program

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Capital Adequacy – TARP Pro-Forma

Well Capitalized

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As of September 30, 2008



Annex B

Lending of AmeriServ Financial Bank since November 30, 2008

AmeriServ Financial Inc.
Analysis of Loan Activity
For Capital Purchase Program

Analysis of loan activity since the receipt of the \$21 million of CPP Funds is as follows:

	<u>2/28/2009</u>	<u>11/30/2008</u>	<u>Dollar</u> <u>Increase</u>	<u>%</u> <u>Increase</u>
Total Loans Outstanding	\$ 723,193,000	\$ 687,220,000	\$ 35,973,000	5.2%

To achieve this net loan growth since we received the \$21 million of CPP funds in December 2008, we had the following level of gross new loans originated:

Commercial/Commercial Real Estate Loans	\$ 48,458,000
Residential Mortgage Loans	\$ 11,948,000
Consumer Loans (Includes Home Equity)	\$ 3,054,000
Student Loans	<u>\$ 2,412,000</u>
Total New Loans Originated	\$ 65,872,000
Loan payoffs and sales into secondary market	<u>\$ 29,899,000</u>
Net Loan Increase	\$ 35,973,000

Annex C

Purchases of Investment Securities by AmeriSery Financial, Inc. since December 19, 2008

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