

INTERVEST BANCSHARES CORPORATION

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A FINANCIAL HOLDING COMPANY

LOWELL S. DANSKER CHAIRMAN &
CHIEF EXECUTIVE OFFICER
STEPHEN A. HELMAN VICE PRESIDENT
JOHN J. ARVONIO CHIEF FINANCIAL OFFICER

February 26, 2009

***Via Electronic Mail (SIGTARP.response@do.treas.gov) and
Regular Mail***

Office of The Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D.C. 20220

Attn: Neil M. Barofsky

Re: Troubled Asset Relief Program

Dear Mr. Barofsky:

This letter is sent in response to your letter of February 6, 2009 regarding our institution's deployment of the funds received by it under the Troubled Asset Relief Program (TARP).

In order to provide some context to our response to the specific questions posed in your letter, I am starting this response with a snapshot of the history and lending philosophy of Intervest National Bank, our subsidiary bank.

Background

Intervest National Bank (the "Bank") is a nationally chartered bank with headquarters in New York City and six full service branches on the west coast of Florida in the Tampa/St. Pete region. The Bank has always been and remains a real estate lender. The Bank does not make single family loans, co-op/condo conversion loans, construction loans or land development loans. Most of its loans are on income-producing properties, such as multi-family, neighborhood shopping centers, office buildings, mixed use buildings, mini storage, office warehouse flex and some hospitality loans. The Bank does not participate with other lenders and retains its loans in its portfolio. The Bank services all of its loans internally. Our investment portfolio consists of United States Agency paper issued by FNMA, FHLMC, FFCB and others. We do not own, nor have we ever owned, any CMBS or MBS paper, or FNMA or FREDDY stock.

The Bank's deposits are nearly all retail certificates of deposit. From time to time, the Bank has also used brokered certificates of deposit when there was a rate advantage to the Bank. Of our total deposits of \$1.93 billion at February 25, 2009, 8.94% (\$172,900,000) are brokered deposits with various maturities spread out over time.

The Bank has consistently evaluated loan applications on a basis of cash flow, the relationship of the rents to market, the value of the underlying collateral and the financial stability and condition of the borrowers. Although our collection rate has historically been good, during the past two years we have

SUBSIDIARIES OF INTERVEST BANCSHARES CORPORATION
NASDAQ SYMBOL: IBCA

INTERVEST NATIONAL BANK
FDIC INSURED

INTERVEST MORTGAGE CORPORATION
MORTGAGE INVESTMENTS

experienced an increase in non-performing loans. In many cases, our borrowers have been unable to support all of the debt placed on properties (many of which were not financed by us) as they experience cash flow shortages or, in the case of borrowers who were engaged in construction projects not financed by us, have a lack of sales or financing to complete those construction projects.

We manage our portfolio aggressively and monitor all loans on a daily basis. It is our belief that, by taking action quickly, as soon as a potential problem is identified, we have a better chance of recovering our principal. In all of our years of business, we have only sold one loan. We work the credits with our own resources and ultimately obtain better results than could be obtained by selling at a discount to third parties.

With that background in mind, we furnish the following response to the two questions posed in your letter of February 6, 2009:

Narrative Response

We applied for the TARP funds based on our understanding that the objective of the program was to bolster the capital levels of our Bank, while providing us with an enhanced ability to originate loans, consistent with our existing lending policies. Even prior to our application, our primary regulator had asked us to set capital benchmarks at levels greater than those required for the Bank to be considered well capitalized. As explained to us at that time, our regulator was encouraging us to explore alternatives to preserve or enhance capital should those increased guidelines not be met. The receipt of TARP funds gave us an increase in capital levels to both set those targets and continue our lending program. As such, we viewed the TARP funds as being instrumental in permitting us to continue to make loans in our marketplaces.

The TARP funds have not been segregated by us, but were simply commingled with other funds, as would be the same with any other infusion of capital, regardless of the source. As such, we have not tracked application of those funds on a segregated basis. That being said, we can report that prior to receiving TARP funds our loan commitment pipeline had a balance of \$21,100,000 of pending loans. Since receiving TARP funds on December 23, 2008 and through the date of this letter, we have executed additional loan commitments of \$78,255,000. Of the total pipeline of \$99,355,000, we have closed and funded loans of \$23,229,999. Consistent with past practice, we would expect the pending loans to close over the next 30 to 45 days. We are currently evaluating other loan opportunities to add to the pipeline.

Our anticipated use of unspent TARP funds will be for the funding of additional loans, consistent with our normal underwriting standards and loan policies. As has been our historic practice, we review each application for credit with an eye towards cash flow and the current, underlying value of the real estate collateral, taking into account the current economic crisis and fluctuations in value. In that regard, I have attached to this response a copy of the pipeline of outstanding loan commitments and loans closed since the date of receipt of the TARP funds.

Receipt of the TARP funds has had a positive impact on our business. The funds have provided us with an additional cushion to withstand and deal with the general erosion of real estate values and the difficulties that some of our existing borrowers have encountered in servicing their loans. The TARP funds constitute a resource that has enabled us to continue to implement our lending program during an extraordinary economic crisis.

Executive Compensation

Your letter also asked us to describe our specific plans for addressing executive compensation requirements associated with the TARP funding. Since we are a relatively small company, with an especially small executive staff, compliance with the executive compensation provisions associated with TARP participation has not been too difficult. We are a public company, so that identification of our “named executive officers” is done annually. With respect to the specific elements of the compensation rules, we can respond as follows.

First of all, we do not have any “golden parachute” arrangements with our executive officers, so that compliance with section 111(b) of the Emergency Economic Stabilization Act of 2008 (“EESA”) is not an issue.

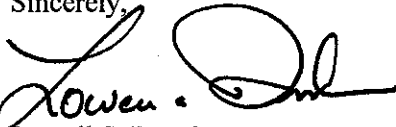
(b) (4) (b) (4)

With respect to specific EESA requirements, the Compensation Committee has reviewed its incentive compensation policies with the senior executives to ensure that any compensation programs do not have features that might encourage executives to take unnecessary and excessive risks that could threaten the Company’s value. Certification of that review will be included in the Compensation Discussion and Analysis to be included in our proxy statement for the next annual meeting of shareholders.

We are also familiar with the “clawback” provisions of EESA and understand that any bonuses or incentive compensation paid to our senior executive officers is subject to recovery if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance criteria. Each executive officer has been made aware of that provision.

Certification

The undersigned officer of the Company hereby certifies the accuracy of the statements, representations, and supporting information supplied herein, subject to the requirements and penalties set out in Title 18, United States Code, Section 1001.

Sincerely,

Lowell S. Dansker
Chairman & CEO

REAL ESTATE LOAN PIPELINE REPORT AS OF FEBRUARY 26, 2009

DATE	PROJECT/ BORROWER	TYPE	PROPERTY LOCATION	COMMITMENT AMOUNT	LOAN AMOUNT	FUNDING DATE			
New York:									
07/23/08	(b) (4)	(4)	(b) (4)	325,000					
09/22/08				1,800,000					
10/02/08				575,000					
10/14/08				4,000,000					
10/23/08				1,000,000					
11/07/08				3,200,000					
11/12/08				900,000					
11/13/08				1,750,000					
11/13/08				1,150,000					
11/14/08				450,000					
12/15/08				750,000					
01/13/09				900,000					
01/13/09				1,600,000					
01/16/09				2,000,000					
01/16/09				5,500,000					
01/16/09				1,250,000					
01/20/09				1,900,000					
01/23/09				3,200,000					
01/23/09				1,500,000					
01/26/09				465,000					
01/26/09				335,000					
01/27/09				20,000,000					
01/28/09				1,215,000					
02/03/09				1,500,000					
02/03/09				1,500,000					
02/06/09				499,000					
02/09/09				800,000					
02/10/09				2,000,000					
02/10/09				4,000,000					
02/12/09				11,000,000					
02/23/09				3,800,000					
02/23/09				499,000					
02/25/09				2,100,000					
09/19/08								900,000	01/06/09
10/22/08								720,000	02/20/09
11/10/08								1,500,000	12/31/08
11/12/08								1,750,000	12/31/08
11/13/08								650,000	01/06/09
12/02/08								1,400,000	01/01/09
12/02/08								1,350,000	01/28/09
12/15/08								499,999	02/03/09
12/16/08								2,800,000	02/10/09
01/06/09								2,000,000	02/13/09
01/22/09								1,600,000	02/10/09
01/26/09								1,250,000	02/25/09
							Prior 12/23/08 Total:	15,900,000	11,569,999
							On/After 12/23/08 Total:	67,563,000	4,850,000
							(NY) Total:	83,463,000	16,419,999
11/24/08				2,600,000					
11/24/08				2,600,000					
01/23/09				1,800,000					
01/30/09				7,500,000					
02/12/09				1,392,000					
10/16/08					2,500,000	12/30/08			
12/18/08					2,000,000	01/30/09			
12/05/08					2,300,000	02/06/09			
02/03/09					10,000	02/06/09			
				Prior 12/23/08 Total:	5,200,000	6,800,000			
				On/After 12/23/08 Total:	10,692,000	10,000			
				(FL) Total:	15,892,000	6,810,000			
				Prior 12/23/08 Total:	21,100,000	18,369,999			
				On/After 12/23/08 Total:	78,255,000	4,860,000			
				BANK TOTALS	\$ 99,355,000	\$ 23,229,999			