

CentraBank

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Douglas J. Leech
Chairman of the Board
President & Chief Executive Officer

March 6, 2009

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

Re: Centra Financial Holdings, Inc.

Dear Mr. Barofsky:

Centra Financial Holdings, Inc. (Centra) is responding to your request for certain information regarding our participating in the Troubled Assets Relief Program (TARP), specifically the Capital Purchase Program.

OVERVIEW OF CENTRA

Centra was formed on October 25, 1999, as a bank holding company. Centra Bank, Inc. (the bank or Centra Bank), was formed on September 27, 1999, and chartered under the laws of the state of West Virginia. The bank commenced operations on February 14, 2000. During the first quarter of 2001, Centra formed two second-tier holding companies (Centra Financial Corporation – Morgantown, Inc. and Centra Financial Corporation – Martinsburg, Inc.) On August 25, 2006, Centra completed its acquisition of Smithfield State Bank of Smithfield, Pennsylvania ("Smithfield"), a state-chartered bank operating four retail branch offices in Fayette County, Pennsylvania. During the first quarter of 2007, Centra formed two additional second-tier holding companies (Centra Financial Corporation – Uniontown, Inc., and Centra Financial Corporation – Hagerstown, Inc.) These four entities were formed to manage the banking operations of Centra Bank, the sole bank subsidiary, in their respective markets.

Centra operates offices in the Suncrest, Waterfront, Cheat Lake, and Sabraton areas of Morgantown, West Virginia; the Williamsport Pike, Foxcroft Avenue, and South Berkeley areas of Martinsburg, West Virginia; the Uniontown, Smithfield, Fairchance, and Point Marion areas of Fayette County, Pennsylvania; and the Pennsylvania Avenue and Kenley Square areas of Hagerstown, Maryland. At

December 31, 2008, Centra had total assets of \$1,214 million, total loans of \$1,025 million, total deposits of \$1,012 million, and total stockholders' equity of \$95 million (note this was prior to Centra receiving the \$15 million in TARP funding).

Centra's business activities currently consist solely of community banking. As a community banking entity, Centra offers its customers a full range of products through various delivery channels. Such products and services include checking accounts, NOW accounts, money market and savings accounts, time certificates of deposit, commercial, installment, commercial real estate and residential real estate mortgage loans, debit cards, and safe deposit rental facilities. Services are provided through our walk-in offices, automated teller machines ("ATMs"), eleven automobile drive-in facilities, banking by phone, and Internet-based banking. Additionally, Centra offers a full line of investment products through an unaffiliated registered broker-dealer.

Centra Bank has not been a stranger to National attention and comparisons. The 2007-2008 "Hot 500 List" in Entrepreneur Magazine and the 2008 edition of INC Magazine's "Annual INC 5000" ratings both listed Centra among their "top100" companies in the United States and as a leader of their peers in growth and success among financial service companies nationwide .

CENTRA'S CAPITAL POSITION

Centra has had a proud history of being a "well capitalized" institution, even with the rapid growth we have experienced since our inception. At September 30, 2008, all of Centra's capital ratios were above applicable regulatory benchmarks required to be considered a "well-capitalized" institution. Centra's Tier 1 Capital ratio was 9.95 percent (compared to the well-capitalized threshold of 6 percent) its Total Risk-Based Capital ratio was 11.21 (compared to the well-capitalized threshold of 10 percent).

Our capital position at the end of 2008 improved. At the end of 2008, Centra's Tier 1 Capital ratio was 10.10%, significantly greater than the "well capitalized" threshold of 6.00%. Total Risk-Based Capital at the end of 2008 was 11.36%, also exceeding the "well capitalized" threshold of 10.00%.

While these capital ratios are very strong, Centra's position was further strengthened by our acceptance of \$15 million of the \$28.8 million approved by the Treasury through the CPP. Through that issuance, Centra's Tier 1 capital ratio was enhanced to 11.65%, nearly double the 6% "well-capitalized" threshold. Total Risk Based capital increased to 12.91%, demonstrating Centra's strong capital position.

CENTRA'S LENDING

One of Centra's strengths has been its ability to lend money in the communities we serve. The following is a table of outstanding loans as of the respective year ended December 31:

<i>(Dollars in Thousands)</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total loans	\$ 1,025,212	\$ 876,176	\$ 693,520	\$ 463,496
Increased over prior year	149,036	182,656	230,024	66,582
Percent Increase	17%	26%	50%	17%

Total loans outstanding increased \$149 million or 17% over the prior year. In 2008, Centra originated, renewed or funded over \$475 million of loans to our customers. However, over \$135 million or 90% of the growth in 2008 came in the first three quarters as Centra curtailed its pace of lending and tightened underwriting standards in the face of unprecedented economic times.

IMPACT OF TARP FUNDS ON CENTRA

On January 16, 2009, Centra entered into a Letter Agreement to participate in the CPP. Thus, Centra's use of TARP funds was not applicable for our practices in 2008. In the third quarter of 2008, Centra curtailed its pace of lending through a dramatic tightening of underwriting standards in anticipation of the current economic downturn. This slowing of lending continued on through the remainder of 2008. Upon the receipt of the funds through the CPP, Centra relaxed certain underwriting standards in an effort to expand the flow of credit in the markets we serve. In general, the funds allowed us to reduce terms (for example, interest rate floors and loan-to-value ratios) that we might not have otherwise done.

EXECUTIVE COMPENSATION

Centra has taken a number of steps to ensure compliance with the limitations on executive compensation for recipients of TARP CPP funding. Specifically, we have taken, or are planning, the following steps.

1. Analysis. Prior to the time that Treasury accepted Centra's application for TARP CPP funds, we reviewed the text of Section 111 of the Economic Emergency Stabilization Act of 2008, the information contained in the Frequently Asked Questions and Terms and Conditions on the United States Treasury website page, and the Treasury Regulations which addressed the Section 111 compensation limitations.

2. Consultation.

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3. Actions Taken. After the steps described above, we reviewed the requirements of Section 111 of EESA and the Treasury Regulations with the senior executive officers of Centra, to ensure that the senior executive officers understood these limitations and agreed to them.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Centra's Board of Directors was already familiar, at least to a degree, with the requirements of Section 111 of EESA. In November of 2008, prior to Centra's TARP CPP application, the features of the TARP CPP program, including the executive compensation limitations, were the centerpiece of a one-day director training session. Speakers at the session included management of Centra, representatives from the investment banking firm of Keefe Bruyette & Woods, Inc., representatives from the investment banking firm of Danielson & Company, [REDACTED]

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[REDACTED] and representatives of the Federal Deposit Insurance Corporation and the West Virginia Division of Banking.

After these reviews and consultations, the Board of Directors of Centra Bank unanimously voted to amend the Centra Bank, Inc. 2008 Executive Incentive Bonus Plan to require compliance with EESA generally and to require a return of funds in the event (and to the degree) that a bonus or incentive compensation is paid to a senior executive officer based on a statement of earnings, gains or other criteria that is proven to be inaccurate. A copy of the Amendment to the 2008 Executive Incentive Bonus Plan is enclosed.

[REDACTED]

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4. Future Compliance. Centra is aware of the obligation for a review of incentive plans and other forms of compensation by the Compensation Committee in order to address any compensation criteria which would require excessive risk.

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IMPACT OF THE ARRA

As you know, the American Recovery and Reinvestment Act (the "ARRA") and the Financial Stability Plan ("FSP") have a substantial impact on all CPP participants. Treasury Secretary Geithner outlined the FSP on February 10, 2009 that, in part, contemplates potential restrictions on certain bank activities and operations including loan modifications, dividends, stock repurchases and acquisitions.

- **Loan Modification and Foreclosure Avoidance.** As initially described, participation in Treasury's loan modification program will be mandatory for institutions that receive TARP proceeds in the future until the government investment is repaid. In fact, an executive summary released by Treasury today indicates that institutions receiving government assistance "going forward" will be required to implement loan modification plans consistent with FSP guidance. However, banking agencies could impose the same or similar requirements outside of FSP, and they may mandate compliance for existing participants in government assistance programs. The loan modification plan includes lender reductions of interest rates and government/lender matches to effectively subsidize a qualifying borrower's payments.
- **Dividend Limitations.** To combat arguments that institutions have used government assistance to pay dividends, FSP prohibits dividend declarations in excess of one cent per share for assisted institutions until the government investment is repaid. While these restrictions are expected to only apply to institutions that receive "exceptional assistance" (that we interpret to mean more than one round of government investment), the potential for broader application remains. Absent a federal mandate, we note that banking agencies always have the ability to limit dividends as the facts warrant.
- **Stock Repurchase Limitations.** FSP (as does the CPP) prohibits repurchase of privately-held shares during any period when an institution has government assistance, absent approval by Treasury and the primary federal regulator. At this time, this restriction is proposed for future recipients of government assistance.
- **Acquisition Restrictions.** FSP prohibits future government assistance recipients from acquiring "healthy" institutions with cash until the government investment is repaid.
- **Executive Compensation Restrictions.** Independent of the FSP, President Obama signed into law the ARRA on February 17, 2009. The ARRA contains new executive compensation restrictions that apply to any institution that has received or will receive TARP funds. Thus, the new restrictions apply to Centra Bank, even though its CPP transaction with Treasury had already closed at the time of enactment of the ARRA. The ARRA restrictions are stricter and broader than those that applied under CPP at the time Centra Bank entered into its transaction, and in some cases apply to a broader group of employees.

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whom the bank may be prohibited from honoring contractual terms. Centra is also concerned about the impact of the ARRA changes on its system of compensation, particularly with respect to incentive compensation for loan officers.

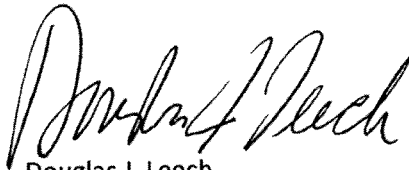
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From our interpretation of the FAQs posted by Treasury on the redemption process, we understand that Treasury is seeking payment on the warrants that were immediately exercised at the close. The net effect of the treatment of Centra by the Treasury could actually end up decreasing our capital position. Given the time we have held the money related to the capital infusion, this is an effective annual interest rate of **around 60%**. This amounts to a penalty for non-exchange traded institutions and is contrary to the original intent of TARP and the intent of ARRA. Clearly, ARRA intended to allow TARP participants to exit the program without penalty. However, the position of the Treasury is fundamentally unfair and is detrimental to us and to others in the financial institutions industry, who are not publicly traded.

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I certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,



Douglas J. Leech

Chairman, CEO,

Centra Financial Holdings, Inc.