CAPITAL BANCORP, INC.
One Church Street
Suite 300
Rockville, MD 20850

March 4, 2009

Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, DC 20220

Dear Mr. Barofsky,

This letter is in response to your letter dated February 6, 2009, requesting information regarding Capital Bancorp's use of TARP funds and its compliance with EESA's executive compensation requirements.

<u>Question 1</u>

Capital Bancorp (the "Company") received $4.7 million of TARP funds on December 23, 2008. The Company invested $700,000 of the proceeds in the paid-in capital of its wholly-owned subsidiary, Capital Bank, N.A. (the "Bank"), and the remaining $4 million in perpetual convertible subordinated debt of the Bank. In a related matter, the Company raised $1.5 million in common equity during December, the proceeds of which were invested in the paid-in capital of the Bank. The effect of these transactions was to enhance the regulatory capital of the Bank, which will permit it to grow faster, and loan more, than was previously possible.

TARP funds are <u>not</u> segregated from other institutional funds.

When the Capital Purchase Program was first announced, Management had several conversations with its primary regulator, the OCC. It was clear from those conversations, and from public statements issued by the Department of Treasury, that the intent of the Capital Purchase Program was to make more credit available.

Management anticipates that the increase in regulatory capital associated with TARP funds will enable the Bank to lend <u>more</u> than it would otherwise be able to lend to closely-held businesses, professionals, investors and not-for-profit organizations in the Washington, DC metropolitan area. This increased lending is expected to take place over the next 18-24 months.

Capital Bank is privately owned and relatively small, with assets at January 31, 2009 of $221 million. It does not have a large budget with which to advertise the Bank's participation in the TARP program. Instead, Management has communicated the Bank's participation to individuals who refer business to the Bank - Board members, Advisory Board members, officers and employees, existing customers, accountants and lawyers. Most of these communications have been through face-to-face contact. The Bank's Chairman was interviewed on a radio program in which he mentioned the Bank's participation in the TARP program. A recording of that interview is available on the Bank's website, www.capitalbankmd.com.

Since the TARP funds were received, the Bank's loans have grown from $162 million (December 23, 2008) to $165 million (at January 31, 2009). Management does not represent that this growth was specifically associated with receipt of TARP funds, or that growth will continue at the current pace. The Bank cannot predict the rate of loan growth in the future, however, the Bank's loan growth in 2008 (34%) and its high loan-to-deposit ratio (112% at January 31, 2009), demonstrate how active it is in serving the credit needs of its community.

Question 2

The Human Resources Committee of the Bank's Board of Directors is in the process of addressing the executive compensation requirements associated with the Emergency Economic Stabilization Act of 2008 ("EESA") as well as compensation issues associated with the American Recovery and Restoration Act of 2009 ("ARRA").

With respect to the implementation of the executive compensation requirements under EESA, as they existed prior to the amendment of Section 111 by ARRA, we note that we have no written employment contracts, change in control agreements, formula bonuses or executive compensation plans for our senior executive officers, or any severance arrangements that would provide a senior executive with a "golden parachute" within the meaning of Section 280G(e), as added by EESA. As such, no changes were required to be made to the Company's existing compensation arrangements. The Company will not adopt any arrangement that permits a payment in violation of applicable legal requirements. The Company will review its compensation agreements under the requirements of ARRA when they are clarified by issuance of implementing regulations.

The Company has no formal policy for the adjustment or recovery of awards or payments if the relevant performance measures upon which they are based are later restated or otherwise adjusted in a manner that would reduce the size of an award or payment. In the future, and upon clarification of the requirements, the Company will provide that all bonuses and incentive compensation to senior executive officers are subject to recovery in accordance with the requirements of EESA, as amended by ARRA.

The Company does not believe that it currently has, or has ever had, incentive compensation polices which incentivize any employee to take unnecessary or inappropriate risks that threaten the value of the Company. Its Human Resources

Committee has met to discuss the relationship between the compensation of senior executive officers and the Company's risk management policies. Furthermore, the Company's procedures are deemed adequate to ensure that no deduction is taken for senior executive compensation in excess of $500,000. No senior executive of the Company or subsidiary bank has ever had total compensation exceeding $500,000.

Certification

I , Stephen N. Ashman, Chairman of the Board of Capital Bancorp and Capital Bank, N.A. hereby certify the accuracy of all statements and representations, subject to the requirements and penalties set forth in Title 18, United States Code, Section1001.

Stephen N. Ashman, Chairman of the Board