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CENTRAL PACIFIC FINANCIAL CORP

March 6, 2009

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General – TARP
1500 Pennsylvania Ave., NW
Suite 1064
Washington, D.C. 20220

[Via email to SIGTARP.response@do.treas.gov](mailto:SIGTARP.response@do.treas.gov)

Re: Troubled Asset Relief Program

Dear Special Inspector General Barofsky:

We are writing in response to your letter of February 6, 2009 that requested information on our use of Troubled Asset Relief Program (“TARP”) funds and our plans to comply with the associated executive compensation requirements.

Background

Central Pacific Financial Corp. (“CPFC” or the “Company”) is the publicly-traded holding company of Central Pacific Bank (“CPB”). CPB is a community bank that was founded in 1954 and today is the fourth largest financial institution in Hawaii with \$5.4 billion in assets, \$3.9 billion in deposits, 39 branches and more than 1,000 employees.

CPB is a state-chartered, non-member bank with the Federal Deposit Insurance Corporation (“FDIC”) as its primary federal regulator. CPB has a long history of consistently strong financial performance, conservative underwriting and satisfactory regulatory examinations.

CPB is the established leader in affordable housing lending and investing in Hawaii. Additionally, CPB has a long and successful track record of assisting our customers through small business lending. In 2008, CPB was named the U.S. Small Business Administration Lender of the Year in our size category in the Hawaii region for the fifth consecutive year. Our commitment to supporting our communities has been recognized in our overall Community Reinvestment Act rating of “Outstanding” and Lending sub-component rating of “Outstanding.”

In 2004, CPB made a strategic decision to geographically diversify its credit risk through the operation of several loan production offices in California and the Pacific Northwest. By December

31, 2007, the mainland portfolio, which was primarily concentrated in California, had grown to \$1.2 billion, or roughly 29% of total loans.

2008 was the worst year in CPFC's history as the housing-led recession resulted in significant credit costs in the mainland loan portfolio and goodwill impairment charges related to the mainland operation. As a result, the Company reported a sizable net loss in the second quarter of 2008; the remaining three quarters of 2008 were profitable.

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TARP Capital

On January 9, 2009, CPFC raised \$135 million in Tier 1 regulatory capital through the issuance of senior preferred stock and a related common stock warrant to the U.S. Department of the Treasury. The capital raise was done on the standardized terms of the U.S. Treasury's Capital Purchase Program.

Use of TARP Funds

We appreciate the U.S. Treasury's vote of confidence when it made its investment in our Company two months ago and we understand the responsibility that comes with receiving public funds. Our application for TARP funds indicated that we would use the additional capital to sustain and expand our lending activities to support consumers and businesses in Hawaii. With the slowing Hawaii economy, we anticipate Hawaii consumers and businesses may need increased financial assistance to weather these challenging times. The additional capital from this program will allow us to meet these financing requests and support the economic recovery in Hawaii.

Additionally, Management plans to continually evaluate the new programs and regulatory guidance being issued under the Housing and Economic Recovery Act of 2008. Where it is deemed prudent and feasible, Management will utilize the additional capital and the government programs to assist CPB mortgage borrowers at risk of foreclosure to refinance into more affordable and sustainable loan structures.

Further, we will steward the TARP capital with great care and invest it wisely with the additional objective of providing an appropriate return to shareholders, as we do with all capital entrusted with us.

The investment of TARP funds into our Company was made in a similar manner as any other capital infusion. Capital and money are fungible on a bank's balance sheet and we do not segregate or track where each dollar comes from and where each dollar is invested or loaned.

Furthermore, capital is not used dollar-for-dollar to make loans. Capital is the foundation of a financial institution's balance sheet, which determines the amount of loans that can be made. Financial institutions, including the Federal Reserve Bank, regularly employ prudent amounts of balance sheet leverage to allow it to make an amount of loans that is several times larger than the amount of capital held on balance sheet.

What we can state positively is that CPB is making more loans and investments than we would be without the TARP capital.

During the last 12 months and through today, as the National economy contracts and the Hawaii economy weakens, CPB is open for business – meeting the financial needs of our retail and business customers.

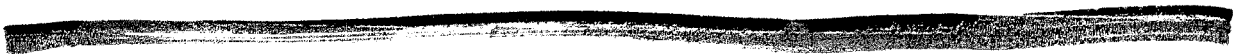
In 2008, CPB originated over \$2.2 billion in new loans as follows:

- ✓ \$1.5 billion in residential mortgages,
- ✓ \$550 million in commercial and industrial loans,
- ✓ \$140 million in consumer loans, and
- ✓ \$40 million in small business loans

Additionally, from January 1 – February 28, 2009, CPB originated \$430 million in new residential mortgage loans. That is more than three times the amount of TARP capital invested in us by the U.S. Treasury.

See the attached letter to the editor and the opinion/editorial piece for more information regarding CPB's use of TARP funds.

As demonstrated, CPB is open for business and stands ready to meet the credit needs of all of the credit-worthy customers in our community. Despite this, we may not necessarily see consistent quarterly increases in loan balances as loan demand may weaken along with the economy and we will not compromise our prudent loan underwriting standards.



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mortgage-backed securities issued by various government agencies and also originate and then securitize through the agencies approximately \$50 million of residential mortgages. These actions promote liquidity in the housing capital markets and support the proper functioning of the agency debt markets.

Finally, we have not and will not in the future use any of the TARP funds to pay dividends, bonuses or incentive compensation of any kind. We suspended our quarterly cash dividend on our common stock beginning in the first quarter of 2009.

Excessive executive compensation has never been an issue at our Company. Current Chairman, President & CEO, Ronald Migita, accepted the President & CEO positions in August 2008 at an additional annual salary of \$1 and a 20% reduction in his Chairman retainer fee. Our Senior Executive Officers ("SEOs") declined payment of their earned bonus under the Company's Annual Incentive Plan ("AIP") for 2007, and did not receive an AIP payment for 2008 due to the Company's performance. Further, given the expected financial performance of the Company in 2009 and to support its expense reduction efforts, management presented and the Board's Compensation Committee accepted a recommendation to forgo any AIP payment for the current year. Finally, our two Vice Chairs took a 10% base pay reduction effective September 1, 2008, with the remaining two SEOs salary being reduced by the same percentage effective January 1, 2009.

Compliance with TARP Executive Compensation Requirements

As a recipient of TARP funds, CPFC understands the available guidance associated with restrictions on executive compensation under the Capital Purchase Program and is implementing plans to be in full compliance.

1. SEO Executive Incentive Compensation Review

The Board's Compensation Committee recently approved a process to review the Company's SEO incentive compensation arrangements to ensure they do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the Company. This process included the appointment of our Director of Internal Audit to lead the initial review with a team composed of other senior risk officers representing varied risk perspectives throughout the Company. The initial review will be shared and discussed with the Board's Compensation Committee to identify what, if any, changes need to be made to existing plans. The review process is on track and the Compensation Committee is expected to certify in our Proxy Statement that they have completed the appropriate review. Subsequently, within 120 days of receipt of TARP capital, our CEO will complete and file his certification that the appropriate review has been completed. Thereafter, we will comply with the annual review and certification process.

2. SEO Bonus or Incentive Compensation Clawback

Our Long Term Incentive Plan ("LTIP") currently permits the cancelation or termination of

outstanding awards for any reason, including misstated or restated financial results. As part of the SEO incentive compensation review process, we will update all SEO bonus or incentive compensation plans to ensure they provide for the recovery or clawback of incentive awards in the event of inaccurate financial statements or incentive criteria.

3. Executive Compensation Deduction Limits to \$500,000

Our Controller is in the process of developing and documenting the procedures by which we will ensure the Company implements the new executive compensation deduction limit of \$500,000. Annually, beginning for fiscal year 2009, our CEO will certify that we have instituted and complied with procedures to limit the tax deduction for executive compensation to \$500,000 for SEOs.

4. Prohibition of Golden Parachute Payments

Existing change-in-control agreements comply with the prohibition of golden parachute payments defined to be any payment to a SEO upon separation from employment that equals or exceeds three times the SEOs base salary. We understand there are new parameters for the definition of golden parachute payments under the American Recovery and Reinstatement Act of 2009 ("ARRA") and the Company will ensure compliance with the new requirements.

As guidance is provided regarding additional executive compensation restrictions under the ARRA or other similar regulation, we will implement required plans and actions to be in full compliance. Currently, we are aware of the requirement to offer a non-binding vote to shareholders to approve the compensation of executives (say-on-pay) with disclosure pursuant to the SEC compensation disclosure rules and we are working to include this in our upcoming Proxy Statement.

Summary

CPFC is using the TARP funds as it was intended – to increase the flow of credit to businesses and consumers and to support the U.S. economy. We will continue to do our part to meet all of the requirements of a TARP recipient and ensure that the U.S. Treasury's investment is a profitable one.

Sincerely,



Dean K. Hirata
Vice Chairman & Chief Financial Officer

Enclosure

Dear Honolulu Advertiser:

Recently, we announced preliminary approval for Central Pacific Financial Corp. to participate in the U.S. Treasury Department's Capital Purchase Program (CPP). We plan to issue \$135 million in senior preferred stock to the Treasury. Approval is based on our soundness and the critical role we play in supporting Hawaii businesses and consumers.

Central Pacific Bank has helped Hawai'i weather many storms, from hurricanes to economic downturns. Today is no different. We plan to use these funds to help our commercial and retail customers. The Federal Capital Purchase Program was designed for banks like CPB, banks fueling economic progress in their communities.

For the fifth year, Central Pacific Bank is the SBA Lender of the Year (Category II). More than 56% of our business loans are to companies with less than one million in annual revenues and nearly 50% of business loans are made in low to moderate income areas. We are a leader in affordable housing, and residential lending, helping local families own homes.

Scrutiny about how banks plan to use the CPP and questions about executive salaries are not surprising. At Central Pacific Bank, myself and our board of directors took a voluntary 20% reduction in retainer fees; executive management team took a voluntary 10% pay cut.

Our team is getting out into the community, speaking about the economic situation to help people understand what's going on and what's being done to correct course.

Americans have questions. We are committed to transparency, and welcome those questions.

Ronald K. Migita
Chairman, President & CEO
Central Pacific Bank

HOW WILL THE U.S. TREASURY CAPITAL PURCHASE PROGRAM BENEFIT HAWAII?

By: Ronald K. Migita, Chairman, CEO, and President, Central Pacific Financial Corp.

As a participant in the U.S. Treasury's Capital Purchase Program, Central Pacific Bank wants to make every effort to communicate how taxpayers' dollars invested in our company will benefit Hawai'i. Taxpayers have an absolute right to know how their hard-earned money is used.

From the \$700 billion authorized by Congress, \$250 billion were allocated to the Capital Purchase Program. With this program, the U.S. Treasury can purchase senior preferred stocks from banks using two basic criteria: 1) the bank must be financially sound and healthy; and 2) the bank must play an important role as an economic stimulus in its community. In return, the bank pays a 5% annual dividend back to the government for the first five years and 9% per year thereafter. Other terms and conditions include warrants to purchase additional common stock and limitations on executive compensation.

Central Pacific Bank is the first Hawai'i bank to receive the CPP funds and we are pleased to have met the U.S. Treasury's criteria. On January 9, 2009, we issued \$135 million in senior preferred shares to the U.S. Treasury under the terms and conditions outlined above. By virtue of the 5% dividend yield on these shares and the warrants for additional stock, it is by no means a "bailout" or "free money." It is a fair return for the shareholder (taxpayer) with a compelling incentive for us to buy back these shares within five years, or pay nearly double the dividend from the sixth year forward.

So, how does this capital stimulate Hawai'i's economy? Capital is not used dollar-for-dollar to make loans. Capital creates the foundation for loan capacity that translated into over \$2.2 billion in new loan originations at our Bank in 2008, including \$1.5 billion in residential mortgages, \$162 million in consumer loans, and \$40 million in small business loans. The real question is – In order to be an effective economic stimulus, what is the bank's commitment to and record of accomplishment in supporting its community?

In 2008, Central Pacific Bank was a market leader in residential mortgages, as well as in financing affordable housing projects. Homeownership is still the American dream, and we have played a significant role in making these dreams come true for so many residents in Hawai'i.

Small business is the engine of Hawai'i's economy. In 2008, 56% of CPB's business loans were made to small businesses with annual revenues under \$1 million. In addition, 50% of our business loans were made in low-to-moderate income areas throughout our state. Our Bank has also received the Small

Business Administration - Lender of the Year Award in our size category for the past five consecutive years.

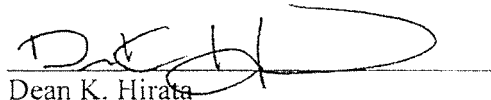
Loans are our business; however, commitment does not end there. Central Pacific Bank currently has almost 1,000 employees, many of whom are actively involved in community service. Our Bank contributed over \$1.1 million in community grants and donations to over 200 charities and non-profit organizations throughout Hawaii in 2008.

Excessive executive compensation has never been an issue at our company. While I still earn director fees as Chairman of the Board, in accepting the appointment as CEO and President in August 2008, I requested a salary of \$1 per year. Since then, our Board of Directors and Executive Management volunteered to take pay cuts of 20% and 10%, respectively.

Anyone familiar with the history and local heritage of our company will understand just how deep and longstanding our culture of community support and service is in Hawai'i. The Nisei veterans of WWII established the bank in 1954 to fill a dire need to help common folks buy homes and start businesses in their struggle to break free from the plantations. I can assure you that this sense of purpose and loyalty to the people of Hawai'i are still at the heart and soul of Central Pacific Bank today.

Office of the Special Inspector General for the Troubled Asset Relief Program
Senior Executive Officer Certification

I, Dean K. Hirata, certify that I have reviewed the attached response and supporting documentation, and, based on my knowledge, this response and the supporting documentation 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.

A handwritten signature in black ink, appearing to read 'D. Hirata', is written over a horizontal line.

Dean K. Hirata
Vice Chairman & Chief Financial Officer