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3/6/09 # 324

February 24, 2009

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

Re: First United Corporation
OMB Control No. 1505-0212

Dear Mr. Barofsky,

Thank you for your letter dated February 6, 2009. We are pleased to respond to the questions you raised in your correspondence.

1. A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.

ANSWER:

(b) (8)

(b) (8) In response to (b), the CPP has been added to the capital of the applicant, First United Corporation, where it can be deployed to the Bank if, and when, it is needed to address the purpose noted above. Consistent with this purpose, and in response to (c) and (d), we can advise that we have not deployed, and hope that we do not need to deploy, the cash to the Bank. At this time, it is invested in short term investments to offset, in small part, the cost of the preferred dividend.

Mr. Barofsky, it is worth noting that the Bank's lending grew by over 8% in 2008, and we remain ready and eager to make loans, and have sufficient liquidity to meet our loan demands. To illustrate this, we have, so far in 2009, closed \$4.4 million in commercial loans, with another \$22.5 million in

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Corporate Office: P.O. Box 9, Oakland, MD 21550-0009 Telephone 1-301-334-4715

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commitments. To assist the housing market, we have closed \$3.7 million in mortgage lending with another \$23 million in our pipeline.

2. Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

ANSWER:

The Compensation Committee has initiated a review of executive compensation to assure compliance with the mandates of TARP, and, more recently, the newly-enacted Economic Stabilization law, recently signed by the President. We are working in concert with counsel to meet these requirements. I can provide comfort to the Treasury and let you know that the bonus plan used by the Company recognizes as its goals, improvement in EPS, ROE, Efficiency, Non-Interest Income, and expansion of relationships with small business owners. There is not an incentive to procure risky loans.

While we do not have any need to incorporate qualitative or quantitative analytics in our response, we can tell you that our external communications have been limited to an 8-K, and upcoming disclosures in our 10-K. I do plan to comment on it as well in my Shareholders' Letter. Pursuant to your request, we will build a file incorporating our discussions, internally and externally, regarding CPP. We will include internal e-mails, final analytics, and excerpts from Board minutes, SEC filings, internal Bulletin Boards, and associate presentations. Should we develop a plan for external communication, we will be sure to include that as well.

By my signature on this letter, I am certifying to you the accuracy of my statements within this letter, and the attached cover letter dated November 12, 2008.

Sincerely,



William B. Grant
Chairman of the Board and
Chief Executive Officer

WBG/fm

Enclosure

(b) (8)

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