HAMPTON ROADS
BANKSHARES

March 2, 2009

Via email to SIGTARP.response@do.treas.gov and
First-class mail

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

Re: Hampton Roads Bankshares, Inc. ("HRB")

Mr. Barofsky, Ladies and Gentlemen:

Please allow this to acknowledge receipt of your letter of February 6, 2009, requesting information pertaining to HRB's use of funds and compliance with The Emergency Economic Stabilization Act of 2008 ("EESA") which established the Troubled Asset Relief Program ("TARP"). The original questions, as stated in your request, are listed in **bold** below, along with our responses.

(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.

HRB received $80.3 million from the TARP Capital Purchase Program ("CPP") on December 31, 2008, immediately subsequent to the completion of HRB's acquisition of Gateway Financial Holdings, Inc. ("Gateway"). Upon receipt, these CPP funds were deposited in HRB's account at its subsidiary, Bank of Hampton Roads, with approximately $30 million subsequently transferred to HRB's account at another subsidiary, Gateway Bank & Trust Co. The funds were not segregated. HRB and Gateway had jointly announced the execution of a definitive merger agreement between the parties on September 24, 2008. Although Gateway's merger with and into HRB (the "Merger") was negotiated and announced without consideration of the CPP, the establishment of the TARP and subsequently the CPP was, in context, equal in purpose to the Merger in attempting to maintain stability in the financial system. As a result of the action taken by the United States Treasury Department and the Federal Housing Finance

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Agency on September 7, 2008, which placed the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") into conservatorship, Gateway had to record an other-than-temporary impairment in the amount of $37.4 million on its investments in perpetual preferred securities issued by Fannie Mae and Freddie Mac. Gateway's preferred investments in Fannie Mae and Freddie Mac were made at a cost of $20.2 million and $20.2 million, respectively. As of the market close on September 30, 2008, the total market value of the Freddie Mac and Fannie Mae preferred stock was $3.0 million. This significant impairment to Gateway's capital position and HRB's historically strong capital position, which presented a non-governmental solution to Gateway's capital challenges, is one of the motivating reasons for the Merger. As I stated when HRB received preliminary approval to participate in the CPP, HRB believed that the purpose of the CPP was to insure that financially healthy institutions further strengthened their capital positions. Thus, the initial purpose for and intended use of the CPP funds by HRB was to provide a strong capital position and additional liquidity as well as support for the Merger.

In addition to the goal of restoring stability to the financial system, HRB also is in accord with what we believe is the Department of the Treasury's now equal desire that the CPP facilitate access to credit from creditworthy borrowers. Continuing to meet these credit needs, with the current housing and market conditions, requires financial institutions to create programs which are an extension of and compliment the intent in which the TARP was established. As a result of the Merger, a team of senior executives was created (the "Merger Transition Team") to consolidate the operations of HRB's three subsidiary banks. A subcommittee of the Merger Transition Team has been diligently working on an action plan for the possible use and deployment of the CPP funds. As a result, HRB has identified as a key initiative the creation of several lending programs specifically focused to meet the credit needs of at-risk projects with the desired result of diversifying credit risk and providing affordable financing to creditworthy borrowers (see attachments – *TARP Lot Loan Program* and *TARP Builder Program*).

As the CPP funds were not segregated upon receipt, we cannot attribute specifically any new loans or extensions of credit directly to such CPP funds. Nonetheless, the subsidiary banks of HRB approved and funded new credit needs of $16.8 million for the month ending January 31, 2009. HRB's lending covers a broad range of borrower needs from personal requests to commercial businesses. These new credit needs are in addition to matured loans that were renewed during the month of January totaling more than $115 million, which amount includes approximately $36.8 million in additional principal. While HRB has certainly been more diligent in the credit review process to insure the long-term integrity of the business, HRB has not adopted or implemented, formally or otherwise, any program to freeze or call loans. In addition, HRB's mortgage subsidiary, Gateway Bank Mortgage, originated in excess of $25.5 million in new loans in January, 2009.

(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.

In connection with the consummation of HRB's sale of preferred stock to the Department of the Treasury (the "Sale"), those individuals who we believe to be our Senior Executive Officers (each or collectively an "SEO") signed letter agreements in favor of HRB that address compensation issues which agreements were reviewed in advance by legal counsel to the Department of the Treasury. Our belief is that those letter agreements have implemented the executive compensation limitations in line with Department of Treasury guidelines.

The Compensation Committee for HRB's Board of Directors is presently reviewing, in conjunction with recommendations from a subcommittee of the Merger Transition Team, the various compensation and incentive plans as are currently in place. As required by HRB's agreement with the Department of the Treasury derived from the Sale, the HRB Compensation Committee will determine whether or not any of those plans provide incentives to take excessive or unnecessary risk that could threaten the value of HRB. This process and review is not yet complete. However, if upon completion, the HRB Compensation Committee determines that amendments to any plan is necessary, HRB has the right to adopt and implement such amendments without the consent of any SEO or other officer or employee.

HRB does not understand that affirmative updates to this letter are required.

[*Intentionally Blank*]

I certify that the foregoing response, to the best of my knowledge and belief, is true and correct and does not contain any materially false statements, pursuant to 18 U.S.C. Section 1001.

With kind regards, I am,

Very truly yours,

Jack W. Gibson
Vice-Chairman and Chief Executive Officer

Attachments (2)
pc: Board of Directors

TARP Lot Loan Program

This program is for lot financing where the seller has a Development Loan only at Gateway Bank, Bank of Hampton Roads and Shore Bank. It also includes inventory lots for builders. $15 million has been approved for this program.

The purpose of this program is to put our TARP money to work and reduce our Residential Lot Loan exposure and diversify our credit risk amongst a larger pool of borrowers

These rates are based on the current interest rate environment as of January 16, 2009 and are subject to change without notice.

Terms

- **25 year amortization, 3 year balloon**
- **Fixed Interest Rate of 5.50%. 1% origination fee**
- **Rate can be bought down by seller paying discount points.**
  .50 discount point reduces rate to 5.25%
  1 discount point reduces rate to 5.00%

- **Interest only lot payment program, up to 36 months**
- **Fixed rate of 5.75%. 1% origination fee**
  No reduction in rate for discount points.

- **Maximum LTV of 80% up to $350,000. Maximum LTV of 75% from $350,001 to $500,000**

- **Minimum credit score of 700 for primary wage earner or 675 when employed by the same employer 5 years or more**

- **Retail borrowers only. (No builders or developers)**

- **This program only applies to subdivisions/lots where we currently have financing. The subdivision/lot requires Bank approval.**

Alternative Financing

- Maximum Loan Amount to be determined
- 5% fixed rate for 36 months, with 1% Loan Origination Fee
- Builder/Developer to pay a 1% discount point on the loan amount
- 5% Down payment
- Borrower(s) must have a checking account with Bank of Hampton Roads, Gateway Bank or Shore Bank, with loan payments set-up on automatic debit

TARP Builder Program

This program is for Gateway Bank, Bank of Hampton Roads and Shore Bank Residential Construction Loans that are risk rated Grade 7 or higher as well as Other Real Estate Owned (OREO) properties. $15 million has been approved for this program

The purpose of this program is to reduce our Residential Construction and Development Loan exposure for scheduled credits and diversify our credit risk among a larger pool of borrowers

Program Parameters

These loans are underwritten and closed by Kevin Pack of Gateway Bank Mortgage.

2-1 Buy-down on 30 year fixed mortgage. Customer will make P&I payments based on the discounted rate for the first two (2) years.

An escrow account will be set up with the bank where these funds will be transferred to the loan payments monthly in the form of a subsidy.

For Non-Jumbo loan amounts currently of a minimum of $417,000. *Some of the markets that we serve have a higher dollar amount for non-jumbo loans. Please contact Kevin Pack at 919-865-7873 and he will be able to give you the current maximum loan amount in your market. In addition, he will be sending out a list by all of the markets that we serve to show you the maximum loan amount in each market.*

1st year- 3.50%
2nd year -4.50%
3rd through 30th year- 5.50%

For Jumbo loan amounts of $417,000 or greater (These Loans can not be sold)

Please call Kevin Pack to determine the actual Jumbo Loan amount in your market.

1st year - 4.50%
2nd year -5.50%
3rd year- 6.50%

Repayment is based on a 30 year amortization with a balloon payment due at the end of the 3rd year. These rates are based on the current interest rate environment as of January 12, 2009 and are subject to change without notice.

Other Program Parameters

- Builder developer must pay 2.250% discount points on loan amount.
- Maximum LTV of 90%.
- Loan must qualify at ratios acceptable to FNMA/FHLMC guidelines. Loans in the amount of $417,000 or less will be underwritten to the secondary market guidelines and can be sold to reduce the interest rate risk on the bank balance sheet.
- Loans that exceed $417,000 can not generally be sold in the secondary market. Under this program, the term is a 30 year amortization with a 3 year call
- Credit score of 700 on primary wage earner
- All loans will require Private Mortgage Insurance if LTV exceeds 80%.
- This program will also allow FHA financing. County limits as set by FHA will determine the loan amount available.

Alternative Financing Option

- Maximum Loan Amount to be determined
- 5% fixed rate for 36 months, with a 1% Loan Origination Fee
- Builder must pay a 1% discount point on the loan amount
- 5% Down payment
- Borrower must have a checking account with Bank of Hampton Roads, Gateway Bank or Shore Bank with loan payments set-up on automatic debit.