

 **STATE BANCORP, INC.**

Patricia M. Schaubeck
General Counsel

March 6, 2009

VIA REGULAR MAIL AND
E-MAIL (SIGTARP.RESPONSE@DO.TREAS.GOV)

Special Inspector General – TARP
1500 Pennsylvania Avenue, NW, Suite 1064
Washington, D.C. 20220

RE: State Bancorp, Inc.

Dear Mr. Barofsky:

Enclosed with this letter is State Bancorp, Inc.'s (the "Company") response to your February 6, 2009 letter requesting information on the Company's use of the funds it received upon its issuance of preferred shares to the U.S. Treasury under the Capital Purchase Program and the Company's compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008. The Company's response is certified by its Chief Executive Officer.

The Company requests that its response be kept confidential and be afforded the fullest protection available under The Freedom of Information Act. The Company's response contains commercial and financial information confidential to the Company and, if made public, would put the Company at a competitive disadvantage to its competitors.

Please do not hesitate to contact the undersigned with any questions.

Very truly yours,



Patricia M. Schaubeck
General Counsel

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Enclosure

**STATE BANCORP, INC. RESPONSE TO FEBRUARY 6, 2009
INFORMATION REQUEST BY THE OFFICE OF THE
SPECIAL INSPECTOR GENERAL FOR TROUBLED ASSET RELIEF PROGRAM**

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State Bancorp, Inc. (the "Company") is a one-bank holding company headquartered in Jericho, New York. Its primary subsidiary, State Bank of Long Island (the "Bank"), is one of the largest independent commercial banks on Long Island and is focused on the small and mid-sized business, municipal and consumer markets in Long Island, Queens and, more recently (February 2008), Manhattan. In addition to its seventeen branch locations, the Bank's lending operations are located in its Jericho headquarters.

The Company received \$36.8 million of U.S. Treasury Capital Purchase Program ("CPP") funds on December 5, 2008 under the Emergency Economic Stabilization Act of 2008. Substantially all of the funds were downstreamed to the Bank. (b) (8)

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As of September 30, 2008, the Bank's Tier I leverage ratio was 8.37% and its risk-based capital ratios were 10.75% for Tier I capital and 11.94% for total capital. Following receipt of CPP funds and the Bank's fourth quarter earnings, the Bank's Tier I leverage increased to 9.52%, a very strong well-capitalized position.

Following the filing of the CPP application and in anticipation of its approval, the Bank's lending operations were reorganized to be more responsive to market needs by creating separate units to clearly focus on Commercial & Industrial, Commercial Real Estate and Small Business credits.

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Concurrently, the newly formed Small Business unit was structured to assist the Retail Bank's efforts in soliciting and approving high quality loans while simultaneously seeking long term commercial deposit relationships. These efforts include organized outreach programs such as targeted business calling initiatives, sponsorship of educational seminars for professionals, and participation in business trade shows. The Bank is also currently in the process of developing a series of advertisements specifically designed to heighten market awareness of State Bank's continuing commitment to provide a wide array of financing solutions to meet the needs of qualified businesses within its market area. These ads are planned for insertion on a rotational basis in coming months through media expenditures in broadly distributed publications that serve the Bank's local business communities.



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Since receipt of CPP funds on December 5th, the Bank has originated in excess of \$22 million in new loans. That amount is in excess of working capital advances made under previously approved credit facilities that fluctuate for seasonal, or any number of the business reasons those facilities were designed to support.

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(b) (4) At December 31, 2008, the Bank's loan portfolio totaled \$1,125 million and the

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The Bank also has a substantial involvement in not-for-profit lending and specifically to

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Finally, the American Banker recently reported (February 13th) that "some community banks are reporting an upswing in both inquiries and business from dissatisfied clients of large institutions. A survey released in mid-2008, before the financial crisis had reached its highest levels of intensity, back up the perception that such clients even then were itching to change horses". The Bank has actively pursued the business opportunities that stem from such market sentiments and actions, including the development of new deposit and lending relationships, particularly on Long Island.

The Department of Treasury executive compensation standards for CPP participants include the following: (a) required recovery of any bonus or incentive compensation paid to a senior executive officer ("SEO") based on statements of earnings, gains or other criteria that are



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later proven to be materially inaccurate, (b) prohibition on the financial institution from making any golden parachute payment to any SEO, (c) limits on claims to federal income tax deductions for certain executive remuneration, and (d) limits on compensation to prevent incentives for SEOs of financial institutions to take unnecessary and excessive risks that threaten the value of the financial institution. The Company has fully implemented these standards into its compensation program for SEOs as explained below.

Each SEO has entered into an agreement (the “Agreement”) with the Company whereby, irrespective of any contrary provision in any other agreement or other compensation or benefit plan, program or arrangement in which the SEO participates, the SEO agrees that while Treasury holds any debt or equity interest in the Company acquired under the CPP (the “CPP Period”), the SEO shall repay to the Company any bonus or incentive compensation paid to the SEO if and to the extent such bonus or incentive compensation was paid on the basis of a statement of earnings, gains or other criteria that are later proven to be materially inaccurate.

The Agreement also provides that if the SEO’s employment terminates in an “applicable severance from employment” (within the meaning of 31 C.F.R. Part 30) during the CPP Period, then payments to the SEO that are contingent on such applicable severance from employment shall be limited, if necessary, to the maximum amount which may be paid without causing any amount paid to be an “excess parachute payment” (within the meaning of Section 280G(b)(1) of the Internal Revenue Code, as amended).

Each Agreement also provides that the specific provisions of the Agreement will be interpreted and administered in compliance with the executive compensation standards in effect under the CPP as of the date of closing of the Company’s CPP transaction, including any administrative guidelines interpreting those standards. This enables the Company to assure compliance without seeking further voluntary agreement from the SEOs.

The Company has implemented internal controls and procedures to ensure that no federal income tax deduction is claimed for any SEO that earns certain remuneration in excess of \$500,000.

The Company’s incentive compensation program does not encourage or reward unnecessary and excessive risk taking by SEOs. Commencing at the start of 2008, the Company discontinued its incentive compensation program that primarily paid incentive compensation based on formulas using growth in earnings per share and return on equity. This formulaic approach was abandoned for calendar year 2007 incentive awards and was replaced with a discretionary approach whereby the Executive Compensation Committee of the Company evaluates performance using its judgment and expertise, giving consideration to individual performance and Company performance. This approach allows bonuses to reflect a retrospective evaluation of each executive’s conduct in the context of the business conditions actually prevailing during the year. The objective of this new philosophy is to reinforce a culture of transparency and accountability by the Company to its shareholders.

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (“ARRA”). The Company is evaluating the executive compensation



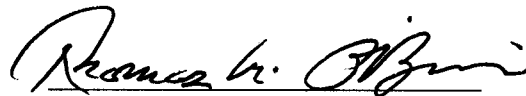
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provisions of ARRA to determine its effect on executive compensation arrangements and whether any changes to the Company's compensation program need to be made. ARRA requires the Secretary of the Treasury to establish standards with respect to the executive compensation provisions under ARRA. To date, no such standards have been established. The Company's Proxy Statement for its 2009 Annual Meeting of Stockholders will make provision for a shareholder "say-on-pay" vote as contemplated by ARRA. Although ARRA requires a "say-on-pay" vote, the Company voluntarily included such a provision in the Proxy Statement prior to ARRA.

CERTIFICATION

I, Thomas M. O'Brien, Chief Executive Officer of State Bancorp, Inc. and State Bank of Long Island, hereby certify that I have reviewed this response and, based on my knowledge, this response does 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.

March 6, 2009



Thomas M. O'Brien
Chief Executive Officer

