



BCSB BANCORP, INC.

Mailing Address: P.O. Box 397, Perry Hall, MD 21128
Office Location: 4111 E. Joppa Road, Baltimore, MD 21236
410-256-5000
www.baltcosavings.com
E-Mail: info@bcsb.net

March 6, 2009

Office of the Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, N.W. Suite 1604
Washington, D.C. 20220

Gentlemen:

Please find the following narrative response to the questions posed in your February 6, 2009 correspondence to the undersigned. Please note that these responses are given to the best of the undersigned's knowledge.

(1)(a) Our anticipated use of TARP funds.

First and foremost, we requested and received the TARP funds with the primary intent to bolster the capital of the institution and to make the Bank stronger from a safety and soundness standpoint. Having just raised capital in the public markets in April 2008, we experienced first hand the difficulties of raising capital for a small financial institution. Given the fact that that our country is in the midst of a prolonged economic recession, it was (and is) our feeling that an institution cannot have too much capital. The additional capital will help ensure the solvency of our institution and help protect us against unforeseen losses as a result of deteriorating economic conditions. A second reason for accepting the TARP fund was the ability to leverage those funds into loans for our customers and our community. Although we have never ceased making loans, the availability of TARP enabled us to ramp up our lending activities commensurate with safety and soundness considerations. In the press release issued when we announced the closing of our TARP funding we stated "This infusion of capital provides an additional measure of liquidity that will enable us to help both new and existing loan and deposit customers manage through these difficult times as well as enable us to continue our long-term initiatives." In the short period of time that we have the funding we continue to believe this to be true.

(1)(b) Were TARP funds segregated from other institutional funds?

Our original intent was to keep the TARP funds at our holding company level. Had we done that we could have easily segregated and identified TARP funds. However, after submitting our application request for TARP funds, and upon the verbal directive of our federal regulator, the Office of Thrift Supervision, we amended our application and agreed to push down a majority of the funds from our holding company to our Bank. As a result \$5.3 million (49%) of the TARP funds remain at the holding company and is easily identifiable. The balance of the funds, \$5.5 million (51%) was invested in the Bank. Since money is fungible, it is virtually impossible to segregate those funds from other Bank funds, except to note changes in the bank financial condition before and after

receipt of the funds. The TARP funds were added to the Bank's capital and set against deposits to fund additional loans.

(1)(c) What is our actual use of TARP funds to date?

Our capital level at the holding company (Consolidated stock holders equity) has increased from \$48.6 million to \$59.4 million as of December 31, 2008. Our Bank's Capital ratios before and after receipt of TARP were as follows at December 31, 2008:

	<u>Before TARP</u>		<u>After TARP</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
<i>Leverage</i>	49,543	8.63%	60,343	10.37%
<i>Tangible</i>	49,543	8.62%	60,343	10.31%
<i>Tier 1</i>	49,543	8.62%	60,343	10.31%
<i>Core</i>	49,543	8.62%	60,343	10.31%
<i>Risk Weighted</i>	52,048	14.25%	62,848	17.10%

In regards to the funds down streamed to the Bank; our total loans closed increased by \$1.5 million from \$5.1 million in December 2008 to \$6.6 million in January 2009. However, as previously mentioned it is difficult (if not impossible) to segregate funds received from TARP, from funds received from depositors, from funds received from loan amortization and payoffs, etc.

(1)(d) What is our expected use of TARP funds?

We intend to keep the TARP funds that reside at the holding company there if, and until, they are needed at the bank level. If the funds are not needed at the Bank level it is our current intent to pay the money back to the U.S. Treasury as soon as we deem it prudent to do so. Similarly at the Bank level, we intend to use the TARP funds as capital to leverage our deposits to enable us to lend to our customers, until such time as we deem it prudent (and our regulator concurs) to dividend a sufficient amount back to our holding company and then pay back the U.S. Treasury.

(2) What are your specific plans, and the status of implementation of those plans, for addressing executive compensation plans associated with the funding?

We know that this question was formulated before Senator Dodd's amendment concerning executive compensation was added to the recent stimulus bill. However even assuming that the Dodd amendment was not made, it would be our intention to fully comply with the guidelines as promulgated by the U.S. Treasury. This issue becomes somewhat more confusing (or clearer dependent upon one's point of view) because we are in the process of requesting shareholder approval on a stock benefit program which is standard operating procedure for a mutual thrift institution that has recently become a publicly traded institution. We have also contracted with a national

accounting/consulting firm to complete an executive compensation plan. We are confident that all of these items as well as our current pay scales will enable us to meet compensation plans required for institutions receiving TARP funds.

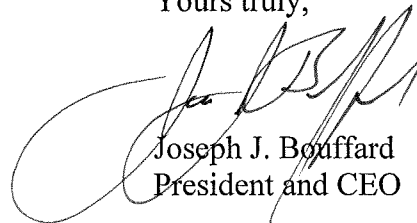
* * * * *

The Company requests confidential treatment of this letter. The financial information contained in this letter and the exhibits hereto is financial information that is not otherwise available to the public and, therefore, is confidential. For this reason, this letter is protected under 5 U.S.C. § 552(b)(4).

* * * * *

The undersigned duly authorized senior executive officer of the Company hereby certifies, on behalf of the Company, and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001, that all statements, representations, and supporting information provided in and with this letter are true and complete to the best of my knowledge.

Yours truly,



Joseph J. Bouffard
President and CEO