

February 18, 2009

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

Dear Mr. Barofsky:

The following is our response to your request of February 6, 2009 for information on Fidelity Bancorp, Inc.'s use of TARP funds and compliance with EESA's executive compensation requirements:

1.A. We anticipate using the TARP funds received to continue lending in our community. We are a community bank located in the Pittsburgh, Pennsylvania area and over 95% of the loans on our balance sheet have been made to individuals and businesses in the local area. We applied for TARP funds to bolster our capital position as an abundance of caution. We, like many financial institutions, have investments whose current valuation is currently uncertain due to illiquid markets. As a result, should losses ultimately result from those investments, whether realized or unrealized due to accounting rules, we felt it prudent to obtain additional capital so that the bank could remain well capitalized.

B. The TARP funds were not segregated from other institutional funds. The liability is separately recorded as capital on our balance sheet. I'm not sure how we would track specific dollars received and then invested, especially since the capital can be leveraged.

C. The receipt of TARP funds has helped to allow us to keep lending to our community, which we plan to continue. At September 30, 2008, loans receivable on our balance sheet totaled \$460.8 million and at December 31, 2008, loans receivable totaled \$473.1 million. While we cannot specifically attribute any of these additional loans to TARP, the anticipation and receipt of the funds contributed to allowing us to continue lending as we have in the past.

D. Since our loan portfolio has already grown by \$12.8 million, it could be argued that we have already spent the \$7 million received in TARP funds on loans. However, as a practical matter, capital ratios have to be considered and factor into our decisions. At September 30, 2008, our bank's total capital to risk-weighted assets ratio was 10.4%, with the requirement to be considered well-capitalized set at 10.0%. With the uncertainty surrounding potential unrealized losses on investment securities, management and the

Board felt that existing capital ratios were lower than desired and should be increased. That could be accomplished in two ways, either raise additional capital or manage the size of the balance sheet. If we chose to manage the size of the balance sheet more aggressively, we had several courses of action open to us, including selling securities and restricting lending to make sure the bank did not grow or shrank until desired capital ratios were achieved. Alternatively, once the TARP program was announced, we could apply for funds and achieve higher capital ratios immediately without disruption of our core business, which is taking deposits and making loans in our community. We calculated the amount of TARP funds that we felt would put us at a more comfortable capital level and applied for and received that amount. We were eligible for in excess of \$14 million in TARP funds but applied for and took only \$7 million. At December 31, 2008, the total capital to risk-weighted assets ratio for the bank improved to 11.5%, within our desired range. It is our intent to manage our balance sheet in such a way so as to allow us to repay the TARP funds after the three-year prohibition expires and certainly before the end of the five-year period when the dividend increases to 9%.

2. We intend to fully comply with all executive compensation requirements. It should be

(b) (4)

Our specific plans to comply with requirements include a Compensation Committee meeting of the Board of Directors held on February 17, 2009, to establish a risk review process to ensure incentives do not motivate executives to take unnecessary and excessive risks and to go over the other requirements of EESA. Currently, there is little if any direct relationship between loan risk and executive compensation, other than how the loan loss provision and the loan portfolio impact the profitability of the institution as a whole. It is not currently expected that limitations imposed on executive compensation by EESA will be offset by changes to other forms of compensation.

We then intend to have a follow-up meeting of the Compensation Committee on March 3, 2009, where the results of the risk review will be presented to the members, and resolutions adopting clawback provisions, limiting severance pay to the "golden parachute" safe harbor and capping tax-deductible compensation at \$500,000 per year will be adopted. The Compensation Committee will also certify at the March 3, 2009 meeting that incentive compensation programs do not pose unnecessary and excessive risk to the institution since this is required within 90 days of receiving TARP funds. As the Chief Executive Officer of the company, I will then file within 120 days of the funding date, certification that the Compensation Committee has reviewed incentive compensation arrangements as noted above.

I have included as an attachment to this letter a copy of our December 31, 2008 Form 10-Q which shows loan balances at September 30, 2008 and December 31, 2008, as well as our capital ratios at December 31, 2008 as support for the above statements. I hope this response satisfies your request for information.

I certify the accuracy of all statements, representations and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,

Richard G. Spencer
President and Chief Executive Officer

Attachment