

FIDELITY FINANCIAL CORPORATION

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March 2, 2009

Mr. Neil M. Barofsky
Office of the Special Inspector General TARP
1500 Pennsylvania Ave. N.W.
Suite 1064
Washintgon, D.C. 20220

Dear Mr. Barofsky:

This letter is in response to your letter of February 6, 2009 wherein you request certain information surrounding the participation of Fidelity Financial Corporation, Inc. (FFC) of Wichita, Kansas in the Troubled Asset Relief Program (TARP). FFC was the recipient of \$36,282,000 on 12/19/08 under the Capital Purchase Program (CPP) and infused those proceeds as Paid in Capital directly to its wholly-owned subsidiary, Fidelity Bank, on that same day. Following is requested narrative concerning our anticipated and actual use of those funds along with commentary as to our approach on applying the referenced executive compensation guidelines:

(1) (a) Fidelity Financial is a privately held federal savings bank holding company and as such was not eligible for the first round of CPP offering. The delay in identifying the program terms that would allow FFC to participate gave us the opportunity to observe the publically held sector's level of participation and assess the benefits that our participation might accrue. The two primary reasons for our participation included: uncertainty of the economic climate and the resultant impact on our customer's ability to repay outstanding loans (credit insurance), and uncertainty about our ability to maintain sufficient liquidity to fund the lending requirements of our customer base. Thus our anticipated use of the money was as an insurance cushion and a source of liquidity.

(1) (b) As stated, the TARP funds were segregated, when received, and immediately down streamed to the wholly-owned subsidiary bank. At the bank level, they were recorded as Paid in Capital. The bank maintains only one operating depository relationship at the Federal Home Loan Bank of Topeka (FHLBT). At the FHLBT, Fidelity Bank maintains an operating line of credit on which a balance is continually maintained in support of operations. This credit line is kept in lieu of longer-term, higher-cost FHLBT debt instruments. We felt it prudent to immediately pay down on that credit line to avoid additional accumulation of interest cost associated with the line and accordingly preserve our ability to redraw upon the line to accomplish our intent stated above.

(1) (c) Attached to this letter is a report (Exhibit 1) of our lending activity since 12/22/08. We have closed a total of \$140,860,000 in loans in the intervening 67 days. Of this amount, \$59,985,000 are new loans to new or existing customers and \$80,875,000 are renewals

of maturing existing loans. We believe our willingness to extend these credit obligations would have been significantly diminished absent the investment of the CPP money.

(1) (d) Our TARP money has been completely exhausted through loans to new and existing customers as detailed above.

(2) Fidelity Financial Corporation (FFC) has followed the guidelines promulgated for the Capital Purchase Program's restrictions on Executive Compensation and developed specific plans for compliance as follows:

- a) In anticipation of the December 18, 2008 funding of the Capital Purchase Program (CPP), on December 15, 2008 FFC and its subsidiary bank jointly agreed (Exhibit 2) that neither shall make golden parachute payments, both will subject bonuses or incentive compensation to clawback provisions, and each shall amend compensation programs as necessary to effect the agreement.
- b) Also on December 15, 2008 management of FFC asked five Senior Executive Officers (SEO) of the holding company and subsidiary Bank to execute a letter agreement (Exhibit 3) agreeing to: no golden parachute payments, clawback provisions for bonus and incentive compensation payments, and other conditions. Each SEO agreed to become legally bound by the letter.
- c) The chairman of the FFC board appointed a Compliance Committee on January 23, 2009 composed of the four directors of FFC, all of whom are FFC shareholders who represent 99.99% of the common stock of FFC. The committee consists of related family members who are the Chairman / CEO of subsidiary Fidelity Bank, a vice president of Fidelity Bank, the secretary of FFC, and the president / chairman of FFC.
- d) The Compliance Committee convened their first meeting on January 23, 2009 which was within the 90 day requirement since the CPP funding. At this meeting the Committee identified the SEO's and reviewed the incentive compensation requirements for each. The president of the subsidiary bank agreed to serve as the Senior Risk Officer (SRO) of the Committee. The Committee reviewed employment agreements, management incentive plans, and other documents particular to each SEO's compensation. The Committee discussed whether any compensation provisions promote excessive risk-taking, the lending and investment authority of each SEO, and whether any compensation features could lead to excessive or unnecessary risk taking. Following review of the incentive programs and discussion of the risks borne by FFC and its subsidiary bank, the Compensation Committee concluded that no revisions to these programs were needed to eliminate incentives to take unnecessary and excessive risk.

Also included (Exhibits 4 & 5) with this response are copies of local media coverage of the CPP funding. With the February 13, 2009 passing of the American Recovery and Reinvestment Act of 2009 management has become aware of a number of new provisions regarding executive compensation. Until regulations are published FFC will wait to formulate plans for specific compliance.

CERTIFICATION

I, H. Clay Bastian, president of Fidelity Financial Corporation certify that to the best of my knowledge the foregoing statements, representations, and supporting information provided are true and correct, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.


H. Clay Bastian

EXHIBIT 1

FIDELITY BANK Lending Production Report

December 22, 2008 through February 27, 2009

\$ in thousands

ORIGINATIONS

	Construction	Commercial Real Estate	Commercial Business	Residential	Consumer	Total
12/22-31/08	\$587	\$7,759	\$423	\$1,211	\$859	\$10,838
1/1-31/09	5,706	8,977	2,482	6,150	2,576	25,890
02/2-27/09	8,460	1,000	3,709	7,516	2,572	23,257
Year to Date:	\$14,752	\$17,736	\$6,613	\$14,876	\$6,007	\$59,985

RENEWALS

	Construction	Commercial Real Estate	Commercial Business	Residential	Consumer	Total
12/22-31/08	\$13,608	\$9,111	\$1,494	\$0	\$0	\$24,212
1/1-31/09	3,041	9,480	19,580	565	9	32,675
02/2-27/09	7,014	12,983	1,673	2,318	0	23,988
Year to Date:	\$23,663	\$31,574	\$22,747	\$2,883	\$9	\$80,876

TOTAL of ORIGINATIONS and RENEWALS

	Construction	Commercial Real Estate	Commercial Business	Residential	Consumer	Total
12/22-31/08	\$14,194	\$16,870	\$1,917	\$1,211	\$859	\$35,050
1/1-31/09	8,747	18,457	22,062	6,715	2,585	58,565
02/2-27/09	15,474	13,983	5,382	9,833	2,572	47,245
Year to Date:	\$38,415	\$49,310	\$29,360	\$17,759	\$6,016	\$140,860

EXHIBIT 2

**AGREEMENT
RELATING TO FIDELITY FINANCIAL CORPORATION'S PARTICIPATION IN THE
DEPARTMENT OF THE TREASURY'S CAPITAL PURCHASE PROGRAM**

This Agreement Relating to Fidelity Financial Corporation's Participation in the Department of the Treasury's Capital Purchase Program ("Agreement") is entered into between Fidelity Financial Corporation (the "Company"), Fidelity Bank (the "Bank") and the undersigned executive (the "Executive") effective as of the Effective Date specified below.

WHEREAS, the Company anticipates entering into a Securities Purchase Agreement or similar agreement (the "Purchase Agreement") with the United States Department of the Treasury (the "Treasury") that provides for the Company's participation in the Capital Purchase Program (the "CPP") of the Troubled Assets Relief Program as established by the Treasury under the Emergency Economic Stabilization Act of 2008 (the "EESA");

WHEREAS, as a condition of closing the investment contemplated by the Purchase Agreement, the Company is required to meet specified standards for compensation payable to a Senior Executive Officer ("SEO");

WHEREAS, the Executive provides services to the Company and/or the Bank; and

WHEREAS, the Company, the Bank and the Executive desire to enter into this Agreement to comply with the CPP and in consideration of the benefits the Executive will receive as a result of the Company's participation in the CPP.

NOW, THEREFORE, BE IT HEREBY AGREED THAT:

1. This Agreement is effective as of the date the Company and the Treasury close the transaction contemplated under the Purchase Agreement (the "Effective Date").

2. Notwithstanding the terms of any compensation, bonus, incentive, equity, severance, employment or other plan, arrangement or agreement applicable to the Executive (the "Compensation Programs"), the following restrictions govern the Company, the Bank and the Executive:

(a) *No Golden Parachute Payments.* Neither the Company nor the Bank shall make any Golden Parachute Payment to the Executive during any period during which the Executive is an SEO and the Treasury holds an equity or debt position acquired from the Company through the CPP (the "CPP Covered Period").

(b) *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to the Executive while he is an SEO during the CPP Covered Period is subject to recovery or clawback by the Company or the Bank if the compensation was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(c) *Compensation Program Amendments.* Each of the Company's and Bank's Compensation Programs is hereby amended to the extent necessary to give effect to Sections 2(a) and (b) above.

(d) *Definitions and Interpretations.* This Agreement shall be interpreted as follows:

(i) "Senior Executive Officers" means the individuals of the Company as defined in Section 111(b)(3) of the EESA;

(ii) "Golden Parachute Payment" means a payment as defined in Section 111(b)(2)(C) of the EESA;

(iii) This Agreement is applicable to the Company, the Bank and any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b) (as in effect on the Effective Date);

(iv) The CPP Covered Period shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11 (as in effect on the Effective Date); and

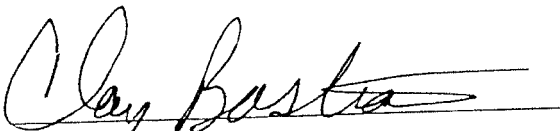
(v) Sections 2(a) and (b) above are intended to, and will be interpreted, administered and construed to, comply with Section 111 of the EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Compensation Programs in accordance with their terms before giving effect to this Agreement).

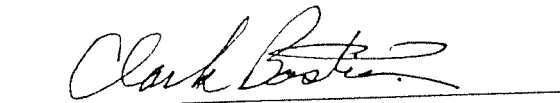
(e) *Miscellaneous.* To the extent not subject to federal law, this Agreement will be governed by and construed in accordance with the laws of the State of Kansas.

EXECUTED this 15th day of December, 2008.

FIDELITY FINANCIAL CORPORATION

FIDELITY BANK


Clay Bastian
President


Clark Bastian
Chairman & CEO

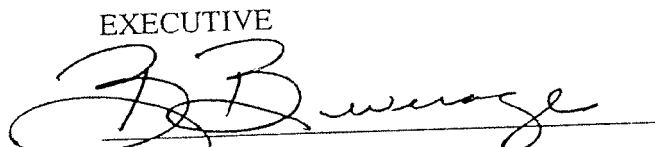
EXECUTIVE

Brenda Beverage
SVP, HRD Director

EXHIBIT 3

[REDACTED] 1/12/17
Dear [REDACTED] 1/16/17

Fidelity Financial Corporation (the "*Company*") anticipates entering into a letter agreement ("*Agreement*") with the United States Department of the Treasury ("*Treasury*") that provides for the Company's participation in the Treasury's Capital Purchase Program (the "*CPP*"). If the Company does not participate in the CPP, this letter shall be of no further force and effect.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Agreement, the Company is required to meet specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

(1) *No Golden Parachute Payments.* The Company shall not make any golden parachute payment to you during any period during which (A) you are a senior executive officer and (B) Treasury holds an equity or debt position acquired from the Company in the CPP (a "*CPP Covered Period*").

(2) *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to you during a CPP Covered Period is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(3) *Compensation Program Amendments.* Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter. If the payments and benefits provided under the Benefit Plans would exceed the golden parachute limitations of the CPP, the payments and benefits shall be reduced or revised, in the manner determined by you (subject to the next sentence), by the amount, if any, which is the minimum necessary to result in no portion of the payments and benefits exceeding the limitations. The Company, at its expense, will determine the extent of any reduction in the payments and benefits to be made pursuant to this letter. In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you, you and the Company agree to negotiate such changes promptly and in good faith.

(4) *Definitions and Interpretation.* This letter shall be interpreted as follows:

(i) "Senior executive officer" means the Company's "senior executive officers" as defined in subsection 111(b)(3) of EESA and 31 C.F.R. § 30.2.

(ii) "Golden parachute payment" has the meaning given to such term in Section 111(b)(2)(C) of EESA and 31 C.F.R. § 30.9.

(iii) "EESA" means the Emergency Economic Stabilization Act of 2008.

(iv) The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b). You are also delivering a waiver pursuant to the Agreement, and, as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.

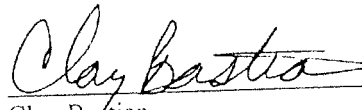
(v) The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11.

(vi) Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with Section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

(5) *Miscellaneous.* To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of [Insert Jurisdiction]. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile will be deemed an original signature.

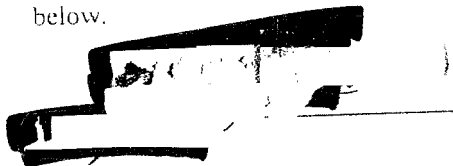
Yours sincerely,

Fidelity Financial Corporation



Clay Bastian
President

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.



Date: 12-15-2008

Fidelity gets \$36.3 million from Treasury

BY JERRY SIEGENMARK
The Wichita Eagle

Fidelity Financial Corp. is the first Wichita-based financial institution holding company to receive money from the Treasury Department's Capital Purchase Program.

The holding company of Fidelity Bank announced Tuesday that it had received a \$36.3 million investment from the CPP, which is part of the Treasury's Troubled Asset Relief Program.

Fidelity officials said Tuesday that they will use the money to safeguard against recession but also to increase their \$1.8 billion institution's lending locally and in its Oklahoma City market.

Fidelity chief executive Clark Bastian and president John Laisle said the bank is healthy and is accepting the investment only to increase its safety in uncertain economic times.

"(The investment) comes at a cost, an interest cost," Laisle said. "It's not free money, but when you look at it, to continue supporting the communities we serve, it's prudent from a management perspective. You can never have enough capital."



Bastian

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FIDELITY

From Page 1C

when you have challenging economic times."

Fidelity gave up preferred stock in the company in return for the investment. At the end of three years, it will regain that stock after it repays the investment plus 5 percent interest.

Bastian said he and other Fidelity officials gave a lot of thought to applying for the investment, which they did in late November.

Even though the bank has seen an increase in lending — it was up 8 percent between November 2007 and November 2008 — and it posted higher net income of \$9.4 million in the quarter ending Sept. 30, Bastian said he thought it was best to apply for the investment.

"We're in a storm," Bastian said of the nation's economy. "And we are not out of the storm yet. I think (the CPP investment) gives us great flexibility."

Treasury spokeswoman

Jennifer Zuccarelli confirmed Tuesday that the CPP money is intended for institutions that are safe and sound.

"This is a program for healthy institutions to increase lending," Zuccarelli said.

Banks that have received CPP money have been wrongly perceived as being in trouble, when the fact is they are not, said Brad Elliott, chief executive of Equity Bank.

"I think Fidelity is a very well-run organization, otherwise (Treasury) would not have approved the CPP money," he said.

Fidelity's Laisle said the toughest part is ahead: finding businesses and individuals that want to borrow money.

"If you listen to most national economists, they are suggesting a challenging economic environment for the next 12 to 24 months," Laisle said. "I think it's going to be challenging, but we are committed to serve those communities that we are involved in."

Reach Jerry Siebenmark at 316-268-6576 or jsiebenmark@wichitaagie.com.

Before federal investment, Fidelity Bank weighed non-performing loans, economy

BY CHRIS MOON

Fidelity Bank chairman Clark Bastian says the bank's growing number of non-performing loans played a role in its decision to accept an investment under the federal government's financial rescue plan in late December.



Bastian

The bank's problem-loan portfolio quadrupled during the past year as loans the bank participated in soured in metros across the country, Bastian says.

"I guess that is the manifestation of the challenging times that we're in," he says. "Yeah, I'd say it probably did (play a role) — both in a macro sense for our country as well as for Fidelity Bank."

Still, Fidelity on Sept. 30 reported just 1.3 percent of its loans were non-performing, short of the state's 1.72 percent average and in the middle of the pack for Wichita banks.

Bastian says the bank has reduced its ac-

Capital Purchase Program

A look at banks of local interest that are participating in the U.S. Treasury Department's Capital Purchase Program, which is part of the \$700 billion financial rescue package.

Bank of America Corp. — \$15 billion.

Blue Valley Bancorp — \$21.75 million.

Southwest Bancorp Inc. — \$70 million.

Fidelity Financial Corp. — \$36.282 million.

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tivity in out-of-market deals. He also says the bank's capital ratios remain well above federal minimums and weren't at risk of falling below them, even without the \$36.2 million sale of preferred stock to the U.S. Treasury Department's Capital Purchase Program.

Bastian says the investment — which carries a 5 percent annual dividend that ratchets up after five years — will do for Fidelity Bank what it was intended to do for the broader fi-

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IDEALITY: Subchapter S banks not yet eligible for federal program

cial market, and that's make more loans available to businesses and consumers. This gives us flexibility to consider loans might not have in these times," he says.

HEALTHY BANKS

As of Dec. 22, the Treasury Department d pumped \$172 billion into about 200 banks rough its Capital Purchase Program. The annual rate of return to the govern- ment moves from 5 percent to 9 percent after e fifth year, an encouragement for banks to ay back the stock.

Fidelity is the first Wichita-based bank to cept the federal investment. It isn't clear ow many applied.

But Overland Park-based Blue Valley Ban- orp closed on a \$21.7 million federal invest- ment. And Stillwater, Okla.-based Southwest Bancorp Inc. — holding company for Wich- ita's SNB Bank of Kansas — accepted a \$70 million investment.

"It's aimed at healthy banks," says Treas- ury spokeswoman Brookly McLaughlin. Banks first apply through their primary federal regulators, such as the FDIC or the Office of Thrift Supervision. Regulators make recommendations to the Treasury.

It isn't clear whether any banks have been rejected.

"I wouldn't comment," McLaughlin says. "These are decisions made by the regula- tors."

NOT ALL ELIGIBLE

Chuck Stones, president of the Kansas Bankers Association, says he's heard few of the state's roughly 350 banks have ap- plied for the Capital Purchase Program.

The federal program appears a relative- ly easy way for a bank to generate addi- tional capital. Problems in a bank's loan portfolio may be a reason for them to do so, Stones says. But there are others.

"I hate to imply a specific motivation by any one bank, but capital can be used for a variety of purposes," he says.

Nearly half of Kansas' banks, however, aren't yet eligible be- cause the federal government hasn't established guidelines for subchapter S banks, which don't sell preferred stock.

"We're looking now to come up with a framework," McLaughlin says.

Fidelity, a thrift, is the second-largest Wichita-based institution, with \$1.8 billion in assets. Wichita's largest, Intrust Bank, is a subchapter S corporation.

Executive vice president Lyndon Wells says it's too early to say whether Intrust would seek a federal investment should it be made available. But Wells says the bank "would not have been inclined to partici- pate" based on what it's seen of the program so far. Intrust Bank already has a strong capital base, Wells says, and continues to make loans.

"It would be unnecessary for us to acquire capital we're not sure how we would de- ploy," he says.



Fidelity Bank chairman Clark Bastian says the bank wanted flexibility when it sought a \$36.2 million investment from the U.S. Treasury Department.

NOT PLAYING

Those deliberations have been taking place in banks across Kansas.

Topeka-based Capitol Federal Savings in November said it wouldn't accept a federal investment. President and CEO John B. Dicus says the \$8 billion institution's capital ratio remains higher than 10 percent.

"Even in these economic times, and where we sit, we're comfortable," he says. CapFed struggled to find a way to make a

federal investment make sense, Dicus says.

To provide the government its required 5 percent return, the bank likely would have had to seek out investments yielding about 8 percent, which also would cover taxes., Dicus says. CapFed executives didn't expect they could find an investment they were comfort- able with that could generate that return.

But even without that, executives object- ed to the restrictions the Capital Purchase Program would have placed on the bank's

dividends. Participating banks can't pay divi- dends to their shareholders that are greater than the one just before the CPP payment.

"For us, it just became an easy decision," Dicus says.

A STORM

At Fidelity, there appeared to be a desire to shore up the bank in a time of turmoil.

Bastian describes the nation's economic climate as a "storm."

"We don't know what else is out there," he says.

The bank in 2008 saw sharp increases in troubled loans. It's non-accrual loans grew from \$3 million to \$12.7 million from Sept. 30, 2007, to Sept. 30, 2008.

Locally, 11 other banks saw their non- performing loan ratios increase during the past year — seven of them by a greater de- gree than Fidelity's.

Bastian says many of those loans were participation loans in other metros. He listed Kansas City, Phoenix, Houston, Dallas and southern California. Many were in commer- cial real estate or construction.

"Those are markets that we have been active in and are to a lesser degree today," Bastian says.

The bank continues to increase its lend- ing, up 7.5 percent during the past year.

The Capital Purchase Program should help that continue, Bastian says.

"We did give it lots of thought. It gives us flexibility," he says.

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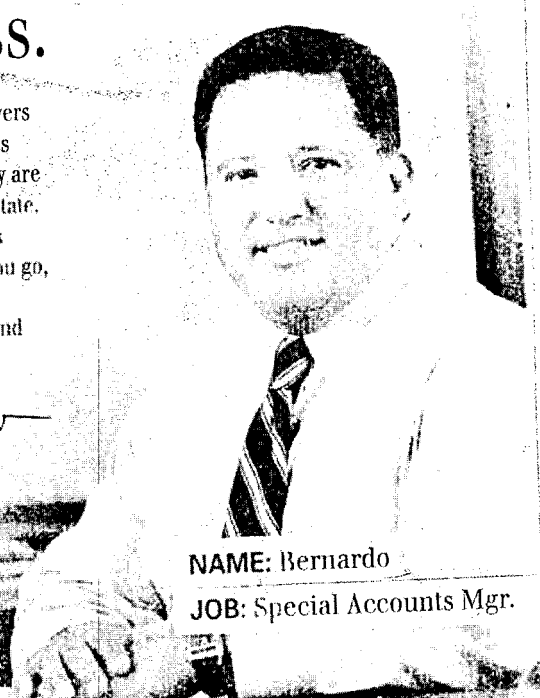
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