

PATAPSCO BANCORP

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March 5, 2009

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

Re: Patapsco Bancorp Inc. UST Sequence # 289

Dear Mr. Barofsky:

The following is Patapsco Bancorp, Inc.'s (the Company) response to your letter of February 6, 2009.

1. When the Company applied for funds under the Capital Purchase Program (CPP) portion of the TARP program, the intent was and is to use the capital to support the growth of the Patapsco Bank (the Bank) and to provide additional capital to weather a further decline in economic activity. In a press release issued December 11, 2008, announcing the receipt of preliminary approval to participate in the program the Company stated " These funds are only available to financially sound organizations like Patapsco Bancorp, Inc. and will support our lending activities in the local market." We fully intend to leverage the capital by raising deposits and growing the loan portfolio.

When the funds were received from the Treasury on December 19, 2008, the wire was sent to the Bank's account at its correspondent, (b) (4) (b) (4) with instructions to credit the account of the Company. (The Company's transaction account is a deposit account at the Bank.) The immediate impact on the Bank was the same as if a regular depositor had brought in \$6 million. The Bank's cash on hand increased by the \$6 million wire.

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(b) (4) Due to low loan demand in our market area, we have not yet been able to invest the funds into the loan portfolio. The Patapsco Bank has always

operated with a high (relative to peers) loan to deposit ratio and we fully intend to continue our efforts to grow the loan portfolio.

Absent the receipt of the CPP funds, the Bank was considering reducing the lending staff and shrinking the balance sheet in order to increase capital ratios. This was an item of discussion because although the Bank was well capitalized by all regulatory benchmarks, the amount of "excess" capital was not deemed to be a large enough cushion for operating in the rapidly declining economic environment. As a result of the additional capital received, these lenders are actively seeking new business.

2. Section 1.2(d)(iv) of the Securities Purchase Agreement – Standard Terms provides that it is a condition to the receipt of TARP funds that:

"the Company shall have effected such changes to its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "Benefit Plans") with respect to its Senior Executive Officers (and to the extent necessary for such changes to be legally enforceable, each of its Senior Executive Officers shall have duly consented in writing to such changes), as may be necessary, during the period that the Investor owns any debt or equity securities of the Company acquired pursuant to this Agreement or the Warrant, in order to comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA") as implemented by guidance or regulation thereunder that has been issued and is in effect as of the Closing Date...."

In addition, rules promulgated by Treasury establish the following standards for the TARP Capital Purchase Program: (a) limits on compensation that exclude incentives for senior executive officers (SEOs) of financial institutions to take unnecessary and excessive risks that threaten the value of the financial institution; (b) required recovery of any bonus or incentive compensation paid to a SEO based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; (c) prohibition on the financial institution from making any golden parachute payment to any SEO; and (d) agreement to limit a claim to a federal income tax deduction for certain executive remuneration.

In connection with the receipt of the TARP funds, the Company complied with its obligations under the Securities Purchase Agreement by entering into a letter agreement with each of its SEOs that addresses several of the executive compensation requirements.

The letter agreement addresses the exclusion of incentives to take unnecessary and excessive risk by having the executive acknowledge that 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 and agree that to the extent any such review requires revisions to any benefit plan with respect to the officer, the officer agrees to negotiate such changes promptly and in good faith.

The letter agreement addresses the clawback of bonuses by having the executive acknowledge that any bonus and incentive compensation paid during a covered period is subject to clawback by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

The letter agreement addresses the prohibition on making golden parachute payments by providing that if the payments provided under the contracts and arrangements with the executive would exceed the golden parachute limitations of the Capital Purchase Program, the payments shall be reduced so that the payments do not exceed the limitations.

With respect to future action, applicable Treasury regulations require the Company's compensation committee to identify the features in the Company's SEO incentive compensation arrangements that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the financial institution. The regulations require that the compensation committee review the SEO incentive compensation arrangements with the Company's senior risk officers, or other personnel acting in a similar capacity, to ensure that SEOs are not encouraged to take such risks. The regulations require such review promptly, and in no case more than 90 days, after the receipt of TARP funds.

In furtherance of its requirements under TARP, the Company's Compensation committee identified the person acting in a capacity similar to senior risk officer and is scheduled to meet on March 9, 2009 to review SEO incentive compensation arrangements with that officer. Following review of the incentive program and discussion of the risks facing the Company, the Compensation Committee will revise the incentive compensation calculations as needed in order to eliminate any incentives to take unnecessary and excessive risk that may exist.

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The Company requests confidential treatment of this letter. The financial information and other trade secrets contained in this letter is 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).

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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.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Dee". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael J. Dee
President & CEO