

March 5, 2009

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

Mr. Barofsky:

In response to your letter of February 6, 2009, we are pleased to provide you with the information requested regarding StellarOne Corporation's use of the Troubled Asset Relief Program (TARP) funds and as well as our compliance with the Emergency Economic Stabilization Act of 2008 (EESA).

By way of background, StellarOne Corporation, headquartered in Charlottesville, Virginia, with nearly \$3 billion in total assets at year-end 2008 is one of the largest Virginia based banking organizations and is the holding company for StellarOne, a traditional community bank headquartered in Christiansburg, Virginia. StellarOne offers a full range of business and consumer banking services, including trust and asset management services, via its wealth management division. StellarOne operates 61 full-service financial centers, one loan production office, and over 80 ATMs serving the New River Valley, Roanoke Valley, Shenandoah Valley, and Central and North Central Virginia.

As you are aware, StellarOne Corporation, (b) (8)

(b) (8) enhanced its existing strong capital base by participating in the TARP and receiving approximately 1% of risk-weighted assets or \$30 million in proceeds from the Treasury Department in December 2008, increasing both tangible equity and Tier 1 risk-based regulatory capital for the fourth quarter of 2008. Tangible equity as a percentage of tangible assets was 10.79% at December 31, 2008 compared to 9.65% at September 30, 2008. Tier 1 risk-based capital ratio was 14.07% at December 31, 2008 compared to 12.03% at September 30, 2008. Both ratios are well in excess of the median for its peer group. Shareholder's equity, including preferred stock issued in connection with participation in the TARP program, represented 13.35% of total assets at December 31, while book value per common share at December 31, 2008 was \$16.14 per share.

Anticipated Use of TARP Funds

Our participation in the TARP program was aimed at strengthening our existing strong capital base given the uncertainty in predicting the length of the U.S. economic recession impacting our asset quality and earnings, along with the continuing turbulence in the financial markets. In addition, we anticipated using the TARP funds to: continue lending to businesses and consumers, reduce foreclosures through a special mortgage refinance program and make investments in our investment portfolio in fixed income investments providing much needed assistance to municipalities, and for general corporate purposes. Finally, StellarOne has substantially utilized this investment as outlined, and stands ready to assist the government by acquiring troubled financial institutions and providing a safe haven for customers' deposits if the opportunity should arise.

Actual Use of TARP Funds

StellarOne Corporation received \$30 million in TARP Funds on December 19, 2008 which were immediately placed in a demand deposit account with our single bank subsidiary, StellarOne.

We have designated funds from TARP to StellarOne's investment portfolio; specifically, \$4,210,000 in municipal bonds and \$3,053,416 in mortgage-backed securities, totaling \$7,263,416. Our investment in municipal bonds will provide much needed funding for municipalities who are currently strained by the recession. Our investment in mortgage backed securities is deemed temporary in nature, and will supply cash flows for future investment in the loan portfolio. The remaining TARP funds were designated to loan production discussed as follows.

In the approximately two months since we received the \$30 million in TARP funds, StellarOne has continued to expand our lending to consumers and businesses where our credit underwriting standards for credit quality are met. During this period, we have originated a total of \$105.1 million in *new* extensions of credit as follows:

| | |
|---------------------------------|----------------|
| Consumer loans | \$3.1 million |
| 1-4 family equity loans | \$17.2 million |
| First deed 1-4 family loans | \$12.1 million |
| Second deed 1-4 family loans | \$4.1 million |
| Multifamily loans | \$2.2 million |
| Nonfarm, nonresidential loans | \$21.6 million |
| First deed const. and lot loans | \$29 million |
| First deed farmland loans | \$1.8 million |
| Commercial and industrial loans | \$14 million |

Another targeted use of TARP funds is to address credit issues, including problem loans and providing assistance to help homeowners avoid foreclosures. In this regard, StellarOne is pleased to inform you that in February, 2009 we established a *Residential*

Mortgage Loan Modification Program aimed at preventing customer foreclosures. Highlights of the Program are included as an attachment. As of February 26, there were 195 applicants who have applied for a loan modification under this Program. We have established policies and procedures to ensure consistency in treatment for all of our customers.

Dividends

For your information, StellarOne Corporation declared a cash dividend to common shareholders of \$0.16 a share for the first quarter of 2009 which reflects the same dividend rate paid out as in the fourth quarter of 2008. The payment came from operating funds and accumulated working capital. Furthermore, we are cognizant of the restrictions on paying dividends from TARP funds received and affirmatively report that we did not utilize TARP funds for this dividend payment. We are monitoring the ability to keep this dividend level in light of continuing deterioration in market conditions, and have not ruled out a decrease.

We are not aware of any activities that would not have been conducted had we not had the benefit of the TARP funds for the period, although the mortgage plan and other promotions to stimulate loan production have certainly factored in the additional capital supplied by TARP funds.

Compliance and Certification with Executive Compensation Provisions

StellarOne is implementing all of the restrictions mandated by the U.S. Department of Treasury under 31 CFR Part 30 and as in the process of implementing the executive compensation restrictions as provided under The American Recovery and Reinvestment Act of 2009.

StellarOne Corporation's Personnel and Compensation Committee (*P & C Committee*) began developing its plans for addressing the executive compensation requirements under Emergency Economic Stabilization Act of 2008 (EESA) at the Committee's January 26, 2009 meeting. The P & C Committee was advised by its third party consultant regarding its duties and specifically the process that they needed to conduct relative to determining whether executive compensation presented unnecessary and excessive risk. The following is an excerpt from the meeting minutes:

Regarding StellarOne Corporation's participation in the Capital Purchase Program (CPP) and the P & C Committee's responsibility regarding executive compensation restrictions, (b) (6) of Pearl Meyer reviewed a draft article that her firm had written for a publication. The article provides a framework for the process of identifying and analyzing compensation-related risk. In addition, (b) (6) recommended that outside legal counsel review the employment contracts of the named executive officers (NEOs).

In February 2009, the P & C Committee instituted a TARP Risk Committee composed of the designated Senior Risk Officer (SRO), who is the Corporate Chief Legal Officer, the Senior Credit Risk Officer and Director of Internal Audit which is studying the risks associated with credit and lending policies and executive compensation. The role of the SRO is to evaluate the named executive officer compensation plans for the potential of causing unnecessary or excessive risk taking, and to discuss his input with the P & C Committee in a separate meeting. This TARP Risk Committee met on February 27, 2009 after completing a review of all executive compensation plans and will meet with the Compensation Committee of the Board of Directors of the Corporation on March 9, 2009 to advise and recommend risk mitigating factors in any proposed executive compensation plans. Until such plans are deemed compliant with the aforesaid TARP provisions, senior management shall only receive payment of their base salaries as compensation.

The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009. The ARRA modified several of the executive compensation restrictions under EESA. The P & C Committee discussed the impact of the ARRA of 2009 on Executive Compensation at its February 19, 2009 meeting.

The 2008 short term incentive payments are "on hold" until further clarification is received from the Treasury Department. (b) (6) (Chief Human Capital Officer for StellarOne) reviewed the payout calculation of the 2008 Executive Incentive Plan. The executives earned 26% of their target award. The bonus amounts will be held until such time that they can be distributed. In addition, legal counsel will provide a recommendation regarding the language in the Compensation Discussion & Analysis (CD&A) to address the accrued payouts which have not been paid.

(b) (6) advised that (b) (6) of Troutman Sanders had been engaged to complete the legal review of the NEOs employment contracts relative to StellarOne Corporation's participation in the TARP/Capital Purchase Program. However, Mr. (b) (6) indicated that it was necessary to delay his review of the contracts until more information has been revealed regarding executive compensation restrictions within the ARRA.

This new information and requirements changed the manner in which executive compensation could be provided to the named executive officers and the process by which the Committee needed to determine excessive or unnecessary risk taking. First, because the 2009 short and long-term incentive plans for the named executive officers were no longer permitted, a review of those plans for causing excessive or unnecessary risk was no longer applicable.

(b) (4)

The TARP Risk Committee will present and discuss its assessments with the Compensation Committee on March 9, 2009 relative to loan risks and their relationship to other employee compensation plans. The assessment will focus primarily how leveraged the plans are (as a percentage of total compensation) and what mitigating controls are in place to ensure that loans are approved by personnel who do not receive incentive compensation.

As stated above, the payment of the 2008 earned incentives to the named executive officers has been placed on hold pending further clarification from the Treasury. In

(b) (4)

Certification

I, Jeffrey W. Farrar certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting do 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.



Jeffrey W. Farrar, EVP and CFO

3/5/09

Date

Enclosures

Residential Mortgage Loan Modification Highlights

This Program has been developed in order to meet the following objectives: (1) Help keep borrower's (and/or residents) in their home for the long-term by promptly providing an affordable and stable mortgage payment; (2) Reduce the amount of past due loans and non-performing loans; and (3) Limit collection costs, charge-offs and OREO.

(b) (4) [Redacted]

[Redacted]

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[Redacted]

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

StellarOne Corporation

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1829288
(I.R.S. Employer
Identification No.)

**590 Peter Jefferson Parkway, Suite 250
Charlottesville, Virginia 22911
(540) 829-1633**

(Address, including zip code, and telephone number, including area
code, of registrant's principal executive office)

**Jeffrey W. Farrar
Executive Vice President and Chief Financial Officer
StellarOne Corporation
590 Peter Jefferson Parkway, Suite 250
Charlottesville, Virginia 22911
(540) 829-1633**

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:
**George P. Whitley, Esq.
Scott H. Richter, Esq.
LeClairRyan, A Professional Corporation
Riverfront Plaza, East Tower
951 East Byrd Street, 8th Floor
Richmond, Virginia 23219
(804) 783-2003**

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after this registration
statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment
plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to
Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment
plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act,
please check the following box and list the Securities Act registration statement number of the earlier effective registration
statement for the same offering.



NEWS RELEASE

FOR IMMEDIATE RELEASE

Contact:

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Executive Vice President and CFO
(434) 964-2217
jfarrar@StellarOneCorp.com

STELLARONE CORPORATION RECEIVES PRELIMINARY APPROVAL FOR \$30 MILLION UNDER TREASURY CAPITAL PURCHASE PROGRAM

Charlottesville, VA, December 3, 2008 – StellarOne Corporation (NASDAQ: STEL - News) (StellarOne) today announced that it has received preliminary approval of its application for a \$30 million investment by the United States Department of the Treasury under its Capital Purchase Program (the TARP Program). Under the TARP program, qualifying banks may request additional capital of up to 3% of risk weighted assets. StellarOne's request amounts to roughly 1.15% of risk weighted assets at September 30, 2008.

Under the TARP Program, StellarOne would issue up to \$30 million of preferred stock, and warrants to purchase approximately \$4.5 million of StellarOne common stock to the Treasury. The additional capital will increase the company's total risk-based capital ratio to approximately 14.50% as of September 30, 2008.

O.R. Barham, Jr., President and Chief Executive Officer commented, "StellarOne's primary responsibility is to protect the assets of our customers, while continuing to serve the financial needs of our local communities. While StellarOne is certainly well capitalized, the board along with management felt that this additional government funding supported these objectives. While the remainder of 2008 and 2009 will present a difficult operating environment for all banks, we believe this capital will accentuate our ability to provide credit to businesses and consumers throughout our franchise."

The non-voting senior preferred shares to be issued to the Treasury will pay a dividend of 5% annually for the first five years after issuance and 9% annually after the fifth year, if they are not redeemed. Participation in the TARP Program is subject to the Treasury Department's standard terms and conditions, and the sale of preferred shares and warrants is subject to the completion and review of necessary documentation. Although StellarOne currently intends to participate in the Program, it will continue to monitor and evaluate any additional governmental requirements and activities up to closing, which is expected to occur within thirty days.

About StellarOne

StellarOne Corporation is the holding company for StellarOne, a traditional community bank, offering a full

range of business and consumer banking services, including trust and asset management services, via its wealth management division. Through the activities of its sole affiliate, StellarOne Bank, StellarOne operates 63 full-service financial centers, one loan production office, and over 80 ATMs serving the New River Valley, Roanoke Valley, Shenandoah Valley, and Central and North Central Virginia.

Forward-Looking Statements

In addition to historical information, this press release contains forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from historical results, or those anticipated. When we use words such as “believes”, “expects”, “anticipates” or similar expressions, we are making forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date thereof. StellarOne wishes to caution the reader that factors, such as those listed below, in some cases have affected and could affect StellarOne’s actual results, causing actual results to differ materially from those in any forward looking statement. These factors include: (i) expected cost savings from StellarOne’s acquisitions and dispositions, (ii) competitive pressure in the banking industry or in StellarOne’s markets may increase significantly, (iii) changes in the interest rate environment may reduce margins, (iv) general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, credit quality deterioration, (v) changes may occur in banking legislation and regulation (vi) changes may occur in general business conditions and (vii) changes may occur in the securities markets. Please refer to StellarOne’s filings with the Securities and Exchange Commission for additional information, which may be accessed at www.StellarOne.com.