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March 5, 2009

Neil M. Barofski
Special Inspector General – TARP
1500 Pennsylvania Avenue, Suite 1064
Washington, DC 20220

Re: SIGTARP Response

Dear Mr. Barofski

As a participant in the Troubled Asset Relief Program (TARP) Capital Purchase Program established under the Emergency Economic Stabilization Act of 2008, we are formally responding to your letter dated February 6, 2009 requesting certain information relating to such participation. We received $70.0 million in TARP funds on December 19, 2008.

<u>Anticipated Use of TARP Funds</u>

Our application to participate in the TARP stated we intended to use the proceeds from the sale of senior preferred shares to the U.S. Treasury to grow our loan portfolio. Since receiving the $70 million in TARP funds, we have lent more than $72 million in real estate and business loans.

The Bank has not segregated the TARP funds from other funds. We developed a strategy to deploy these funds in our normal course of business. We believe it is important to be able to utilize the funds received under the TARP to generate income to be able to: (1) pay the dividends required on the preferred shares, (2) generate income to eventually repurchase the preferred shares issued under the TARP, and (3) not dilute the value of our existing shareholders' investment in the Company.

Prior to receiving preliminary approval to participate in the TARP, we had prepared our budget for 2009 and updated our strategic plan for the period 2009 through 2011. (*See attachment I*) [redacted]

- [redacted]
- [redacted]

b(4)

• [redacted]

Since the receipt of the TARP funds, we implemented an initiative to increase our loan and securities portfolio.

Since receipt of the TARP funds, we closed the following loans:

Real Estate Loans		
December	18 new deals	$21,090,000
January	21 new deals	$9,151,000
February	19 new deals	$14,356,000
Business Loans		
SBA 504 Loans	2 new loans	$7,400,000
SBA Express	1 new loans	$150,000
Commercial Loans	7 new loans	$5,800,000
Taxi Medallion Loans	16 new loans	$14,800,000
Total		**$72,747,000**

Additionally, we utilized the TARP funds and purchased $163 million of mortgage-backed securities issued by GNMA, FNMA or FHLMC.

New Loan Activity in the Pipeline:

In accordance with the strategy described above, since our receipt of TARP funds, our Real Estate Lending Department has been actively pursuing new lending opportunities in our primary business. From December 15 through December 21, 2008, we received approximately 28 written inquiries for loans totaling $64.7 million. We made offers to 18 of these potential borrowers totaling approximately $33.6 million.

In January 2009, the Real Estate Lending Department began to more aggressively price our multi family loans in order to further stimulate new lending, including by way of a new telemarketing program. As a result, between January 1, 2009 and February 20, 2009, an additional 156 written inquiries for loans were received for loans totaling approximately $540.0 million. Many of the loan requests were for types of properties that we do not ordinarily finance or were outside of our primary service area. Others were for loan amounts that we deemed excessive. Of the 156 inquires received, we made offers to 97 of these potential borrowers totaling approximately $233.4 million.

Also in accordance with our strategy described above, in December 2008 our Business Banking division reduced rates on taxi medallion loans in order to generate more applications, which rates were further reduced in January and February 2009. These reductions increased our taxi loan pipeline to $7.7 million presently as compared with 13 taxi medallion loans totaling $6.7 million closed in all of 2008.

Executive Compensation

Prior to submitting our application for participation in the TARP, our management and Board of Directors reviewed the executive compensation requirements of Section 111 of the EESA and the guidance and regulations relating thereto issued by the Secretary of the Treasury as of such date. Our outside legal counsel also reviewed existing employment contracts and incentive plans for compliance with those requirements. These reviews indicated our compliance with those requirements upon the closing of the TARP funds.

The following indicates certain of our plans and status regarding our compliance with these requirements as set forth on the Treasury's website as of the date hereof during the applicable period specified in the EESA and such regulations:

Excessive Risk Review. To comply with the requirement that we eliminate incentives for our senior executive officers to take unnecessary and excessive risks that threaten the value of our institution, our Compensation Committee shall:

- Not later than March 19, 2009 (90 days after the closing of our TARP funds) review the senior executive officer incentive compensation arrangements with our officers deemed to be our senior risk officers (the "Risk Officers") to ensure that such arrangements do not encourage the senior executive officers to take unnecessary and excessive risks that threaten the value of our institution. Our Compensation Committee will conduct this review on March 10, 2009 to determine that such arrangements comply with this requirement. In making this determination, our Compensation Committee will note the generality of the expression "unnecessary and excessive risk" and in the absence of regulatory guidance consider the nature of performance criteria on which senior executive officer compensation is based, the manner and level at which targets tied to those criteria are set and the risk factors contained in our filings with the Securities and Exchange Commission (the "SEC"), among other things.

- At least annually thereafter, meet with the Risk Officers to discuss and review the relationship between our risk management policies and practices and the senior executive officer incentive compensation arrangements. This annual requirement has not yet occurred, but will be observed by the Compensation Committee.

- Certify that it has completed the reviews of the senior executive officer incentive compensation arrangements required above in the Compensation Discussion and Analysis section contained in our annual proxy statement. Although we have not yet filed with the SEC our proxy statement for our next annual meeting of shareholders, that filing is expected to occur in the current month and the Compensation Committee will include in that filing the required certification.

Clawback Rule. To comply with the requirement that we recover bonuses paid to senior executive officers based on materially inaccurate earnings or other performance metrics, our Board of Directors will implement a policy expressly to this effect at its March meeting. We recognize that this requirement is similar to the requirement under Section 304 of the Sarbanes Oxley Act of 2002, but more restrictive in several respects, including that it applies to all senior executive officers (not just the principal executive and financial officers) and does not limit the recovery period to 12 months following an accounting restatement.

Golden Parachute Restriction. To comply with the requirement that we not make any golden parachute payments to senior executive officers, our Board of Directors will implement a policy expressly to this effect at its next regularly scheduled meeting. For this purpose we will recognize a "golden parachute" payment similarly to an "excess parachute payment" under Section 280G—any compensatory payment, other than a payment under a qualified retirement plan, to the extent the aggregate present value of the payment equals or exceeds three times the senior executive officer's base amount. However, unlike Section 280G, a "golden parachute" payment for this purpose will be any payment triggered by an applicable severance from employment, without regard to whether there has been a change in control of us. An "applicable severance from employment" for this purpose will be a senior executive officer's severance from employment with us by reason of involuntary termination of employment or in connection with our bankruptcy, insolvency or receivership. "Involuntary termination" for this purpose will be any termination due to the independent exercise of our unilateral authority to terminate the senior executive officers services, including any "good reason" termination that is treated as an involuntary termination for purposes of Section 409A and any voluntary termination where the facts and circumstances indicate that we would have terminated the senior executive officer's employment but for such voluntary termination.

Our Compensation Committee is scheduled to meet in March to approve the executive and senior officers' incentive plan for 2009, including the targets and levels for incentive awards for 2009. At this meeting, management, with the assistance of our independent compensation consultants and legal advisors, will review the foregoing requirements of the TARP.

We have a comprehensive Risk Management program designed to ensure that inherent risks are identified and controlled. Management reviewed this risk assessment with the Board of Directors at their meeting in February 2009 in a presentation entitled "Risk Management Review." (*See attachment II*) This review identified risks we face in our operations, and tools used to monitor these risks by management and the Board.

In addition to our banking Risk Assessment, our Internal Audit Department conducts an annual Audit Risk Assessment (*See attachment III*) that identifies the risks in certain departments and uses the same criteria as our banking risk assessment. The Audit Risk Assessment has identified risks in key areas, including the various lending groups. This Audit Risk Assessment is presented to, and approved by, our Audit Committee.

I, John R. Buran, as President and Chief Executive Officer of Flushing Financial Corporation, certify that I have reviewed this response and supporting documents and, based on my actual knowledge, this response and the supporting documents 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 in which they were made, not misleading.

John R. Buran
President & CEO
Flushing Financial Corporation

Attachments:

I Strategic Plan
II Risk Assessment presentation
III Internal Audit Risk Assessment methodology
IV Current Billboard: "Need Financing? We're Lending"

Attachment 1

FFIC FLUSHING
www.flushingsavings.com Financial Corp.

STRATEGIC PLAN

2009 - 2011

December 2008

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Risk Management Review

February 24, 2009

Key Components Of Our Risk Management Programs

- Active Board and Management Oversight
- Appropriate Policies, Procedures & Limits
- Tools for Measuring, Monitoring & Managing Risks
- Comprehensive Internal Controls

Types of Risk

- Credit Risk
- Market Risk
  - Interest Rate Risk
  - Pricing Risk
- Liquidity Risk
- Operational Risk
- Reputation Risk
- Strategic Risk
- Legal / Compliance Risk

How the Board Monitors Risk

- The Loan Committee
  - Credit Risk
  - Market Risk
    - Pricing Risk

- The Investment Committee
  - Market Risk
    - Interest Rate Risk
      - Amount of Interest Rate Risk Taken vs. Reward
  - Liquidity Risk

How the Board Monitors Risk

- The Compliance Committee
  - Legal / Compliance Risk
  - Operational Risk
  - Reputation

- The Audit Committee
  - Operational Risk
  - Legal / Compliance Risk
  - Recommendations for Best Practices

How the Board Monitors Risk

- Management Reporting to the BOD
  - Monthly
    - Financial Reporting (Actual to Plan)
    - Strategic Plan Revisions, if necessary
    - Delinquent Loans
    - Loan Originations
    - Security and Borrowing Activity
  - Quarterly
    - Form 10Q
    - Allowance for Loans Losses Analysis
  - Annual
    - Form 10K
    - Strategic Plan
    - The Audit Program

Credit Risk

- Management Loan Committee:
  - Approves Loans up to Board Approved Limits (Loans over Management Loan Committee Approval Limits are Approved by the BOD)
  - Ratification of Loans

- Management Asset Classification Committee (formed in 2008):
  - Monitors Ongoing Credit Quality of Assets
  - Voting Members are not Directly Involved with Lending or Investment Activity
  - Submits Asset Classification Report to the Board

Credit Risk

- Management Tools:
  - All Lending Policies and Procedures are Approved by the BOD at Least Annually
    - Underwriting Standards
    - Loan Limits by Type and to "one-borrower"
  - Pricing vs. Risk (higher yield = higher risk)

- Monitoring Tools:
  - The Loan Committee of the Board Meets Monthly to Review Credit Risks
  - Internal and External Loan Review
  - Board Sets Approval Limits for the Management Loan Committee
  - Delinquency Reports
  - Allowance for Loan Losses Analysis - Quarterly

Market Risks – Interest Rates & Pricing

- Management ALCO Meeting:
  - Meets Weekly to Review Interest Rate Risk and Product Pricing
  - Additional Meetings are Conducted as Necessary and as Market Conditions Dictate

- The Investment Committee of the BOD:
  - Meets Quarterly to Monitor Market Risks
  - Reports Directly to the BOD
  - Ensures Compliance with BOD Established Guidelines

Market Risks – Interest Rates & Pricing

- Management Tools:
  - Product Pricing (Loans & Deposits)
  - Diversification to Promote Long-term Profitability (Products and Maturities; Mix of Maturities; Fixed Rate vs. Variable Rate)
  - Bi-weekly Senior Management Meetings are Conducted to Assist in the Review of Interest Rate Risk and Product Pricing Risk

Market Risks – Interest Rates & Pricing

- Monitoring Tools:
  - The Investment Committee of the Board Meets Quarterly to Review Market Risks
  - The Chief Investment Officer Prepares a Quarterly Interest Rate Risk Assessment
  - Periodic Investment Pricing, Grading & Analysis
  - Financial Reports are Provided Monthly to the BOD, Senior Management and Department Heads

Liquidity Risk

- Management Tools:
  - Management ALCO Monitors Liquidity Risk
  - Executive Team and Chief Investment Officer Meet Weekly to Monitor Liquidity Risk
  - Bi-weekly Senior Management Team Meetings assist in the Determination of Funding Needs

- The Investment Committee:
  - Monitors our Unencumbered, Easily Marketable Securities & Collateral Availability
  - Monitors Cash Requirements on a Forward-Looking Basis

Liquidity Risk

- Wholesale Funding Sources:
  - Borrowing Arrangements
    - FHLB
    - Lines of Credit with Other Financial Institutions
    - Repurchase Agreements with Broker Dealers
    - Brokered CDs and CDARS
- Retail Funding Sources:
    - Government Banking
    - iGo Internet Banking
    - Retail Banking (branches)

Liquidity Risk

- Monitoring Tools:
  - Daily Report of Cash Position
  - Daily Activity Report for Deposits and Lending
  - Investment Activity Reports
  - Weekly Lending Activity Reports
  - Borrowing Activity Reports

Operational Risk

- The Company has a Board Approved Business Resumption Plan and a Disaster Recovery Plan
- The Company Maintains Board Approved Policies
- The Company Maintains Management Approved Procedure Manuals
- The Company has a Strong Internal Control Structure which is Regularly Reviewed by Management and Internal Audit Team
- The Company Maintains Strong Checks and Balances and Appropriate Segregation Between Departments

Operational Risk

- The Company has a Compliance Dept, Audit Dept and Security Dept that Regularly Review Operational Risks

- The Audit Program is Audit Committee Approved and Includes a Comprehensive Risk Assessment, Audit Schedule and Reports of Findings

- Management Tools:
  - IT Steering Committee
  - Bi-weekly Senior Management Meeting
  - Hired a Chief Information Officer to Assist with On-going Back-office Operational and Security Improvements
  - Ongoing Employee Training

Reputational Risk

- Investor Relations
- Community Focused Institution
  - Locally-focused Lending
  - Charitable Giving Programs
  - Involvement with Community Organizations
- Code of Business Conduct and Ethics
- Advisory Boards
- The Company Actively Manages Other Risks to Avoid Reputational Risk Exposure

Strategic Risk

- Management Tools:
  - Bi-weekly Senior Management Meetings
  - Strategic Planning Process
  - Annual Strategic Plan (subject to BOD Review and Approval)
    - Senior Management Conducts a Two Day Off Site Seminar with a Third Party Vendor to Review and Complete a Strategic Plan
- Monitoring Tools:
  - Monthly Board Reports Indicate:
    - Operating Results
    - Budget Variances
    - Strategic Plan Progress
  - Bi-weekly Senior Management Meetings
  - Periodic Marketing Surveys and Analysis

Legal / Compliance

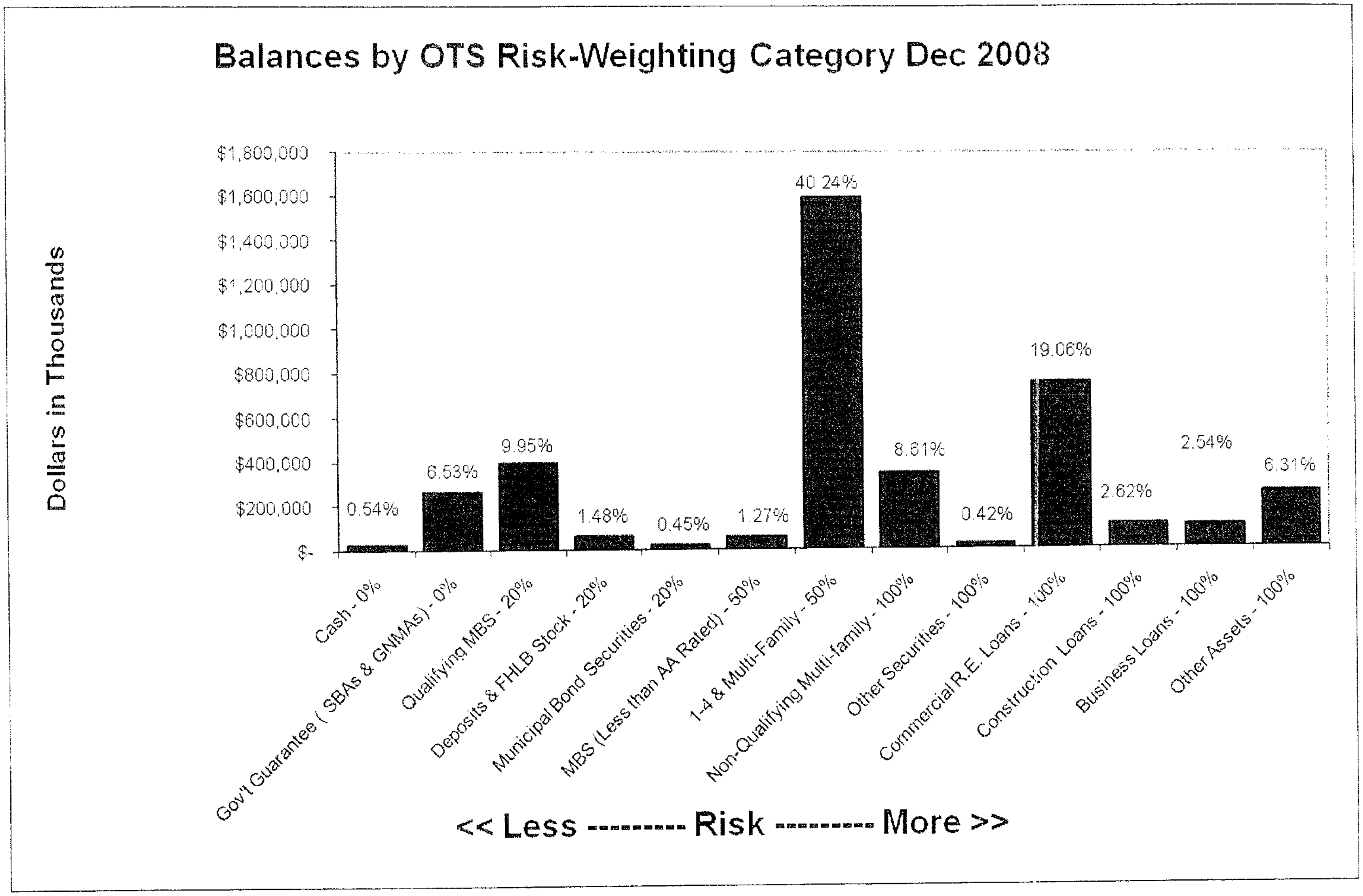
- Compliance Reports are Presented to the Board

- The Company has a Compliance Department which Actively Monitors various Laws and Regulations

- The Bank Retains Legal Counsel which Monitors and Reports to Senior Management on the Implications of New Legislation
  - Legal Affairs are Handled by the Appropriate Department or Senior Executives

- Management Tools:
  - Compliance Training
  - Staff Professional Organization Involvement
    - ABA, NYBA, AICPA, Others

Balancing Risk and Reward



Balancing Risk and Reward Projected

Balances by OTS Risk-Weighting Category Projected Dec 2009

Summary

- Our BOD and Management Team Continue to Provide a High Level of Attention to Managing the Risks We Face as Part of Doing Business

- These Risks are Not Unique to the Company and are Faced by All Financial Institutions

- We have a Strong Board and Management Oversight and a well Designed Internal Control Structure and Reporting Structure

- Our Board and Management Team Do Not Take Undue Risk

Appendix

- Credit risk arises from the potential that a borrower or counter-party to a transaction will fail to perform on an obligation.
- Market risks result from adverse movements in market rates or prices, such as interest rates or equity prices.
- Liquidity risk is the potential inability to liquidate assets or obtain adequate funding to meet obligations.
- Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

Appendix

- Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.
- Strategic risk is the loss arising from inadequate planning decisions.
- Legal risk arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organization. This includes the high legal and reputational risks associated with regulatory noncompliance.

Attachment III

FLUSHING Savings Bank

Internal Audit Department

Risk Assessment Analysis

And

Audit Schedule

2009

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Attachment IV

Billboard on Northern Boulevard, Flushing Queens

Annual cost of $160,000

This generated numerous loan inquiries