



STEWARDSHIP FINANCIAL CORPORATION

March 5, 2009

Neil M. Barofsky  
Special Inspector General - TARP  
1500 Pennsylvania Ave., N.W.  
Suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky,

As requested in your letter of February 6, 2009, we provide the following information with respect to Stewardship Financial Corporation (SFC).

(1)

- (a) As noted in the attached press release issued by SFC, on January 30, 2009, SFC announced that it received \$10 million as part of TARP CPP. The release went on to state that SFC intends to utilize this additional capital to better serve the lending needs of consumers and businesses in our market. That continues to be our anticipated use of the TARP CPP funds – to support the credit needs of individuals and small businesses in the communities we serve – primarily the continuation of originating, refinancing and renewing loans.

A letter to our shareholders (also attached) stated that, while the infusion of capital will enable us to better serve the lending needs in our market, we intend to maintain our practice of making quality, relationship driven, competitively priced loans.

In these challenging economic times, we are seeing a decline in qualified borrowers (based both on the financial situation of the borrower and / or a decline in the underlying collateral securing the loan). Nevertheless, our overall loan origination and underwriting activities are relatively unchanged. Our committed loan origination pipeline on January 22, 2009 (prior to the closing of the TARP CPP transaction) was \$41.7 million. On February 26, 2009, this committed loan pipeline was \$46.3 million. Loan closings for the month of February, including lines of credit, totaled \$10.6 million. The current principal balances outstanding on these loans, reflecting draws on lines, total \$6.1 million.

The TARP CPP funds were contributed as capital to Atlantic Stewardship Bank (ASB) which has the effect of improving Tier I capital ratios by 150 basis points to 8.75% (b) (4)

(b) (4)

while not currently anticipated, in applying for TARP CPP consideration was given to the need to bolster capital against possible future loan losses.

- (b) The \$10 million of TARP CPP funds were not segregated from other institutional funds.
- (c) As the transaction closed on Friday, January 30, 2009, and the deploying all \$10 million into loans will occur over time, ASB initially invested the funds in mortgage-backed securities – specifically \$10 million worth of agency mortgage-backed securities were purchased. The cash flows from those securities will be utilized to fund future loans in the pipeline.
- (2) Based on an initial summary review of SFC's executive compensation structure (i.e., review completed prior to the TARP CPP closing on January 30, 2009), there appears to be no significant changes required to compensation, bonus, incentive and other benefit plans, arrangements and agreements with respect to its Senior Executive Officers (SEOs). SFC does not have any golden parachute, severance or employment agreements. The Compensation Committee reported to the Board at a meeting on February 17, 2008 that they are committed to complying with all the executive compensation requirements and restrictions that have and will be imposed on SFC as a TARP CPP participant. The Compensation Committee, however, is scheduled to meet on Tuesday, March 17, 2009 to complete an in-depth review - comparing the most currently available guidelines on executive compensation to SFC's current compensation structure. As SFC received less than \$25 million of TARP CPP funds, any incentive compensation for our President and Chief Executive Officer will be adjusted accordingly. The Compensation Committee will review compensation for the CEOs, including a review of any incentive plans that may encourage the taking of excessive risks. The Compensation Committee will also make necessary changes to require 'clawback' provisions for the recovery of any bonus or incentive compensation paid based on statements of earnings or gains that are later proven to be materially inaccurate.

We entered into the TARP CPP program as a means of strengthening the financial position of SFC and its subsidiary, ASB – thereby helping to strengthen the banking industry as a whole. We believe the additional capital provided will enable our entity to make strong financial decisions in the future that will encourage the organization to grow and continue to provide the support necessary to meet the lending needs of the individuals and small business within our community.

I, Claire M. Chadwick, certify that: I have reviewed this response and supporting documents, and, based on my 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 under which such statements were made, not misleading.

Attest:



Claire M. Chadwick  
Senior Vice President and  
Chief Financial Officer



Mary Beth Steinginga  
Assistant Secretary



STEWARDSHIP FINANCIAL CORPORATION

For Immediate Release

Contact: Claire M. Chadwick  
SVP and Chief Financial Officer  
630 Godwin Avenue  
Midland Park, NJ 07432  
201-444-7100

**PRESS RELEASE**

**Stewardship Financial Corporation To Participate In The  
U.S. Treasury Capital Purchase Program**

**Midland Park, NJ – January 30, 2009** – Stewardship Financial Corporation (NASDAQ:SSFN) (“Stewardship”), parent of Atlantic Stewardship Bank, today announced that it has received \$10 million as part of the U.S. Treasury Department’s Troubled Asset Relief Program – Capital Purchase Program for “healthy institutions”. Stewardship issued 10,000 Senior Preferred shares and 127,119 warrants to purchase common stock to the U.S. Treasury.

Paul Van Ostenbridge, President and Chief Executive Officer, commented, “We are pleased to be selected for participation in this program, which is designed to provide additional capital to healthy, well managed financial institutions. We view the terms of the Capital Purchase Program to be an attractive low-cost alternative to other capital sources in today’s market and an excellent opportunity to support the recovery of the U.S. economy. Stewardship intends to utilize this additional capital to better serve the lending needs of consumers and businesses in our market.”

Stewardship’s senior preferred shares will pay a cumulative dividend of 5% per annum for the first five years and 9% per annum thereafter. The shares are callable by Stewardship at par after three years and may be



replaced, at any time, if Stewardship were to choose to repurchase them with newly raised equity capital. Associated with the purchase of Stewardship's senior preferred shares, the Treasury received warrants to purchase 127,119 in Stewardship common shares at an exercise price of \$11.80 per share.

Van Ostenbridge stated, "This investment will further strengthen Stewardship's already solid capital position." At September 30, 2008, Stewardship's capital ratios were all above the level required to be categorized as "well capitalized." Stewardship's leverage capital, Tier I risk-based capital and total risk-based capital were 8.02%, 10.47% and 11.72%, respectively, at September 30, 2008.

Stewardship Financial Corporation's subsidiary, the Atlantic Stewardship Bank, has 13 banking offices in Midland Park, Hawthorne (2), Montville, North Haledon, Pequannock, Ridgewood, Waldwick, Wayne (3), Westwood and Wyckoff, New Jersey. The bank is known for tithing 10% of its pre-tax profits to Christian and local charities. We invite you to visit our website at [www.asbnow.com](http://www.asbnow.com) for additional information.

*The information disclosed in this document contains certain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and may be identified by the use of such words as "believe," "expect," "anticipate," "should," "plan," "estimate," and "potential." Examples of forward looking statements include, but are not limited to, estimates with respect to the financial condition, results of operations and business of the Corporation that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include: changes in general, economic and market conditions, legislative and regulatory conditions, ability to satisfy the conditions to participation in the CPP or the development of an interest rate environment that adversely affects the Corporation's interest rate spread or other income anticipated from operations and investments.*



STEWARDSHIP FINANCIAL CORPORATION

January 30, 2009

Dear Shareholders and Friends:

We are pleased to have the opportunity to participate in the U.S. Treasury Department's voluntary program available only to the nation's healthiest banks. The Troubled Asset Relief Program - Capital Purchase Program is designed to attract broad participation by strong, healthy banking institutions to help stabilize the financial system and increase lending for the benefit of the U.S. economy. As an approved participant in the Capital Purchase Program, Stewardship Financial Corporation today received \$10 million.

The infusion of capital will enable the Corporation, through its subsidiary, Atlantic Stewardship Bank, to better serve the lending needs of consumers and businesses in our market. We will, of course, maintain our practice of making quality, relationship driven loans within the communities we serve - supporting local economic growth and activity.

As an already well-capitalized institution prior to this transaction, the additional capital further strengthens our balance sheet and our capital structure.

The addition of the TARP funds not only allow us to participate in lending opportunities that may arise, but will position us to perform well in this difficult economic environment. A strong capital position provides the foundation for continued growth of the Corporation and our continued success and commitment to our Tithing Program.

To say that 2008 was a very challenging year for the banking industry would be a gross understatement. And, all indications are that there will not be a rapid economic recovery. In fact 2009 may present additional challenges for our industry. However, our Corporation continues to be well positioned to meet these challenges with our capital strength, core deposit base and sound overall loan portfolio. We are grateful for your continued support and confidence in Stewardship Financial Corporation and Atlantic Stewardship Bank.

William C. Hanse  
Chairman of the  
Board of Directors

Paul Van Ostenbridge  
President and  
Chief Executive Officer