STEWARDSHIP FINANCIAL CORP
Form 10-Q
May 14, 2010

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

( ) TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 0-21855

Stewardship Financial Corporation
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22-3351447 (I.R.S. Employer Identification No.)
630 Godwin Avenue, Midland Park, NJ (Address of principal executive offices)	07432 (Zip Code)

(201) 444-7100
(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding, net of treasury stock, of the Issuer’s Common Stock, no par value, as of May 12, 2010 was 5,842,367.

Stewardship Financial Corporation

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Financial Condition
(Unaudited)

	March 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$11,918,000	$8,840,000
Other interest-earning assets	278,000	31,000
Cash and cash equivalents	12,196,000	8,871,000
Securities available for sale	93,926,000	103,026,000
Securities held to maturity; estimated fair value of $72,611,000 (2010) and $68,765,000 (2009)	70,758,000	67,717,000
FHLB-NY stock, at cost	2,390,000	3,227,000
Loans, net of allowance for loan losses of $8,174,000 (2010) and $6,920,000 (2009)	453,281,000	453,119,000
Mortgage loans held for sale	2,724,000	660,000
Premises and equipment, net	6,824,000	6,861,000
Accrued interest receivable	3,045,000	3,167,000
Bank owned life insurance	9,575,000	9,488,000
Other assets	7,507,000	7,708,000
Total assets	$662,226,000	$663,844,000
Liabilities and stockholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing	$94,651,000	$88,427,000
Interest-bearing	448,279,000	441,503,000
Total deposits	542,930,000	529,930,000
Federal Home Loan Bank of New York Advances	36,000,000	54,600,000
Subordinated debentures	7,217,000	7,217,000
Securities sold under agreements to repurchase	15,399,000	15,396,000
Accrued interest payable	1,000,000	1,193,000
Accrued expenses and other liabilities	5,677,000	1,997,000
Total liabilities	608,223,000	610,333,000
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, no par value; 2,500,000 shares authorized; 10,000 shares issued and outstanding at March 31, 2010 and December 31, 2009. Liquidation preference of $10,000,000	9,750,000	9,736,000
Common stock, no par value; 10,000,000 shares authorized;		

5,846,928 and 5,834,515 shares issued: 5,842,366 and 5,834,515 shares		
outstanding at March 31, 2010 and December 31, 2009, respectively	40,498,000	40,415,000
Treasury stock, 4,561 shares outstanding at March 31, 2010	(43,000)	-
Retained earnings	3,128,000	2,922,000
Accumulated other comprehensive income, net	670,000	438,000
Total stockholders' equity	54,003,000	53,511,000
Total liabilities and stockholders' equity	$662,226,000	$663,844,000

See notes to unaudited consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Interest income:		
Loans	$6,874,000	$6,608,000
Securities held to maturity		
Taxable	422,000	441,000
Non-taxable	231,000	213,000
Securities available for sale		
Taxable	880,000	1,137,000
Non-taxable	49,000	52,000
FHLB dividends	37,000	19,000
Other interest-earning assets	2,000	3,000
Total interest income	8,495,000	8,473,000
Interest expense:		
Deposits	1,820,000	2,372,000
Borrowed money	496,000	503,000
Total interest expense	2,316,000	2,875,000
Net interest income before provision for loan losses	6,179,000	5,598,000
Provision for loan losses	1,550,000	150,000
Net interest income after provision for loan losses	4,629,000	5,448,000
Noninterest income:		
Fees and service charges	469,000	396,000
Bank owned life insurance	86,000	83,000
Gain on sales of mortgage loans	55,000	11,000
Gain on calls and sales of securities	328,000	39,000
Merchant processing	-	118,000
Other	73,000	60,000
Total noninterest income	1,011,000	707,000
Noninterest expenses:		
Salaries and employee benefits	2,126,000	2,059,000
Occupancy, net	489,000	472,000
Equipment	309,000	265,000
Data processing	325,000	305,000
FDIC insurance premium	224,000	170,000
Charitable contributions	165,000	171,000
Merchant processing	-	108,000
Other	786,000	858,000

Total noninterest expenses	4,424,000	4,408,000
Income before income tax expense	1,216,000	1,747,000
Income tax expense	345,000	560,000
Net income	871,000	1,187,000
Dividends on preferred stock and accretion	137,000	92,000
Net income available to common stockholders	$734,000	$1,095,000
Basic earnings per common share	$0.13	$0.19
Diluted earnings per common share	$0.13	$0.19
Weighted average number of common shares outstanding	5,839,974	5,829,321
Weighted average number of diluted common shares outstanding	5,841,633	5,834,953

Share data has been restated to reflect a 5% stock dividend paid November 16, 2009.

See notes to unaudited consolidated financial statements.

Stewardship Financial Corporation and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Three Months Ended March 31, 2010						
	Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Gain (Loss), Net	Total
Balance -- December 31, 2009	$9,736,000	5,834,515	$40,415,000	$-	$2,922,000	$ 438,000	$53,511,000
Cash dividends paid on common stock	-	-	-	-	(526,000)	-	(526,000)
Payment of discount on dividend reinvestment plan	-	-	(9,000)	-	-	-	(9,000)
Cash dividends accrued on preferred stock	-	-	-	-	(125,000)	-	(125,000)
Common stock issued under stock plans	-	3,037	24,000	-	-	-	24,000
Stock option compensation expense	-	-	13,000	-	-	-	13,000
Stock options exercised	-	9,376	55,000	(43,000)	-	-	12,000
Accretion of discount on preferred stock	12,000	-	-	-	(12,000)		-
Amortization of issuance costs	2,000	-	-	-	(2,000)		-
Comprehensive income:							
Net income	-	-	-	-	871,000	-	871,000
Change in unrealized holding gains on securities available for sale arising during the period (net tax expense of $131,000)	-	-	-	-	-	196,000	196,000

Reclassification adjustment for gains in net income (net of taxes of $76,000)	-	-	-	-	-	141,000	141,000
Change in fair value of interest rate swap (net of tax benefit of $70,000)	-	-	-	-	-	(105,000)	(105,000)
Total comprehensive income							1,103,000
Balance -- March 31, 2010	$9,750,000	5,846,928	$40,498,000	$(43,000)	$3,128,000	$ 670,000	$54,003,000

Three Months Ended March 31, 2009

	Preferred Stock	Common Stock Shares	 Amount	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Gain (Loss), Net	Total
Balance -- December 31, 2008	$ -	5,575,095	$37,962,000	$(272,000)	$4,383,000	$ 723,000	$42,796,000
Proceeds from issuance of preferred stock and a warrant	9,731,000		269,000				10,000,000
Preferred stock issuance costs	(49,000)						(49,000)
Cash dividends paid on common stock	-	-	-	-	(527,000)	-	(527,000)
Payment of discount on dividend reinvestment plan	-	-	(11,000)	-	-	-	(11,000)
Cash dividends accrued on preferred stock	-	-	-	-	(84,000)	-	(84,000)
Common stock issued under stock plans	-	2,288	22,000	-	-	-	22,000
	-	-	12,000	-	-	-	12,000

Stock option compensation expense							
Stock options exercised	-	7,330	40,000	(32,000)	-	-	8,000
Repurchase of common stock	-	-	-	(75,000)	-	-	(75,000)
Accretion of discount on preferred stock	8,000	-	-	-	(8,000)		-
Amortization of issuance costs	2,000	-	-	-	-		2,000
Comprehensive income:							
Net income	-	-	-	-	1,187,000	-	1,187,000
Change in unrealized holding gains on securities available for sale arising during the period (net tax expense of $177,000)	-	-	-	-	-	275,000	275,000
Reclassification adjustment for gains in net income (net of taxes of $15,000)	-	-	-	-	-	24,000	24,000
Total comprehensive income							1,486,000
Balance -- March 31, 2009	$ 9,692,000	5,584,713	$38,294,000	$(379,000)	$4,951,000	$ 1,022,000	$53,580,000

See notes to unaudited consolidated financial statements.

Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Change in unrealized holding gains on securities		
available for sale arising during the period)	$ 872,000	$ 530,000
Reclassification adjustment for gains in net income	328,000	39,000
Net unrealized gains	544,000	491,000
Tax effect	207,000	192,000
Net unrealized gains, net of tax amount	337,000	299,000
Change in fair value of interest rate swap	(175,000)	-
Tax effect	(70,000)	-
Change in fair value of interest rate swap, net of tax amount	(105,000)	-
Total other comprehensive income	$ 232,000	$ 299,000

The following is a summary of the accumulated other comprehensive income balances, net of tax.

	March 31, 2010	December 31, 2009
Unrealized gain on securities available for sale	$ 930,000	$ 593,000
Unrealized loss on fair value of interest rate swap	(260,000)	(155,000)
Accumulated other comprehensive income, net	$ 670,000	$ 438,000

See notes to unaudited consolidated financial statements.

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	$871,000	$1,187,000
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	214,000	210,000
Amortization of premiums and accretion of discounts, net	161,000	123,000
Accretion of deferred loan fees	(14,000)	(56,000)
Provision for loan losses	1,550,000	150,000
Originations of mortgage loans held for sale	(7,928,000)	(2,948,000)
Proceeds from sale of mortgage loans	5,919,000	1,385,000
Gain on sales of mortgage loans	(55,000)	(11,000)
Gain on sales and calls of securities	(328,000)	(39,000)
Deferred income tax benefit	(544,000)	(69,000)
Amortization of intangible assets	5,000	8,000
Nonqualified stock option expense	13,000	12,000
Amortization of stock issuance costs	-	2,000
Increase in bank owned life insurance	(86,000)	(83,000)
Decrease in accrued interest receivable	122,000	37,000
(Decrease) increase in accrued interest payable	(193,000)	165,000
Decrease (increase) in other assets	532,000	(328,000)
Increase in other liabilities	52,000	615,000
Net cash provided by operating activities	291,000	360,000
Cash flows from investing activities:		
Purchase of securities available for sale	(3,085,000)	(30,248,000)
Proceeds from maturities and principal repayments on securities available for sale	3,944,000	2,730,000
Proceeds from sales and calls on securities available for sale	12,557,000	11,417,000
Purchase of securities held to maturity	(5,566,000)	(24,289,000)
Proceeds from maturities and principal repayments on securities held to maturity	1,443,000	1,018,000
Proceeds from calls on securities held to maturity	1,000,000	4,250,000
Sale (purchase) of FHLB-NY stock	837,000	(612,000)
Net (increase) decrease in loans	(1,698,000)	2,542,000
Additions to premises and equipment	(177,000)	(71,000)
Net cash provided by (used in) investing activities	9,255,000	(33,263,000)
Cash flows from financing activities:		
Net increase (decrease) in noninterest-bearing deposits	6,224,000	(11,723,000)
Net increase in interest-bearing deposits	6,776,000	20,662,000
Net increase in securities sold under agreements to repurchase	3,000	2,000
Net (decrease) increase in short term borrowings	(18,600,000)	7,600,000
Proceeds from long term borrowings	-	6,000,000

Proceeds from issuance of preferred stock and warrants	-	9,951,000
Cash dividends paid on common stock	(526,000)	(527,000)
Cash dividends paid on preferred stock	(125,000)	-
Payment of discount on dividend reinvestment plan	(9,000)	(11,000)
Purchase of treasury stock	-	(75,000)
Exercise of stock options	12,000	8,000
Issuance of common stock	24,000	22,000
Net cash (used in) provided by financing activities	(6,221,000)	31,909,000
Net increase (decrease) in cash and cash equivalents	3,325,000	(994,000)
Cash and cash equivalents - beginning	8,871,000	12,814,000
Cash and cash equivalents - ending	$12,196,000	$11,820,000

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Stewardship Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$2,509,000	$2,710,000
Cash paid during the period for income taxes	$-	$-
Noncash investing activities - security purchases due brokers	$3,523,000	$3,010,000

See notes to unaudited consolidated financial statements.

Stewardship Financial Corporation and Subsidiary
Notes to Consolidated Financial Statements
March 31, 2010
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Certain information and footnote disclosures normally included in the unaudited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Principles of consolidation

The consolidated financial statements include the accounts of Stewardship Financial Corporation (the "Corporation") and its wholly owned subsidiary, Atlantic Stewardship Bank (the "Bank"). The Bank includes its wholly owned subsidiaries, Stewardship Investment Corp., Stewardship Realty, LLC and Atlantic Stewardship Insurance Company, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain prior period amounts have been reclassified to conform to the current presentation. The consolidated financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the statements of financial condition and revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates.

Material estimates

Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for loan losses and fair value of financial instruments. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize probable incurred losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area.

Basis of presentation

The interim unaudited consolidated financial statements included herein have been prepared in accordance with instructions for Form 10-Q and the rules and regulations of the SEC and, therefore, do not include information or footnotes necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results which may be expected for the entire year. All share and per share amounts have been restated for stock splits and stock dividends.

Derivatives

Derivative financial instruments are recognized as assets or liabilities at fair value. The Corporation's derivative consists of an interest rate swap agreement, which is used as part of its asset liability management strategy to help manage interest rate risk related to its subordinated debentures issued in 2003 to Stewardship Statutory Trust I (the "Trust"), a statutory business trust (see Note 8 to the Notes to the Audited Consolidated Financial Statements of the Corporation contained in its Annual Report on Form 10-K for the year ended December 31, 2009). The Corporation does not use derivatives for trading purposes.

The Corporation designated the hedge as a cash flow hedge, which is a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged.

The Corporation formally documented the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking the fair value of cash flow hedge to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivative instrument used is highly effective in offsetting changes in fair values or cash flows of the hedged items.

When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that would be accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140", which was codified into Accounting Standards Codification ("ASC") 810 ("ASC 810"). The objective of this guidance is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The adoption of this guidance, in the first quarter of 2010, did not have a material effect on the Corporation's results of operations or financial position.

In June 2009, the FASB issued Statement No. 167, "Amendments to FASB Interpretation No. 46(R)", which was codified into ASC 810. The objective of this guidance is to improve financial reporting by corporations involved with variable interest entities. The adoption of this guidance, in the first quarter of 2010, did not have a material effect on the Corporation's results of operations or financial position.

In January 2010, the FASB issued Accounting Standards Update 2010-06, "Fair Value Measurements and Disclosures ("Topic 820"): Improving Disclosures about Fair Value Measurements" ("ASU 10-06"). ASU 10-06 requires increased fair value disclosures. Separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers are now required. ASU 10-06 also requires the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis as opposed to a single net figure. These new disclosure requirements were adopted by the Company in the first quarter of 2010, with the exception of the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. With respect to the portions of ASU 10-06 that were adopted, the adoption of this standard did not have a material effect on the Corporation's results of operations or financial position. Management does not believe that the adoption of the remaining portion of ASU 10-06 will have a material effect on the Corporation's results of operations or financial position.

Note 2. Securities – Available for Sale and Held to Maturity

The fair value of the available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	March 31, 2010			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$31,438,000	$182,000	$58,000	$31,562,000
Obligations of state and political subdivisions	5,282,000	153,000	8,000	5,427,000
Mortgage-backed securities - residential	52,584,000	1,296,000	98,000	53,782,000
Other equity investments	3,096,000	72,000	13,000	3,155,000
	$92,400,000	$1,703,000	$177,000	$93,926,000

	December 31, 2009			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$32,642,000	$92,000	$448,000	$32,286,000
Obligations of state and political subdivisions	5,284,000	122,000	9,000	5,397,000
Mortgage-backed securities - residential	61,060,000	1,423,000	255,000	62,228,000
Other equity investments	3,058,000	66,000	9,000	3,115,000
	$102,044,000	$1,703,000	$721,000	$103,026,000

The following is a summary of the held to maturity securities and related unrecognized gains and losses:

	March 31, 2010			
	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$24,085,000	$149,000	$70,000	$24,164,000
Obligations of state and political subdivisions	27,299,000	1,090,000	45,000	28,344,000
Mortgage-backed securities - residential	19,374,000	733,000	$4,000	20,103,000
	$70,758,000	$1,972,000	$119,000	$72,611,000

	December 31, 2009			
	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	Value
U.S. government-sponsored agencies	$19,921,000	$90,000	$351,000	$19,660,000
Obligations of state and political subdivisions	27,038,000	871,000	84,000	27,825,000
Mortgage-backed securities - residential	20,758,000	547,000	25,000	21,280,000
	$67,717,000	$1,508,000	$460,000	$68,765,000

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The following table presents the amortized cost and fair value of the investment securities portfolio by contractual maturity. As issuers may have the right to call or prepay obligations with or without call or prepayment penalties, the actual maturities may differ from contractual maturities. Securities not due at a single maturity date, such as mortgage-backed securities, are shown separately.

	March 31, 2010	
	Amortized Cost	Fair Value
Maturity		
Available for sale		
After one year, but within five years	$6,608,000	$6,630,000
After five years, but within ten years	16,631,000	16,782,000
After ten years	13,481,000	13,577,000
Mortgage-backed securities - residential	52,584,000	53,782,000
Total	$89,304,000	$90,771,000
Held to maturity		
Within one year	$1,352,000	$1,380,000
After one year, but within five years	18,955,000	19,378,000
After five years, but within ten years	20,839,000	21,312,000
After ten years	10,238,000	10,438,000
Mortgage-backed securities - residential	19,374,000	20,103,000
Total	$70,758,000	$72,611,000

The following tables summarize the fair value and unrealized losses of those investment securities which reported an unrealized loss at March 31, 2010 and December 31, 2009, and if the unrealized loss was continuous for the twelve months prior to March 31, 2010 and December 31, 2009.

Available for Sale

March 31, 2010	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$9,397,000	$(58,000)	$-	$ -	$9,397,000	$(58,000)
Obligations of state and political subdivisions	195,000	-	443,000	(8,000)	638,000	(8,000)
Mortgage-backed securities - residential	13,145,000	(98,000)	-	-	13,145,000	(98,000)
Other equity investments	-	-	62,000	(13,000)	62,000	(13,000)
Total temporarily impaired securities	$22,737,000	$(156,000)	$505,000	$ (21,000)	$23,242,000	$(177,000)

December 31, 2009	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored agencies	$23,282,000	$(361,000)	$2,913,000	$(87,000)	$26,195,000	$(448,000)
Obligations of state and political subdivisions	373,000	(2,000)	443,000	(7,000)	816,000	(9,000)
Mortgage-backed securities - residential	15,156,000	(255,000)	-	-	15,156,000	(255,000)
Other equity investments	-	-	33,000	(9,000)	33,000	(9,000)
Total temporarily impaired securities	$38,811,000	$(618,000)	$3,389,000	$(103,000)	$42,200,000	$(721,000)

Held to Maturity

March 31, 2010	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
U.S. government-sponsored agencies	$6,308,000	$ (27,000)	$6,957,000	$ (43,000)	$13,265,000	$ (70,000)
Obligations of state and political subdivisions	1,108,000	(4,000)	1,384,000	(41,000)	2,492,000	(45,000)
Mortgage-backed securities - residential	1,935,000	(4,000)	-	-	1,935,000	(4,000)
Total temporarily impaired securities	$9,351,000	$ (35,000)	$8,341,000	$ (84,000)	$17,692,000	$ (119,000)

December 31, 2009	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
U.S. government-sponsored agencies	$12,529,000	$ (351,000)	$-	$ -	$12,529,000	$ (351,000)
Obligations of state and political subdivisions	4,504,000	(69,000)	401,000	(15,000)	4,905,000	(84,000)
Mortgage-backed securities - residential	1,949,000	(25,000)	-	-	1,949,000	(25,000)
Total temporarily impaired securities	$18,982,000	$ (445,000)	$401,000	$ (15,000)	$19,383,000	$ (460,000)

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Other-Than-Temporary-Impairment
Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under generally accepted accounting principles ("GAAP").

In determining OTTI under GAAP, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

At March 31, 2010, there were three U. S. government sponsored agency securities, five fixed rate municipal obligation securities and certain equity investments in a continuous loss position for 12 months or longer. The market value, and therefore the loss position, for each type of security responds differently to market conditions. In management's opinion, those market conditions are temporary in nature and provide the basis for the Corporation's belief that the declines are temporary. Because the decline in fair value is attributable to changes in market conditions, and not credit quality, and because the Corporation does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at March 31, 2010.

Note 3. Loans and Nonperforming Loans

The following table sets forth the composition of loans:

		March 31, 2010	December 31, 2009
Mortgage			
	Residential	$ 34,904,000	$ 36,246,000
	Commercial	250,819,000	246,212,000
Commercial		115,646,000	114,893,000
Home Equity		21,300,000	21,779,000
Installment		38,897,000	41,006,000
Other		311,000	340,000

	Total loans	461,877,000	460,476,000
Less:	Deferred loan fees	422,000	437,000
	Allowance for loan losses	8,174,000	6,920,000
		8,596,000	7,357,000
	Loans, net	$ 453,281,000	$ 453,119,000

Activity in the allowance for loan losses is summarized as follows:

	Three Months Ended March 31,	
	2010	2009
Balance, beginning of period	$ 6,920,000	$ 5,166,000
Provision charged to operations	1,550,000	150,000
Recoveries of loans charged off	73,000	87,000
Loans charged off	(369,000)	(79,000)
Balance, end of period	$ 8,174,000	$ 5,324,000

Nonperforming loans include the following:

	March 31, 2010	December 31, 2009
Nonaccrual loans	$19,525,000	$ 19,656,000
Loans past due 90 days or more and accruing	-	415,000
Restructured loans	2,775,000	2,846,000
Total nonperfoming loans	$22,300,000	$ 22,917,000

The Corporation has defined the population of impaired loans to include all nonaccrual and restructured loans. The following table sets forth information regarding the impaired loans as of the periods indicated.

	March 31, 2010	December 31, 2009
Impaired loans		
With related allowance for loan losses	$15,453,000	$ 8,668,000
Without related allowance for loan losses	6,847,000	13,834,000
Total impaired loans	$22,300,000	$ 22,502,000
Related allowance for loan losses	$2,876,000	$ 1,903,000

Note 4. Interest Rate Swap

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swap Designated as Cash Flow Hedge: During the second quarter of 2009, the Corporation entered into a swap with an effective date of March 17, 2010. An interest rate swap with a notional amount of $7 million as of March 31, 2010 was designated as a cash flow hedge of the subordinated debentures and was determined to be fully effective during the three months ended March 31, 2010. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swap is recorded in other assets (liabilities) with changes in fair value recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedge no longer be considered effective. The

Corporation expects the hedge to remain fully effective during the remaining terms of the swap. As of March 31, 2010, the interest rate swap is secured by investment securities with a fair value of $501,000.

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Summary information about the interest rate swap designated as a cash flow hedge as of March 31, 2010 is as follows:

Notional amount	$ 7,000,000
Pay rate	7.00%
Receive rate	3 month LIBOR plus 2.95%
Maturity	March 17, 2016
Unrealized loss	$432,000

The net expense recorded on the swap transaction totaled $10,000 for the quarter ended March 31, 2010 and is reported as a component of interest expense – borrowed money. There was no net expense recorded for the quarter end March 31, 2009.

The fair value of the interest rate swap of $432,000 was included in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

Cash Flow Hedging Relationship	Amount of Loss, Net of Taxes, Recognized in OCI on Derivative (Effective Portion) For the three months ended March 31,	
	2010	2009
Cash flow hedge	$ 105,000	$ -

Note 5. Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of investment securities are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The interest rate swaps are reported at fair values obtained from brokers who utilize internal models with observable market data inputs to estimate the values of these instruments (Level 2 inputs).

The Corporation measures impairment of collateralized loans based on the estimated fair value of the collateral less estimated costs to sell, incorporating assumptions that experienced parties might use in estimating the value of such collateral (Level 3 inputs).

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Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		At March 31, 2010		
Assets:				
Available for sale securities				
U.S. government - sponsered agencies	$31,562,000	$ -	$31,562,000	$ -
Obligations of state and political subdivisions	5,427,000	-	5,427,000	-
Mortgage-backed securities - residential	53,782,000	-	53,782,000	-
Other equity investments	3,155,000	-	3,155,000	-
Total available for sale securities	$93,926,000	$ -	$93,926,000	$ -
Liabilities:				
Interest rate swap	$432,000	$ -	$432,000	$ -
		At December 31, 2009		
Assets:				
Available for sale securities				
U.S. government - sponsered agencies	$32,286,000	$-	$32,286,000	$-
Obligations of state and political subdivisions	5,397,000	-	5,397,000	-
Mortgage-backed securities - residential	62,228,000	-	62,228,000	-
Other equity investments	3,115,000	-	3,115,000	-
Total available for sale securities	$103,026,000	$-	$103,026,000	$-
Liabilities:				
Interest rate swap	$258,000	$-	$258,000	$-

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

		Fair Vaule Measurements Using:		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observabel Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		At March 31, 2010		
Assets:				
Impaired loans	$12,577,000	$-	$ -	$ 12,577,000
		At December 31, 2009		
Assets:				
Impaired loans	$6,765,000	$-	$ -	$ 6,765,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $15,453,000 at March 31, 2010, with a valuation allowance of $2,876,000, resulting in an additional provision for loan losses of $973,000 for the three months ended March 31, 2010.

Impaired loans had a carrying amount of $8,668,000 with a valuation allowance of $1,903,000, resulting in an additional provision for loan losses of $1,422,000 for year ended December 31, 2009.

Fair value estimates, methods and assumptions are set forth below, for items not previously presented, for the Corporation's financial instruments.

	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(Dollars in thousands)		
Financial assets:				
Cash and cash equivalents	$12,196,000	$12,196,000	$8,871,000	$8,871,000
Securities available for sales	93,926,000	93,926,000	103,026,000	103,026,000
Securities held to maturity	70,758,000	72,611,000	67,717,000	68,765,000
FHLB-NY stock	2,390,000	N/A	3,227,000	N/A
Net loans	453,281,000	454,147,000	453,119,000	453,813,000
Accrued interest receivable	3,045,000	3,045,000	3,167,000	3,167,000
Financial liabilities:				
Deposits	542,930,000	543,796,000	529,930,000	531,230,000
FHLB-NY Advances	36,000,000	33,799,000	54,600,000	51,949,000
Securities sold under agreements to repurchase	15,399,000	15,399,000	15,396,000	15,396,000
Subordinated debenture	7,217,000	6,529,000	7,217,000	5,943,000
Accrued interest payable	1,000,000	1,000,000	1,193,000	1,193,000

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amount approximates fair value.
Securities available for sale and held to maturity – The methods for determining fair values were described previously.
FHLB-NY stock – It is not practicable to determine the fair value of FHLB-NY stock due to restrictions placed on the transferability of the stock.
Net loans – Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential and commercial mortgages, commercial and other installment. The fair value of loans is estimated by discounting cash flows using estimated marked discount rates which reflect the credit and interest rate risk inherent in the loans.
Accrued interest receivable – The carrying amount approximates fair value.
Deposits – The fair value of deposits, with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW and money market accounts, is equal to the amount payable on demand. The fair value of the certificates of deposit is based on the discounted value of cash flows. The discount rate is estimated using marked discount rates which reflect interest rate risk inherent in the certificates of deposit.

Securities sold under agreements to repurchase – The carrying value approximates fair value due to the relatively short time before maturity.
FHLB-NY advances – The carrying amount of the borrowings which mature in one day approximates fair value. For borrowings with a longer maturity, the fair value is based on the discounted value of cash flows. The discount rate is estimated using market discount rates which reflect the interest rate risk inherent in the term borrowings.
Subordinated debenture – The fair value of the subordinated debenture is based on the discounted value of cash flows. The discount rate is estimated using market rates which reflect the interest rate risk inherent in the debenture.
Accrued interest payable – The carrying amount approximates fair value.
Commitments to extend credit – The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counter parties, and at March 31, 2010 and December 31, 2009 the fair value of such commitments were not material.

Limitiations – The preceding fair value estimates were made at March 31, 2010 and December 31, 2009, based on pertinent market data and relevant information on the financial instruments. These estimates do not include any premium or discounts that could result from an offer to sell at one time the Corporation's entire holdings of a particular financial instrument or category thereof. Since no market exists for a substantial portion of the Corporation's financial instruments, fair value estimates were necessarily based on judgments with respect to future expected loss experience, current economic conditions, risk assessments of various financial instruments, and other factors. Given the subjective nature of these estimates, the uncertainties surrounding them and the matters of significant judgment that must be applied, these fair value estimates cannot be calculated with precision. Modifications in such assumptions could meaningfully alter these estimates.

Since these fair value approximates were made solely for on and off balance sheet financial instruments at March 31, 2010 and December 31, 2009, no attempt was made to estimate the value of anticipated future business. Furthermore, certain tax implications related to the realization of unrealized gains and losses could have a substantial impact on these fair value estimates and have not been incorporated into the estimates.

Note 6. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the average daily number of common shares outstanding during the period. Common stock equivalents are not included in the calculation. Diluted earnings per share is computed similar to that of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potential dilutive common shares were issued.

The following is a reconciliation of the calculation of basic and diluted earnings per share.

	Three Months Ended March 31,	
	2010	2009
	(in thousands, except per share data)	
Net income	$ 871	$ 1,187
Dividends on preferred stock and accretion	137	92
Net income available to common stockholders	$ 734	$ 1,095
Weighted average shares	5,840	5,829

Effect of dilutive stock options	2	6
Total weighted average dilutive shares	5,842	5,835
Basic earnings per common share	$ 0.13	$ 0.19
Diluted earnings per common share	$ 0.13	$ 0.19

Stock options to purchase 72,234 and 70,660 average shares of common stock were not considered in computing diluted earnings per share for the three months ended March 31, 2010 and 2009, respectively, because they were antidilutive. A common stock warrant to purchase 133,475 and 88,983 average shares of common stock was not considered in computing diluted earnings per share for the three months ended March 31, 2010 and 2009, respectively, because it was antidilutive.

All share and per share amounts have been restated to reflect a 5% stock dividend paid on November 16, 2009.

Stewardship Financial Corporation
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 limi 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, 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. As used in this Form 10-Q, "we" and "us" and "our" refer to Stewardship Financial Corporation and its consolidated subsidiary, Atlantic Stewardship Bank, depending on the context.

Critical Accounting Policies and Estimates

"Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as disclosures found elsewhere in this Quarterly Report on Form 10-Q, are based upon the Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Corporation's Audited Consolidated Financial Statements for the year ended December 31, 2009 included in our Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented by this report, contains a summary of the Corporation's significant accounting policies. Management believes the Corporation's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact results of operations. This critical policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

The allowance for loan losses is based upon management's evaluation of the adequacy of the allowance, including an assessment of known and inherent risks in the portfolio, giving consideration to the size and composition of the loan portfolio, actual loan loss experience, level of delinquencies, detailed analysis of individual loans for which full collectability may not be assured, the existence and estimated net realizable value of any underlying collateral and guarantees securing the loans, and current economic and market conditions. Although management uses the best information available, the level of the allowance for loan losses remains an estimate, which is subject to significant judgment and short-term change. Various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to make additional provisions for loan losses based upon information available to them at the time of their examination. Furthermore, the majority of the Corporation's loans are secured by real estate in the State of New Jersey. Accordingly, the collectability of a substantial portion of the carrying value of the Corporation's loan portfolio is susceptible to changes in local market conditions and may be adversely affected should real estate values decline or the northern New Jersey area experience an adverse economic shock. Future adjustments to the allowance for loan losses may be necessary due to economic, operating, regulatory and other conditions beyond the Corporation's control.

Financial Condition

Total assets decreased $1.6 million, or 0.2%, to $662.2 million at March 31, 2010 from $663.8 million at December 31, 2009. Securities available for sale decreased $9.1 million while securities held to maturity increased $3.0 million. The overall decrease in securities included a security sale undertaken to enable the Corporation to minimize an anticipated impact of rising market rates and extension risk as the result of the withdrawal of the Federal Reserve Bank from liquidity programs. Net loans were relatively unchanged as an increase due to new loans originated was offset by a $1.3 million increase in the allowance for loan losses and regular principal payments and payoffs.

Deposits totaled $542.9 million at March 31, 2010, an increase of $13.0 million, or 2.5%, from $529.9 million at December 31, 2009. The growth in deposits consisted of increases in both interest-bearing and non-interest bearing accounts, demonstrating appropriate product offerings. Our products and services, including those introduced throughout 2009, will allow us to continue to attract new personal and business core deposits.

FHLB of NY advances were $36.0 million at March 31, 2010 compared with $54.6 million at December 31, 2009. The decrease in these borrowings was the result of an increase in deposits which were used to paydown overnight advances.

Results of Operations

General

The Corporation reported net income of $871,000, or $0.13 diluted earnings per common share for the three months ended March 31, 2010, compared to $1.2 million, or $0.19 diluted earnings per common share for the comparable prior year period. Results for the current three month period include an increased provision for loan losses partially offset by a gain on sale of securities.

Net Interest Income

Net interest income for the three months ended March 31, 2010 was $6.2 million compared to $5.6 million recorded in the prior year period. The increase in the current year periods is primarily due to a decline in the cost of interest bearing liabilities. The net interest rate spread and net yield on interest earning assets for the three months ended March 31, 2010 were 3.74% and 4.08%, respectively, compared to 3.42% and 3.87% for the three months ended March 31, 2009. The net yield on interest earning assets during the current year period reflects a decline in loan interest rates and yields on securities offset by a decline in the interest rates on deposits and borrowings.

The following tables reflect the components of the Corporation's net interest income for the three months ended March 31, 2010 and 2009 including, (1) average assets, liabilities and stockholders' equity based on average daily balances, (2) interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities, (3) average yields earned on interest-earning assets and average rates paid on interest-bearing liabilities, and (4) net yield on interest-earning assets. Nontaxable income from investment securities and loans is presented on a tax-equivalent basis assuming a statutory tax rate of 34% for the periods presented. This was accomplished by adjusting non-taxable income upward to make it equivalent to the level of taxable income required to earn the same amount after taxes.

Analysis of Net Interest Income (Unaudited)
For the Three Months Ended March 31,

	2010			2009		
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
			(Dollars in thousands)			
Assets						
Interest-earning assets:						
Loans (1) (2)	$462,022	$6,886	6.04 %	$436,926	$6,619	6.14 %
Taxable investment securities (1)	133,319	1,339	4.07	134,749	1,597	4.81
Tax-exempt investment securities (1) (2)	32,307	412	5.17	28,938	390	5.47
Other interest-earning assets	120	2	6.76	84	3	9.66
Total interest-earning assets	627,768	8,639	5.58	600,697	8,609	5.81
Non-interest-earning assets:						
Allowance for loan losses	(7,310)			(5,214)		
Other assets	37,608			35,413		
Total assets	$658,066			$630,896		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$222,691	$769	1.40 %	$167,280	$517	1.25 %
Savings deposits	47,299	50	0.42	40,377	58	0.58
Time deposits	171,333	1,001	2.37	211,891	1,797	3.44
Repurchase agreements	15,398	182	4.79	15,162	189	5.06
FHLB borrowing	45,817	246	2.18	46,139	230	2.02
Subordinated debenture	7,217	68	3.82	7,217	84	4.72
Total interest-bearing liabilities	509,755	2,316	1.84	488,066	2,875	2.39
Non-interest-bearing liabilities:						
Demand deposits	89,993			88,792		
Other liabilities	3,993			4,562		
Stockholders' equity	54,325			49,476		
Total liabilities and stockholders' equity	$658,066			$630,896		
Net interest income (taxable equivalent basis)		6,323			5,734	
Tax Equivalent adjustment		(144)			(136)	
Net interest income		$6,179			$5,598	
			3.74 %			3.42 %

Net interest spread (taxable equivalent basis)				
Net yield on interest-earning assets (taxable equivalent basis) (3)	4.08	%	3.87	%

[1] For purpose of these calculations, nonaccruing loans are included in the average balance. Loans and total interest-earning assets are net of unearned income. Securities are included at amortized cost.

[2] The tax equivalent adjustments are based on a marginal tax rate of 34%.

[3] Net interest income (taxable equivalent basis) divided by average interest-earning assets.

For the three months ended March 31, 2010, total interest income on a tax equivalent basis was relatively unchanged when compared to the three months ended March 31, 2009. A decrease in the total yield on interest-earning assets was offset by an increase in the average earning assets. The average rate earned on interest-earning assets was 5.58% for the three months ended March 31, 2010 compared to an average rate of 5.81% for the same prior year period. The decline in the asset yield reflects the effect of a prolonged low interest rate environment. Average interest-earning assets increased $27.1 million for the three months ended March 31, 2010 when compared to the prior year period. The majority of the increase for the three months ended March 31, 2010 is primarily attributable to growth in the loan portfolio. Average loans increased $25.1 million to an average of $462.0 million for the three months ended March 31, 2010 from an average of $436.9 million for the comparable period in 2009.

Interest paid on deposits and borrowed money decreased $559,000, or 19.4% for the three months ended March 31, 2010 compared to the same period for 2009. The decline is due to general decreases in rates paid on deposits and borrowings, partially offset by increases in average interest-bearing liabilities. The average balance of total interest-bearing deposits and borrowings increased $21.7 million for the three months ended March 31, 2010 from the comparable 2009 period. For the three months ended March 31, 2010, the total cost for interest-bearing liabilities declined to 1.84% representing a 55 basis point decline when compared to the same prior year period.

Provision for Loan Losses

The Corporation maintains an allowance for loan losses at a level considered by management to be adequate to cover the probable incurred losses associated with its loan portfolio. On an ongoing basis, management analyzes the adequacy of this allowance by considering the nature and volume of the Corporation’s loan activity, financial condition of the borrower, fair market value of the underlying collateral, and changes in general market conditions. Additions to the allowance for loan losses are charged to operations in the appropriate period. Actual loan losses, net of recoveries, serve to reduce the allowance. The appropriate level of the allowance for loan losses is based on estimates, and ultimate losses may vary from current estimates.

The loan loss provision totaled $1.55 million for the three months ended March 31, 2010. For the three months ended March 31, 2009 the provision for loan losses was $150,000. Nonaccrual loans of $19.5 million at March 31, 2010 reflected a slight decline from $19.7 million of nonaccrual loans at December 31, 2009. The allowance for loan losses related to the impaired loans increased from $1.9 million at December 31, 2009 to $2.9 million at March 31, 2010. The current period loan loss provision primarily is indicative of continuing economic conditions that have contributed to an increase in loan delinquencies and the softness in the real estate market. The Corporation monitors its loan portfolio and intends to continue to provide for loan loss reserves based on its ongoing periodic review of the loan portfolio and general market conditions.

See “Asset Quality” section for a summary of the allowance for loan losses and nonperforming assets.

Noninterest Income

For the three months ended March 31, 2010, noninterest income was $1.0 million compared to $707,000 for the prior year period. The above mentioned security sale resulted in gain on calls and sales of securities for the current year period of $328,000 compared to $39,000 for the three months ended March 31, 2009. Gains on sales of mortgage loans were $55,000 for the three months ended March 31, 2010 compared to $11,000 for the same prior year period.

When compared to the prior period, fees and service charges increased $73,000 for the three months ended March 31, 2010. The increase primarily reflects revisions to policies for the assessment of fees as well as the changes in and additions to the current fee structure.

As previously reported, on December 31, 2008, the Corporation sold its merchant servicing portfolio and, as a result, a decline of $118,000 in the related noninterest income line as well as a $108,000 decline in the related noninterest expense line is reflected for the three months ended March 31, 2010.

Noninterest Expense

Noninterest expenses for the three months ended March 31, 2010 of $4.4 million were nearly identical to the comparable prior year period. As previously reported, on December 31, 2008, the Corporation sold its merchant servicing portfolio and, as a result, a $108,000 decline in the related noninterest expense line as well as a decline of $118,000 in the related noninterest income line is reflected for the three months ended March 31, 2010. An increase in the FDIC insurance premium expense reflects increases in the FDIC insurance assessment rates as well as in increase in deposits.

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Income Tax Expense

Income tax expense totaled $345,000 for the three months ended March 31, 2010 compared to an income tax expense of $560,000 for the three months ended March 31, 2009. The effective tax rate for the three months ended March 31, 2010 was 28.3% compared to 32.1% for the three months ended March 31, 2009.

Asset Quality

The Corporation's principal earning asset is its loan portfolio. Inherent in the lending function is the risk of deterioration in the borrowers' ability to repay loans under existing loan agreements. Risk elements include nonaccrual loans, past due and restructured loans, potential problem loans, loan concentrations and other real estate owned. The following table shows the composition of nonperforming assets at the end of the last four quarters:

	March 31, 2010		December 31, 2009		September 30, 2009		June 30, 2009	
Nonaccrual loans (1)	$ 19,525		$ 19,656		$ 14,536		$ 11,533	
Loans past due 90 days or more and accruing (2)	-		415		728		-	
Total nonperforming loans	19,525		20,071		15,264		11,533	
Restructured loans	2,775		2,846		2,417		2,460	
Total nonperforming loans	$ 22,300		$ 22,917		$ 17,681		$ 13,993	
Allowance for loan losses	$ 8,174		$ 6,920		$ 7,249		$ 6,342	
Nonperforming loans to total gross loans	4.83	%	4.98	%	3.92	%	3.18	%
Nonperforming loans to total assets	3.37	%	3.45	%	2.72	%	2.19	%
Allowance for loan losses to total gross loans	1.77	%	1.50	%	1.61	%	1.44	%
Allowance for loan losses to nonperforming loans	36.65	%	30.20	%	41.00	%	45.32	%

(1) Generally represents loans to which the payments of principal or interest are in arrears for a period of more than 90 days. Interest previously accrued on these loans and not yet paid is reversed and charged against income during the current period. Interest earned thereafter is only included in income to the extent that it is received in cash.

(2) Represents loans to which payments of principal or interest are contractually past due 90 days or more but which are currently accruing income at the contractually stated rates. A determination is made to continue accruing income on those loans which are sufficiently collateralized and on which management believes all interest and principal owed will be collected.

The nonaccrual loans are comprised of 59 loans, primarily commercial mortgage, residential mortgage and commercial loans. While the Corporation maintains strong underwriting requirements, an increase in the number of nonaccrual loans is reflective of the current economic and real estate environment.

As of March 31, 2010, there were $20.2 million of other loans not included in the above table, where credit conditions of borrowers caused management to have concerns about the possibility of the borrowers not complying with the present terms and conditions of repayment and which may result in disclosure of such loans at a future date. These loans have been considered by management in conjunction with the analysis of the adequacy of the allowance for loan losses.

The Corporation's lending activities are concentrated in loans secured by real estate located in northern New Jersey. Accordingly, the collectability of a substantial portion of the Corporation's loan portfolio is susceptible to changes in real estate market conditions in northern New Jersey.

Interest Rate Sensitivity

The Corporation's primary exposure to market risk arises from changes in market interest rates ("interest rate risk"). The Corporation's profitability is largely dependent upon its ability to manage interest rate risk. Interest rate risk can be defined as the exposure of the Corporation's net interest income to adverse movements in interest rates.

The Corporation manages its interest rate risk by utilizing an asset/liability simulation model and by measuring and managing its interest sensitivity gap. The simulation model analyzes the sensitivity of net interest income to movements in interest rates. The simulation model projects net interest income, net income, net margin, and capital to asset ratios based on various interest rate scenarios over a twelve-month period. The model is based on the actual maturity and repricing characteristics of all rate sensitive assets and liabilities. Management incorporates into the model certain assumptions regarding prepayments of certain assets and liabilities. Assumptions have been built into the model for prepayments for assets and decay rates for nonmaturity deposits such as savings and interest bearing demand. The model assumes an immediate rate shock to interest rates without management's ability to proactively change the mix of assets or liabilities. According to reports generated for the quarter ended March 31, 2010, an immediate interest rate increase of 200 basis points would have resulted in a decrease in net interest income of 17.0%, or $4.4 million, while an immediate interest rate decrease of 200 basis points would have resulted in an increase in net interest income of 0.2%, or $59,000. Management has a goal to maintain a percentage change of no more than 17.5% given a 200 basis point change in interest rates. Management cannot provide any assurance about the actual effect of changes in interest rates on the Corporation's net interest income.

The Corporation does not have any material exposure to foreign currency exchange rate risk or commodity price risk. The Corporation did not enter into any market sensitive instruments for trading purposes. In June of 2009, the Corporation entered into an interest rate swap as a cash flow hedge tied to the subordinated debentures.

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Standby letters of credit are conditional commitments issued by the Corporation to guarantee payment or performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Commitments to extend credit and standby letters of credit are not recorded on the Corporation's consolidated balance sheet until the instrument is exercised.

Capital Adequacy

The Corporation is subject to capital adequacy guidelines promulgated by the Board of Governors of the Federal Reserve System ("FRB"). The Bank is subject to similar capital adequacy requirements imposed by the Federal Deposit Insurance Corporation. The FRB has issued regulations to define the adequacy of capital based upon the sensitivity of assets and off-balance sheet exposures to risk factors. Four categories of risk weights (0%, 20%, 50%, and 100%) were established to be applied to different types of balance sheet assets and off-balance sheet exposures. The aggregate of the risk-weighted items (risk-based assets) is the denominator of the ratio, the numerator is risk-based capital. Under the regulations, risk-based capital has been classified into two categories. Tier 1 capital includes common and qualifying perpetual preferred stockholders' equity less goodwill. Tier 2 capital includes mandatory convertible debt, allowance for loan losses, subject to certain limitations, and certain subordinated and term debt securities. Total qualifying capital consists of Tier 1 capital and Tier 2 capital; however; the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. At March 31, 2010, the minimum risk-based capital requirements to be considered adequately capitalized were 4% for Tier 1 capital and 8% for total capital.

Federal banking regulators have also adopted leverage capital guidelines to supplement the risk-based measures. The leverage ratio is determined by dividing Tier 1 capital as defined under the risk-based guidelines by average total assets (non risk-adjusted) for the preceding quarter. At March 31, 2010 the minimum leverage ratio requirement to be considered well capitalized was 4%. The following table reflects the Corporation's capital ratios at March 31, 2010.

	Required		Actual		Excess	
Leverage Ratio	4.00	%	9.17	%	5.17	%
Risk-based Capital						
Tier 1	4.00	%	12.03	%	8.03	%
Total	8.00	%	13.28	%	5.28	%

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Liquidity and Capital Resources

The Corporation's primary sources of funds are deposits, amortization and prepayments of loans and mortgage-backed securities, maturities of investment securities and funds provided from operations. While scheduled loan and mortgage-backed securities amortization and maturities of investment securities are a relatively predictable source of funds, deposit flow and prepayments on loans and mortgage-backed securities are greatly influenced by market interest rates, economic conditions and competition. The Corporation's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities.

The primary source of cash from operating activities is net income. Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments, such as federal funds sold.

Cash and cash equivalents increased $3.3 million during the first three months of 2010. Net operating and financing activities provided $0.3 million and $9.3 million, respectively, and investing activities used $6.2 million.

The Corporation anticipates that it will have sufficient funds available to meet its current contractual commitments. Should the Corporation need temporary funding, the Corporation has an overnight line of credit and a one-month overnight repricing line of credit with the FHLB-NY, each in the amount of $64.3 million. In addition, the Corporation had available overnight variable repricing lines of credit with other correspondent banks totaling $23 million on an unsecured basis.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

ITEM 4T. Controls and Procedures

(a) Evaluation of internal controls and procedures

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our internal controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of March 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on our assessment using those criteria, our management (including our Principal Executive Officer and Principal Financial Officer) concluded that our internal control over financial reporting was effective as of March 31, 2010.

(c) Changes in Internal Controls over Financial Reporting

There were no significant changes in our internal control over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses during the quarter ended March 31, 2010 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Stewardship Financial Corporation
Part II -- Other Information

Item 6. Exhibits

See Exhibit Index following this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Stewardship Financial Corporation	
Date: May 14, 2010	By:	/s/ Paul Van Ostenbridge Paul Van Ostenbridge President and Chief Executive Officer (Principal Executive Officer)
Date: May 14, 2010	By:	/s/ Claire M. Chadwick Claire M. Chadwick Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002