

STERLING BANCORP
Form 10-K
February 25, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2009

Commission File No. 1-5273-1

STERLING BANCORP

(Exact name of Registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

650 Fifth Avenue, New York, N.Y.

(Address of principal executive offices)

(212) 757-3300

(Registrant's telephone number, including area code)

13-2565216

(I.R.S. Employer Identification No.)

10019-6108

(Zip Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS

Common Shares, \$1 par value per share

Cumulative Trust Preferred

Securities 8.375% (Liquidation Amount

\$10 per Preferred Security) of Sterling

Bancorp Trust I and Guarantee of Sterling

Bancorp with respect thereto

**NAME OF EACH EXCHANGE
ON WHICH REGISTERED**

New York Stock Exchange

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark 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 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 during preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

On June 30, 2009, the aggregate market value of the common equity held by non-affiliates of the Registrant was \$139,325,077.

The Registrant has one class of common stock, of which 18,115,987 shares were outstanding at February 12, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Sterling Bancorp's definitive Proxy Statement to be filed pursuant to Regulation 14A are incorporated by reference in Part III.

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Exhibits Submitted in a Separate Volume.

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PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by ITEM 1A. RISK FACTORS on pages 18 29 and the section captioned FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS on page 33 and other cautionary statements set forth elsewhere in this report.

Sterling Bancorp (the parent company or the Registrant) is a bank holding company and a financial holding company as defined by the Bank Holding Company Act of 1956, as amended (the BHCA), which was organized in 1966. Sterling Bancorp and its subsidiaries derive substantially all of their revenue and income from providing banking and related financial services and products to customers primarily in New York, New Jersey and Connecticut (the New York metropolitan area). Throughout this report, the terms the Company or Sterling refer to Sterling Bancorp and its subsidiaries. The Company has operations in the New York metropolitan area and conducts business throughout the United States.

The parent company owns, directly or indirectly, all of the outstanding shares of Sterling National Bank (the bank), its principal subsidiary, and all of the outstanding shares of Sterling Banking Corporation and Sterling Bancorp Trust I (the trust). Sterling National Mortgage Company, Inc. (SNMC), Sterling Factors Corporation (Factors), Sterling Trade Services, Inc. (Trade Services), Sterling Resource Funding Corp. (Resource Funding) and Sterling Real Estate Holding Company, Inc. are wholly-owned subsidiaries of the bank. Trade Services owns all of the outstanding common shares of Sterling National Asia Limited, Hong Kong.

On April 3, 2009, Factors, a subsidiary of the bank, acquired substantially all of the assets and customer lists of DCD Capital, LLC and DCD Trade Services, LLC. The acquired assets and customer lists are now operating as a division of Factors under the name Sterling Trade Capital.

In September 2006, the business conducted by Sterling Financial Services Company, Inc. (Sterling Financial) was sold (see Note 2 beginning on page 72). The results of operations of Sterling Financial have been reported as a discontinued operation and all prior period amounts have been restated as appropriate. Segment information appears in Note 25 of the Company s consolidated financial statements.

GOVERNMENT MONETARY POLICY

The Company is affected by the credit policies of monetary authorities, including the Board of Governors of the Federal Reserve System (the Federal Reserve Board). An important objective of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank deposits, and funds availability regulations. The Federal Reserve Board is currently using, and will continue to use, such instruments of monetary policy in its effort to strengthen market stability, improve the strength of financial institutions, and enhance market liquidity. The monetary policies of the Federal Reserve Board have in the past had a significant effect on operations of financial institutions, including the bank, and will continue to do so in the future. Changing conditions in the national economy and in the money markets make it difficult to predict future changes in interest rates, deposit levels, loan demand or their effects on the business and earnings of the Company. Foreign activities of the Company are not considered to be material with predominantly all revenues and assets attributable to customers located in the United States. As of December 31, 2009, deposits of customers located outside the United States totaled \$585 thousand.

BUSINESS OPERATIONS

The Bank

Sterling National Bank was organized in 1929 under the National Bank Act and commenced operations in New York City. The bank maintains twelve offices in New York: nine offices in New York City (six branches and an international banking facility in Manhattan and three branches in Queens); two branches in Nassau County (one in Great Neck and the other in Woodbury, New York) and one branch in Yonkers, New York. The executive office is located at 650 Fifth Avenue, New York, New York.

The bank provides a broad range of banking and financial products and services, including business and consumer lending, asset-based financing, factoring/accounts receivable management services, equipment leasing, commercial and residential mortgage lending and brokerage, deposit services, international trade financing, trust and estate administration, investment management and investment services.

For the year ended December 31, 2009, the bank s average earning assets represented approximately 99.7% of the Company s average earning assets. Loans represented 60.9% and investment securities represented 36.7% of the bank s average earning assets in 2009.

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Commercial Lending, Asset-Based Financing and Factoring/Accounts Receivable Management. The bank provides loans to small and medium-sized businesses. The businesses are diversified across industries, including commercial, industrial and financial companies, and government and non-profit entities. Loans generally range in size from \$250 thousand

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to \$15 million and can be tailored to meet customers' specific long- and short-term needs, and include secured and unsecured lines of credit, business installment loans, business lines of credit, and debtor-in-possession financing. Loans are often collateralized by assets, such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other assets.

Through its factoring subsidiary, Factors, the bank provides accounts receivable management services. The purchase of a client's accounts receivable is traditionally known as factoring and results in payment by the client of a nonrefundable factoring fee, which is generally a percentage of the factored receivables or sales volume and is designed to compensate for the bookkeeping and collection services provided by Factors and, if applicable, its credit review of the client's customer and assumption of customer credit risk. When Factors factors (*i.e.*, purchases) an account receivable from a client, it records the receivable as an asset (included in Loans held in portfolio, net of unearned discounts), records a liability for the funds due to the client (included in Accrued expenses and other liabilities) and credits to noninterest income the nonrefundable factoring fee (included in Accounts receivable management/factoring commissions and other fees). Factors also may advance funds to its client prior to the collection of receivables, charging interest on such advances (in addition to any factoring fees) and normally satisfying such advances by the collection of receivables. The accounts receivable factored are primarily for clients engaged in the apparel and textile industries.

Through a subsidiary, Sterling Resource Funding Corp., the bank provides financing and human resource business process outsourcing support services, exclusively for the temporary staffing industry. For over 25 years and throughout the United States, Resource Funding has provided full back-office, computer, tax and accounting services, as well as financing, to independently-owned staffing companies. The average contract term is 18 months for approximately 200 staffing companies.

As of December 31, 2009, the outstanding loan balance (net of unearned discounts) for commercial and industrial lending and factored receivables was \$585.9 million, representing approximately 47.7% of the bank's total loan portfolio.

There are no industry concentrations in the commercial and industrial loan portfolio that exceed 10% of gross loans. Approximately 78% of the bank's loans are to borrowers located in the New York metropolitan area. The bank has no foreign loans.

Lease Financing. The bank offers lease financing services in the New York metropolitan area and across the United States through direct leasing programs, third party sources and vendor programs. The bank finances full payout leases for various types of business equipment, written on a recourse basis with personal guarantees of the principals, with terms generally ranging from 24 to 60 months. At December 31, 2009, the outstanding balance (net of unearned discounts) for lease financing receivables was \$195.1 million, with a remaining average term of 32 months, representing approximately 15.9% of the bank's total loan portfolio.

Residential and Commercial Mortgages. The bank's real estate loan portfolio consists of real estate loans on one-to-four family residential properties, multi-family residential properties and nonresidential commercial properties. The residential mortgage banking and brokerage business is conducted through offices located principally in New York. Residential mortgage loans, substantially all of which are for single family residences, are focused on conforming credit, government insured FHA and other high quality loan products and are originated primarily in the New York metropolitan area, Virginia and other mid-Atlantic states, almost all of these for resale. In addition, the Company retains in portfolio fixed and floating rate residential mortgage loans, primarily on properties located in the New York metropolitan area, which were originated by its mortgage banking subsidiary. Commercial real estate lending, including financing on multi-family residential properties and nonresidential commercial properties, is offered on income-producing investor properties and owner-occupied properties, professional co-ops and condos. At December 31, 2009, the outstanding loan balance for real estate mortgage loans was \$251.2 million, representing approximately 20.4% of the bank's total loans outstanding.

Deposit Services. The bank attracts deposits from customers located primarily in the New York metropolitan area, offering a broad array of deposit products, including checking accounts, money market accounts, negotiable order of withdrawal (NOW) accounts, savings accounts, rent security accounts, retirement accounts, and certificates of deposit. The bank's deposit services include account management and information, disbursement, reconciliation, collection and concentration, ACH and others designed for specific business purposes. The deposits of the bank are insured to the extent permitted by law pursuant to the Federal Deposit Insurance Act, as amended.

International Trade Finance. Through its international division, international banking facility and Hong Kong trade services subsidiary, the bank offers financial services to its customers and correspondents in the world's major financial centers. These services consist of financing import and export transactions, issuing of letters of credit, processing documentary

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collections and creating bankers' acceptances. In addition, active bank account relationships are maintained with leading foreign banking institutions in major financial centers.

Trust Services. The bank's trust department provides a variety of fiduciary, investment management, custody and advisory and corporate agency services to individuals and corporations. The bank acts as trustee for pension, profit-sharing, 401(k) and other employee benefit plans and personal trusts and estates. For corporations, the bank acts as trustee, transfer agent, registrar and in other corporate agency capacities.

The composition of total revenues (interest income and non-interest income) of the bank and its subsidiaries for the three most recent fiscal years was as follows:

Years Ended December 31,	2009	2008	2007
Interest and fees on loans	48%	53%	59%
Interest and dividends on investment securities	22	24	18
Other	30	23	23
	100%	100%	100%

At December 31, 2009, the bank and its subsidiaries had 565 full-time equivalent employees, consisting of 226 officers and 339 supervisory and clerical employees. The bank considers its relations with its employees to be satisfactory.

COMPETITION

There is intense competition in all areas in which the Company conducts its business. As a result of the deregulation of the financial services industry under the Gramm-Leach-Bliley Act of 1999, the Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies, and credit unions. Many of these competitors have substantially greater resources and may have higher lending limits and provide a wider array of banking services than the Company does. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. The Company generally competes on the basis of level of customer service, responsiveness to customer needs, availability and pricing of products, and geographic location.

SUPERVISION AND REGULATION

General

The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the banking system, and not for the purpose of protecting the shareholders of the parent company. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the bank. It is intended only to briefly summarize some material provisions. As of the date of this document, substantial changes to the regulatory framework applicable to the parent company and its subsidiaries are being considered by Congress and by U.S. bank regulatory agencies. Changes in applicable law or regulation, and in their application by regulatory agencies, cannot be predicted, but they may have a material effect on the business and results of the Company.

Sterling is a bank holding company and a financial holding company under the BHCA and is subject to supervision, examination and reporting requirements of the Federal Reserve Board. Sterling is also under the jurisdiction of the Securities and Exchange Commission (the "SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Sterling Bancorp is listed on the New York Stock Exchange ("NYSE") under the trading symbol "STL" and is subject to the rules of the NYSE for listed companies.

As a national bank, the bank is principally subject to the supervision, examination and reporting requirements of the Office of the Comptroller of the Currency (the "OCC"), as well as the Federal Deposit Insurance Corporation (the "FDIC"). Insured banks, including the bank, are subject to extensive regulation of many aspects of their business. These regulations relate to, among other things: (a) the nature and amount of loans that may be made by the bank and the rates of interest that may be charged; (b) types and amounts of other investments; (c) branching; (d) permissible activities; (e) reserve requirements; and (f) dealings with officers, directors and affiliates.

Sterling Banking Corporation is subject to supervision and regulation by the Banking Department of the State of New York.

Bank Holding Company Regulation

The BHCA requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of 5% or more of the voting stock or substantially all of the assets of any bank or bank holding company. Also, under the BHCA, bank holding companies are prohibited, with certain exceptions, from engaging in, or from acquiring 5% or more of the voting stock of any company engaging in, activities other than (1) banking or managing or controlling banks, (2) furnishing services to or performing services for their subsidiaries, or (3) activities that the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

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As discussed below under Financial Holding Company Regulation, the Gramm-Leach-Bliley Act of 1999 amended the BHCA to permit a broader range of activities for bank holding companies that qualify as financial holding companies.

Financial Holding Company Regulation

The Gramm-Leach-Bliley Act:

allows bank holding companies, the depository institution subsidiaries of which meet management, capital and the Community Reinvestment Act (the CRA) standards, to engage in a substantially broader range of non-banking financial activities than was previously permissible, including (a) insurance underwriting and agency, (b) making merchant banking investments in commercial companies, (c) securities underwriting, dealing and market making, and (d) sponsoring mutual funds and investment companies;

allows insurers and other financial services companies to acquire banks; and

establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations. In order for a bank holding company to engage in the broader range of activities that are permitted by the Gramm-Leach-Bliley Act, (1) all of its depository subsidiaries must be and remain well capitalized and well managed and have received at least a satisfactory CRA rating, and (2) it must file a declaration with the Federal Reserve Board that it elects to be a financial holding company.

Requirements and standards to remain well capitalized are discussed below. To maintain financial holding company status, the bank must have at least a satisfactory rating under the CRA. Under the CRA, during examinations of the bank, the OCC is required to assess the bank's record of meeting the credit needs of the communities serviced by the bank, including low- and moderate-income communities. Banks are given one of four ratings under the CRA: outstanding, satisfactory, needs to improve or substantial non-compliance. The bank received a rating of outstanding on the most recent exam completed by the OCC.

Pursuant to an election made under the Gramm-Leach-Bliley Act, the parent company has been designated as a financial holding company. As a financial holding company, Sterling may conduct, or acquire a company (other than a U.S. depository institution or foreign bank) engaged in, activities that are financial in nature, as well as additional activities that the Federal Reserve Board determines (in the case of incidental activities, in conjunction with the United States Department of the Treasury (the U.S. Treasury)) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve Board. Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance, securities underwriting and dealing, merchant banking, and sponsoring mutual funds and investment companies. Under the merchant banking authority added by the Gramm-Leach-Bliley Act, financial holding companies may invest in companies that engage in activities that are not otherwise permissible financial activities, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting the investment duration and does not manage the company on a day-to-day basis.

Generally, financial holding companies must continue to meet all the requirements for financial holding company status in order to maintain the ability to undertake new activities or acquisitions that are financial in nature and the ability to continue those activities that are not generally permissible for bank holding companies. If the parent company ceases to so qualify, it would be required to obtain the prior approval of the Federal Reserve Board to engage in non-banking activities or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities. With certain exceptions, the Federal Reserve Board can only provide prior approval to applications involving activities that it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto. Such activities are more limited than the range of activities that are deemed financial in nature.

Payment of Dividends and Transactions with Affiliates

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank.

Various legal restrictions limit the extent to which the bank can fund the parent company and its nonbank subsidiaries. All national banks are limited in the payment of dividends without the approval of the OCC to an amount not to exceed the net profits (as defined) for that year-to-date combined with its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses. Under the foregoing restrictions, as of December 31, 2009, the bank could pay dividends of approximately \$31.5 million to the parent company, without obtaining regulatory approval. This is not necessarily indicative of amounts that may be paid or are available to be paid in future periods.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a depository institution, such as the bank, may not pay dividends if payment would cause it

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to become undercapitalized or if it is already undercapitalized. The payment of dividends by the parent company and the bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

On December 23, 2008, the parent company issued Fixed Rate Cumulative Perpetual Preferred Shares Series A, liquidation preference of \$1,000 per share (the Series A Preferred Shares), to the U.S. Treasury as a participant in the Capital Purchase Program under the Troubled Asset Repurchase Program (TARP). Under the terms of a letter agreement the parent company executed in connection with the preferred shares issuance, prior to December 23, 2011, unless the parent company has redeemed all such preferred shares or the U.S. Treasury has transferred all such preferred shares to a third party, the consent of the U.S. Treasury will be required for the parent company to increase the dividend on its common shares above a quarterly cash dividend of \$0.19 per share.

For a discussion of additional restrictions on the parent company's ability to pay dividends, see Emergency Economic Stabilization Act of 2008 beginning on page 10.

Federal laws strictly limit the ability of banks to engage in transactions with their affiliates, including their bank holding companies. Such transactions between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of a bank subsidiary's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that all transactions between a bank and its affiliates be on terms only as favorable to the bank as transactions with non-affiliates.

Federal law also limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital.

Banks are subject to prohibitions on certain tying arrangements. A depository institution is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Capital Adequacy and Prompt Corrective Action

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve Board, the OCC and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in tiers, depending on type:

Core Capital (Tier 1). Currently, Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated

subsidiaries, less goodwill, most intangible assets and certain other assets.

Supplementary Capital (Tier 2). Currently, Tier 2 capital includes, among other things, perpetual preferred stock not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for loan and lease losses, subject to limitations.

Bank holding companies currently are required to maintain Tier 1 capital and total capital (the sum of Tier 1 and Tier 2 capital) equal to at least 4.0% and 8.0%, respectively, of their total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). National banks are required to maintain similar capital levels under capital adequacy guidelines. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively. The elements currently comprising Tier 1 capital and Tier 2 capital and the minimum Tier 1 capital and total capital ratios may in the future be subject to change, as discussed in greater detail below.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization's Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for financial holding companies and national banks that have the highest supervisory rating. All other financial holding companies and national banks are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its leverage ratio must be at least 5.0%. The bank regulatory agencies have encouraged banking organizations, including healthy, well-run banking organizations, to operate with capital ratios substantially in excess of the stated ratios required to maintain well capitalized status. This has resulted from, among other things, current economic conditions, the global financial crisis and the likelihood, as described below, of increased formal capital requirements for banking organizations. In light of the foregoing, the Company and the bank expect that they will maintain capital ratios substantially in excess of these ratios.

The Federal Deposit Insurance Act, as amended (FDIA), requires, among other things, the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized; (iii) undercapitalized if the institution has a total risk-based ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than that indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of December 31, 2009, the Company and the bank were well capitalized, based on the ratios and guidelines described above. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the

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depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such a capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

The federal regulatory authorities' risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision (the BIS). The BIS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies that apply. In 2004, the BIS published a new capital accord to replace its 1988 capital accord, with an update in November 2005 (BIS II). BIS II provides two approaches for setting capital standards for credit-risk: an internal ratings-based approach tailored to individual institutions' circumstances (which for many asset classes is itself broken into a foundation approach and an advances or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. BIS II also would set capital requirements for operational risk and refine the existing requirements for market risk exposures.

The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on BIS II. In November 2007, the agencies adopted a definitive final rule for implementing BIS II in the United States that would apply only to internationally active banking organizations, or core banks defined as those with consolidated total assets of \$250 billion or more or consolidated on-balance-sheet foreign exposures of \$10 billion or more. The final rule became effective as of April 1, 2008.

Other U.S. banking organizations may elect to adopt the requirements of this rule (if they meet applicable qualification requirements), but they will not be required to apply them. The rule also allows a banking organization's primary federal supervisor to determine that the application of the rule would not be appropriate in light of the bank's asset size, level of complexity, risk profile, or scope of operations. In July 2008, the agencies issued a proposed rule that would adopt the standardized approach of BIS II for credit risk, the basic indicator approach of BIS II for operational risk, and related disclosure requirements. While this proposed rule generally parallels the relevant approaches under BIS II, it diverges where United States markets have unique characteristics and risk profiles, most notably with respect to risk weighting residential mortgage exposures. Comments on the proposed rule were due to the agencies by October 27, 2008, but a definitive final rule has not been issued. The proposed rule, if adopted, would replace the agencies' earlier proposed amendments to existing risk-based capital guidelines to make them more risk sensitive (formerly referred to as the BIS I-A approach). The Company is not required to comply with BIS II and has made a determination not to apply the BIS II requirements.

In response to concerns relating to capital adequacy of large financial institutions, the Federal Reserve Board implemented the Supervisory Capital Assessment Program (the SCAP) under which all banking institutions with assets over \$100 billion were required to undergo a comprehensive stress test to determine if they had sufficient capital to continue lending and to absorb losses that could result from a more severe decline in the economy than projected. The results of the stress test were announced on May 7, 2009. Sterling was not required to undergo the stress test pursuant to the SCAP. In connection with the SCAP, banking regulators began supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as Tier 1 common equity. While not codified, analysts and banking regulators have assessed banks' capital adequacy using the tangible common stockholders' equity and/or the Tier 1 common equity measure. Because tangible common stockholders' equity and Tier 1 common equity are not formally defined by U.S. GAAP or codified in the federal banking regulations, these measures are considered to be non-GAAP financial measures.

On September 3, 2009, the U.S. Treasury issued a policy statement (the Treasury Policy Statement) entitled Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms. The Treasury Policy Statement was developed in consultation with the U.S. bank regulatory agencies and sets forth eight core principles intended to shape

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a new international capital accord. Six of the core principles relate directly to bank capital requirements. The Treasury Policy Statement contemplates changes to the existing regulatory capital regime that would involve substantial revisions to, if not replacement of, major parts of the BIS I and BIS II and affect all regulated banking organizations and other systemically important institutions. The Treasury Policy Statement repeatedly calls for higher and stronger capital requirements for bank and non-bank financial firms that are deemed to pose a risk to financial stability due to their combination of size, leverage, interconnectedness and liquidity risk.

The Treasury Policy Statement suggested that changes to the regulatory capital framework be phased in over a period of several years. The recommended schedule provides for a comprehensive international agreement by December 31, 2010, with the implementation of reforms by December 31, 2012, although it does remain possible that U.S. bank regulatory agencies could officially adopt, or informally implement, new capital standards at an earlier date.

Following the issuance of the Treasury Policy Statement, on December 17, 2009, the Basel committee issued a set of proposals (the Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital, with the most significant changes being to Tier 1 capital. Most notably, the Capital Proposals would disqualify certain structured capital instruments, such as trust preferred securities, from Tier 1 capital status. The Capital Proposals would also re-emphasize that common equity is the predominant component of Tier 1 capital by adding a minimum common equity to risk-weighted assets ratio and requiring that goodwill, general intangibles and certain other items that currently must be deducted from Tier 1 capital instead be deducted from common equity as a component of Tier 1 capital. The Capital Proposals also leave open the possibility that the Basel committee will recommend changes to the minimum Tier 1 capital and total capital ratios of 4.0% and 8.0%, respectively.

Concurrently with the release of the Capital Proposals, the Basel committee also released a set of proposals related to liquidity risk exposure (the Liquidity Proposals, and together with the Capital Proposals, the 2009 Basel Committee Proposals). The Liquidity Proposals have three key elements, including the implementation of (i) a liquidity coverage ratio designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets sufficient to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a net stable funding ratio designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon, and (iii) a set of monitoring tools that the Basel committee indicates should be considered as the minimum types of information that banks should report to supervisors and that supervisors should use in monitoring the liquidity risk profiles of supervised entities.

Comments on the 2009 Basel Committee Proposals are due by April 16, 2010, with the expectation that the Basel committee will release a comprehensive set of proposals by December 31, 2010 and that final provisions will be implemented by December 31, 2012. The U.S. bank regulators have urged comment on the 2009 Basel Committee Proposals. Ultimate implementation of such proposals in the U.S. will be subject to the discretion of the U.S. bank regulators and the regulations or guidelines adopted by such agencies may, of course, differ from the 2009 Basel Committee Proposals and other proposals that the Basel committee may promulgate in the future.

Support of the Bank

The Federal Reserve Board has stated that a bank holding company should serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve Board may require the parent company to stand ready to use its resources to provide adequate capital funds to its banking subsidiaries during periods of financial stress or adversity. This support may be required at times by the Federal Reserve Board even though not expressly required by regulation and even though the parent company may not be in a financial position to provide such support. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. The BHCA provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. Furthermore, under the National Bank Act, if the capital stock of the bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the parent company. If the assessment is not paid within three months, the OCC could order a sale of the capital stock of the bank held by the parent company to make good the deficiency.

FDIC Insurance

The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. As of

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January 1, 2007, the previous nine risk categories utilized in the risk matrix were condensed into four risk categories which continue to be distinguished by capital levels and supervisory ratings.

The three capital categories are well capitalized, adequately capitalized, and undercapitalized. These three categories are substantially the same as the prompt corrective action categories previously described, with the undercapitalized category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes.

Under the Federal Deposit Insurance Reform Act of 2005, which became law in 2006, the bank received a one-time assessment credit that can be applied against future premiums through 2010, subject to certain limitations. Any increase in insurance assessments could have an adverse impact on the earnings of insured institutions, including the bank. The bank paid a deposit insurance premium in 2009 amounting to \$2.7 million.

In addition, the bank is required to make payments for the servicing of obligations of the Financing Corporation (FICO) issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. The bank paid a FICO assessment in 2009 amounting to \$145 thousand. The FICO annualized assessment rate for the first quarter of 2010 is 1.06 cents per \$100 of deposits.

The enactment of Emergency Economic Stabilization Act of 2008 (EESA) temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor through December 31, 2009. The temporary increase in deposit insurance coverage became effective on October 3, 2008. On May 20, 2009, the FDIC announced that the temporary increase in the basic deposit insurance limit has been extended through December 31, 2013.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC would (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, NOW accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts held at participating FDIC-insured institutions through June 30, 2010. Although the deposit insurance program was originally scheduled to expire on December 31, 2009, the FDIC implemented a final rule, effective as of October 1, 2009, extending the transaction account guarantee program by six months until June 30, 2010 (subject to the option of participating institutions to opt out of such six-month extension). The bank did not choose to opt out of the six-month extension. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per annum on amounts in covered accounts exceeding \$250,000, payable quarterly. On December 5, 2008, the bank elected to participate in the deposit insurance program and declined, along with the parent company, to participate in the debt guarantee program.

On February 27, 2009, the Board of Directors of the FDIC adopted a final rule relating to a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 0.40% (preliminary) of insured deposits on December 31, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the FDIC changed both its risk-based assessment system and its base assessment rates. For the first quarter of 2009 only, the FDIC increased all FDIC deposit assessment rates by 7 basis points. The increased rates resulted in annualized assessment rates for institutions in the lowest risk category (Risk Category I institutions) ranging from 12-14 basis points up to 50 basis point for the highest risk category (Risk Category IV institutions). In February 2009, the FDIC adopted a final rule to amend the restoration plan and change the risk-based assessment system and set new assessment rates, and beginning April 1, 2009, the initial base assessment rates ranged from 12-16 basis points for Risk Category I institutions to 45 basis points for Risk Category IV institutions. The base assessment rates are subject to adjustments based upon the institution's ratio of (i) long-term unsecured debt to its domestic deposits, (ii) secured liabilities to domestic deposits and (iii) brokered deposits to domestic deposits (if greater than 10%). The stated purpose of these changes to assessment rates was to make the assessment system more sensitive to risk and more fair by limiting the subsidization of riskier institutions by safer institutions. In addition, on February 27, 2009, the FDIC adopted an interim

rule that imposed an emergency special assessment rate of 20 basis points based on June 30, 2009 deposits, payable by all insured depository institutions on September 30, 2009, in addition to the base assessment rate changes described above. The FDIC may impose additional special assessments of up to 10 basis points thereafter if the deposit insurance reserve ratio falls. In May 2009, the FDIC adopted a final rule that imposed a 5 basis point special assessment on each institution's assets minus Tier 1 capital (as of June 30, 2009). Such special assessment was collected on September 30, 2009. In October 2009, the FDIC passed a final rule extending the term of the restoration plan to eight years. Such final rule also included a provision that implements a uniform 3 basis point increase in assessment rates, effective January 1, 2011, to help ensure that the reserve ratio returns to at least 1.15% within the eight year period called for by the restoration plan. The FDIC will, at least semi-annually, update its income and loss projections for the Deposit Insurance Fund and, if necessary to bring the fund's reserve ratio back to at least 1.15% by the end of the eight year period of the restoration plan, propose rules to further increase assessment rates. Changes to the risk-based assessment system includes increasing premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over \$10 billion in assets, while providing a reduction for their unsecured debt. In addition, on November 17, 2009, the FDIC implemented a final rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Such prepaid assessments were collected by the FDIC on December 30, 2009, along with each institution's quarterly risk-based deposit insurance assessment for the third quarter of 2009 (assuming 5% annual growth in deposits between the third quarter of 2009 and the end of 2012 and taking into account, for 2011 and 2012, the annualized 3 basis point increase referred to in the following paragraph). The FDIC will begin to draw down an institution's prepaid assessments on March 30, 2010, representing payment for the regular quarterly risk-based assessment for the fourth quarter of 2009. Either an increase in the Risk Category of the bank or adjustments to the base assessment rates could have a material adverse effect on our earnings.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

In its resolution of the problems of an insured depository institution in default or in danger of default, the FDIC is generally required to satisfy its obligations to insured depositors at the least possible cost to the Deposit Insurance Fund. In addition, the FDIC may not take any action that would have the effect of increasing the losses to the deposit insurance fund by protecting depositors for more than the insured portion of deposits or creditors other than depositors.

Emergency Economic Stabilization Act of 2008

In response to unprecedented market turmoil during the third quarter of 2008, the Emergency Economic Stabilization Act of 2008 was enacted on October 3, 2008. EESA authorizes the U.S. Treasury to provide up to \$700 billion to support the financial services industry. Pursuant to the EESA, the U.S. Treasury was initially authorized to use \$350 billion for the Troubled Asset Relief Program. Of this amount, the U.S. Treasury allocated \$250 billion to the TARP Capital Purchase Program. On January 15, 2009, the second \$350 billion of TARP monies was released to the U.S. Treasury. The Secretary's authority under TARP was to expire on December 31, 2009, unless the Secretary certifies to Congress that extension is necessary provided that his authority may not extend beyond October 3, 2010. On December 9, 2009, the Secretary sent such a letter to the Congress, extending his authority under the TARP through October 3, 2010.

Pursuant to authority under EESA, the U.S. Treasury created the TARP Capital Purchase Program under which the U.S. Treasury will invest up to \$250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. Qualifying financial institutions may issue senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of \$25 billion or 3% of risk-weighted assets. The preferred stock will pay dividends at the rate of 5% per annum until the fifth anniversary of the investment and thereafter at the rate of 9% per annum. No dividends may be paid on common stock unless dividends have been paid on the senior preferred stock. Until the third anniversary of the issuance of the senior preferred, the consent of the U.S. Treasury will be required for any increase in the dividends on common stock or for any stock repurchases unless the senior preferred has been redeemed in its entirety or the U.S. Treasury has transferred the senior preferred to third parties. The senior preferred will not have voting rights

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other than the right to vote as a class on the issuance of any preferred stock ranking senior, any change in its terms or any merger, exchange or similar transaction that would adversely affect its rights. The senior preferred will also have the right to elect two directors if dividends have not been paid for six periods. The senior preferred will be freely transferable and participating institutions will be required to file a shelf registration statement covering the senior preferred. The issuing institution must grant the U.S. Treasury piggyback registration rights. Prior to issuance, the financial institution and its senior executive officers must modify or terminate all benefit plans and arrangements to comply with EESA. Senior executives must also waive any claims against the U.S. Treasury.

In connection with the issuance of the senior preferred, participating institutions must issue to the U.S. Treasury immediately exercisable 10-year warrants to purchase common stock with an aggregate market price equal to 15% of the amount of senior preferred. The exercise price of the warrants will equal the market price of the common stock on the date of the investment. The U.S. Treasury may only exercise or transfer one-half of the warrants prior to the earlier of December 31, 2009 or the date the issuing financial institution has received proceeds equal to the senior preferred investment from one or more offerings of common or preferred stock qualifying as Tier 1 capital. The U.S. Treasury will not exercise voting rights with respect to any shares of common stock acquired through exercise of the warrants. The financial institution must file a shelf registration statement covering the warrants and underlying common stock as soon as practicable after issuance and grant piggyback registration rights.

On December 23, 2008, the parent company issued preferred shares and a warrant to purchase its common shares to the U.S. Treasury as a participant in the TARP Capital Purchase Program. The amount of capital raised in that transaction was \$42 million, approximately three percent of the Company's risk-weighted assets. Prior to December 23, 2011, unless the parent company has redeemed all such preferred shares or the U.S. Treasury has transferred all such preferred shares to a third party, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend on the parent company's common shares above a quarterly cash dividend of \$0.19 per share or repurchase our common shares or outstanding preferred shares except in limited circumstances. Sterling filed a registration statement on Form S-3 covering the preferred stock, the warrant and underlying common stock, as required under the terms of the TARP investment, on January 22, 2009. The registration statement was declared effective by the SEC on April 13, 2009.

In addition, until the U.S. Treasury ceases to own any of the Company's securities sold under the TARP Capital Purchase Program, the compensation arrangements for our senior executive officers must comply in all respects with EESA and the rules and regulations there under. In compliance with such requirements, each of our senior executive officers in December 2008 agreed in writing to accept the compensation standards in existence at that time under the TARP Capital Purchase Program and thereby cap or eliminate some of their contractual or legal rights. The provisions agreed to were as follows:

No Golden Parachute Payments. Golden parachute payment under the TARP Capital Purchase Program means a severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, that exceeds three times the terminated employee's average base salary over the five years prior to termination. Our senior executive officers have agreed to forgo all golden parachute payments for as long as two conditions remain true: They remain senior executive officers (CEO, CFO and the next three highest-paid executive officers), and the U.S. Treasury continues to hold our equity securities the parent company issued to it under the TARP Capital Purchase Program (the period during which the U.S. Treasury holds those securities is the CPP Covered Period).

Recovery of Bonus and Incentive Compensation if Based on Certain Material Inaccuracies. Our senior executive officers have also agreed to a clawback provision, which means that the parent company can recover incentive compensation paid during the CPP Covered Period that is later found to have been based on materially inaccurate financial statements or other materially inaccurate measurements of performance.

No Compensation Arrangements That Encourage Excessive Risks. During the CPP Covered Period, the parent company is not allowed to enter into or maintain compensation arrangements that encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To make sure this does not happen, our Compensation Committee is required to meet at least once a year with our senior risk officer to review our executive compensation arrangements in the light of our risk management policies and practices. Our senior risk officer will, if required to, review our executive compensation arrangements in light of our risk management policies and practices. Our senior executive officers' written agreements include their obligation to execute whatever documents the parent company may require in order to make any changes in compensation arrangements resulting from the Compensation Committee's review.

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Limit on Federal Income Tax Deductions. During the CPP Covered Period, the parent company is not allowed to take federal income tax deductions for compensation paid to senior executive officers in excess of \$500 thousand per year, with certain exceptions that do not apply to our senior executive officers.

See Liquidity Risk beginning on page 54 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ASSET/LIABILITY MANAGEMENT for a further discussion of our participation in the U.S. Treasury TARP Capital Purchase Program.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) into law. ARRA modified the compensation-related limitations contained in the TARP Capital Purchase Program, created additional compensation-related limitations and directed the Secretary of the Treasury to establish standards for executive compensation applicable to participants in TARP, regardless of when participation commenced. Thus, the newly enacted compensation-related limitations are applicable to the Company and to the extent the U.S. Treasury may implement these restrictions unilaterally the Company will apply these provisions. The provisions may be retroactive. The compensation-related limitations applicable to the Company which have been added or modified by ARRA are as follows, which provisions must be included in standards established by the U.S. Treasury:

No Severance Payments. Under ARRA golden parachutes were redefined as any severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, except for payments for services performed or benefits accrued. Consequently under ARRA the Company is prohibited from making any severance payment to our senior executive officers (defined in ARRA as the five highest paid executive officers) and our next five most highly compensated employees during the CPP Covered Period.

Recovery of Incentive Compensation if Based on Certain Material Inaccuracies. ARRA also contains the clawback provision discussed above but extends its application to any bonus or retention awards and other incentive compensation paid to any of our senior executive officers or next 20 most highly compensated employees during the CPP Covered Period that is later found to have been based on materially inaccurate financial statements or other materially inaccurate measurements of performance.

No Compensation Arrangements That Encourage Earnings Manipulation. Under ARRA, during the CPP Covered Period, the parent company is not allowed to enter into compensation arrangements that encourage manipulation of the reported earnings of the Company to enhance the compensation of any of our employees.

Limits on Incentive Compensation. ARRA contains a provision that prohibits the payment or accrual of any bonus, retention award or incentive compensation to any of our 5 most highly compensated employees during the CPP Covered Period other than awards of long-term restricted stock that (i) do not fully vest during the CPP Coverage Period, (ii) have a value not greater than one-third of the total annual compensation of the awardee and (iii) are subject to such other restrictions as determined by the Secretary of the Treasury. The prohibition on bonus, incentive compensation and retention awards does not preclude payments required under written employment contracts entered into on or prior to February 11, 2009.

Compensation Committee Functions. ARRA requires that our Compensation Committee be comprised solely of independent directors and that it meet at least semiannually to discuss and evaluate our employee compensation plans in light of an assessment of any risk posed to us from such compensation plans.

Compliance Certifications. ARRA also requires a written certification by our Chief Executive Officer and Chief Financial Officer of our compliance with the provisions of ARRA. These certifications must be contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and any subsequent year during the Capital Purchase Plan Covered Period the relevant U.S. Treasury regulations are issued.

Treasury Review of Excessive Bonuses Previously Paid. ARRA directs the Secretary of the Treasury to review all compensation paid to our senior executive officers and our next 20 most highly compensated employees to determine whether any such payments were inconsistent with the purposes of ARRA or were otherwise contrary to the public interest. If the Secretary of the Treasury makes such a finding, the Secretary of the Treasury is directed to negotiate with the TARP Capital Purchase Program recipient and the subject employee for appropriate reimbursements to the federal government with respect to the compensation and bonuses.

Say on Pay. Under ARRA the SEC promulgated rules requiring a non-binding say on pay vote by the shareholders on executive compensation at the annual meeting during the CPP Covered Period.

ARRA also provides that the U.S. Treasury, after consultation with the Company's federal regulator, permit the Company at any time to redeem our Series A Preferred Shares at liquidation value. Upon such redemption, the warrant to purchase the parent company's common stock that was

issued to the

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U.S. Treasury would also be repurchased at its then current fair value.

On June 10, 2009, the U.S. Treasury issued guidance on the compensation and corporate governance standards that apply to TARP recipients, as summarized below:

Bonuses accrued or paid before the effective date of the rule adopted by the U.S. Treasury are not subject to the rule's bonus payment limitation. In addition, separation pay for departures that occurred before receipt of TARP assistance also is not subject to the limits of the rule (even if payments continue to be made after effectiveness).

The term "most highly compensated employees" covers all employees, not only executive officers or other policy makers. The determination of the most highly compensated employees is based on annual compensation for the prior year calculated in accordance with SEC disclosure rules.

The rule permits salary paid in property, including stock, so long as it is based on a dollar amount (not a number of shares), is fully vested and accrues as cash salary would. The rule also permits salary paid in stock units in respect of shares of the TARP recipient, or subsidiaries or divisions of the TARP recipient (though not below the subsidiary or division for which the employee directly provides services). Holding periods also are permitted.

Commission payments for sales, brokerage and asset management services for unrelated customers will not be subject to the bonus restrictions, but only if they are consistent with an existing plan of the TARP recipient in effect before February 17, 2009.

The rule imposes a restrictive set of "best practices" on TARP recipients: (i) the five senior executive officers and the next 20 most highly compensated employees may not receive any tax "gross-up" payment of any kind, including payments to cover taxes due on company-provided benefits or separation payments; (ii) the prohibition on separation payments to the five senior executive officers and the next five most highly compensated employees is extended to payments in connection with a change in control; (iii) the compensation committee must review all employee compensation plans every six months for unnecessary risk and provide an expanded certification including narrative disclosure of its analysis and conclusions; (iv) TARP recipients must exercise their clawback rights unless doing so would be unreasonable; and (v) TARP recipients must adopt a policy reasonably designed to eliminate excessive or luxury expenditures.

An institution will not become subject to the compensation standards merely as a result of acquiring a TARP recipient. In addition, if an acquiror is not subject to the standards immediately after the transaction, any employees of the acquiror (including former employees of the TARP recipient who become acquiror employees as a result of the transaction) will not be subject to the standards.

The TARP period during which the compensation standards apply ceases when the obligations arising from financial assistance cease and specifically excludes any period when the only outstanding obligation of a TARP recipient consists of U.S. Treasury warrants to purchase common stock.

Comprehensive Financial Stability Plan of 2009

On February 10, 2009, the Treasury Secretary announced a new comprehensive financial stability plan (the "Financial Stability Plan"), which earmarked the second \$350 billion of unused funds originally authorized under the EESA.

The major elements of the Financial Stability Plan included: (i) a capital assistance program that has invested in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a public/private investment fund intended to leverage public and private capital with public financing to purchase up to \$500 billion to \$1 trillion of legacy "toxic assets" from financial institutions, and (iv) assistance for homeowners by providing up to \$75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

Regulatory Reform

In June 2009, the Obama administration proposed a wide range of regulatory reforms that, if enacted, may have significant effects on the financial services industry in the United States. Significant aspects of the Obama administration's proposals included, among other things, proposals (i) that any financial firm whose combination of size, leverage and interconnectedness could pose a threat to financial stability be subject to certain enhanced regulatory requirements, (ii) that federal bank regulators require loan originators or sponsors to retain part of the credit risk of securitized exposures, (iii) that there be increased regulation of broker-dealers and investment advisers, (iv) for the creation of a federal consumer financial protection agency that would, among other things, be charged with applying consistent regulations to similar products (such as imposing certain notice and consent requirements on consumer overdraft lines of credit), (v) that there be comprehensive regulation of OTC derivatives, (vi) that the controls on the ability of banking institutions to engage in transactions with affiliates be tightened, and (vii) that financial holding companies be required to be "well-capitalized" and "well-managed" on a consolidated basis.

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The Congress, state lawmaking bodies and federal and state regulatory agencies continue to consider a number of wide-ranging and comprehensive proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions, including rules and regulations related to the broad range of reform proposals set forth by the Obama

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administration described above. Separate comprehensive financial reform bills intended to address the proposals set forth by the Obama administration were introduced in both houses of Congress in the second half of 2009 and remain under review by both the U.S. House of Representatives and the U.S. Senate. In addition, both the U.S. Treasury Department and the Basel Committee on Banking Supervision (the Basel Committee) have issued policy statements regarding proposed significant changes to the regulatory capital framework applicable to banking organizations.

We cannot predict whether or in what form further legislation and/or regulations may be adopted or the extent to which Sterling's business may be affected thereby.

Incentive Compensation

On October 22, 2009, the Federal Reserve Board issued a comprehensive proposal on incentive compensation policies (the Incentive Compensation Proposal) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Proposal, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. The Incentive Compensation Proposal also contemplates a detailed review by the Federal Reserve Board of the incentive compensation policies and practices of a number of large, complex banking organizations. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Proposal provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged at higher deposit assessment rates than such banks would otherwise be charged.

The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Sterling and its subsidiaries to hire, retain and motivate its and their key employees.

Depositor Preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Liability of Commonly Controlled Institutions

The FDIA provides that a depository institution insured by the FDIC can be held liable by the FDIC for any loss incurred, or reasonably expected to be incurred, in connection with the default of a commonly controlled FDIC-insured depository institution or in connection with any assistance provided by the FDIC to a commonly controlled institution in danger of default (as defined in the FDIA).

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction.

Financial Privacy

In accordance with the Gramm-Leach-Bliley Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy

policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third

party. The privacy provisions of the Gramm-Leach-Bliley Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to financial institutions such as the Company. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including the imposition of enforcement actions and civil monetary penalties.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury Department Office of Foreign Assets Control (OFAC), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal, financial and reputational consequences.

Legislative Initiatives

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company could have a material effect on the business of the Company.

As a result of the continued volatility and instability in the financial system, the Congress, the bank regulatory authorities and other government agencies have called for or proposed additional regulation and restrictions on the activities, practices and operations of banks and their holding companies. The Congress and the federal banking agencies have broad authority to require all banks and holding companies to adhere to more rigorous or costly operating procedures, corporate governance procedures, or to engage in activities or practices which they would not otherwise elect. Any such requirement could adversely affect our business and results of operations.

Safety and Soundness Standards

Federal banking agencies promulgate safety and soundness standards relating to, among other things, internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees, and benefits. With respect to internal controls, information systems and internal audit systems, the standards describe the functions that adequate internal controls and information systems must be able to perform, including: (i) monitoring adherence to prescribed policies; (ii) effective risk management; (iii) timely and accurate financial, operations, and regulatory reporting; (iv) safeguarding and managing assets; and (v) compliance with applicable laws and regulations. The standards also include requirements that: (i) those performing internal audits be qualified and independent; (ii) internal controls and information systems be tested and reviewed; (iii) corrective actions be adequately documented; and (iv) results of an audit be made available for review of management actions. In addition, federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance

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plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of the FDIA. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Consequences of Incompliance with Supervision or Regulation

Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

The bank and its institution-affiliated parties, including its management, employees, agents, independent contractors, consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies' power to issue cease-and-desist orders were expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Under provisions of the federal securities laws, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation of permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, engaging in activities of a broker-dealer generally requires approval of Financial Industry Regulatory Authority, Inc. and regulators may take into account a variety of considerations in acting upon such applications, including internal controls, capital, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

SELECTED CONSOLIDATED STATISTICAL INFORMATION

I. Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The information appears on pages 51 and 52 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

II. Investment Portfolio

A summary of the Company's investment securities by type with related carrying values at the end of each of the three most recent fiscal years appears beginning on page 41 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. Information regarding book values and range of maturities by type of security and weighted average yields for totals of each category appears on pages 43 and 44 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

III. Loan Portfolio

A table setting forth the composition of the Company's loan portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years appears beginning on page 44 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

A table setting forth the maturities and sensitivity to changes in interest rates of the Company's commercial and industrial loans at December 31, 2009 appears on page 45 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

It is the policy of the Company to consider all customer requests for extensions of original maturity dates (rollovers), whether in whole or in part, as though each was an application for a new loan subject to standard approval criteria, including credit evaluation. Additional information appears under Loan Portfolio beginning on page 44 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

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AND RESULTS OF OPERATIONS and under Loans in Note 1 and in Note 6 of the Company's consolidated financial statements.

A table setting forth the aggregate amount of domestic non-accrual, past due and restructured loans of the Company at the end of each of the five most recent fiscal years appears

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on page 46 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ; there were no foreign loans accounted for on a nonaccrual basis. Information regarding loans that have undergone a troubled debt restructuring and impaired loans is presented under Allowance for Loan Losses in Note 7 of the Company s consolidated financial statements. Loan concentration information is presented in Note 6 of the Company s consolidated financial statements. Information regarding Federal Reserve and Federal Home Loan Bank stock is presented in Note 8 of the Company s consolidated financial statements.

IV. Summary of Loan Loss Experience

A summary of loan loss experience appears in Note 7 of the Company s consolidated financial statements and beginning on page 45 under Asset Quality in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. A table setting forth certain information with respect to the Company s loan loss experience for each of the five most recent fiscal years appears on page 48 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company considers its allowance for loan losses to be adequate based upon the size and risk characteristics of the outstanding loan portfolio at December 31, 2009. Net losses within the loan portfolio are not, however, statistically predictable and are subject to various external factors that are beyond the control of the Company. Consequently, changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision recorded in 2009.

A table presenting the Company s allocation of the allowance at the end of each of the five most recent fiscal years appears on page 49 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. This allocation is based on estimates by management that may vary based on management s evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category may not necessarily be indicative of actual future charge-offs in that loan category.

V. Deposits

Average deposits and average rates paid for each of the three most recent years are presented on page 51 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Outstanding time certificates of deposit issued from domestic and foreign offices and interest expense on domestic and foreign deposits are presented in Note 10 of the Company s consolidated financial statements.

The table providing selected information with respect to the Company s deposits for each of the three most recent fiscal years appears on page 50 in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Interest expense for the three most recent fiscal years is presented in Note 10 of the Company s consolidated financial statements.

VI. Return on Assets and Equity

The Company s returns on average total assets and average shareholders equity, dividend payout ratio and average shareholders equity to average total assets for each of the five most recent years is presented in SELECTED FINANCIAL DATA on page 32.

VII. Short-Term Borrowings

Balance and rate data for significant categories of the Company s short-term borrowings for each of the three most recent years is presented in Note 11 of the Company s consolidated financial statements.

INFORMATION AVAILABLE ON OUR WEB SITE

The Company s Internet address is www.sterlingbancorp.com and the investor relations section of our web site is located at www.sterlingbancorp.com/ir/investor.cfm. The Company makes available free of charge, on or through the investor relations section of the Company s web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Also posted on the Company s web site, and available in print upon request of any shareholder to our Investor Relations Department, are the Charters for our Board of Directors Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Corporate Governance Guidelines, our Method for Interested Persons to Communicate with Non-Management Directors, our policy on excessive or luxury expenditures and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the NYSE, the Company will post on our web site any amendment to the Code of Business Conduct and Ethics

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and any waiver applicable to our senior financial officers, as defined in the Code, or our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our

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web site. The contents of the Company's web site are not incorporated by reference into this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

An investment in the parent company's common stock is subject to risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on, or that management currently deems immaterial, may also impair the Company's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks adversely affect the Company's business, financial condition or results of operations, the value of the parent company's common stock could decline significantly and you could lose all or part of your investment.

RISKS RELATED TO THE COMPANY'S BUSINESS

The Company's Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

Since December 2007, the United States has experienced a recession and a slowing of economic activity. Business activity across a wide range of industries and regions is greatly reduced, and local governments and many businesses are in serious difficulty, due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has increased significantly.

Since mid-2007, and particularly during the second half of 2008 and the first half of 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost of and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide. In 2008 and 2009, the U.S. Government, the Federal Reserve and other regulators took numerous steps to increase liquidity and to restore investor confidence, including investing approximately \$200 billion in the equity of other banking organizations, but asset values have continued to decline and access to liquidity continues to be very limited.

Although the rate of increase in unemployment and the rate of decline in housing prices have slowed and the consumer spending and liquidity in the credit markets have been somewhat improved towards the end of 2009, the economic slowdown generally continues and there can be no assurance such indicia of recovery would herald any prolonged period of economic recovery and growth in 2010.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay the principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the New York metropolitan area and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors. Overall, during 2009, the business environment was adverse for many households and businesses in the United States and worldwide. The business environment in the New York metropolitan area, the United States and worldwide may continue to deteriorate for the foreseeable future. There can be no assurance that these conditions

will improve in the near term. Such conditions could adversely affect the credit quality of the Company's loans, results of operations and financial condition.

Improvements in Economic Indicators Disproportionately Affecting the Financial Services Industry May Lag Improvements in the General Economy

Should the stabilization of the U.S. economy lead to a general economic recovery, the improvement of certain economic indicators, such as unemployment and real estate asset values and rents, may nevertheless continue to lag behind the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. For example, improvements in commercial real estate fundamentals typically lag broad economic recovery by 12 to 18 months. The Company's clients include entities active in these industries. Furthermore, financial services companies with a substantial lending business are dependent upon the ability of their borrowers to make debt service payments on loans. Should unemployment or real estate asset values fail to recover for an extended period of time, the Company could be adversely affected.

The Company Is Subject to Interest Rate Risk

The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. For further discussion related to the Company's management of interest rate risk, see ASSET/LIABILITY MANAGEMENT beginning on page 53 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company Is Subject to Lending Risk

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Company operates as well as those throughout the United States. Increases in interest rates and/or continued weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company. In addition, under various laws and regulations relating to mortgage lending and terms of various agreements the Company is a party to, the Company may be required to repurchase loans or indemnify loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults.

As of December 31, 2009, approximately 68.6% of the Company's loan portfolio consisted of commercial and industrial, factored receivables, construction and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because the Company's loan portfolio contains a significant number of commercial and industrial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. Further, if repurchase and indemnity demands with respect to the Company's loan portfolio increase, its liquidity, results of operations and financial condition will be adversely affected. For further discussion related to commercial and industrial, construction and commercial real estate loans, see Loan Portfolio beginning on

The Company's Allowance for Loan Losses May Be Insufficient

The Company maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside the Company's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations. For further discussion related to the Company's process for determining the appropriate level of the allowance for loan losses, see Asset Quality beginning on page 45 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company May Not Be Able to Meet the Cash Flow Requirements of Its Depositors and Borrowers or Meet Its Operating Cash Needs to Fund Corporate Expansion and Other Activities

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the bank is used to make loans and leases and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors. The overall liquidity position of the bank and the parent company are regularly monitored to ensure that various alternative strategies exist to cover unanticipated events that could affect liquidity. Funding sources include Federal funds purchased, securities sold under repurchase agreements and non-core deposits. The bank is a member of the Federal Home Loan Bank of New York, which provides funding through advances to members that are collateralized with mortgage-related assets. The Company maintains a portfolio of securities that can be used as a secondary source of liquidity. The bank also can borrow through the Federal Reserve Bank's discount window.

If the Company is unable to access any of these funding sources when needed, we might be unable to meet customers' needs, which could adversely impact our financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see Liquidity Risk beginning on page 54 in MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Parent Company Relies on Dividends from Its Subsidiaries

The parent company is a separate and distinct legal entity from its subsidiaries. It receives dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the parent company's common stock and interest and principal on its debt. Various federal and/or state laws and regulations limit the amount of dividends that the bank and certain non-bank subsidiaries may pay to the parent company. Also, the parent company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the bank is unable to pay dividends to the parent company, the parent company may not be able to service debt, pay obligations or pay dividends on the parent company's common stock. The inability of the parent company to receive dividends from the bank could have a material adverse effect on the Company's business, financial condition and results of operations. See SUPERVISION AND REGULATION on pages 3-16 and Note 18 of the Company's consolidated financial statements.

The Company May Need to Raise Additional Capital in the Future and Such Capital May Not Be Available When Needed or at All

The Company may need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet its commitments and business needs, particularly if its asset quality or earnings were to deteriorate significantly. The Company's ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of the Company's control, and the Company's financial performance. Economic conditions and the loss of confidence in financial institutions

may increase the Company's cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve Bank's discount window.

The Company cannot assure that such capital will be available on acceptable terms or at all. Any occurrence that may limit the Company's access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of the bank or counterparties participating in the capital markets, or a downgrade of the parent company or the bank's ratings, may adversely affect the Company's capital costs and its ability to raise capital and, in turn, its liquidity. Moreover, if the Company needs to raise capital in the future, it may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on the Company's businesses, financial condition and results of operations.

The Parent Company's Agreements with the U.S. Treasury Impose Restrictions and Obligations on Us that Limits Our ability to Increase Dividends, Repurchase the Parent Company's Common Stock or Preferred Shares and Access the Equity Capital Markets

In December 2008, the parent company issued preferred shares and a warrant to purchase our common shares to the U.S. Treasury as part of its TARP Capital Purchase Program. Prior to December 23, 2011, unless we have redeemed all the preferred shares or the U.S. Treasury has transferred all the preferred shares to a third party, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend on our common shares or repurchase our common shares or other preferred shares (with certain exceptions, including the repurchase of our common shares to offset share dilution from equity-based employee compensation awards). The parent company has also granted registration rights and offering facilitation rights to the U.S. Treasury pursuant to which the parent company has agreed to lock-up periods during which we would be unable to issue equity securities. In addition, unless we are able to redeem the preferred stock prior to December 24, 2013, the dividends on the preferred stock will increase substantially, from 5% to 9%. Depending on market conditions at the time, this increase in dividends could significantly impact our liquidity.

Negative Perceptions Associated with the Company's Continued Participation in the U.S. Treasury's Capital Purchase Program May Adversely Affect Its Ability to Retain Customers, Attract Investors and Compete for New Business Opportunities

Several financial institutions which participated in the TARP Capital Purchase Program received approval from the U.S. Treasury to exit the program during the second half of 2009. These institutions have, or are in the process of, repurchasing the preferred stock and repurchasing or auctioning the warrant issued to the U.S. Treasury as part of the program. The Company has not yet requested the U.S. Treasury's approval to repurchase the preferred stock and warrant from the U.S. Treasury. In order to repurchase one or both securities, in whole or in part, the Company must establish that it has satisfied all of the conditions to repurchase and must obtain the approval of the U.S. Treasury. There can be no assurance that the Company will be able to repurchase these securities from the U.S. Treasury. The Company's customers, employees and counterparties in its current and future business relationships may draw negative implications regarding the strength of the Company as a financial institution based on its continued participation in the program following the exit of one or more of its competitors or other financial institutions. Any such negative perceptions may impair the Company's ability to effectively compete with other financial institutions for business or to retain high performing employees. If this were to occur, the Company's business, financial condition and results of operations may be adversely affected, perhaps materially.

The Company Is Subject to a Variety of Operational Risks, Including Reputational Risk, Legal and Compliance Risk, the Risk of Fraud or Theft by Employees or Outsiders

The Company is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from its actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect its ability to attract and keep customers and can expose the Company to litigation and regulatory action. Actual or alleged conduct by the Company can result in negative public opinion about its other business. Negative public opinion could also affect its credit ratings, which are important to its access to unsecured wholesale borrowings.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. The Company's necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Company also may be subject to disruptions of its operating systems arising from

events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as the Company is) and to the risk that its (or its vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of the Company to operate its business, potential liability to clients, reputational damage and regulatory intervention, which could adversely affect its business, financial condition and results of operations, perhaps materially.

The Company Relies on Other Companies to Provide Key Components of Its Business Infrastructure.

Third parties provide key components of the Company's business infrastructure, for example, system support, and Internet connections and network access. While the Company has selected these third party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from their failure to provide services for any reason or their poor performance of services, could adversely affect its ability to deliver products and services to its customers and otherwise conduct its business. Replacing these third party vendors could also entail significant delay and expense.

The Company Is Subject to Environmental Liability Risk Associated with Lending Activities

A portion of the Company's loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expense and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. Future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Profitability Depends Significantly on Local and Overall Economic Conditions

The Company's success depends significantly on the economic conditions of the communities it serves and the general economic conditions of the United States. The Company has operations in New York City and the New York metropolitan area, and conducts business in Virginia and other mid-Atlantic states, and throughout the United States. The economic conditions in these areas and throughout the United States have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources. In the United States generally, these conditions have been declining and may continue to decline. A significant decline in general economic conditions, whether caused by recession, inflation, unemployment, changes in securities markets, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, acts of God or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company's financial condition and results of operations.

The Company May Be Adversely Affected by the Soundness of Other Financial Institutions

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit, or derivative, if any, exposure due to the Company. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

Severe Weather, Natural Disasters or Other Acts of God, Acts of War or Terrorism and Other External Events Could Significantly Impact the Company's Business

Severe weather, natural disasters or other acts of God, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster

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recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company Operates in a Highly Competitive Industry and Market Area

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Company operates. Additionally, various out-of-state banks have entered the market areas in which the Company currently operates. The Company also faces competition from many other types of financial institutions, including, without limitation, savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company does.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

The ability to develop, maintain and build upon customer relationships based on top quality service, high ethical standards and safe, sound assets.

The ability to expand the Company's market position.

The scope, relevance and pricing of products and services offered to meet customer needs and demands.

The rate at which the Company introduces new products and services relative to its competitors.

Customer satisfaction with the Company's level of service.

Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company Is Subject to Extensive Government Regulation and Supervision

The Company, primarily through the parent company and the bank and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. It is likely that there will be significant changes to the banking and financial institutions' regulatory regimes in the near future in light of the recent performance of and government intervention in the financial services sector. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See SUPERVISION AND REGULATION on pages 3-16.

Increases in FDIC Insurance Premiums May Adversely Affect the Company's Earnings

During 2008 and 2009, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. In addition, the FDIC instituted two temporary programs to further insure customer deposits at FDIC insured banks: deposit accounts are currently insured up to \$250,000 per customer (up from \$100,000) and non-interest bearing transactional accounts at institutions participating in the Transaction Account Guarantee Program are currently fully insured (unlimited coverage). These programs have placed additional stress on the Deposit Insurance Fund.

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In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC has increased assessment rates of insured institutions. In addition,

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on November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted fund.

The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures the Company may be required to pay even higher FDIC premiums than the recently increased levels. Further, on January 12, 2010, the FDIC requested comments on a proposed rule tying assessment rates of FDIC-insured institutions to the institution's employee compensation programs. The exact requirements of such a rule are not yet known, but such a rule could increase the amount of premiums the Company must pay for FDIC insurance. These announced increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact its earnings.

Legislative and Regulatory Actions Taken Now or in the Future May Have a Significant Adverse Effect on the Company's Operations

Recent events in the financial services industry and, more generally, in the financial markets and the economy, have led to various proposals for changes in the regulation of the financial services industry. Earlier in 2009, legislation proposing significant structural reforms to the financial services industry was introduced in the Congress. Among other things, the legislation proposes the establishment of a Consumer Financial Protection Agency, which would have broad authority to regulate providers of credit, savings, payment and other consumer financial products and services. Additional legislative proposals call for heightened scrutiny and regulation of any financial firm whose combination of size, leverage, and interconnectedness could, if it failed, pose a threat to the country's financial stability, including the power to restrict the activities of such firms and even require the break-up of such firms at the behest of the relevant regulator. New rules have also been proposed for the securitization market, including requiring sponsors of securitizations to retain a material economic interest in the credit risk associated with the underlying securitization.

Other recent initiatives also include:

the Federal Reserve Board's proposed guidance on incentive compensation policies at banking organizations and the FDIC's proposed rules tying employee compensation to assessments for deposit insurance;

the Obama administration's announcement of a proposed Financial Crisis Responsibility Fee for banks with greater than \$50 billion in assets and the Obama administration's proposed limits on the size and risks taken by large U.S. banks;

proposals to limit a lender's ability to foreclose on mortgages or make such foreclosures less economically viable, including by allowing Chapter 13 bankruptcy plans to cram down the value of certain mortgages on a consumer's principal residence to its market value and/or reset interest rates and monthly payments to permit defaulting debtors to remain in their home;

proposed legislation concerning the comprehensive regulation of the over-the-counter derivatives market, including robust and comprehensive prudential supervision (including strict capital and margin requirements) for all over-the-counter derivative dealers and major market participants and central clearing of standardized over-the-counter derivatives; and

the Obama administration's fiscal year 2011 budget proposal, which includes imposition of a proposed financial crisis responsibility fee of approximately 15 basis point per annum on certain liabilities of large financial institutions for at least 10 years.

While there can be no assurance that any or all of these regulatory, administrative or legislative changes will ultimately be adopted, any such changes, if enacted or adopted, may impact the profitability of the Company's business activities, require the Company to change certain of its business practices, require the Company to divest certain business lines, materially affect its business model or affect retention of key personnel, and could expose it to additional costs (including increased compliance costs). These changes may also require the Company to invest significant management attention and resources to make any necessary changes, and could therefore also adversely affect its business and operations.

The Company's Controls and Procedures May Fail or Be Circumvented

The Company's internal controls, disclosure controls and procedures, and corporate governance policies and procedures can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company May Be Subject to a Higher Effective Tax Rate if Sterling Real Estate Holding Company, Inc. Fails to Qualify as a Real Estate Investment Trust (REIT)

Sterling Real Estate Holding Company Inc. (SREHC) operates as a REIT for federal income tax purposes. SREHC was established to acquire, hold and manage mortgage assets and other authorized investments to generate net income for distribution to its shareholders.

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For an entity to qualify as a REIT, it must satisfy the following six asset tests under the Internal Revenue Code each quarter: (1) 75% of the value of the REIT's total assets must consist of real estate assets, cash and cash items, and government securities; (2) not more than 25% of the value of the REIT's total assets may consist of securities, other than those includible under the 75% test; (3) not more than 5% of the value of its total assets may consist of securities of any one issuer, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (4) not more than 10% of the outstanding voting power of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (5) not more than 10% of the total value of the outstanding securities of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; and (6) a REIT cannot own securities in one or more taxable REIT subsidiaries which comprise more than 20% of its total assets. At December 31, 2009, SREHC met all six quarterly asset tests.

Also, a REIT must satisfy the following two gross income tests each year: (1) 75% of its gross income must be from qualifying income closely connected with real estate activities; and (2) 95% of its gross income must be derived from sources qualifying for the 75% test plus dividends, interest, and gains from the sale of securities. In addition, a REIT must distribute at least 90% of its taxable income for the taxable year, excluding any net capital gains, to maintain its non-taxable status for federal income tax purposes. For 2009, SREHC had met the two annual income tests and the distribution test.

If SREHC fails to meet any of the required provisions and, therefore, does not qualify to be a REIT, the Company's effective tax rate would increase.

The Company Would Be Subject to a Higher Effective Tax Rate if Sterling Real Estate Holding Company, Inc. Is Required to Be Included in a NYS Combined Return

New York State tax law generally requires a REIT that is majority owned by a New York State bank to be included in the bank's combined New York State tax return. The Company believes that it qualifies for the small-bank exception to this rule. If, contrary to this belief, Sterling Real Estate Holding Company, Inc. were required to be included in the Company's New York State combined tax return, the Company's effective tax rate would increase.

Under the small-bank exception, dividends received by the bank from SREHC, a real estate investment trust, are subject to a 60% dividends-received deduction, which results in only 40% of the dividends being subject to New York State tax.

The possible reform of the New York State banking corporation tax mentioned below could require SREHC to file a combined return with the Company and substantially eliminate the benefit of the 60% dividends-received deduction by causing generally all of SREHC's income to be subject to New York State tax as part of the Company's combined return.

Possible New York State Legislative Changes May Negatively Affect the Amount of Taxes We Pay in Future Years

At the time of this filing, the New York State Department of Taxation and Finance is considering proposing a legislative reform of the New York State corporate franchise and banking corporation tax rules with the goal of enacting such reform this year. The proposed reform package that the New York State Department of Taxation and Finance has publicly released would substantially alter how the Company and the bank are taxed in New York State and may materially increase their combined effective New York State tax rate. In particular, the current proposal by the New York State Department of Taxation and Finance could require SREHC to file a combined return with the Company and substantially eliminate the benefit of the 60% dividends-received deduction by causing generally all of SREHC's income to be subject to New York State tax as part of the Company's combined return.

It is not possible to predict whether any tax reform legislation will actually be proposed in the New York State legislature, whether any such legislation would be enacted this year or any subsequent year, how any enacted legislation would differ from the current law or the most current proposal released by the Department of Taxation and Finance, and how any such legislative changes would impact the Company and the bank's effective New York State tax rate. It is also uncertain at this time whether there would be any similar changes made to the New York City banking corporation tax.

New Lines of Business or New Products and Services May Subject the Company to Additional Risks

The Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business

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and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to manage these risks successfully in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations and financial condition.

Potential Acquisitions May Disrupt the Company's Business and Dilute Shareholder Value

The Company seeks merger or acquisition partners that are compatible and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

Potential exposure to unknown or contingent liabilities of the target company.

Exposure to potential asset quality issues of the target company.

Difficulty and expense of integrating the operations and personnel of the target company.

Potential disruption to the Company's business.

Potential diversion of the Company's management time and attention.

The possible loss of key employees and customers of the target company.

Difficulty in estimating the value of the target company.

Potential changes in banking or tax laws or regulations that may affect the target company.

The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Not Be Able to Attract and Retain Skilled People

The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense, and the Company may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Company's key personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The Company has employment agreements with two of its senior officers.

Because the Company has not yet repurchased the U.S. Treasury's TARP Capital Purchase Program investment, it remains subject to the restrictions on incentive compensation contained in the ARRA. On June 10, 2009, the U.S. Treasury released its interim final rule implementing the provisions of the ARRA and limiting the compensation practices at institutions in which the U.S. Treasury is invested. Financial institutions which have repurchased the U.S. Treasury's investment are relieved of the restrictions imposed by the ARRA and its implementing regulations. Due to these restrictions, the Company may not be able to successfully compete with financial institutions that have repurchased the U.S. Treasury's investment to retain and attract high performing employees. If this were to occur, the Company's business, financial condition and results of operations could be adversely affected, perhaps materially.

The Company's Information Systems May Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's reputation, financial condition and results of operations.

The Company Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The Company's future success depends, in part, upon its ability to address

the needs of the customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to implement effectively new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to keep pace successfully with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

The Company Is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility and Lender Liability

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any fiduciary liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

In addition, in recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Substantial legal liability or significant regulatory action against the Company or its subsidiaries could materially adversely affect its business, financial condition or results of operations and/or cause significant harm to its reputation.

The Company's Reported Financial Results Depend on Management's Selection of Accounting Methods and Certain Assumptions and Estimates

The Company's accounting policies and methods are fundamental to the methods by which the Company records and reports its financial condition and results of operations. Its management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report its financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in its reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting its financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include: the allowance for credit losses; the determination of fair value for financial instruments; the valuation of goodwill and other intangible assets; the accounting for pension and post-retirement benefits and the accounting for income taxes. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided; recognize significant impairment on its goodwill and other intangible asset balances; or significantly increase its accrued tax liability.

Changes in the Company's Accounting Policies or in Accounting Standards Could Materially Affect How the Company Reports Its Financial Results and Condition

From time to time, the Financial Accounting Standards Board (FASB) and SEC change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the Company restating prior period financial statements.

RISKS ASSOCIATED WITH THE PARENT COMPANY'S COMMON STOCK

The Parent Company's Stock Price Can Be Volatile

Stock price volatility may make it more difficult to resell the parent company's common stock when desired and at an attractive price. The parent company's stock price can fluctuate significantly in response to a variety of factors, including, among other factors:

Actual or anticipated variations in quarterly results of operations.

Recommendations by securities analysts.

Operating and stock price performance of other companies that investors deem comparable to the Company.

News reports relating to trends, concerns and other issues in the financial services industry.

Perceptions in the marketplace regarding the Company and/or its competitors.

New technology used, or services offered, by competitors.

Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors.

Failure to integrate acquisitions or realize anticipated benefits from acquisitions.

Changes in government regulation.

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the parent company's stock price to decrease regardless of operating results.

The Trading Volume in the Parent Company's Common Stock Is Less Than That of Other Larger Financial Services Companies

Although the parent company's common stock is listed for trading on the NYSE, the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the parent company's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the trading volume of the parent company's common stock, significant sales of the parent company's common stock, or the expectation of these sales, could cause the parent company's stock price to fall.

An Investment in the Parent Company's Common Stock Is Not an Insured Deposit

The parent company's common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, any other deposit insurance fund or by any other public or private entity. Investment in the parent company's common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the parent company's common stock, you may lose some or all of your investment.

The Parent Company's Certificate of Incorporation and By-Laws as Well as Certain Banking Laws May Have an Anti-Takeover Effect

Provisions of the parent company's certificate of incorporation and by-laws, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the parent company, even if doing so would be perceived to be beneficial to the parent company's shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the parent company's common stock.

The Parent Company May Not Pay Dividends on Its Common Stock

Holders of shares of the parent company's common stock are only entitled to receive such dividends as its board of directors may declare out of funds legally available for such payments. Although the parent company has historically declared cash dividends on its common stock, it is not required to do so and may reduce or eliminate its common stock dividend in the future. This could adversely affect the market price of its common stock. Also, participation in the TARP Capital Purchase Program limits its ability to increase its dividend or to repurchase its common stock for so long as any securities issued under such program remain outstanding.

Future Issuances of Additional Equity Securities Could Result in Dilution of Ownership of the Parent Company's Existing Stockholders

The parent company may determine from time to time to issue additional equity securities to raise additional capital, support growth, or to make acquisitions. Further, the parent company may issue stock options or other stock grants to retain and motivate its employees. These issuances of

equity securities could dilute the voting and economic interests of its existing stockholders.

RISKS ASSOCIATED WITH THE COMPANY'S INDUSTRY

The Earnings of Financial Services Companies Are Significantly Affected by General Business and Economic Conditions

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short- and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond the

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Company's control. Continuing deterioration in economic conditions in the United States could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Company's products and services, among other things, any of which could have a material adverse impact on the Company's financial condition and results of operations.

Financial Services Companies Depend on the Accuracy and Completeness of Information About Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Company may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Consumers May Decide Not to Use Banks to Complete Their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits. The loss of these revenue streams and these lower-cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal office of the Company occupies one floor at 650 Fifth Avenue, New York, N.Y., consisting of approximately 14,400 square feet. The lease for this premises expires April 30, 2016. Rental commitments to the expiration date approximate \$5.3 million.

At December 31, 2009, the bank also maintains operating leases for nine branch offices, the International Banking Facility, and additional space in New York City, Nassau, Suffolk and Westchester counties (New York) with an aggregate of approximately 131 thousand square feet. Effective in 2010, certain lease agreements terminate and the bank has entered into new agreements for additional space, bringing the amount of space committed to an aggregate of approximately 139 thousand square feet. The aggregate office rental commitments for these premises, including the new space under lease in 2010, approximates \$41.3 million. These leases have expiration dates ranging from 2010 through 2024 with varying renewal options. The bank owns free and clear (not subject to a mortgage) a building in which it maintains a branch located in Forest Hills, Queens, N.Y.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business there are various legal proceedings pending against the Company. Management, after consulting with counsel, is of the opinion that there should be no material liability with respect to such proceedings and accordingly no provision has been made in the Company's consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders in the fourth quarter of the fiscal year covered by this report.

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EXECUTIVE OFFICERS OF THE REGISTRANT

This table sets forth information regarding the parent company's executive officers:

Name of Executive	Title	Age	Held Executive Office Since
Louis J. Cappelli	Chairman of the Board and Chief Executive Officer, Director	79	1967
John C. Millman	President, Director	67	1986
John W. Tietjen	Executive Vice President and Chief Financial Officer	65	1989
Howard M. Applebaum	Senior Vice President	51	2002
Eliot S. Robinson	Executive Vice President of Sterling National Bank	67	1998

All executive officers who are employees of the parent company are elected annually by the Board of Directors and serve at the pleasure of the Board. The executive officer who is not an employee of the parent company is elected annually by, and serves at the pleasure of, the Board of Directors of the bank. There are no arrangements or understandings between any of the foregoing executive officers and any other person or persons pursuant to which he was selected as an executive officer.

The Company's 2009 Domestic Company Section 303A Annual CEO Certification was filed (without qualifications) with the NYSE. The certifications under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to this annual report on Form 10-K.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The parent company's common stock is traded on the NYSE under the symbol STL. Information regarding the quarterly prices of the common stock is presented in Note 28 on page 108. Information regarding the average common shares outstanding and dividends per common share is presented in the Consolidated Statements of Income on page 60. Information regarding legal restrictions on the ability of the bank to pay dividends is presented in Note 18 on page 88. Although such restrictions do not apply to the payment of dividends by the parent company to its shareholders, such dividends may be limited by other factors, such as the requirement to maintain adequate capital under the risk-based capital regulations described in Note 24 beginning on page 102. As of February 12, 2010, there were 1,330 shareholders of record of our common shares.

Pursuant to the U.S. Treasury's TARP Capital Purchase Program, until the earliest of December 23, 2011, the redemption of all of the Series A Preferred Shares or transfer by the U.S. Treasury of all of the Series A Preferred shares to third parties, the parent company must obtain the consent of the U.S. Treasury to raise the dividend on our common shares or to repurchase any common shares or other preferred shares, with certain exceptions (including repurchases of our common shares under our share repurchase program to offset dilution from equity-based compensation).

During the fiscal years ended December 31, 2008 and 2009, the following dividends were declared on our common shares:

Cash Dividends Per Share	2009	2008
First Quarter	\$ 0.19	\$ 0.19
Second Quarter	0.19	0.19
Third Quarter	0.09	0.19
Fourth Quarter	0.09	0.19
Total	\$ 0.56	\$ 0.76

The Board of Directors initially authorized the repurchase of common shares in 1997 and since then has approved increases in the number of common shares that the parent company is authorized to repurchase. The latest increase was announced on February 15, 2007, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares. This increased the Company's authority to repurchase shares to approximately 933,000 common shares.

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Under its share repurchase program, the Company buys back common shares from time to time. The Company did not repurchase any of its common shares during the fourth quarter of 2009. At December 31, 2009, the maximum number of shares that may yet be repurchased under the share repurchase program was 870,963.

For information regarding securities authorized for issuance under the Company's equity compensation plan, see Item 12 on page 114.

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The following performance graph compares for the fiscal years ended December 31, 2005, 2006, 2007, 2008 and 2009 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on Sterling's common shares, with (b) the cumulative total return of the Standard & Poor's 500 Stock Index, and with (c) the cumulative total return on the KBW 50 Index (a market-capitalization weighted bank-stock index):

	12/04	12/05	12/06	12/07	12/08	12/09
Sterling Bancorp	100.00	75.95	78.89	57.43	62.47	34.05
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11
KBW 50	100.00	101.34	120.80	92.99	50.67	51.25

ITEM 6. SELECTED FINANCIAL DATA

The information appears on page 32. All such information should be read in conjunction with the consolidated financial statements and notes thereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appears on pages 33-57 and supplementary quarterly data appears in Note 28 of the Company's consolidated financial statements. All such information should be read in conjunction with the consolidated financial statements and the notes thereto.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appears on pages 53-56 under the caption ASSET/LIABILITY MANAGEMENT. All such information should be read in conjunction with the consolidated financial statements and notes thereto.

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Sterling Bancorp
SELECTED FINANCIAL DATA ⁽¹⁾

(dollars in thousands except per share data)

	2009	2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Total interest income	\$ 105,920	\$ 118,071	\$ 121,433	\$ 116,611	\$ 101,994
Total interest expense	19,295	33,388	47,560	42,021	26,463
Net interest income	86,625	84,683	73,873	74,590	75,531
Provision for loan losses	27,900	8,325	5,853	4,503	5,214
Net securities gains/(losses)	5,561		188	(443)	337
Other than temporary losses		(1,684)			
Noninterest income, excluding net securities gains/(losses) and other than temporary losses	38,589	34,984	35,224	33,959	33,536
Noninterest expenses	88,545	84,476	79,478	77,238	67,617
Income before taxes	14,330	25,182	23,954	26,365	36,573
Provision for income taxes	4,908	9,176	8,560	5,367	13,110
Income from continuing operations	9,422	16,006	15,394	20,998	23,463
(Loss)/income from discontinued operations, net of tax			(795)	(603)	564
Loss on sale of discontinued operations, net of tax				(9,635)	
Net income	9,422	16,006	14,599	10,760	24,027
Dividends on preferred shares and accretion	2,773	102			
Net income available to common shareholders	6,649	15,904	14,599	10,760	24,027
Income from continuing operations available to common shareholders					
Per average common share basic	0.37	0.89	0.84	1.12	1.22
diluted	0.37	0.88	0.82	1.09	1.19
Net income available to common shareholders					
Per average common share basic	0.37	0.89	0.79	0.57	1.25
diluted	0.37	0.88	0.78	0.56	1.22
Dividends per common share	0.56	0.76	0.76	0.76	0.73
YEAR END BALANCE SHEETS					
Investment securities	737,065	793,924	618,490	565,214	707,958
Loans held for sale	33,889	23,403	23,756	33,320	40,977
Loans held in portfolio, net of unearned discounts	1,195,415	1,184,585	1,152,796	1,072,057	956,433
Other assets discontinued operations				1,663	116,250
Total assets, including discontinued operations	2,165,609	2,179,101	1,979,650	1,850,571	2,005,752
Noninterest-bearing demand deposits	546,337	464,585	501,023	505,898	455,260
Savings NOW and money market deposits	592,015	564,205	467,446	447,601	436,173
Time deposits	442,315	329,034	524,189	527,986	501,269
Short-term borrowings	131,854	363,404	205,418	83,776	281,838
Long-term debt	155,774	175,774	65,774	45,774	85,774
Shareholders equity	161,950	160,480	121,071	132,263	147,587
AVERAGE BALANCE SHEETS					
Investment securities	719,485	744,169	582,327	641,310	706,128
Loans held for sale	41,225	23,286	43,919	40,992	53,948
Loans held in portfolio, net of unearned discounts	1,154,041	1,120,362	1,049,206	984,307	873,192
Total assets, including discontinued operations	2,114,221	2,066,628	1,875,615	1,929,739	1,915,497
Noninterest-bearing demand deposits	441,087	427,105	424,425	420,683	435,739
Savings NOW and money market deposits	562,780	522,807	498,827	434,167	416,614
Time deposits	375,742	451,031	556,869	517,166	520,051
Short-term borrowings	271,075	279,840	131,573	255,204	198,879
Long-term debt	174,981	163,479	44,130	59,938	106,514
Shareholders equity	158,225	119,791	124,140	143,178	149,836
RATIOS					
Return on average total assets	0.45%	0.77%	0.82%	1.14%	1.30%
Return on average shareholders equity	5.95	13.36	12.40	14.67	15.66
Dividend payout ratio	107.52	85.43	89.35	67.70	59.82

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Average shareholders' equity to average total assets	7.48	5.80	6.62	7.76	8.30
Net interest margin (tax-equivalent basis)	4.63	4.60	4.48	4.63	4.75
Loans/assets, year end ^[2]	56.77	55.44	59.43	59.79	52.79
Net charge-offs/loans, year end ^[3]	1.95	0.54	0.50	0.45	0.44
Nonperforming loans/loans, year end ^[2]	1.46	0.61	0.54	0.53	0.39
Allowance/loans, year end ^[3]	1.66	1.35	1.31	1.52	1.61

[1] All data presented is from continuing operations unless indicated otherwise. Certain reclassifications have been made to prior years financial data to conform to current financial statement presentations.

[2] In this calculation, the term loans means loans held for sale and loans held in portfolio.

[3] In this calculation, the term loans means loans held in portfolio.

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Sterling Bancorp
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary presents management's discussion and analysis of the financial condition and results of operations of Sterling Bancorp (the parent company), a financial holding company under the Bank Holding Company Act of 1956, as amended by the Gramm-Leach-Bliley Act of 1999, and its subsidiaries, principally Sterling National Bank. Throughout this discussion and analysis, the term the Company refers to Sterling Bancorp and its subsidiaries and the term the bank refers to Sterling National Bank and its subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and selected financial data contained elsewhere in this annual report. Certain reclassifications have been made to prior years' financial data to conform to current financial statement presentations. Throughout management's discussion and analysis of financial condition and results of operations, dollar amounts in tables are presented in thousands, except per share data.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

Certain statements contained or incorporated by reference in this annual report on Form 10-K, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses and plans and objectives for future operations, economic environment and other statements contained herein regarding matters that are not historical facts, are forward-looking statements as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements the Company may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements, and the Company makes no commitment to update or revise forward-looking statements in order to reflect new information or subsequent events or changes in expectations.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market and monetary fluctuations; geopolitical developments including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Company operates; the financial condition of the Company's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Company's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; the risks and uncertainties described in ITEM 1A. RISK FACTORS on pages 18-29; other risks and uncertainties described from time to time in press releases and other public filings; and the Company's performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and the Company will not update any forward-looking statement, whether written or oral, that may be made from time to time.

RECENT MARKET DEVELOPMENTS

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to EESA, the United States Department of the Treasury (the U.S. Treasury) was given the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced that the U.S. Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program (TARP) Capital Purchase Program, from the \$700 billion authorized by EESA, the U.S. Treasury made \$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the TARP Capital Purchase Program. On December 23, 2008, the Company

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elected to participate in the TARP Capital Purchase Program, under which the Company issued preferred shares and a warrant to purchase common shares to the U.S. Treasury. As of the date of this report, the Company has not yet repurchased the preferred stock or the warrant to purchase common stock.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program (as amended from time to time thereafter) the FDIC would (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (NOW) accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts (IOLA) accounts held at participating FDIC-insured institutions. The transaction account guarantee program described in clause (ii) will expire on June 30, 2010. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. The Company elected to opt out of the debt guarantee program under the TLG Program, which may disadvantage the Company in its access to less expensive capital compared to the Company's competitors that did not opt out.

On February 10, 2009, the Treasury Secretary announced a new comprehensive financial stability plan which included: (i) a capital assistance program that has invested in convertible preferred stock of certain qualifying institutions, (ii) a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances, (iii) a public-private investment fund intended to leverage public and private capital with public financing to purchase legacy toxic assets from financial institutions, and (iv) assistance for homeowners to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

In response to concerns relating to capital adequacy of large financial institutions, the Federal Reserve Board implemented Supervisory Capital Assessment Program (SCAP) under which all banking institutions with assets over \$100 billion were required to undergo a comprehensive stress test to determine if they had sufficient capital to continue lending and to absorb losses that could result from a more severe decline in the economy than projected. The results of the stress test were announced on May 7, 2009. In addition, on September 3, 2009, the U.S. Treasury issued a policy statement relating to bank capital requirements, which calls for higher and stronger capital requirements for bank and non-bank financial firms that are deemed to pose a risk to financial stability due to their combination of size, leverage, interconnectedness and liquidity risk. Also, on December 17, 2009, the Basel Committee issued a set of proposals relating to the capital adequacy and liquidity risk exposures of financial institutions.

In order to restore the depleted Deposit Insurance Fund and maintain a sound reserve ratio, the FDIC imposed higher base assessment rates and special one-time assessments and required prepayment of deposit insurance premium. The FDIC stated that, after its semi-annual reviews, it may further increase assessment rates or take other actions to bring the Deposit Insurance Fund's reserve ratio back to a desirable level.

In June of 2009, the Obama administration proposed a wide range of regulatory reforms that included, among other things, proposals (i) that any financial firm whose combination of size, leverage and interconnectedness could pose a threat to financial stability be subject to certain enhanced regulatory requirements, (ii) that federal bank regulators require loan originators or sponsors to retain part of the credit risk of securitized exposures, (iii) that there be increased regulation of broker-dealers and investment advisers, (iv) for the creation of a federal consumer financial protection agency that would, among other things, be charged with applying consistent regulations to similar products (such as imposing certain notice and consent requirements on consumer overdraft lines of credit), (v) that there be comprehensive regulation of OTC derivatives, (vi) that the controls on the ability of banking institutions to engage in transactions with affiliates be tightened, and (vii) that financial holding companies be required to be well-capitalized and well-managed on a consolidated basis.

On October 22, 2009, the Federal Reserve Board issued a comprehensive proposal on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and

soundness of such organizations by encouraging excessive risk-taking. The proposal covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group.

For more detailed discussion on recent legislative and regulatory developments, see **SUPERVISION AND REGULATION** on pages 3 16.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform, in all material respects, to U.S. generally accepted accounting principles (U.S. GAAP). In preparing the consolidated financial statements, management has made estimates, assumptions and judgments based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements may reflect different estimates, assumptions and judgments. Certain policies inherently have greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation allowance to be established, or when an asset or liability must be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when readily available. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when the Company believes facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in the future periods.

The Company s accounting policies are fundamental to understanding management s discussion and analysis of financial condition and results of operations. The most significant accounting policies followed by the Company are presented in Note 1 beginning on page 65. The accounting for factoring transactions also is discussed under **BUSINESS OPERATIONS** The Bank Commercial Lending, Asset-Based Financing and Factoring/Accounts Receivable Management on pages 1 and 2.

The Company has identified its policies on the valuation of securities, the allowance for loan losses and income tax liabilities to be critical because management has to make subjective and/or complex judgments about matters that are inherently uncertain and could be subject to revision as new information becomes available. Additional information on these policies can be found in Note 1 to the consolidated financial statements.

Management utilizes various inputs to determine the fair value of its securities portfolio. Fair value of securities is based upon market prices, where available (Level 1 inputs). If such quoted market prices are not available, fair value is based upon market prices determined by an outside, independent entity that primarily uses, as inputs, observable market-based parameters (Level 2 inputs). Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company s creditworthiness, among other things, as well as unobservable parameters (Level 3 inputs). Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Additional discussion of valuation methodologies is presented in Note 23 of the Company s consolidated financial statements.

A periodic review is conducted by management to determine if the decline in the fair value of any security appears to be other-than-temporary. Factors considered in determining whether the decline is other-than-temporary include, but are not limited to: the length of time and the extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Company s ability and

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intent to hold the investment for a period of time sufficient to allow for any anticipated recovery of cost. If the decline is deemed to be other-than-temporary, and the Company has the ability and intent to hold the security until there is a recovery of cost, the security is written down to new cost basis and the resulting credit component of the loss is reported in noninterest income and the remainder of the loss is recorded in shareholders' equity. If the Company does not have the ability and intent to hold the security until there is a recovery of cost, the full amount of the other-than-temporary impairment is recorded in noninterest income. Additional discussion of management's evaluation process and other-than-temporary-impairment charges is presented in Note 1 and Note 5.

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The methodology used to determine the allowance for loan losses is outlined in Note 1 to the consolidated financial statements and a discussion of the factors driving changes in the amount of the allowance for loan losses is included under the caption "Asset Quality" beginning on page 45.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact the Company's consolidated financial condition or results of operations. In connection with determining its income tax provision under Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) Topic 740: *Income Taxes*, the Company maintains a reserve related to certain tax positions and strategies that management believes contain an element of uncertainty. The Company evaluates each of its tax positions and strategies periodically to determine whether the reserve continues to be appropriate. Additional discussion on the accounting for income taxes is presented in Notes 1 and 21 of the Company's consolidated financial statements.

OVERVIEW

The Company provides a broad range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, factoring/accounts receivable management services, trade financing, equipment leasing, deposit services, trust and estate administration, and investment management services. The Company has operations in the New York metropolitan area and conducts business throughout the United States. The general state of the U.S. economy and, in particular, economic and market conditions in the New York metropolitan area have a significant impact on loan demand, the ability of borrowers to repay these loans and the value of any collateral securing these loans and may also affect deposit levels. Accordingly, future general economic conditions are a key uncertainty that management expects will materially affect the Company's results of operations.

On April 3, 2009, Sterling Factors Corporation, a subsidiary of the bank, acquired substantially all of the assets and customer lists of DCD Capital, LLC and DCD Trade Services, LLC. The acquired assets and customer lists are now operating as a division under the name Sterling Trade Capital.

In September 2006, the Company sold the business conducted by Sterling Financial Services (Sterling Financial). In accordance with U.S. GAAP, the assets, liabilities and earnings/loss of the business conducted by Sterling Financial have been shown separately as discontinued operations in the CONSOLIDATED BALANCE SHEETS and CONSOLIDATED STATEMENTS OF INCOME for all periods presented.

For purposes of the following discussion, average balances, average rates, income and expenses associated with Sterling Financial have been excluded from continuing operations and reported separately for all periods presented.

The interest expense allocated to discontinued operations was based on the actual average balances, interest expenses and average rate on each category of interest-bearing liabilities, with the average rate applied to the aggregate average loan balances to determine the funding cost. Interest expense allocated to the funding supporting the Sterling Financial net loans for these periods was assigned based on the average net loan balances proportionately funded by all interest-bearing liabilities at an average rate equal to the cost of each applied to its average balance for the period. The RATE/VOLUME ANALYSIS was prepared on the same basis, as was the AVERAGE BALANCE SHEETS.

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In 2009, the bank's average earning assets represented approximately 99.7% of the Company's average earning assets. Loans represented 60.9% and investment securities represented 36.7% of the bank's average earning assets in 2009.

The Company's primary source of earnings is net interest income, and its principal market risk exposure is interest rate risk. The Company is not able to predict market interest rate fluctuations and its asset/liability management strategy may not prevent interest rate changes from having a material adverse effect on the Company's results of operations and financial condition.

Although management endeavors to minimize the credit risk inherent in the Company's loan portfolio, it must necessarily make various assumptions and judgments about the collectibility of the loan portfolio based on its experience and evaluation of economic conditions. If such assumptions or judgments prove to be incorrect, the current allowance for loan losses may not be sufficient to cover loan losses and additions to the allowance may be necessary, which would have a negative impact on net income.

There is intense competition in all areas in which the Company conducts its business. The Company competes with banks and other financial institutions, including savings and loan associations, savings banks, finance companies, and credit unions. Many of these competitors have substantially greater resources and lending limits and provide a wider array of banking services. To a limited extent, the Company also competes with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. Competition is based on a number of factors, including prices, interest rates, services, availability of products and geographic location.

The Company regularly evaluates acquisition opportunities and conducts due diligence activities in connection with possible acquisitions. As a result, acquisition discussions, and in some cases negotiations, regularly take place and future acquisitions could occur.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable-based on a 35% federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

INCOME STATEMENT ANALYSIS

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned, on a tax-equivalent basis, on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets (net interest margin) is calculated by dividing tax equivalent net interest income by average interest-earning assets. Generally, the net interest margin will exceed the net interest spread because a portion of interest-earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity. The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are provided in the RATE/VOLUME ANALYSIS shown on page 52. Information as to the components of interest income and interest expense and average rates is provided in the AVERAGE BALANCE SHEETS shown on page 51.

COMPARISON OF THE YEARS 2009 AND 2008

The Company reported net income available to common shareholders for 2009 of \$6.6 million, representing \$0.37 per share calculated on a diluted basis, compared to \$15.9 million, or \$0.88 per share calculated on a diluted basis, for 2008. The \$9.3 million decrease in net income available to common shareholders was primarily due to a \$19.6 million increase in the provision for loan losses, a \$4.1 million increase in noninterest expenses and a \$2.7 million increase in dividends and accretion related to the preferred shares issued to the U.S. Treasury under the TARP Capital Purchase Program, which more than offset a \$10.9 million increase in noninterest income, a \$1.9 million increase in net interest income and a \$4.3 million lower provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$87.6 million for 2009 compared to \$85.1 million for 2008. Net interest income benefitted from higher average loan balances, lower interest-bearing deposit balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and investment securities, lower investment securities balances and higher borrowed funds balances. The net interest margin, on a tax-equivalent basis, was 4.63% for 2009 compared to 4.60% for 2008. The net interest margin was impacted by the lower interest rate environment in 2009, the higher level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

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Total interest income, on a tax-equivalent basis, aggregated \$106.9 million for 2009, down \$11.6 million from 2008. The tax-equivalent yield on interest-earning assets was 5.65% for 2009 compared to 6.40% for 2008.

Interest earned on the loan portfolio decreased to \$71.8 million for 2009 from \$80.4 million for the prior year period. Average loan balances amounted to \$1,195.3 million, an increase of \$51.7 million from an average of \$1,143.6 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$3.3 million increase in interest earned on loans. The yield on the loan portfolio decreased to 6.38% for 2009 from 7.37% for 2008 period, which was primarily attributable to the lower interest rate environment in 2009 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, decreased to \$34.6 million for 2009 from \$37.4 million in 2008. Average outstandings decreased to \$719.5 million (36.7% of average earning assets) for 2009 from \$744.2 million (39.0% of average earning assets) in 2008. The average yield on investment securities decreased to 4.80% for 2009 from 5.03% in 2008. The decrease in both balances and yield reflect the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio coupled with calls of higher yielding securities. Under this strategy, the Company sold principally available for sale mortgage-backed securities with longer term average lives and replaced them with short-term corporate debt and U.S. Government Agency securities.

Offsetting the impact of the above, the average life was lengthened as a result of the impact of purchases of longer term municipal securities and the impact on our portfolio of callable U.S. Government Agency securities. Due to upward movement of interest rates at December 31, 2009, the prices on our portfolio of U.S. Government Agency securities declined below par value, making it less likely that these issues would be called. As a result, the average life of the securities portfolio was lengthened to approximately 5.4 years at December 31, 2009 compared to approximately 4.8 years at December 31, 2008.

Total interest expense decreased by \$14.1 million for 2009 from \$33.4 million for 2008 period, primarily due to the impact of lower rates paid, coupled with lower balances for interest-bearing deposits and borrowings.

Interest expense on deposits decreased to \$11.9 million for 2009 from \$21.5 million for the 2008 period, primarily due to a decrease in the cost of those funds. The average rate paid on interest-bearing deposits was 1.27%, which was 94 basis points lower than the prior year period. The decrease in average cost of deposits reflects the lower interest rate environment during 2009. Average interest-bearing deposits were \$938.5 million for 2009 compared to \$973.8 million for 2008, reflecting the Company's strategy to reduce reliance on higher-priced certificates of deposit.

Interest expense on borrowings decreased to \$7.4 million for 2009 from \$11.9 million for 2008 period, primarily due to lower rates paid for borrowed funds coupled with the benefit (reflected in the volume change) derived from the elimination of funding through dealer repurchase agreements partially offset by increased short-term borrowings from the Federal Reserve Bank. The average rate paid for borrowed funds was 1.66%, which was 102 basis points lower than the prior year period. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2009. Average borrowings increased to \$446.1 million for 2009 from \$443.3 million in the prior year period, reflecting greater reliance by the Company on wholesale funding.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under Asset Quality beginning on page 45), the provision for loan losses for 2009 was \$27.9 million, compared to \$8.3 million for 2008. Factors affecting the larger provision for 2009 included further deterioration of economic conditions during that period, a \$16.9 million increase in net charge-offs, a \$10.6 million increase in nonaccrual loans and growth in the loan portfolio.

The level of the allowance reflects changes in the size of the portfolio or in any of its components as well as management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, and political and regulatory conditions. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

During 2009, the allowance for loan losses increased because of increases in the allowance allocated to lease financing receivables and in the allowance allocated to commercial and industrial loans partially offset by a reduction in the allowance allocated to real estate-residential mortgage loans. The allowance allocated to lease financing receivables increased

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primarily as a result of increased losses experienced in that category in 2009 compared to 2008 partially offset by a decrease in the specific valuation allowance for impaired loans. The impact of the increase in nonaccrual lease financing receivables at December 31, 2009 compared to December 31, 2008 was mitigated by decreasing levels of nonaccruals in that category in the third and fourth quarters of 2009 compared to the second quarter of 2009. The allowance allocated to commercial and industrial loans increased due to increased losses experienced in that category in 2009 compared to 2008 and higher nonaccrual levels in that category at December 31, 2009 compared to December 31, 2008 partially offset by a decrease in the specific valuation allowance for impaired loans. The allowance allocated to real estate-residential mortgage loans decreased primarily due to lower nonaccrual loan balances at December 31, 2009 compared to December 31, 2008 coupled with a decrease in the specific valuation allowance for impaired loans. During the fourth quarter of 2009 the level of the allowance for loan losses benefitted from a recovery of \$0.9 million on a loan charged off in a prior period.

Noninterest Income

Noninterest income increased to \$44.2 million for 2009 from \$33.3 million in the 2008 period. The increase principally resulted from securities gains recognized in the 2009 period compared to securities losses recognized in the 2008 period. Also contributing to the increase were higher income related to accounts receivable management and factoring services, higher mortgage banking income, and higher service charges on deposit accounts. In connection with an asset/liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately \$227.6 million of securities with a weighted average life of approximately 3.3 years. The Company reinvested a significant portion of the proceeds in securities with an average life of less than two years. The 2008 amount was reduced by other-than-temporary impairment (OTTI) charges which resulted from management's regular review of the investment portfolio. One charge, taken in the second quarter of 2008 for a single-issuer, investment grade trust preferred security, amounted to approximately \$0.5 million and reduced the carrying amount of the security to \$0.5 million. A second charge, taken in the third quarter of 2008 for a debt security, amounted to approximately \$1.2 million and reduced the carrying amount of the security to \$2.6 million. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to the impact of the acquisition of the business of DCD Capital, LLC and DCD Trade Services, LLC on April 6, 2009. Partially offsetting that benefit was the impact of reduced volume of billing by clients providing temporary staffing. The increase in mortgage banking income was due to higher volume of loans sold.

Noninterest Expenses

Noninterest expenses for 2009 increased \$4.0 million when compared to 2008. The increase was primarily due to the impact of the acquisition of the business of DCD Capital, LLC and DCD Trade Services, LLC on April 6, 2009 and higher deposit insurance and pension costs. Partially offsetting these increases was a reduction in expenses for professional services.

The increase in deposit insurance cost was due to a special assessment levied in the 2009 second quarter by the FDIC on all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's effort to rebuild the Deposit Insurance Fund (DIF). In conjunction with the amended plan, the FDIC implemented a final rule on November 17, 2009 requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The bank's prepaid amount to the FDIC was \$8.3 million.

The increase in pension expense was primarily the result of weaker return on plan assets during 2008. The Company's defined benefit retirement plan was closed to new members effective as of January 3, 2007. There have been no new participants in the Company's Supplemental Executive Retirement Plan (SERP). The defined benefit plan was replaced by an enhanced 401(k) contribution for new employees. The Company still has funding obligations related to the defined benefit retirement plan and SERP and will recognize retirement expense related to these plans in future years, which will be dependent on the return earned on plan assets, the level of interest rates, salary increases, employee turnover and other factors.

Provision for Income Taxes

The provision for income taxes for 2009 decreased to \$4.9 million, reflecting an effective tax rate of 34.2%, compared with \$9.2 million for 2008, reflecting an effective tax rate of 36.4%. The decrease was primarily due to an increase in the proportion of tax-exempt income in the 2009 period.

COMPARISON OF THE YEARS ENDED 2008 AND 2007

The Company reported net income for the year ended December 31, 2008 of \$16.0 million, representing \$0.88 per share calculated on a diluted basis, compared to \$14.6 million, or \$0.78 per share calculated on a diluted basis, for the year 2007. This increase reflects higher net interest income which was partially offset by increases in the provision for

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loan losses, noninterest expenses and the provision for income taxes coupled with lower noninterest income. The results for the 2007 period were adversely impacted by an after tax loss from discontinued operations of \$0.8 million.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$85.1 million for 2008 compared to \$74.3 million for 2007. Net interest income benefited from higher average investment securities and loan balances, higher yields on investment securities, lower interest-bearing deposits balances and lower cost of funding. Partially offsetting those benefits was the impact of lower yield on loans and higher borrowed fund balances. The net interest margin, on a tax-equivalent basis, was 4.60% for 2008 compared to 4.48% for 2007. The net interest margin was impacted by the lower interest rate environment in 2008, and the effect of higher average investment securities, borrowed funds, loans outstanding and noninterest-bearing demand deposits and lower average interest-bearing deposits balances.

Total interest income, on a tax-equivalent basis, decreased to \$118.5 million for 2008 from \$121.9 million for 2007. The tax-equivalent yield on interest-earning assets was 6.40% for 2008 compared to 7.35% for 2007.

Interest earned on the loan portfolio decreased to \$80.4 million for 2008 from \$92.2 million for 2007. Average loan balances amounted to \$1,143.6 million, an increase of \$50.5 million from an average of \$1,093.1 million in the prior year. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$4.6 million increase in interest earned on loans, which was more than offset by the impact of a decrease in yield. The decrease in the yield on the loan portfolio to 7.37% for 2008 from 8.83% for 2007 was primarily attributable to the lower interest rate environment in 2008 and the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, increased to \$37.4 million for 2008 from \$28.0 million for the prior year. Average outstandings increased to \$744.2 million (39.0% of average earning assets) for 2008 from \$582.3 million (34.1% of average earning assets) in the prior year. The average life of the securities portfolio was approximately 4.8 years at December 31, 2008 compared to 6.2 years at December 31, 2007.

Interest earned on Federal funds sold and deposits with other banks decreased by \$1.3 million for 2008 from \$1.4 million for 2007, primarily due to lower funds employed in these assets. Average outstandings for these assets decreased to \$6.2 million for 2008 from \$26.3 million in the prior year.

Total interest expense decreased by \$14.2 million for 2008 from \$47.6 million for 2007, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings coupled with lower interest-bearing deposits balances. Partially offsetting those benefits was the impact of higher borrowed funds balances which was the result of the Company's strategy to employ cost-effective wholesale funding in lieu of higher priced certificates of deposit.

Interest expense on deposits decreased to \$21.5 million for 2008 from \$38.8 million for the 2007 period, primarily due to a decrease in the cost of those funds coupled with lower balances. The average rate paid on interest-bearing deposits was 2.21% which was 146 basis points lower than the prior year. The decrease in average cost of deposits reflects the lower interest rate environment during 2008. Average interest-bearing deposits balances decreased to \$973.8 million for 2008 from \$1,055.7 million for 2007 reflecting the Company's strategy to reduce reliance on high priced certificates of deposit.

Interest expense on borrowings increased to \$11.9 million for 2008 from \$8.8 million for 2007, primarily due to an increase in average balances which was partially offset by lower rates paid for these funds. Average borrowings increased to \$443.3 million for 2008 from \$175.7 million for the prior year, reflecting greater reliance by the Company on wholesale funding. The average rate paid for borrowed funds was 2.68%, which was 235 basis points lower than the prior year. The decrease in the average cost of borrowings reflects the lower interest rate environment in 2008.

Provision for Loan Losses

Based on management's continuing evaluation of the loan portfolio (discussed under Asset Quality beginning on page 45), the provision for loan losses for 2008 was \$8.3 million, compared to \$5.9 million for the prior year period. Factors affecting the level of the allowance and, therefore, the provision included the growth in the loan portfolio, changes in general economic conditions and the amount and trend of nonaccrual loans and charge-offs.

The level of the allowance reflects changes in the size of the portfolio or in any of its components as well as management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, and political and regulatory conditions. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged

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off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

During 2008, the allowance for loan losses increased primarily because of increases in the allowance allocated to lease financing and in the allowance allocated to real estate residential mortgage loans. The allowance allocated to lease financing increased primarily as a result of increased losses experienced in that category in 2008 compared to 2007 and an increase in the specific valuation allowance for impaired loans. The allowance allocated to real estate residential mortgage loans increased primarily due to increased risks in the real estate market in 2008 compared to 2007 and an increase in the specific valuation allowance for impaired loans.

Noninterest Income

Noninterest income decreased to \$33.3 million for 2008 from \$35.4 million in the 2007. Noninterest income items include: accounts receivable management/factoring commissions and other fees, service charges on deposit accounts and for other customer related services, mortgage banking income, trust fees and income from bank owned life insurance policies. Noninterest income is reduced by other-than-temporary impairment charges and loss on sales of real estate owned. The decrease was principally due to OTTI charges which resulted from management's regular review of the investment portfolio. One charge, taken in the second quarter of 2008, for a single-issuer, investment grade trust preferred security, amounted to approximately \$0.5 million (this security was sold at minimal gain) and reduced the carrying amount of the security to \$0.5 million. A second charge, taken in the third quarter, for a debt security (which was subsequently sold at no additional loss), amounted to approximately \$1.2 million and reduced the carrying amount of the security to \$2.6 million.

Noninterest Expenses

Noninterest expenses for 2008 increased \$5.0 million when compared to 2007. Noninterest expense items include: personnel expenses, real estate rents and equipment expenses, advertising and marketing costs, professional fees and communications expenses. The increase was primarily due to higher personnel costs due to normal salary increases and investments in the Sterling franchise, increased occupancy costs due to higher rents and increased professional fees associated with revenue enhancement projects and the settlement of certain litigation.

Provision for Income Taxes

The provision for income taxes for 2008 was \$9.2 million, reflecting an effective tax rate of 36.4%, compared with \$8.6 million for 2007, reflecting an effective tax rate of 35.7%. The increase in taxes compared to 2007 was primarily due to higher income from continuing operations for the 2008 period.

BALANCE SHEET ANALYSIS

Securities

At December 31, 2009, the Company's portfolio of securities totaled \$737.1 million, of which obligations of U.S. government corporations and government sponsored enterprises amounted to \$519.7 million which is approximately 70.5% of the total. The Company has the intent and ability to hold to maturity securities classified as held to maturity, at which time it will receive full value for these securities. These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. The gross unrealized gains and losses on held to maturity securities were \$8.5 million and \$2.9 million, respectively. Securities classified as available for sale may be sold in the future, prior to maturity. These securities are carried at fair value. Net aggregate unrealized gains or losses on these securities are included, net of taxes, as a component of shareholders' equity. Given the generally high credit quality of the portfolio, management expects to realize all of its investment upon market recovery or, the maturity of such instruments and thus believes that any impairment in value is interest rate related and therefore temporary. Available for sale securities included gross unrealized gains of \$4.2 million and gross unrealized losses of \$3.3 million. As of December 31, 2009, management does not have the intent to sell any of the securities classified as available for sale in the table on page 43 and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. During 2008, the Company recognized OTTI charges totaling \$1.7 million which are included in noninterest income under the caption Other-than-temporary losses. These securities were subsequently sold at a minimal gain.

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The following table sets forth the composition of the Company's investment securities by type, with related carrying values at the end of each of the three most recent fiscal years:

December 31,	2009		2008		2007	
	Balances	% of Total	Balances	% of Total	Balances	% of Total
Obligations of U.S. government corporations and government sponsored enterprises						
Residential mortgage-backed securities						
CMOs (Federal National Mortgage Association)	\$ 13,740	1.86%	\$ 20,799	2.62%	\$ 20,789	3.36%
CMOs (Federal Home Loan Mortgage Corporation)	22,698	3.08	42,294	5.33	42,634	6.89
CMOs (Government National Mortgage Association)	9,048	1.23	6,565	0.83	9,094	1.47
Federal National Mortgage Association	125,673	17.05	245,100	30.87	225,736	36.50
Federal Home Loan Mortgage Corporation	71,715	9.73	137,437	17.31	158,705	25.66
Government National Mortgage Association	13,146	1.78	39,564	4.98	12,247	1.98
Total residential mortgage-backed securities	256,020	34.73	491,759	61.94	469,205	75.86
Agency Notes						
Federal National Mortgage Association	116,603	15.82				
Federal Home Loan Bank	102,799	13.95	174,675	22.00	85,502	13.82
Federal Farm Credit Bank	29,418	3.99	89,844	11.32	27,218	4.40
Federal Home Loan Mortgage Corporation	14,899	2.02				
Total obligations of U.S. government corporations and government sponsored enterprises	519,739	70.51	756,278	95.26	581,925	94.08
Obligations of state and political subdivisions	83,337	11.31	23,406	2.95	19,142	3.10
Single issuer, trust preferred securities	4,483	0.61	4,209	0.53	4,303	0.70
Corporate securities	129,200	17.53	9,724	1.22	12,810	2.07
Other securities	56	0.01	57	0.01	60	0.01
Total marketable securities	736,815	99.97	793,674	99.97	618,240	99.96
Debt securities issued by foreign governments	250	0.03	250	0.03	250	0.04
Total	\$ 737,065	100.00%	\$ 793,924	100.00%	\$ 618,490	100.00%

The following table presents information regarding the average life and yields of certain available for sale (AFS) and held to maturity (HTM) securities:

December 31, 2009	Weighted Average Life		Weighted Average Yield	
	AFS	HTM	AFS	HTM
Residential mortgage-backed securities	3.2 years	2.9 years	4.28%	4.62%
Agency notes (with original call dates ranging between 3 and 36 months)	7.9 years	9.9 years	3.75	4.79
Corporate debt securities	0.7 years		4.32	
Obligations of state and political subdivisions	5.7 years	10.6 years	5.35 ^[1]	5.89 ^[1]

[1] Tax equivalent

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The following tables present information regarding securities available for sale and securities held to maturity at December 31, 2009, based on contractual maturity. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The average yield on obligation of state and political subdivisions securities is presented on a tax-equivalent basis.

Available for sale	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government sponsored enterprises			
Residential mortgage-backed securities			
CMOs (Federal National Mortgage Association)	\$ 2,882	\$ 2,877	4.00%
CMOs (Federal Home Loan Mortgage Corporation)	5,563	5,734	4.15
CMOs (Government National Mortgage Association)	9,181	9,048	1.55
Federal National Mortgage Association	21,055	21,852	5.28
Federal Home Loan Mortgage Corporation	10,321	10,620	4.39
Government National Mortgage Association	6,807	7,157	4.82
Total residential mortgage-backed securities	55,809	57,288	4.28
Agency notes			
Federal National Mortgage Association			
Due after 10 years	20,291	19,456	5.59
Federal Home Loan Bank			
Due within 1 year	5,000	5,006	0.82
Due after 1 year but within 5 years	38,990	38,859	1.31
Due after 5 years but within 10 years	9,993	9,782	3.52
Due after 10 years	30,000	29,303	5.02
Federal Home Loan Mortgage Corporation			
Due after 1 year but within 5 years	4,995	4,899	2.03
Federal Farm Credit Bank			
Due after 5 years	20,000	19,378	5.25
Due after 5 years but within 10 years	4,999	4,952	3.87
Total obligations of U.S. government corporations and government sponsored enterprises	190,077	188,923	3.82
Obligations of state and political institutions			
Due within 1 year	401	412	4.90
Due after 1 year but within 5 years	12,510	13,268	5.16
Due after 5 years but within 10 years	3,078	3,297	5.74
Due after 10 years	6,831	6,887	5.56
Total obligations of state and political institutions	22,820	23,864	5.35
Single-issuer trust preferred securities			
Due after 10 years	4,878	4,483	7.41
Corporate debt securities			
Due within 6 months	74,376	74,776	4.26
Due after 6 months but within 1 year	35,762	36,198	4.54
Due after 1 year but within 2 years	12,762	12,845	3.34
Due after 2 years but within 5 years			
Due after 5 years but within 10 years	5,000	5,381	6.65
Total corporate debt securities	127,900	129,200	4.32
Other securities	44	56	3.38

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Total available for sale	\$	345,719	\$	346,526	4.17
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Held to maturity	Carrying Value	Fair Value	Weighted Average Yield
Obligations of U.S. government corporations and government sponsored enterprises			
Residential mortgage-backed securities			
CMOs (Federal National Mortgage Association)	\$ 10,863	\$ 11,202	4.67%
CMOs (Federal Home Loan Mortgage Corporation)	16,964	17,537	4.52
Federal National Mortgage Association	103,821	108,148	4.53
Federal Home Loan Mortgage Corporation	61,095	63,100	4.60
Government National Mortgage Association	5,989	6,490	6.43
	<hr/>	<hr/>	
Total residential mortgage-backed securities	198,732	206,477	4.62
Agency notes			
Federal National Mortgage Association			
Due after 10 years	97,147	95,419	4.94
Federal Home Loan Bank			
Due after 10 years	19,849	19,375	4.92
Federal Home Loan Mortgage Corporation			
Due after 10 years	10,000	9,782	3.92
Federal Farm Credit Bank			
Due after 5 years but within 10 years	5,088	4,994	3.07
	<hr/>	<hr/>	
Total obligations of U.S. government corporations and government sponsored enterprises	330,816	336,047	4.69
Obligations of state and political institutions			
Due within 5 years but within 10 years	1,181	1,191	5.30
Due after 10 years	58,292	58,662	5.91
	<hr/>	<hr/>	
Total obligations of state and political institutions	59,473	59,853	5.89
	<hr/>	<hr/>	
Debt securities issued by foreign governments			
Due within 1 year	250	250	4.62
	<hr/>	<hr/>	
Total held to maturity	\$ 390,539	\$ 396,150	4.87

Loan Portfolio

A management objective is to maintain the quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of and the designation of lending limits for each borrower. The portfolio strategies include seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar.

The Company's commercial and industrial loan and factored receivables portfolios represents approximately 59% of all loans. Loans in this category are typically made to individuals, small and medium-sized businesses and range between \$250,000 and \$15 million. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 16% of all loans. The leasing and commercial and industrial loan portfolios are included in corporate lending for segment reporting purposes as presented in Note 25 beginning on page 103. The Company's real estate loan portfolios, which represent approximately 22% of all loans, are secured by mortgages on real property located principally in the states of New York, New Jersey, Connecticut, Virginia and North Carolina. Sources of repayment are from the borrower's operating

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profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans and leases may be secured whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory, and real property. The collateral securing any loan or lease may depend on the type of loan and may vary in value based on market conditions.

The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 72), sets forth the composition of the Company's loans held for sale and loans held in portfolio, net of unearned discounts, at the end of each of the five most recent fiscal years:

December 31,	2009		2008		2007		2006		2005	
	Balances	% of Total	Balances	% of Total	Balances	% of Total	Balances	% of Total	Balances	% of Total
Domestic										
Commercial and industrial	\$ 585,876	47.66%	\$ 531,471	44.00%	\$ 518,265	44.05%	\$ 501,882	45.40%	\$ 386,006	38.70%
Lease financing receivables	195,056	15.87	255,743	21.17	249,702	21.22	207,771	18.80	190,391	19.09
Factored receivables	139,927	11.38	89,145	7.38	80,007	6.80	79,721	7.21	73,985	7.42
Real estate										
Residential mortgage portfolio	124,681	10.14	142,135	11.76	129,465	11.00	120,056	10.86	147,746	14.81
Residential mortgage held for sale	33,889	2.76	23,403	1.94	23,756	2.02	33,320	3.02	40,977	4.11
Commercial mortgage	92,614	7.53	96,883	8.02	99,093	8.42	93,215	8.43	110,871	11.12
Construction and land development	24,277	1.97	25,249	2.09	37,161	3.16	30,031	2.72	2,309	0.23
Loans to individuals	12,984	1.06	18,959	1.57	12,103	1.03	12,381	1.12	13,125	1.31
Loans to depository institutions	20,000	1.63	25,000	2.07	27,000	2.30	27,000	2.44	32,000	3.21
Total	\$ 1,229,304	100.00%	\$ 1,207,988	100.00%	\$ 1,176,552	100.00%	\$ 1,105,377	100.00%	\$ 997,410	100.00%

The following table sets forth the maturities of the Company's commercial and industrial, factored receivables and construction and land development loans, as of December 31, 2009:

	Due One Year or Less	Due One to Five Years	Due After Five Years	Total Gross Loans
Commercial and industrial	\$ 459,541	\$ 93,997	\$ 33,509	\$ 587,047
Factored receivables	140,265			140,265
Real estate - construction and land development	17,304	6,973		24,277

All commercial and industrial loans due after one year have predetermined interest rates.

All real estate - construction and land development loans due after one year have floating or adjustable interest rates.

Asset Quality

Intrinsic to the lending process is the possibility of loss. In times of economic slowdown, the risk of loss inherent in the Company's portfolio of loans may increase. While management endeavors to minimize this risk, it recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio which in turn depend on current and future economic conditions, the financial condition of borrowers, the realization of collateral, and the credit management process.

During 2009, conditions across many segments of the economy continued to deteriorate or failed to improve significantly, adversely affecting the financial condition of our small business borrowers as well as the value of our collateral. As a result of the adverse effects of existing economic conditions, nonaccrual loans increased \$10.6 million during 2009 (primarily reflecting an \$8.6 million increase in nonaccrual lease financing receivables), and net charge-offs for 2009 were \$16.9 million higher than for the corresponding period in 2008 (primarily reflecting a \$15.2 million increase in net charge-offs for lease financing receivables). The Company experienced a disruption in our collection efforts due to resignations, during the first quarter of 2009, of our collection manager and other members of the collection staff, which also resulted in increases in charge-offs and nonaccruals during 2009. We have since upgraded our collection staff, intensified our collection activities, tightened

our credit standards and enhanced other credit evaluation criteria. Nevertheless, continuation and/or worsening of existing economic conditions will likely result in levels of charge-offs and nonaccrual loans that will be higher than those in periods prior to 2009.

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The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 72), sets forth the amount of domestic nonaccrual and past due loans of the Company at the end of each of the five most recent fiscal years; there were no foreign loans accounted for on a nonaccrual basis. At December 31, 2009, approximately \$5.2 million of lease financing receivables and residential real estate loans were troubled debt restructurings. See Note 7 on page 80 for additional discussion. Loans contractually past due 90 days or more as to principal or interest and still accruing are loans that are both well-secured or guaranteed by financially responsible third parties and are in the process of collection.

December 31,	2009	2008	2007	2006	2005
Gross loans	\$ 1,254,946	\$ 1,245,263	\$ 1,249,128	\$ 1,177,705	\$ 1,081,701
Nonaccrual loans					
Commercial and industrial	\$ 4,231	\$ 816	\$ 610	\$ 1,490	\$ 611
Lease financing receivables	11,960	3,387	2,571	2,933	2,109
Factored receivables					
Real estate residential mortgage	1,786	3,078	2,786	1,011	740
Real estate commercial mortgage					
Real estate construction and land development					
Loans to individuals		63	416	427	397
Total nonaccrual loans	17,977	7,344	6,383	5,861	3,857
Past due 90 days or more (other than the above)	1,194	821	1,329	989	821
Total	\$ 19,171	\$ 8,165	\$ 7,712	\$ 6,850	\$ 4,678
Interest income that would have been earned on nonaccrual loans outstanding	\$ 1,463	\$ 731	\$ 655	\$ 545	\$ 294
Applicable interest income actually realized on nonaccrual loans outstanding	\$ 743	\$ 321	\$ 222	\$ 335	\$ 95
Nonaccrual and past due loans as a percentage of total gross loans	1.53%	0.66%	0.62%	0.58%	0.43%

At December 31, 2009, commercial and industrial nonaccruals represented 0.72% of commercial and industrial loans. There were 38 loans made to small business borrowers located in 4 states with balances ranging between approximately \$6.7 thousand and \$1.3 million.

At December 31, 2009, lease financing nonaccruals represented 6.13% of lease financing receivables. The lessees of the equipment are located in 35 states. There were 259 leases ranging between approximately \$100 and \$345.1 thousand, 100 of which were under \$100. The value of the underlying collateral related to lease financing nonaccruals varies depending on the type and condition of equipment. While most leases are written on a recourse basis, with personal guarantees of the principals, the current value of the collateral is often less than the lease financing balance. Collection efforts include repossession and/or sale of leased equipment, payment discussions with the lessee, the principal and/or guarantors, and obtaining judgments against the lessee, the principal and/or guarantors. The balance is charged off when it is determined that collection efforts are no longer productive. Factors considered in determining whether collection efforts are no longer productive include any amounts currently being collected, the status of discussions or negotiations with the lessee, the principal and/or guarantors, the cost of continuing efforts to collect, the status of any foreclosure or other legal actions, the value of the collateral, and any other pertinent factors.

At December 31, 2009, residential real estate nonaccruals represented 1.43% of residential real estate loans held in portfolio. There were 13 loans ranging between approximately \$7.5 thousand and \$332 thousand secured by properties located in 8 states.

At December 31, 2009, other real estate owned consisted of 7 properties with values between approximately \$55 thousand and \$499 thousand located in 5 states.

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Management views the allowance for loan losses as a critical accounting policy due to its subjectivity. The allowance for loan losses is maintained through the provision for loan losses, which is a charge to operating earnings. The adequacy of the provision and the resulting allowance for loan losses is determined by a management evaluation process of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and nonperforming loan data, estimates of the value of any underlying collateral, assessment of current and expected economic conditions and changes in the size and character of the loan portfolio. Other data utilized by management in determining the adequacy of the allowance for loan losses include, but are not limited to, the results of regulatory reviews; the amount of, trend of and/or borrower characteristics on loans that are identified as requiring special attention as part of the credit review process; and historical loss experience by type of credit and internal risk ratings. The impact of this other data might result in an allowance greater than that indicated by the evaluation process previously described. The allowance reflects management's best estimate of probable losses within the existing loan portfolio and of the risk inherent in various components of the loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for loan loss methodology is based on guidance provided by the Interagency Policy Statement on the Allowance for Loan and Lease Losses issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of Thrift Supervision in December 2006 and includes an allowance allocation calculated in accordance with the U.S. GAAP guidance on loans with deteriorated credit quality in FASB Codification Topic 310: *Receivables*. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors.

The level of the allowance reflects changes in the size of the portfolio or in any of its components as well as management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, and present economic, political and regulatory conditions. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. In addition, an increase in the size of the portfolio or in any of its components could necessitate an increase in the allowance even though there may not be a decline in credit quality or an increase in potential problem loans. A significant change in any of the evaluation factors described in the immediately preceding paragraph could also result in future additions to the allowance. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

At December 31, 2009, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.66% and the allowance was \$19.9 million. Loans 90 days past due and still accruing amounted to \$1.2 million. At such date, the Company's nonaccrual loans amounted to \$18.0 million; \$1.7 million of such loans were judged to be impaired within the scope of FASB Codification Topic 310: *Receivables*, and had a valuation allowance totaling \$129 thousand, which is included within the overall allowance for loan losses. Based on the foregoing, as well as management's judgment as to the current risks inherent in loans held in portfolio, the Company's allowance for loan losses was deemed adequate to absorb all probable losses on specifically known and other credit risks associated with the portfolio as of December 31, 2009. Net losses within loans held in portfolio are not statistically predictable and changes in conditions in the next twelve months could result in future provisions for loan losses varying from the provision taken in 2009. Potential problem loans, which are loans that are currently performing under present loan repayment terms but where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of the borrowers to continue to comply with the present repayment terms, aggregated \$2.4 and \$2.3 million at December 31, 2009 and 2008, respectively.

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The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 72), sets forth certain information with respect to the Company's loan loss experience for each of the five most recent fiscal years:

Years Ended December 31,	2009	2008	2007	2006	2005
Average loans held in portfolio, net of unearned discounts, during year	\$ 1,154,041	\$ 1,120,362	\$ 1,049,206	\$ 984,307	\$ 873,192
Allowance for loan losses:					
Balance at beginning of year	\$ 16,010	\$ 15,085	\$ 16,288	\$ 15,369	\$ 14,437
Charge-offs:					
Commercial and industrial	4,945	2,610	2,620	1,075	446
Lease financing receivables	19,115	3,886	3,345	4,618	3,732
Factored receivables	514	581	243	223	369
Real estate residential mortgage	312	58	215	24	13
Real estate commercial mortgage					
Real estate construction and land development					
Loans to individuals			67		
Total charge-offs	24,886	7,135	6,490	5,940	4,560
Recoveries:					
Commercial and industrial	1,042	297	219	786	219
Lease financing receivables	345	294	316	310	76
Factored receivables	63	26	31	32	39
Real estate residential mortgage	102	61	30		
Real estate commercial mortgage					
Real estate construction and land development					
Loans to individuals		69	110	38	39
Total recoveries	1,552	747	706	1,166	373
Subtract:					
Net charge-offs	23,334	6,388	5,784	4,774	4,187
Provision for loan losses	27,900	8,325	5,853	4,503	5,214
Add allowance from acquisition				1,845	
Less loss on transfers to other real estate owned	704	1,012	1,272	655	95
Balance at end of year	\$ 19,872	\$ 16,010	\$ 15,085	\$ 16,288	\$ 15,369
Ratio of net charge-offs to average loans held in portfolio, net of unearned discounts, during year	2.02%	0.57%	0.55%	0.49%	0.48%

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The following table, restated to reflect the disposition of Sterling Financial (see Note 2 beginning on page 72), presents the Company's allocation of the allowance for loan losses. This allocation is based on estimates by management and may vary from year to year based on management's evaluation of the risk characteristics of the loan portfolio. The amount allocated to a particular loan category of the Company's loans held in portfolio may not necessarily be indicative of actual future charge-offs in that loan category.

December 31,	2009		2008		2007		2006		2005	
	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio	Amount	% of Loans in each category to total loans held in portfolio
Domestic										
Commercial and industrial	\$ 6,082	49.01%	\$ 5,530	44.87%	\$ 5,655	44.96%	\$ 6,488	46.82%	\$ 7,017	40.36%
Loans to depository institutions		1.67	88	2.11	54	2.34	135	2.52	112	3.35
Lease financing receivables	10,249	16.32	6,130	21.59	5,398	21.66	6,356	19.38	4,636	19.90
Factored receivables	971	11.70	933	7.52	1,083	6.94	1,127	7.44	1,260	7.74
Real estate residential mortgage (portfolio)	1,646	10.43	2,355	12.00	1,988	11.23	1,468	11.20	1,437	15.45
Real estate commercial mortgage	560	7.75	674	8.18	613	8.60	501	8.69	509	11.59
Real estate construction and land development	149	2.03	175	2.13	183	3.22	150	2.80	10	0.24
Loans to individuals	80	1.09	88	1.60	15	1.05		1.15	110	1.37
Unallocated	135		37		96		63		278	
Total	\$ 19,872	100.00%	\$ 16,010	100.00%	\$ 15,085	100.00%	\$ 16,288	100.00%	\$ 15,369	100.00%

During 2009 the allowance for loan losses increased because of increases in the allowance allocated to lease financing receivables and in the allowance allocated to commercial and industrial loans, partially offset by a reduction in the allowance allocated to real estate-residential mortgage loans. The allowance allocated to lease financing receivables increased primarily as a result of increased losses experienced in that category in 2009 compared to 2008 partially offset by a decrease in the specific valuation allowance for impaired loans. The impact of the increase in nonaccrual lease financing receivables at December 31, 2009 compared to December 31, 2008 was mitigated by decreasing levels of nonaccruals in that category in the third and fourth quarters of 2009 compared to the second quarter of 2009. The allowance allocated to commercial and industrial loans increased due to increased losses experienced in that category in 2009 compared to 2008 and higher nonaccrual levels in that category at December 31, 2009 compared to December 31, 2008 partially offset by a decrease in the specific valuation allowance for impaired loans. The allowance allocated to real estate-residential mortgage loans decreased primarily due to lower nonaccrual loan balances at December 31, 2009 compared to December 31, 2008 coupled with a decrease in the specific valuation allowance for impaired loans. During the fourth quarter of 2009 the level of the allowance for loan losses benefitted from a recovery of \$0.9 million on a loan charged off in a prior period.

During 2008 the allowance for loan losses increased primarily because of increases in the allowance allocated to lease financing and in the allowance allocated to real estate residential mortgage loans. The allowance allocated to lease financing receivables increased primarily as a result of increased losses experienced in that category in 2008 compared to 2007 and an increase in the specific valuation allowance for impaired loans. The allowance allocated to real estate residential mortgage loans increased primarily due to increased risks in the real estate market in 2008 compared to 2007 and an increase in the specific valuation allowance for impaired loans.

During 2007 the allowance for loan losses decreased primarily because decreases in the allowance allocated to commercial and industrial loans and lease financing receivables more than offset an increase in the allowance allocated to real estate residential mortgage loans. During 2007 the allowance allocated to commercial and industrial loans decreased primarily as a result of another year of low loss experience in Sterling Resource Funding Corp. compared to its loss experience before the Company acquired it as of April 1, 2006. The allowance allocated to lease financing receivables decreased primarily as a result of improved loss experience in that category in 2007 compared to 2006. The allowance allocated to real estate residential mortgage loans increased primarily due to increased risks in the real estate market in 2007 compared to 2006 and an increase in the specific valuation allowance for impaired loans.

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Deposits

A significant source of funds are customer deposits, consisting of demand (noninterest-bearing), NOW, savings, money market and time deposits (principally certificates of deposit).

The following table provides certain information with respect to the Company's deposits at the end of each of the three most recent fiscal years:

December 31,	2009		2008		2007	
	Balances	% of Total	Balances	% of Total	Balances	% of Total
Domestic						
Demand	\$ 546,332	34.56%	\$ 464,572	34.22%	\$ 501,007	33.56%
NOW	266,343	16.85	224,754	16.55	241,333	16.17
Savings	17,497	1.11	18,083	1.33	17,690	1.19
Money Market	308,175	19.50	321,368	23.67	208,423	13.96
Time deposits less than \$100 thousand	140,678	8.90	116,601	8.59	113,170	7.58
Time deposits greater than \$100 thousand	301,057	19.04	211,855	15.60	410,443	27.50
Total domestic deposits	1,580,082	99.96	1,357,233	99.96	1,492,066	99.96
Foreign						
Demand	5		13		16	
Time deposits greater than \$100 thousand	580	0.04	578	0.04	576	0.04
Total foreign deposits	585	0.04	591	0.04	592	0.04
Total deposits	\$ 1,580,667	100.00%	\$ 1,357,824	100.00%	\$ 1,492,658	100.00%

The Company began participating in the Certificate of Deposit Account Registry Service (CDARS) on January 22, 2009. CDARS deposits totaled approximately \$82.3 million at December 31, 2009 and averaged approximately \$42.0 million for the year ended December 31, 2009.

Scheduled maturities of time deposits at December 31, 2009 were as follows:

2010	\$ 390,204
2011 and later	52,111
	<u>\$ 442,315</u>

Scheduled maturities of time deposits in amounts of \$100,000 or more at December 31, 2009 were as follows:

Due within 3 months or less	\$ 159,701
Due after 3 months and within 6 months	51,946
Due after 6 months and within 12 months	66,057
Due after 12 months	23,933
	<u>\$ 301,637</u>

Fluctuations of balances in total or among categories at any date can occur based on the Company's mix of assets and liabilities, as well as on customers' balance sheet strategies. Historically, however, average balances for deposits have been relatively stable. Information regarding these average balances for the three most recent fiscal years is presented on page 51.

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Sterling Bancorp
CONSOLIDATED AVERAGE BALANCE SHEETS AND
ANALYSIS OF NET INTEREST EARNINGS^[1]

Years Ended December 31,	2009			2008			2007		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-bearing deposits with other banks	\$ 36,804	\$ 85	0.23%	\$ 5,727	\$ 42	0.74%	\$ 3,033	\$ 117	3.86%
Investment securities									
Available for sale taxable	350,069	16,575	4.73	390,337	20,453	5.24	161,266	8,063	5.00
Held to maturity taxable	320,655	15,070	4.70	332,033	15,718	4.73	401,212	18,705	4.66
Tax-exempt ^[2]	48,761	2,907	5.96	21,799	1,268	5.82	19,849	1,183	5.96
Federal Reserve and Federal Home Loan Bank stock	9,487	516	5.45	11,908	598	5.02	3,876	315	8.14
Federal funds sold				444	8	1.84	23,219	1,236	5.32
Loans, net of unearned discounts ^[3]	1,195,266	71,788	6.38	1,143,648	80,445	7.37	1,093,125	92,247	8.83
TOTAL INTEREST-EARNING ASSETS	1,961,042	106,941	5.65%	1,905,896	118,532	6.40%	1,705,580	121,866	7.35%
Cash and due from banks	31,118			49,269			66,384		
Allowance for loan losses	(19,107)			(16,087)			(16,233)		
Goodwill	22,901			22,901			22,885		
Other	118,267			104,649			96,999		
TOTAL ASSETS	\$ 2,114,221			\$ 2,066,628			\$ 1,875,615		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest-bearing deposits									
Domestic									
Savings	\$ 18,012	18	0.10%	\$ 18,460	59	0.32%	\$ 19,618	101	0.51%
NOW	211,121	620	0.29	239,944	2,306	0.96	237,731	5,903	2.48
Money market	333,647	3,252	0.97	264,403	4,038	1.53	241,478	7,079	2.93
Time	375,164	7,993	2.13	450,455	15,099	3.35	556,295	25,674	4.62
Foreign									
Time	578	6	1.09	576	6	1.09	574	6	1.09
Total interest-bearing deposits	938,522	11,889	1.27	973,838	21,508	2.21	1,055,696	38,763	3.67
Borrowings									
Securities sold under agreements to repurchase customers	72,892	353	0.48	89,602	1,855	2.07	80,649	3,392	4.21
Securities sold under agreements to repurchase dealers				41,808	1,127	2.69	6,470	309	4.78
Federal funds purchased	25,075	51	0.21	50,368	899	1.79	9,281	430	4.63
Commercial paper	13,107	67	0.51	17,806	461	2.59	26,731	1,350	5.05
Short-term borrowings FHLB	3,411	11	0.31	69,708	1,309	1.88	7,082	336	4.74
Short-term borrowings FRB	154,726	398	0.26	8,841	47	0.53			
Short-term borrowings other	1,864			1,707	35	2.04	1,360	66	4.87
Long-term borrowings FHLB	149,207	4,432	2.97	137,705	4,053	2.94	18,356	820	4.47
Long-term borrowings subordinated debentures	25,774	2,094	8.38	25,774	2,094	8.38	25,774	2,094	8.38
Total borrowings	446,056	7,406	1.66	443,319	11,880	2.68	175,703	8,797	5.03
Total Interest-Bearing Liabilities	1,384,578	19,295	1.39%	1,417,157	33,388	2.36%	1,231,399	47,560	3.86%
Noninterest-bearing demand deposits	441,087			427,105			424,425		

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Total including noninterest-bearing demand deposits	1,825,665	19,295	1.06%	1,844,262	33,388	1.81%	1,655,824	47,560	2.87%
Other liabilities	130,331			102,575			95,651		
Total Liabilities	1,955,996			1,946,837			1,751,475		
Shareholders equity	158,225			119,791			124,140		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 2,114,221			\$ 2,066,628			\$ 1,875,615		
Net interest income/spread		87,646	4.26%		85,144	4.04%		74,306	3.49%
Net yield on interest-earning assets			4.63%			4.60%			4.48%
Less: Tax-equivalent adjustment		1,021			461			433	
Net interest income		\$ 86,625			\$ 84,683			\$ 73,873	

[1] The average balances of assets, liabilities and shareholders equity are computed on the basis of daily averages. Average rates are presented on a tax-equivalent basis. Certain reclassifications have been made to prior period amounts to conform to current presentation.

[2] Interest on tax-exempt securities included herein is presented on a tax-equivalent basis.

[3] Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans are included in amounts outstanding and income has been included to the extent earned.

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Sterling Bancorp
CONSOLIDATED RATE/VOLUME ANALYSIS^[1]

Increase (Decrease) from Years Ended,	December 31, 2008 to December 31, 2009			December 31, 2007 to December 31, 2008		
	Volume	Rate	Total ^[2]	Volume	Rate	Total ^[2]
<i>(in thousands)</i>						
INTEREST INCOME						
Interest-bearing deposits with other banks	\$ 90	\$ (47)	\$ 43	\$ 60	\$ (135)	\$ (75)
Investment securities						
Available for sale taxable	(2,021)	(1,857)	(3,878)	11,986	404	12,390
Held to maturity taxable	(553)	(95)	(648)	(3,262)	275	(2,987)
Tax-exempt	1,607	32	1,639	81	4	85
Total	(967)	(1,920)	(2,887)	8,805	683	9,488
Federal Reserve and Federal Home Loan Bank stock	(130)	48	(82)	443	(160)	283
Federal funds sold	(8)		(8)	(735)	(493)	(1,228)
Loans, net of unearned discounts ^[3]	3,343	(12,000)	(8,657)	4,606	(16,408)	(11,802)
TOTAL INTEREST INCOME	\$ 2,328	\$ (13,919)	\$ (11,591)	\$ 13,179	\$ (16,513)	\$ (3,334)
INTEREST EXPENSE						
Interest-bearing deposits						
Domestic						
Savings	\$ (1)	\$ (40)	\$ (41)	\$ (6)	\$ (36)	\$ (42)
NOW	(252)	(1,434)	(1,686)	70	(3,667)	(3,597)
Money market	900	(1,686)	(786)	635	(3,676)	(3,041)
Time	(2,260)	(4,846)	(7,106)	(4,279)	(6,296)	(10,575)
Foreign						
Time						
Total interest-bearing deposits	(1,613)	(8,006)	(9,619)	(3,580)	(13,675)	(17,255)
Borrowings						
Securities sold under agreements to repurchase customers	(297)	(1,205)	(1,502)	352	(1,889)	(1,537)
Securities sold under agreements to repurchase dealers	(1,127)		(1,127)	1,009	(191)	818
Federal funds purchased	(308)	(540)	(848)	876	(407)	469
Commercial paper	(98)	(296)	(394)	(359)	(530)	(889)
Short-term borrowings FHLB	(692)	(606)	(1,298)	1,291	(318)	973
Short-term borrowings FRB	387	(36)	351	47		47
Short-term borrowings other		(35)	(35)	14	(45)	(31)
Long-term borrowings FHLB	337	42	379	3,607	(374)	3,233
Total borrowings	(1,798)	(2,676)	(4,474)	6,837	(3,754)	3,083
TOTAL INTEREST EXPENSE	\$ (3,411)	\$ (10,682)	\$ (14,093)	\$ 3,257	\$ (17,429)	\$ (14,172)
NET INTEREST INCOME	\$ 5,739	\$ (3,237)	\$ 2,502	\$ 9,922	\$ 916	\$ 10,838

[1] *Amounts are presented on a tax-equivalent basis.*

[2] *The change in interest income and interest expense due to a combination of both volume and rate have been allocated to the change due to volume and the change due to rate in proportion to the relationship of the change due solely to each. The change in interest income for Federal funds sold and in interest expense for securities sold under agreements to repurchase dealers and short-term borrowings FRB has been allocated entirely to the volume variance. The effect of the extra day in 2008 has also been allocated entirely to the volume variance.*

[3] *Includes loans held for sale and loans held in portfolio; all loans are domestic. Nonaccrual loans have been included in the amounts outstanding and income has been included to the extent earned.*

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ASSET/LIABILITY MANAGEMENT

The Company's primary earnings source is its net interest income; therefore, the Company devotes significant time and has invested in resources to assist in the management of interest rate risk and asset quality. The Company's net interest income is affected by changes in market interest rates, and by the level and composition of interest-earning assets and interest-bearing liabilities. The Company's objectives in its asset/liability management are to utilize its capital effectively, to provide adequate liquidity and to enhance net interest income, without taking undue risks or subjecting the Company unduly to interest rate fluctuations.

The Company takes a coordinated approach to the management of its liquidity, capital and interest rate risk. This risk management process is governed by policies and limits established by senior management which are reviewed and approved by the Asset/Liability Committee. This committee, which is comprised of members of senior management, meets to review, among other things, economic conditions, interest rates, yield curve, cash flow projections, expected customer actions, liquidity levels, capital ratios and repricing characteristics of assets, liabilities and financial instruments.

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market indices such as interest rates, foreign exchange rates and equity prices. The Company's principal market risk exposure is interest rate risk, with no material impact on earnings from changes in foreign exchange rates or equity prices.

Interest rate risk is the exposure to changes in market interest rates. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. The Company monitors the interest rate sensitivity of its balance sheet positions by examining its near-term sensitivity and its longer-term gap position. In its management of interest rate risk, the Company utilizes several financial and statistical tools including traditional gap analysis and sophisticated income simulation models.

A traditional gap analysis is prepared based on the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities for selected time bands. The mismatch between repricings or maturities within a time band is commonly referred to as the "gap" for that period. A positive gap (asset sensitive) where interest rate sensitive assets exceed interest rate sensitive liabilities generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on the net interest margin. However, the traditional gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and other factors that could have an impact on interest rate sensitivity or net interest income. The Company utilizes the gap analysis to complement its income simulations modeling, primarily focusing on the longer-term structure of the balance sheet.

The Company's balance sheet structure is primarily short-term in nature with a substantial portion of assets and liabilities repricing or maturing within one year. The Company's gap analysis at December 31, 2009, presented on page 57, indicates that net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates, but, as mentioned above, gap analysis may not be an accurate predictor of net interest income.

As part of its interest rate risk strategy, the Company may use financial instrument derivatives to hedge the interest rate sensitivity of assets. The Company has written policy guidelines, approved by the Board of Directors, governing the use of financial instruments, including approved counterparties, risk limits and appropriate internal control procedures. The credit risk of derivatives arises principally from the potential for a counterparty to fail to meet its obligation to settle a contract on a timely basis.

As of December 31, 2009 the Company was not a party to any financial instrument derivative agreement. On September 14, 2008, an interest rate floor agreement with a notional amount of \$50 million expired. At December 31, 2008, there were no amounts receivable under this contract.

The interest rate floor agreement was not designated as a hedge for accounting purposes and therefore changes in the fair value of the instrument are required to be recognized as current income or expense in the Company's consolidated financial statements. For the years ended December 31, 2009, 2008 and 2007, \$-0-, \$88 thousand and \$8 thousand were credited to noninterest income, respectively.

The Company utilizes income simulation models to complement its traditional gap analysis. While the Asset/Liability Committee routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, it also utilizes additional tools to monitor potential longer-term interest rate risk. The income simulation models measure the Company's net interest income volatility or sensitivity to interest rate changes utilizing statistical techniques that allow the Company to consider various factors which impact net interest income. These factors include actual maturities, estimated cash flows, repricing characteristics, deposits growth/retention and, most importantly, the relative sensitivity of the Company's assets and liabilities to changes in market interest rates. This relative sensitivity is important to consider as the Company's core

deposit base has not been subject to the same degree of interest rate sensitivity as its assets. The core deposit costs are internally managed and tend to exhibit less sensitivity to changes in interest rates than the Company's adjustable rate assets whose yields are based on external indices and generally change in concert with market interest rates.

The Company's interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company's assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits. As of December 31, 2009, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 2.6% (\$2.7 million) and a 4.9% (\$5.1 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 1.3% (\$1.3 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2009 was considered to be remote given then-current interest rate levels. As of December 31, 2008, the model indicated the impact of a 100 and 200 basis point parallel and pro rata rise in rates over 12 months would approximate a 1.2% (\$1.2 million) and a 2.1% (\$2.0 million) increase in net interest income, respectively, while the impact of a 25 basis point decline in rates over the same period would approximate a 0.4% (\$0.4 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of December 31, 2008 was considered to be remote given then-current interest rate levels.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment/replacement of asset and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other variables. Furthermore, the sensitivity analysis does not reflect actions that the Asset/Liability Committee might take in responding to or anticipating changes in interest rates.

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (*i.e.*, the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company's interest-earning assets and its cash flows will tend to be lower. Management believes that a relatively flat yield curve could continue to affect adversely the Company's results in 2010.

Liquidity Risk

Liquidity is the ability to meet cash needs arising from changes in various categories of assets and liabilities. Liquidity is constantly monitored and managed at both the parent company and the bank levels. Liquid assets consist of cash and due from banks, interest-bearing deposits in banks and Federal funds sold and securities available for sale. Primary funding sources include core deposits, capital markets funds and other money market sources. Core deposits include domestic noninterest-bearing and interest-bearing retail deposits, which historically have been relatively stable. The parent company and the bank believe that they have significant unused borrowing capacity. Contingency plans exist which we believe could be implemented on a timely basis to mitigate the impact of any dramatic change in market conditions.

The parent company depends for its cash requirements on funds maintained or generated by its subsidiaries, principally the bank. Such sources have been adequate to meet the parent company's cash requirements throughout its history.

Various legal restrictions limit the extent to which the bank can supply funds to the parent company and its non-bank subsidiaries. All national banks are limited in the payment of dividends without the approval of the Comptroller of the Currency to an amount not to exceed the net profits (as defined) for the year to date combined with its retained net profits for the preceding two calendar years.

In December 2008, under the U.S. Treasury's TARP Capital Purchase Program, we issued to the U.S. Treasury 42,000 of the parent company's Fixed Rate Cumulative Perpetual Preferred Shares, Series A, liquidation preference of \$1,000 per share (Series A Preferred Shares). Cumulative dividends on the

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Series A Preferred Shares are payable at 5% per annum for the first five years and at a rate of 9% per annum thereafter. In conjunction with its purchase of the Series A Preferred Shares, the U.S. Treasury also received a 10-year warrant to purchase up to 516,817 of the parent company's common shares, at an exercise price of \$12.19 per share, for an aggregate purchase price of \$6.3 million in cash if the warrant is exercised in full. The allocated carrying values of the warrant and the Series A Preferred Shares on the date of issuance (based on their relative fair values) were \$2.6 million and \$39.4 million, respectively. The Series A Preferred Shares will be accreted to the redemption price of \$42 million over five years. The warrant is exercisable at any time until December 23, 2018, and the number of common shares underlying the warrant and the exercise price are subject to adjustment for certain dilutive events. If, on or before December 31, 2009, we had received aggregate gross cash proceeds of at least \$42 million from sales of Tier 1 qualifying perpetual preferred shares or common shares, the number of common shares issuable upon exercise of the warrant would have been reduced by one-half of the original number of common shares so issuable.

At December 31, 2009, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$17.3 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$62.7 million. The parent company also has back-up credit lines with banks of \$19.0 million. Since 1979, the parent company has had no need to use available back-up lines of credit.

The following table sets forth information regarding the Company's contractual cash obligations as of December 31, 2009:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 3 Years	4 5 Years	After 5 Years
Long-Term Debt ^[1]	\$ 155,774	\$ 10,000	\$ 20,000	\$ 80,000	\$ 45,774
Operating Leases	46,945	4,722	8,769	8,776	24,678
Total Contractual Cash Obligations	\$ 202,719	\$ 14,722	\$ 28,769	\$ 88,776	\$ 70,452

[1] Based on contractual maturity date.

The following table sets forth information regarding the Company's obligations under other commercial commitments as of December 31, 2009:

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total	Less than 1 Year	1 3 Years	4 5 Years	After 5 Years
Residential Loans	\$ 17,416	\$ 17,416	\$	\$	\$
Commercial Loans	13,907	141	6,833		6,933
Total Loan Commitments	31,323	17,557	6,833		6,933
Standby Letters of Credit	25,286	23,354	1,932		
Other Commercial Commitments	43,278	41,323			1,955
Total Commercial Commitments	\$ 99,887	\$ 82,234	\$ 8,765	\$	\$ 8,888

While past performance is not a guarantee of future performance, management believes that the parent company's funding sources (including dividends from all its subsidiaries) and the bank's funding sources will be adequate to meet their liquidity requirements in the future.

CAPITAL

The Company and the bank are subject to risk-based capital regulations which quantitatively measure capital against risk-weighted assets, including certain off-balance sheet items. These regulations define the elements of the Tier 1 and Tier 2 components of total capital and establish minimum ratios of 4% for Tier 1 capital and 8% for Total Capital for capital adequacy purposes. Supplementing these regulations is a leverage requirement. This requirement establishes a minimum leverage ratio (at least 3% or 4%, depending upon an institution's regulatory status), which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). Information regarding the Company's and the bank's risk-based capital at December 31, 2009 and December 31, 2008 is presented in Note 24 beginning on page 102. In addition, the bank is subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) which imposes a number of mandatory supervisory measures. Among other matters, FDICIA established five capital categories ranging from well capitalized to critically undercapitalized. Such classifications are used by regulatory agencies to determine a bank's deposit insurance premium, approval of applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Under FDICIA, a well capitalized bank must maintain minimum leverage, Tier 1 and total capital ratios of 5%, 6% and 10%, respectively. The Federal Reserve Board applies comparable tests for holding companies such as the Company. At December 31, 2009, the Company and the bank exceeded the requirements for well capitalized institutions under the tests pursuant to FDICIA and of the Federal Reserve Board.

The bank regulatory agencies have encouraged banking organizations, including healthy, well run banking organizations, to operate with capital ratios substantially in excess of the stated ratios required to maintain well capitalized status. This has resulted from, among other things, current economic conditions, the global financial crisis and the likelihood, as described below, of increased formal capital requirements for banking organizations. In light of the foregoing, the Company and the bank expect that they will maintain capital ratios substantially in excess of these ratios.

The elements currently comprising Tier 1 capital and Tier 2 capital, the minimum Tier 1 capital and total capital ratios and the minimum leverage ratio may in the future be subject to change, as discussed in greater detail under the caption BUSINESS SUPERVISION AND REGULATION beginning on page 3.

IMPACT OF INFLATION AND CHANGING PRICES

The Company's financial statements included herein have been prepared in accordance with U.S. GAAP, which require the Company to measure financial position and operating results primarily in terms of historical dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed under the caption RISKS RELATED TO THE COMPANY'S BUSINESS beginning on page 18 and under the caption ASSET/LIABILITY MANAGEMENT beginning on page 53.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Adoption of New Accounting Standards and Newly Issued Not Yet Effective Standards in Note 1 of the Company's consolidated financial statements for information regarding recently issued accounting pronouncements and their expected impact on the Company's consolidated financial statements.

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Sterling Bancorp
CONSOLIDATED INTEREST RATE SENSITIVITY

To mitigate the vulnerability of earnings to changes in interest rates, the Company manages the repricing characteristics of assets and liabilities in an attempt to control net interest rate sensitivity. Management attempts to confine significant rate sensitivity gaps predominantly to repricing intervals of a year or less, so that adjustments can be made quickly. Assets and liabilities with predetermined repricing dates are classified based on the earliest repricing period. Based on the interest rate sensitivity analysis shown below, the Company's net interest income would increase during periods of rising interest rates and decrease during periods of falling interest rates.

	Repricing Date						Total
	3 Months or Less	More than 3 Months to 1 Year	1 Year to 5 Years	5 Years to 10 Years	Over 10 Years	Nonrate Sensitive	
ASSETS							
Interest-bearing deposits with other banks	\$ 36,958	\$	\$	\$	\$	\$	\$ 36,958
Investment securities	84,901	76,294	166,715	72,680	336,475		737,065
Commercial and industrial loans	501,559	44,506	40,973			(1,162)	585,876
Lease financing receivables	1,556	12,148	201,890	3,605		(24,143)	195,056
Factored receivables	140,265					(338)	139,927
Real estate residential mortgage	25,526	55,520	14,018	16,116	47,390		158,570
Real estate commercial mortgage	12,388	14,335	28,133	37,758			92,614
Real estate construction loans			24,277				24,277
Loans to individuals	12,984						12,984
Loans to depository institutions	20,000						20,000
Noninterest-earning assets and allowance for loan losses						162,282	162,282
Total Assets	836,137	202,803	476,006	130,159	383,865	136,639	2,165,609
LIABILITIES AND SHAREHOLDERS EQUITY							
Interest-bearing deposits							
Savings			17,497				17,497
NOW			266,343				266,343
Money market	283,308		24,867				308,175
Time domestic	195,235	194,391	52,109				441,735
foreign	395	185					580
Securities sold under agreements to repurchase customers	21,048						21,048
Federal funds purchased	41,000						41,000
Commercial paper	17,297						17,297
Short-term borrowings FRB	50,000						50,000
Short-term borrowings other	2,509						2,509
Long-term borrowings FHLB	10,000		100,000	20,000			130,000
Long-term borrowings subordinated debentures					25,774		25,774
Noninterest-bearing liabilities and shareholders equity						843,651	843,651
Total Liabilities and Shareholders Equity	620,792	194,576	460,816	20,000	25,774	843,651	2,165,609
Net Interest Rate Sensitivity Gap	\$ 215,345	\$ 8,227	\$ 15,190	\$ 110,159	\$ 358,091	\$ (707,012)	\$
	\$ 215,345	\$ 223,572	\$ 238,762	\$ 348,921	\$ 707,012	\$	\$

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**Cumulative Gap at December 31,
2009**

Cumulative Gap at December 31, 2008	\$ (1,506)	\$ (119,864)	\$ (67,838)	\$ 121,095	\$ 620,719	\$	\$
Cumulative Gap at December 31, 2007	\$ 12,155	\$ (177,693)	\$ (7,050)	N/A	\$ 571,196 ^[1]	\$	\$

[1] Represents amounts due after 5 years.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009, and the statements of condition of Sterling National Bank as of December 31, 2009 and 2008, notes thereto and the Reports of Independent Registered Public Accounting Firms thereon appear on pages 59-110.

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Sterling Bancorp
CONSOLIDATED BALANCE SHEETS

December 31,	2009	2008
	<i>(dollars in thousands, except per share data)</i>	
ASSETS		
Cash and due from banks	\$ 24,911	\$ 31,832
Interest-bearing deposits with other banks	36,958	13,949
Securities available for sale (at estimated fair value; pledged: \$150,034 in 2009 and \$334,048 in 2008)	346,526	492,797
Securities held to maturity (pledged: \$278,598 in 2009 and \$206,726 in 2008) (estimated fair value: \$396,150 in 2009 and \$305,628 in 2008)	390,539	301,127
Total investment securities	737,065	793,924
Loans held for sale	33,889	23,403
Loans held in portfolio, net of unearned discounts	1,195,415	1,184,585
Less allowance for loan losses	19,872	16,010
Loans, net	1,175,543	1,168,575
Federal Reserve and Federal Home Loan Bank stock, at cost	8,482	12,705
Customers liability under acceptances	27	95
Goodwill	22,901	22,901
Premises and equipment, net	9,658	10,668
Other real estate	1,385	1,544
Accrued interest receivable	9,001	8,917
Cash surrender value of life insurance policies	49,009	45,845
Other assets	56,780	44,743
Total assets	\$ 2,165,609	\$ 2,179,101
LIABILITIES AND SHAREHOLDERS EQUITY		
Noninterest-bearing demand deposits	\$ 546,337	\$ 464,585
Savings, NOW and money market deposits	592,015	564,205
Time deposits	442,315	329,034
Total deposits	1,580,667	1,357,824
Securities sold under agreements to repurchase customers	21,048	44,334
Federal funds purchased	41,000	131,000
Commercial paper	17,297	11,732
Short-term borrowings FHLB		75,000
Short-term borrowings FRB	50,000	100,000
Short-term borrowings other	2,509	1,338
Long-term borrowings FHLB	130,000	150,000
Long-term borrowings subordinated debentures	25,774	25,774
Total borrowings	287,628	539,178
Acceptances outstanding	27	95
Accrued interest payable	1,291	2,046
Due to factored clients	82,401	50,621
Accrued expenses and other liabilities	51,645	68,857

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Total liabilities	2,003,659	2,018,621
Commitments and contingent liabilities		
Shareholders' Equity		
Preferred stock, Series A, \$5 par value; \$1,000 liquidation value. Authorized 644,389 shares; issued 42,000 shares	40,113	39,440
Common stock, \$1 par value. Authorized 50,000,000 shares; issued 22,226,425 and 22,202,419 shares, respectively	22,227	22,203
Warrant to purchase common stock	2,615	2,615
Capital surplus	178,734	178,417
Retained earnings	15,828	19,088
Accumulated other comprehensive loss	(12,399)	(16,259)
Common stock in treasury at cost, 4,119,934 and 4,107,191 shares, respectively	(85,168)	(85,024)
Total shareholders' equity	161,950	160,480
Total liabilities and shareholders' equity	\$ 2,165,609	\$ 2,179,101

See Notes to Consolidated Financial Statements.

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Sterling Bancorp
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	2009	2008	2007
<i>(dollars in thousands, except per share data)</i>			
INTEREST INCOME			
Loans	\$ 71,788	\$ 80,445	\$ 92,247
Investment securities			
Available for sale taxable	16,575	20,453	8,063
Held to maturity taxable	15,070	15,718	18,705
Tax exempt	1,889	811	753
Federal Reserve and Federal Home Loan Bank Stock	513	594	312
Federal funds sold		8	1,236
Deposits with other banks	85	42	117
Total interest income	105,920	118,071	121,433
INTEREST EXPENSE			
Deposits			
Savings, NOW and Money Market	3,890	6,403	13,083
Time	7,999	15,105	25,680
Securities sold under agreements to repurchase customers	353	1,855	3,392
Securities sold under agreements to repurchase dealers		1,127	309
Federal funds purchased	51	899	430
Commercial paper	67	461	1,350
Short-term borrowings FHLB	11	1,309	336
Short-term borrowings FRB	398	47	
Short-term borrowings other		35	66
Long-term borrowings FHLB	4,432	4,053	820
Long-term borrowings subordinated debentures	2,094	2,094	2,094
Total interest expense	19,295	33,388	47,560
Net interest income	86,625	84,683	73,873
Provision for loan losses	27,900	8,325	5,853
Net interest income after provision for loan losses	58,725	76,358	68,020
NONINTEREST INCOME			
Accounts receivable management/factoring commissions and other fees	18,320	15,713	15,536
Service charges on deposit accounts	5,943	5,418	5,588
Trade finance income	1,891	1,670	2,044
Other customer related service charges and fees	929	1,121	1,000
Mortgage banking income	9,476	8,619	8,893
Trust fees	450	571	551
Income from life insurance policies	1,098	1,127	1,092
Securities gains	5,561		188
Other-than-temporary loss		(1,684)	
Loss on other real estate owned	(32)	(326)	(331)
Other income	514	1,071	851
Total noninterest income	44,150	33,300	35,412
NONINTEREST EXPENSES			
Salaries	39,875	38,523	36,797
Employee benefits	12,293	9,893	9,506

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Total personnel expense	52,168	48,416	46,303
Occupancy and equipment expenses, net	11,278	11,365	10,354
Advertising and marketing	3,167	3,914	3,897
Professional fees	5,147	7,873	6,666
Communications	1,665	1,757	1,941
Deposit insurance	4,153	751	206
Other expenses	10,967	10,400	10,111
Total noninterest expenses	88,545	84,476	79,478
Income from continuing operations before income taxes	14,330	25,182	23,954
Provision for income taxes	4,908	9,176	8,560
Income from continuing operations	9,422	16,006	15,394
Loss from discontinued operations, net of tax			(795)
Net income	9,422	16,006	14,599
Dividends on preferred shares and accretion	2,773	102	
Net income available to common shareholders	\$ 6,649	\$ 15,904	\$ 14,599
Average number of common shares outstanding			
Basic	18,104,619	17,890,997	18,407,228
Diluted	18,126,333	18,107,878	18,729,034
Income from continuing operations available to common shareholders, per average common share			
Basic	\$ 0.37	\$ 0.89	\$ 0.84
Diluted	0.37	0.88	0.82
Net income available to common shareholders, per average common share			
Basic	0.37	0.89	0.79
Diluted	0.37	0.88	0.78
Dividends per common share	0.56	0.76	0.76

See Notes to Consolidated Financial Statements.

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Sterling Bancorp
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

Years Ended December 31,	2009	2008	2007
	<i>(dollars in thousands)</i>		
Net income	\$ 9,422	\$ 16,006	\$ 14,599
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains on available for sale securities and other investments, arising during the year	3,039	360	835
Reclassification adjustment for (gains) losses included in net income	(3,037)	920	(106)
Pension liability adjustment net actuarial gains (losses)	1,935	(7,613)	(596)
Reclassification adjustment for amortization of:			
Prior service cost	36	36	54
Net actuarial losses	1,887	850	844
Other comprehensive income (loss)	3,860	(5,447)	1,031
Comprehensive income	\$ 13,282	\$ 10,559	\$ 15,630

See Notes to Consolidated Financial Statements.

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Sterling Bancorp
CONSOLIDATED STATEMENTS OF
CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31,	2009	2008	2007
<i>(dollars in thousands)</i>			
PREFERRED STOCK			
Balance at beginning of year	\$ 39,440	\$	\$
Allocated proceeds at issuance		39,385	
Discount accretion	673	55	
Balance at end of year	\$ 40,113	\$ 39,440	\$
COMMON STOCK			
Balance at beginning of year	\$ 22,203	\$ 21,279	\$ 21,177
Common shares issued under stock incentive plan	24	924	102
Balance at end of year	\$ 22,227	\$ 22,203	\$ 21,279
WARRANT TO PURCHASE COMMON STOCK			
Balance at beginning of year	\$ 2,615	\$	\$
Allocated proceeds at issuance		2,615	