

STERLING BANCORP
Form 10-Q
November 04, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from _____ to _____

Commission File Number: 1-5273-1

Sterling Bancorp

(Exact name of registrant as specified in its charter)

New York 12-2565216

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification)

650 Fifth Avenue, New York, N.Y. 10019-6108

(Address of principal executive offices) (Zip Code)

212-757-3300
(Registrant's telephone number, including area code)

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

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.

x Yes o 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(17 CFR § 232.405) during the

Edgar Filing: STERLING BANCORP - Form 10-Q

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer
Non-Accelerated Filer

Accelerated Filer
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2010 there were 26,840,763 shares of common stock,
\$1.00 par value, outstanding.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP

	<u>Page</u>
PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements
	<u>Consolidated Financial Statements (Unaudited)</u> 3
	<u>Notes to Consolidated Financial Statements</u> 8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>Overview</u> 28
	<u>Recent Legislation Impacting The Financial Services Industry</u> 29
	<u>Income Statement Analysis</u> 30
	<u>Balance Sheet Analysis</u> 34
	<u>Capital</u> 41
	<u>Recently Issued Accounting Pronouncements</u> 42
	<u>Cautionary Statement Regarding Forward-Looking Statements</u> 42
	<u>Average Balance Sheets</u> 43
	<u>Rate/Volume Analysis</u> 45
	<u>Regulatory Capital and Ratios</u> 47
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>Asset/Liability Management</u> 48
	<u>Interest Rate Sensitivity</u> 52
<u>Item 4.</u>	<u>Controls and Procedures</u> 53
<u>PART II OTHER INFORMATION</u>	
<u>Item 6.</u>	<u>Exhibits</u> 54
SIGNATURES 55	
EXHIBITS INDEX	
Exhibit 11	Statement Re: Computation of Per Share Earnings 57
Exhibit 31.1	Certification of the CEO pursuant to Exchange Act Rule 13a-14(a) 58
Exhibit 31.2	Certification of the CFO pursuant to Exchange Act Rule 13a-14(a) 59
Exhibit 32.1	Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code 60
Exhibit 32.2	Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code 61

STERLING BANCORP AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)
(dollars in thousands)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$ 37,193	\$ 24,911
Interest-bearing deposits with other banks	19,300	36,958
Securities available for sale (at estimated fair value; pledged: \$124,405 in 2010 and \$150,034 in 2009)	421,984	346,526
Securities held to maturity (pledged: \$161,416 in 2010 and \$278,598 in 2009) (estimated fair value: \$355,462 in 2010 and \$396,150 in 2009)	342,477	390,539
Total investment securities	764,461	737,065
Loans held for sale	34,046	33,889
Loans held in portfolio, net of unearned discounts	1,296,166	1,195,415
Less allowance for loan losses	18,152	19,872
Loans, net	1,278,014	1,175,543
Federal Reserve and Federal Home Loan Bank stock, at cost	9,381	8,482
Customers liability under acceptances	313	27
Goodwill	22,901	22,901
Premises and equipment, net	15,725	9,658
Other real estate	744	1,385
Accrued interest receivable	9,216	9,001
Cash surrender value of life insurance policies	50,877	49,009
Other assets	61,306	56,780
	\$ 2,303,477	\$ 2,165,609
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand deposits	\$ 539,633	\$ 546,337
Savings, NOW and money market deposits	555,262	592,015
Time deposits	550,718	442,315
Total deposits	1,645,613	1,580,667
Securities sold under agreements to repurchase - customers	21,084	21,048
Securities sold under agreements to repurchase - dealers	5,000	
Federal funds purchased	60,000	41,000
Commercial paper	15,245	17,297
Short-term borrowings - FRB		50,000
Short-term borrowings - other	2,221	2,509
Long-term borrowings - FHLB	144,528	130,000
Long-term borrowings - subordinated debentures	25,774	25,774
Total borrowings	273,852	287,628

Edgar Filing: STERLING BANCORP - Form 10-Q

Acceptances outstanding	313	27
Accrued interest payable	1,639	1,291
Due to factored clients	92,854	82,401
Accrued expenses and other liabilities	64,828	51,645
Total liabilities	2,079,099	2,003,659
Shareholders' equity		
Preferred stock, Series A, \$5 par value; \$1,000 liquidation value. Authorized 644,389 shares; issued 42,000 shares, respectively	40,472	40,113
Common stock, \$1 par value. Authorized 50,000,000 shares; issued 31,138,545 and 22,226,425 shares, respectively	31,139	22,227
Warrants to purchase common stock	2,615	2,615
Capital surplus	236,368	178,734
Retained earnings	10,306	15,828
Accumulated other comprehensive loss	(9,966)	(12,399)
Common shares in treasury at cost, 4,297,782 and 4,119,934 shares, respectively	(86,556)	(85,168)
Total shareholders' equity	224,378	161,950
	\$ 2,303,477	\$ 2,165,609

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans	\$ 18,275	\$ 18,024	\$ 51,907	\$ 53,840
Investment securities				
Available for sale	2,985	4,123	9,315	13,751
Held to maturity	3,320	4,357	11,622	11,485
FRB and FHLB stock	112	191	296	387
Deposits with other banks	10	27	53	46
Total interest income	24,702	26,722	73,193	79,509
INTEREST EXPENSE				
Deposits				
Savings, NOW and money market	746	872	2,536	2,940
Time	1,545	1,933	4,857	6,148
Securities sold under agreements to repurchase - customers				
	49	79	175	282
Securities sold under agreements to repurchase - dealers				
	23		28	
Federal funds purchased	44	2	67	43
Commercial paper	12	15	34	55
Short-term borrowings - FHLB				
		131	9	356
Short-term borrowings - FRB				
	14		18	1
Short-term borrowings - other				
	871	1,197	2,591	3,453
Long-term borrowings - FHLB				
	523	523	1,570	1,570
Total interest expense	3,827	4,752	11,885	14,859
Net interest income	20,875	21,970	61,308	64,650
Provision for loan losses	14,000	6,950	25,500	19,950
Net interest income after provision for loan losses	6,875	15,020	35,808	44,700
Total noninterest income	13,058	11,735	35,521	33,337
Total noninterest expenses	23,753	23,177	67,228	67,372
(Loss) Income before income taxes	(3,820)	3,578	4,101	10,665
(Benefit) Provision for income taxes	(1,146)	1,180	1,230	3,880
Net (loss) income	(2,674)	2,398	2,871	6,785

Edgar Filing: STERLING BANCORP - Form 10-Q

Dividends on preferred shares and accretion	654	646	1,934	2,125
Net (loss) income available to common shareholders	\$ (3,328)	\$ 1,752	\$ 937	\$ 4,660
Average number of common shares outstanding				
Basic	26,840,763	18,106,491	23,787,733	18,104,057
Diluted	26,840,763	18,120,412	23,791,160	18,192,585
Net income (loss) available to common shareholders, per average common share				
Basic	\$ (0.12)	\$ 0.10	\$ 0.04	\$ 0.26
Diluted	(0.12)	0.10	0.04	0.26
Dividends per common share	0.09	0.09	0.27	0.47

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net (loss) income	\$ (2,674)	\$ 2,398	\$ 2,871	\$ 6,785
Other comprehensive income, net of tax:				
Unrealized gains on securities:				
Unrealized holding gains on available for sale securities and other investments arising during the year	921	2,664	3,081	4,352
Reclassification adjustment for gains included in net income	(638)	(666)	(1,866)	(2,818)
Reclassification adjustment for amortization of:				
Prior service cost	9	9	27	27
Net actuarial losses	354	532	1,191	1,404
Other comprehensive income	646	2,539	2,433	2,965
Comprehensive (loss) income	\$ (2,028)	\$ 4,937	\$ 5,304	\$ 9,750

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2010	2009
Preferred Stock		
Balance at January 1,	\$ 40,113	\$ 39,440
Discount accretion	359	550
Balance at September 30,	\$ 40,472	\$ 39,990
Common Stock		
Balance at January 1,	\$ 22,227	\$ 22,203
Common shares issued	8,625	24
Restricted shares issued	84	
Common shares issued under stock incentive plan	203	
Balance at September 30,	\$ 31,139	\$ 22,227
Warrants to Purchase Common Stock		
Balance at January 1, and September 30,	\$ 2,615	\$ 2,615
Capital Surplus		
Balance at January 1,	\$ 178,734	\$ 178,417
Common shares issued	56,256	
Restricted shares issued	(84)	
Common shares issued under stock incentive plan and related tax benefits	1,274	185
Stock option compensation expense	188	99
Balance at September 30,	\$ 236,368	\$ 178,701
Retained Earnings		
Balance at January 1,	\$ 15,828	\$ 19,088
Net income	2,871	6,785
Cash dividends paid - preferred shares	(1,575)	(1,353)
Cash dividends paid - common shares	(6,459)	(8,503)
Discount accretion on series A preferred stock	(359)	(550)
Balance at September 30,	\$ 10,306	\$ 15,467
Accumulated Other Comprehensive Loss		
Balance at January 1,	\$ (12,399)	\$ (16,259)
Other comprehensive income, net of tax	2,433	2,965
Balance at September 30,	\$ (9,966)	\$ (13,294)

Edgar Filing: STERLING BANCORP - Form 10-Q

Treasury Stock		
Balance at January 1,	\$ (85,168)	\$ (85,024)
Surrender of shares issued under stock incentive plan	(1,388)	(144)
	<u> </u>	<u> </u>
Balance at September 30,	\$ (86,556)	\$ (85,168)
	<u> </u>	<u> </u>
Total Shareholders' Equity		
Balance at January 1,	\$ 161,950	\$ 160,480
Net changes during the period	62,428	58
	<u> </u>	<u> </u>
Balance at September 30,	\$ 224,378	\$ 160,538
	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements.

STERLING BANCORP AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2010	2009
Operating Activities		
Net Income	\$ 2,871	\$ 6,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	25,500	19,950
Depreciation and amortization of premises and equipment	1,171	1,679
Securities gains	(3,419)	(5,160)
Income from life insurance policies, net	(757)	(1,094)
Deferred income tax provision (benefit)	361	(2,076)
Proceeds from sale of loans	330,050	492,589
Gains on sales of loans, net	(5,645)	(7,146)
Originations of loans held for sale	(325,826)	(487,822)
Amortization of premiums on securities	4,793	1,386
Accretion of discounts on securities	(446)	(1,035)
(Increase) Decrease in accrued interest receivable	(215)	776
Increase (Decrease) in accrued interest payable	348	(509)
Increase in due to factored clients	10,453	39,111
Increase in accrued expenses and other liabilities	5,057	(14,742)
Increase in other assets	(8,517)	(1,872)
Loss (Gain) on other real estate owned	17	(39)
Net cash provided by operating activities	35,796	40,781
Investing Activities		
Purchase of premises and equipment	(7,238)	(641)
Net decrease (increase) in interest-bearing deposits with other banks	17,658	(7,171)
Net (increase) decrease in loans held in portfolio	(80,961)	21,254
Net increase in short-term factored receivables	(46,279)	(42,870)
Decrease in other real estate	1,157	1,284
Proceeds from prepayments, redemptions or maturities of securities - held to maturity	48,597	60,172
Purchases of securities - held to maturity	(122,185)	(183,996)
Proceeds from calls of securities - held to maturity	132,380	30,000
Proceeds from calls/sales of securities - available for sale	400,719	366,526
Proceeds from prepayments, redemptions or maturities of securities - available for sale	170,701	95,607
Purchases of securities - available for sale	(645,514)	(285,516)
Proceeds from redemptions or maturities of securities - FHLB & FRB stock	961	3,375
Purchases of securities - FHLB & FRB stock	(1,860)	(503)
Cash paid in acquisition		(21,333)
Net cash (used in) provided by investing activities	(131,864)	36,188
Financing Activities		
Net (decrease) increase in noninterest-bearing demand deposits	(6,704)	5,819
Net decrease in savings, NOW and money market deposits	(36,753)	(18,376)
Net increase in time deposits	108,403	63,258
Net increase (decrease) in Federal funds purchased	19,000	(105,325)
Net increase in securities sold under agreements to repurchase	5,036	11,294
Net decrease in commercial paper and other short-term borrowings	(52,340)	(34,590)
Increase in long-term borrowings	14,528	10,000
Proceeds from exercise of stock options	333	163

Edgar Filing: STERLING BANCORP - Form 10-Q

Proceeds from issuance of common stock	64,881	
Cash dividends paid on preferred stock	(1,575)	(1,353)
Cash dividends paid on common stock	(6,459)	(8,503)
	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	108,350	(77,613)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and due from banks	12,282	(644)
Cash and due from banks - beginning of period	24,911	31,832
	<u> </u>	<u> </u>
Cash and due from banks - end of period	\$ 37,193	\$ 31,188
	<u> </u>	<u> </u>
Supplemental disclosures:		
Interest paid	\$ 11,537	\$ 15,368
Income taxes paid	3,716	5,746
Loans held for sale transferred to portfolio	1,264	
Loans transferred to other real estate	533	1,538
Due to brokers on purchases of securities - AFS		5,000
Due to brokers on purchases of securities - HTM	10,300	613
<i>See Notes to Consolidated Financial Statements.</i>		

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Significant Accounting Policies

Nature of Operations. Sterling Bancorp (the parent company) is a financial holding company, pursuant to an election made under the Gramm-Leach-Bliley Act of 1999. Throughout the notes, the term the Company refers to Sterling Bancorp and its subsidiaries and the term the bank refers to Sterling National Bank and its subsidiaries. The Company provides a full 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, leasing, deposit services, trust and estate administration and investment management services. The Company has operations principally in the New York metropolitan area and conducts business throughout the United States.

The Company's financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) which, effective for all interim and annual periods ending after September 15, 2009, principally consist of the Financial Accounting Standards Board Accounting Standards Codification (FASB Codification). FASB Codification Topic 105: *Generally Accepted Accounting Principles* establishes the FASB codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the FASB Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the FASB Codification is superseded and deemed non-authoritative.

Basis of Presentation. The consolidated financial statements include the accounts of Sterling Bancorp and its subsidiaries, principally the bank, after elimination of intercompany transactions. The consolidated financial statements as of and for the interim periods ended September 30, 2010 and 2009 are unaudited; however, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of such periods have been made. Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current presentation. The interim consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

Use of Estimates. The preparation of financial statements in accordance with U.S. GAAP requires management to make assumptions and estimates which impact the amounts reported in those statements and are, by their nature, subject to change in the future as additional information becomes available or as circumstances vary. Actual results could differ from management's current estimates as a result of changing conditions and future events. The current economic environment has increased the degree of uncertainty inherent in these significant estimates. Several accounting estimates are particularly critical and are susceptible to significant near-term change, including the allowance for loan losses and asset impairment judgments, such as other-than-temporary declines in the value of securities and the accounting for income taxes. The judgments used by management in applying these critical accounting policies may be affected by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. For example, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods, and the inability to collect outstanding principal may result in increased loan losses. The Company evaluates subsequent events through the date that the financial statements are issued. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current presentation. Throughout the notes, dollar amounts presented in tables are in thousands, except per share data.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 2. Investment Securities

The following tables present information regarding securities available for sale:

September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMO s (Federal Home Loan Mortgage Corporation)	\$ 1,109	\$ 31	\$	\$ 1,140
CMO s (Government National Mortgage Association)	12,535	311		12,846
Federal National Mortgage Association	7,075	339		7,414
Federal Home Loan Mortgage Corporation	238	26	1	263
Government National Mortgage Association	2,220	272		2,492
Total mortgage-backed securities	23,177	979	1	24,155
Agency Notes				
Federal National Mortgage Association	45,087	191		45,278
Federal Home Loan Bank	15,000	114		15,114
Federal Home Loan Mortgage Corporation	89,962	449		90,411
Federal Farm Credit Bank	10,000	50		10,050
Total obligations of U.S. government corporations and government sponsored enterprises	183,226	1,783	1	185,008
Obligations of state and political institutions-New York Bank Qualified				
Single-issuer, trust preferred securities	22,658	1,415		24,073
Corporate debt securities	3,878	76	26	3,928
Other securities	203,646	470	210	203,906
	5,044	25		5,069
Total	\$ 418,452	\$ 3,769	\$ 237	\$ 421,984

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMO s (Federal National Mortgage Association)	\$ 2,882	\$	\$ 5	\$ 2,877
CMO s (Federal Home Loan Mortgage Corporation)	5,563	171		5,734
CMO s (Government National Mortgage Association)	9,181		133	9,048
Federal National Mortgage Association	21,055	868	71	21,852
Federal Home Loan Mortgage Corporation	10,321	299		10,620
Government National Mortgage Association	6,807	351	1	7,157
	<u>55,809</u>	<u>1,689</u>	<u>210</u>	<u>57,288</u>
Total mortgage-backed securities				
Agency Notes				
Federal National Mortgage Association	20,291		835	19,456
Federal Home Loan Bank	83,983	6	1,039	82,950
Federal Home Loan Mortgage Corporation	4,995		96	4,899
Federal Farm Credit Bank	24,999		669	24,330
	<u>190,077</u>	<u>1,695</u>	<u>2,849</u>	<u>188,923</u>
Total obligations of U.S. government corporations and government sponsored enterprises				
Obligations of state and political institutions-New York Bank Qualified				
Single-issuer, trust preferred securities	22,820	1,061	17	23,864
Corporate debt securities	4,878		395	4,483
Other securities	127,900	1,382	82	129,200
	44	12		56
	<u>345,719</u>	<u>4,150</u>	<u>3,343</u>	<u>346,526</u>
Total	<u>\$ 345,719</u>	<u>\$ 4,150</u>	<u>\$ 3,343</u>	<u>\$ 346,526</u>

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables present information regarding securities held to maturity:

September 30, 2010	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMO s (Federal National Mortgage Association)	\$ 8,846	\$ 448	\$	\$ 9,294
CMO s (Federal Home Loan Mortgage Corporation)	13,558	667		14,225
Federal National Mortgage Association	77,289	4,324		81,613
Federal Home Loan Mortgage Corporation	45,564	2,291		47,855
Government National Mortgage Association	5,191	590		5,781
Total mortgage-backed securities	150,448	8,320		158,768
Agency Notes				
Federal National Mortgage Association	34,989	36	19	35,006
Federal Home Loan Bank	19,990	7	6	19,991
Federal Home Loan Mortgage Corporation	14,995	50		15,045
Federal Farm Credit Bank	5,081	2		5,083
Total obligations of U.S. government corporations and government sponsored enterprises	225,503	8,415	25	233,893
Obligations of state and political institutions-New York Bank Qualified	116,974	4,679	84	121,569
Total	\$ 342,477	\$ 13,094	\$ 109	355,462

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

December 31, 2009	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMO s (Federal National Mortgage Association)	\$ 10,863	\$ 339	\$	\$ 11,202
CMO s (Federal Home Loan Mortgage Corporation)	16,964	573		17,537
Federal National Mortgage Association	103,821	4,329	2	108,148
Federal Home Loan Mortgage Corporation	61,095	2,005		63,100
Government National Mortgage Association	5,989	501		6,490
Total mortgage-backed securities	198,732	7,747	2	206,477
Agency Notes				
Federal National Mortgage Association	97,147	14	1,742	95,419
Federal Home Loan Bank	19,849		474	19,375
Federal Home Loan Mortgage Corporation	10,000		218	9,782
Federal Farm Credit Bank	5,088		94	4,994
Total obligations of U.S. government corporations and government sponsored enterprises	330,816	7,761	2,530	336,047
Obligations of state and political institutions-New York Bank Qualified	59,473	737	357	59,853
Debt securities issued by foreign governments	250			250
Total	\$ 390,539	\$ 8,498	\$ 2,887	\$ 396,150

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables present information regarding securities available for sale with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2010						
Obligations of U.S. government corporations and government sponsored enterprises						
Federal Home Loan Mortgage Corporation	\$ 29	\$ 1	\$	\$	\$ 29	\$ 1
Total mortgage-backed securities	29	1			29	1
Single-issuer, trust preferred securities						
Corporate debt securities	58,625	210	2,110	26	2,110	26
Total	\$ 58,654	\$ 211	\$ 2,110	\$ 26	\$ 60,764	\$ 237

December 31, 2009

Obligations of U.S. government corporations and government sponsored enterprises						
Mortgage-backed securities						
CMO s (Federal National Mortgage Association)	\$ 2,877	\$ 5	\$	\$	\$ 2,877	\$ 5
CMO s (Government National Mortgage Association)	4,926	91	4,122	42	9,048	133
Federal National Mortgage Association	2,057	71			2,057	71
Government National Mortgage Association			123	1	123	1
Total mortgage-backed securities	9,860	167	4,245	43	14,105	210
Agency Notes						
Federal National Mortgage Association	19,456	835			19,456	835
Federal Home Loan Bank	68,231	751	9,713	288	77,944	1,039
Federal Home Loan Mortgage Corporation	4,899	96			4,899	96
Federal Farm Credit Bank	24,330	669			24,330	669
Total obligations of U.S. government corporations and government sponsored enterprises	126,776	2,518	13,958	331	140,734	2,849
Obligations of state and political institutions-New York Bank Qualified						
Single-issuer, trust preferred securities	872	17	3,540	395	3,540	395
Corporate debt securities	23,575	82			23,575	82
Total	\$ 151,223	\$ 2,617	\$ 17,498	\$ 726	\$ 168,721	\$ 3,343

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables present information regarding securities held to maturity with temporary unrealized losses for the periods indicated:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2010						
Obligations of U.S. government corporations and government sponsored enterprises - Agency Notes						
Federal National Mortgage Association	\$ 14,977	\$ 19	\$	\$	\$ 14,977	\$ 19
Federal Home Loan Bank	4,986	6			4,986	6
Total obligations of U.S. government corporations and government sponsored enterprises	19,963	25			19,963	25
Obligations of state and political institutions-New York Bank Qualified	5,064	84			5,064	84
Total	\$ 25,027	\$ 109	\$	\$	\$ 25,027	\$ 109

December 31, 2009

Obligations of U.S. government corporations and government sponsored enterprises - Mortgage-backed securities						
Federal National Mortgage Association	\$	\$	\$ 459	\$ 2	\$ 459	\$ 2
Total mortgage-backed securities			459	2	459	2
Agency Notes						
Federal National Mortgage Association	86,027	1,742			86,027	1,742
Federal Home Loan Bank	19,375	474			19,375	474
Federal Home Loan Mortgage Corporation	9,782	218			9,782	218
Federal Farm Credit Bank	4,994	94			4,994	94
Total obligations of U.S. government corporations and government sponsored enterprises	120,178	2,528	459	2	120,637	2,530
Obligations of state and political institutions-New York Bank Qualified	16,478	357			16,478	357
Total	\$ 136,656	\$ 2,885	\$ 459	\$ 2	\$ 137,115	\$ 2,887

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The Company invests principally in obligations of U.S. government corporations and government sponsored enterprises and other investment-grade securities. The fair value of these investments fluctuates based on several factors, including credit quality and general interest rate changes. The Company determined that it is not more likely than not that the Company would be required to sell before anticipated recovery.

At September 30, 2010, approximately \$120.7 million, representing approximately 15.8%, of the Company's held to maturity and available for sale securities are comprised of securities issued by financial service companies/banks including single-issuer trust preferred securities (6 issuers), corporate debt (20 issuers) and equity securities (8 issuers). These investments may pose a higher risk of future impairment charges as a result of a possible further deterioration of the U.S. economy. Some of the single-issuer trust preferred securities held by the Company are financial institutions that are participating in the U.S. Treasury's TARP Capital Purchase Program (CPP). It is possible that these financial institutions may elect to defer future interest payments on such securities based upon recommendations by the U.S. Government and the banking regulators or management decisions driven by potential liquidity needs. Such elections could result in future impairment charges if collection of deferred and accrued interest (or principal upon maturity) is deemed unlikely by management. The Company would be required to recognize impairment charges on these securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators or unanticipated changes in the competitive environment could have a negative effect on the Company's investment portfolio and may result in other-than-temporary impairment on certain investment securities in future periods.

At September 30, 2010, the Company held 6 securities positions of single-issuer, trust preferred securities and 42 security positions of corporate debt securities issued by financial institutions, in the available for sale portfolio, all of which are paying in accordance with their terms and have no deferrals of interest or other deferrals. In addition, management analyzes the performance of the issuers on a periodic basis, including a review of each issuer's most recent bank regulatory report to assess credit risk and the probability of impairment of the contractual cash flows of the applicable securities. Based upon management's third quarter review, all of the issuers have maintained performance levels adequate to support the contractual cash flows of the securities.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following table presents information regarding single-issuer, trust preferred securities at September 30, 2010:

Issuer	TARP Recipient	Credit Rating	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
Sterling Bancorp Trust I, 8.375%, due 3/31/2032	Yes	NA	\$ 980	\$ 1,036	\$ 56
NPB Capital Trust II, 7.85%, due 9/30/2032	Yes	NA	126	121	(5)
VNB Capital Trust I, 7.75%, due 12/15/2031	Yes	* BBB-	22	22	
HSBC Finance, 6.875%, due 1/30/2033, owned by HSBC Group, PLC	No No	A	740	760	20
Citigroup Capital VII, 7.125%, due 7/31/2031	Yes	* BB-	1,508	1,488	(20)
Fleet Capital Trust VIII, 7.20%, due 3/15/2032, owned by Bank of America Corporation	No Yes	BB *	502	501	(1)
			<u>\$ 3,878</u>	<u>\$ 3,928</u>	<u>\$ 50</u>

* TARP obligation was repaid prior to September 30, 2010.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables present information regarding securities available for sale and securities held to maturity at September 30, 2010, 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.

Available for sale	Amortized Cost	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises		
Mortgage-backed securities		
CMO s (Federal Home Loan Mortgage Corporation)	\$ 1,109	\$ 1,140
CMO s (Government National Mortgage Association)	12,535	12,846
Federal National Mortgage Association	7,075	7,414
Federal Home Loan Mortgage Corporation	238	263
Government National Mortgage Association	2,220	2,492
	<u>23,177</u>	<u>24,155</u>
Total mortgage-backed securities	23,177	24,155
Agency Notes		
Federal National Mortgage Association		
Due after 1 year but within 5 years	29,988	30,117
Due after 5 years but within 10 years	15,099	15,161
Federal Home Loan Bank		
Due after 5 years but within 10 years	15,000	15,114
Federal Home Loan Mortgage Corporation		
Due after 1 year but within 5 years	29,982	30,130
Due after 5 years but within 10 years	59,980	60,281
Federal Farm Credit Bank		
Due after 10 years	10,000	10,050
	<u>183,226</u>	<u>185,008</u>
Total obligations of U.S. government corporations and government sponsored enterprises	183,226	185,008
Obligations of state and political institutions - New York Bank Qualified		
Due within 1 year	1,469	1,491
Due after 1 year but within 5 years	11,679	12,424
Due after 5 years but within 10 years	4,928	5,377
Due after 10 years	4,582	4,781
	<u>22,658</u>	<u>24,073</u>
Total obligations of state and political institutions-New York Bank Qualified	22,658	24,073
Single-issuer, trust preferred securities		
Due after 10 years	3,878	3,928
	<u>3,878</u>	<u>3,928</u>
Corporate debt securities		
Due within 6 months	85,933	86,020
Due after 6 months but within 1 year	84,235	84,464
Due after 1 year but within 2 years	24,478	24,478
Due after 2 years but within 5 years	9,000	8,944
	<u>203,646</u>	<u>203,906</u>
Total corporate debt securities	203,646	203,906

Edgar Filing: STERLING BANCORP - Form 10-Q

Other securities	5,044	5,069
Total	\$ 418,452	\$ 421,984

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Held to maturity	Carrying Value	Fair Value
Obligations of U.S. government corporations and government sponsored enterprises		
Mortgage-backed securities		
CMO s (Federal National Mortgage Association)	\$ 8,846	\$ 9,294
CMO s (Federal Home Loan Mortgage Corporation)	13,558	14,225
Federal National Mortgage Association	77,289	81,613
Federal Home Loan Mortgage Corporation	45,564	47,855
Government National Mortgage Association	5,191	5,781
	<hr/>	<hr/>
Total mortgage-backed securities	150,448	158,768
Agency Notes		
Federal National Mortgage Association		
Due after 1 year but within 5 years	19,995	19,992
Due after 5 years but within 10 years	9,994	10,000
Due after 10 years	5,000	5,014
Federal Home Loan Bank		
Due after 1 year but within 5 years	14,990	14,988
Due after 5 years but within 10 years	5,000	5,003
Federal Home Loan Mortgage Corporation		
Due after 1 year but within 5 years	14,995	15,045
Federal Farm Credit Bank		
Due after 5 years but within 10 years	5,081	5,083
	<hr/>	<hr/>
Total obligations of U.S. government corporations and government sponsored enterprises	225,503	233,893
Obligations of state and political institutions - New York Bank		
Qualified		
Due after 5 years but within 10 years	886	947
Due after 10 years	116,088	120,622
	<hr/>	<hr/>
Total obligations of state and political institutions-New York Bank	116,974	121,569
	<hr/>	<hr/>
Total	\$ 342,477	\$ 355,462
	<hr/>	<hr/>

Information regarding sales and/or calls of available for sale securities is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Proceeds	\$ 133,919	\$ 143,682	\$ 400,719	\$ 396,526
Gross gains	846	1,221	3,339	5,160
Gross losses	3		288	

Information regarding calls of held to maturity securities is as follows:

Edgar Filing: STERLING BANCORP - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Proceeds	\$ 65,500	\$	\$ 132,380	\$
Gross gains	328		368	
Gross losses				

18

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 3. Loans

The major components of domestic loans held for sale and loans held in portfolio are as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Loans held for sale, net of valuation reserve (\$42 at September 30, 2010 and \$7 at December 31, 2009)		
Real estate - residential mortgage	\$ 34,046	\$ 33,889
Loans held in portfolio		
Commercial and industrial	\$ 698,647	\$ 587,038
Lease financing receivables	168,816	219,198
Factored receivables	186,435	140,265
Real estate - residential mortgage	129,072	124,681
Real estate - commercial mortgage	96,022	92,614
Real estate - construction and land development	25,092	24,277
Loans to individuals	12,401	12,984
Loans to depository institutions		20,000
Loans held in portfolio, gross	1,316,485	1,221,057
Less unearned discounts	20,319	25,642
Loans held in portfolio, net of unearned discounts	\$ 1,296,166	\$ 1,195,415

Note 4. Noninterest income and expenses

The following tables set forth the significant components of noninterest income and noninterest expenses:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NONINTEREST INCOME				
Accounts receivable management/ factoring commissions and other fees	\$ 6,454	\$ 4,997	\$ 17,527	\$ 13,098
Service charges on deposit accounts	1,606	1,553	4,627	4,296
Trade finance income	657	569	1,650	1,411
Other customer related fees	250	248	576	725
Mortgage banking income	2,458	2,505	5,631	7,152
Trust fees	81	110	247	366
Income from life insurance policies	290	280	850	828
Securities gains	1,171	1,221	3,419	5,160
(Loss) Gain on other real estate owned	(11)	19	17	39
Other income	102	233	977	262
Total noninterest income	\$ 13,058	\$ 11,735	\$ 35,521	\$ 33,337

Edgar Filing: STERLING BANCORP - Form 10-Q

NONINTEREST EXPENSES				
Salaries	\$ 10,689	\$ 9,960	\$ 30,809	\$ 29,934
Employee benefits	2,834	3,206	9,537	9,151
Total personnel expense	13,523	13,166	40,346	39,085
Occupancy and equipment expenses, net	3,375	2,806	8,967	8,381
Advertising and marketing	816	916	2,500	2,596
Professional fees	1,540	1,847	3,913	4,870
Communications	392	429	1,302	1,295
Deposit insurance	1,033	1,195	2,557	3,059
Other expenses	3,074	2,818	7,643	8,086
Total noninterest expenses	\$ 23,753	\$ 23,177	\$ 67,228	\$ 67,372

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 5. Common Stock and Stock Incentive Plan

On March 19, 2010, the Company completed an underwritten public offering of 8,625,000 common shares at an offering price of \$8.00 per share, which resulted in net proceeds of \$64.9 million after underwriting discounts and expenses.

On March 25, 2010, the Board of Directors, upon recommendation by the Compensation and Corporate Governance Committees, granted a total of 40,000 shares of restricted stock to the 8 non-management directors (director restricted shares) and 43,728 restricted shares to the Chairman, President and 5 Executive Vice Presidents (officer restricted shares). The director restricted shares will vest 25% annually over four years beginning on the first anniversary of the grant date. The officer restricted shares vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date and are also limited by the 2008 agreement between the Company and the U.S. Treasury. The director restricted shares and the officer restricted shares were issued at \$9.23 per share, the closing price on the date of the grant. The agreements for both the director restricted shares and the officer restricted shares have additional provisions regarding transferability and accelerated vesting of the shares and the continuation of performing substantial services for the Company.

Note 6. Employee Benefit Plans

The following table sets forth the components of net periodic benefit cost for the Company's noncontributory defined benefit pension plan and unfunded supplemental retirement plan.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service Cost	\$ 494	\$ 620	\$ 1,632	\$ 1,626
Interest Cost	914	959	2,811	2,467
Expected return on plan assets	(721)	(760)	(2,299)	(1,906)
Amortization of prior service cost	17	17	50	50
Recognized actuarial loss	650	974	2,181	2,570
Net periodic benefit cost	<u>\$ 1,354</u>	<u>\$ 1,810</u>	<u>\$ 4,375</u>	<u>\$ 4,807</u>

The Company contributed \$1.7 million to the defined benefit pension plan in the 2010 third quarter.

Note 7. Income Taxes

The Internal Revenue Service (IRS) has completed its examination of the Company's federal tax returns for the years 2002 through 2004 and has issued a report disallowing certain bad debt deductions arising from the worthlessness of loans made to customers. The Company, assisted by outside counsel, has prepared a written protest which vigorously challenges all of the IRS findings and the Company will exercise its right to a conference with the Appeals Office of the IRS to discuss the issues and arguments raised in the Company's protest. The Company and its outside counsel believe that the bad debt deductions were proper and that the position of the IRS is unsupported as a matter of fact and law.

Note 8. Segment Reporting

The Company provides a broad range of financial products and services, including commercial loans, asset-based financing, factoring and accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, commercial and residential mortgage lending and brokerage, trust and estate administration and investment management services. The Company's primary source of earnings is net interest income, which represents the difference between interest earned on interest-earning assets and the interest incurred on interest-bearing liabilities. The Company's 2010 year-to-date average interest-earning assets were 60.4% loans (corporate lending was 72.6% and real estate lending was 23.4% of total loans, respectively) and 39.2% investment securities and money market investments. There are no industry concentrations exceeding 10% of loans, gross, in the corporate lending segment. Approximately 67% of loans are to borrowers located in the

Edgar Filing: STERLING BANCORP - Form 10-Q

metropolitan New York area. In order to comply with the segment reporting guidance under U.S. GAAP, the Company has determined that it has three reportable operating segments: corporate lending, real estate lending and company-wide treasury.

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following tables provide certain information regarding the Company's operating segments:

	<u>Corporate Lending</u>	<u>Real Estate Lending</u>	<u>Company-wide Treasury</u>	<u>Totals</u>
(in thousands)				
<u>Three Months Ended September 30, 2010</u>				
Net interest income	\$ 10,630	\$ 4,824	\$ 5,199	\$ 20,653
Noninterest income	8,971	2,486	1,473	12,930
Depreciation and amortization	178	28		206
Segment income before income taxes	7,849	3,284	6,281	17,414
Segment assets	935,960	397,953	919,790	2,253,703
<u>Three Months Ended September 30, 2009</u>				
Net interest income	\$ 9,815	\$ 4,966	\$ 6,984	\$ 21,765
Noninterest income	7,059	2,536	1,609	11,204
Depreciation and amortization	158	29	1	188
Segment income before income taxes	8,273	4,745	8,374	21,392
Segment assets	822,485	383,694	897,699	2,103,878
<u>Nine Months Ended September 30, 2010</u>				
Net interest income	\$ 29,480	\$ 13,364	\$ 17,805	\$ 60,649
Noninterest income	24,625	5,936	4,583	35,144
Depreciation and amortization	532	86	2	620
Segment income before income taxes	21,891	10,303	21,260	53,454
Segment assets	935,960	397,953	919,790	2,253,703
<u>Nine Months Ended September 30, 2009</u>				
Net interest income	\$ 28,493	\$ 14,884	\$ 20,701	\$ 64,078
Noninterest income	18,740	7,274	5,984	31,998
Depreciation and amortization	512	106	2	620
Segment income before income taxes	20,381	13,511	25,876	59,768
Segment assets	822,485	383,694	897,699	2,103,878

The following table sets forth reconciliations of net interest income, noninterest income, income before taxes, and assets of reportable operating segments to the Company's consolidated total:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
(in thousands)				
Net interest income:				
Total for reportable operating segments	\$ 20,653	\$ 21,765	\$ 60,649	\$ 64,078
Other [1]	222	205	659	572
Consolidated net interest income	<u>\$ 20,875</u>	<u>\$ 21,970</u>	<u>\$ 61,308</u>	<u>\$ 64,650</u>
Noninterest income:				
Total for reportable operating segments	\$ 12,930	\$ 11,204	\$ 35,144	\$ 31,998
Other [1]	128	531	377	1,339
Consolidated noninterest income	<u>\$ 13,058</u>	<u>\$ 11,735</u>	<u>\$ 35,521</u>	<u>\$ 33,337</u>

Edgar Filing: STERLING BANCORP - Form 10-Q

Income before taxes:				
Total for reportable operating segments	\$ 17,414	\$ 21,392	\$ 53,454	\$ 59,768
Other [1]	(21,234)	(17,814)	(49,353)	(49,103)
Consolidated income before income taxes	\$ (3,820)	\$ 3,578	\$ 4,101	\$ 10,665
Assets:				
Total for reportable operating segments	\$ 2,253,703	\$ 2,103,878	\$ 2,253,703	\$ 2,103,878
Other [1]	49,774	34,119	49,774	34,119
Consolidated assets	\$ 2,303,477	\$ 2,137,997	\$ 2,303,477	\$ 2,137,997

[1] Represents operations not considered to be a reportable segment and/or general operating expenses of the Company.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 9. Other Comprehensive Income

Information related to the components of other comprehensive income included in accumulated other comprehensive loss is as follows with related tax effects:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Other Comprehensive Income				
Unrealized holding gains on securities, arising during the period:				
Before tax	\$ 1,686	\$ 4,878	\$ 5,640	\$ 7,968
Tax effect	(765)	(2,214)	(2,559)	(3,616)
Net of tax	921	2,664	3,081	4,352
Reclassification adjustment for securities gains included in net income:				
Before tax	(1,168)	(1,221)	(3,416)	(5,160)
Tax effect	530	555	1,550	2,342
Net of tax	(638)	(666)	(1,866)	(2,818)
Reclassification adjustment for amortization of prior service cost:				
Before tax	17	17	50	50
Tax effect	(8)	(8)	(23)	(23)
Net of tax	9	9	27	27
Reclassification adjustment for amortization of net actuarial losses:				
Before tax	650	974	2,181	2,570
Tax effect	(296)	(442)	(990)	(1,166)
Net of tax	354	532	1,191	1,404
Other comprehensive income	\$ 646	\$ 2,539	\$ 2,433	\$ 2,965

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 10. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact.

FASB Codification Topic 820: *Fair Value Measurements and Disclosures* establishes a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Examples of financial instruments generally included in this level are U.S. Treasury securities, equity and trust preferred securities that trade in active markets and listed derivative instruments.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means. Examples of financial instruments generally included in this level are corporate debt, mortgage-backed certificates issued by U.S. government corporations and government sponsored enterprises, equity securities that trade in less active markets and certain derivative instruments.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own judgments about the assumptions that market participants would use in pricing the assets or liabilities. Examples of financial instruments generally included in this level are private equities, certain loans held for sale and other alternative investments.

In general, fair value of securities is based upon quoted 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). Fair value of loans held for sale is based upon internally developed models that primarily use as inputs, observable market-based parameters. 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, 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 valuation methodologies may produce a fair value calculation that may not be indicative of net realizable 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. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth in the 2009 Form 10-K.

Securities available for sale and other investments. Securities classified as available for sale and other investments (included in Other assets on the Consolidated Balance Sheet) are generally reported at fair value utilizing Level 1 and Level 2 inputs. Investments in fixed income securities, exclusive of preferred stock and mortgage-backed securities are valued based on evaluations that represent an exit price or their opinion as to what a buyer would pay for a security, typically in an institutional round lot position in a current sale. Interactive Data Corporation ("IDC") seeks to utilize market data and observations in its evaluation service, and gives priority to observable benchmark yields and reported trades. IDC utilizes evaluated pricing techniques that vary by asset class and incorporate available market information; because many fixed income securities do not trade on a daily basis, IDC applies available information through processes such as benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. Model processes such as option-adjusted spread models are used to value securities that have prepayment features. Substantially all securities available for sale evaluated in this manner are deemed to be Level 2 valuations. For mortgage-backed government sponsored enterprises, management considers dealer indicative bids in the valuation process. Indicative bids are estimates of value and do not necessarily represent the price at which the dealer would be willing to transact. Such bids are compared to IDC evaluated prices for reasonableness as well as consistency with observable conditions. All mortgage-backed securities are deemed to be valued based on Level 2 inputs.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Publicly traded common and preferred stocks are valued by reference to the market closing price (last trade) on the measurement date (Level 1 inputs). In the unlikely event that no trade occurred on the measurement date, reference would be made to an indicative bid or the last trade most proximate to the measurement date (Level 2 inputs).

The following table summarizes financial assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. There were no financial liabilities measured at fair value.

September 30, 2010	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities	\$	\$ 24,155	\$	\$ 24,155
Agency Notes		160,853		160,853
Total obligations of U.S. government corporations and government sponsored enterprises				
Obligations of state and political institutions - New York Bank Qualified		185,008		185,008
Single-issuer, trust preferred securities	3,928	24,073		3,928
Corporate debt securities		203,906		203,906
Equity and other securities	5,069			5,069
Total	\$ 8,997	\$ 412,987	\$	\$ 421,984
Other investments	\$ 10,987	\$ 6,108	\$	\$ 17,095
 December 31, 2009				
Securities available for sale:				
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities	\$	\$ 57,288	\$	\$ 57,288
Agency Notes		131,635		131,635
Total obligations of U.S. government corporations and government sponsored enterprises				
Obligations of state and political institutions - New York Bank Qualified		188,923		188,923
Single-issuer, trust preferred securities	4,483	23,864		4,483
Corporate debt securities		129,200		129,200
Equity and other securities	56			56
Total	\$ 4,539	\$ 341,987	\$	\$ 346,526
Other investments	\$ 9,128	\$ 5,484	\$	\$ 14,612

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Certain financial assets and financial liabilities, including impaired loans, are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table summarizes the period end fair value of financial assets, based on significant unobservable (Level 3) inputs, measured on a non-recurring basis:

	September 30, 2010	December 31, 2009
Impaired loans	\$ 5,961	\$ 2,329
Other real estate owned	744	1,385

Impaired loans. The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on either recent real estate appraisals or, for loans with modification agreements in place, discounted cash flow analyses. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other real estate owned. Nonrecurring adjustments to certain residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Other real estate owned (comprised of foreclosed assets), which is measured at the lower of carrying value or fair value less costs to sell, had a net carrying amount of \$744 thousand, which is made up of the outstanding balance of \$1,162 thousand, net of a valuation allowance of \$418 thousand at September 30, 2010. Certain of these assets, upon initial recognition, were re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of a foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discount criteria. In connection with the measurement and initial recognition of the foregoing foreclosed assets, the Company recognized charge-offs in the allowance for loan losses totaling \$538 thousand.

For those financial instruments that are not recorded at fair value in the Consolidated Balance Sheets, but are measured at fair value for disclosure purposes, management follows the same fair value measurement principles and guidance as for instruments recorded at fair value.

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Much of the information used to arrive at fair value is highly subjective and judgmental in nature and therefore the results may not be precise. The subjective factors include, among other things, estimated cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. With the exception of investment securities and certain long-term debt, the Company's financial instruments are not readily marketable and market prices do not exist. Since negotiated prices for the instruments that are not readily marketable depend greatly on the motivation of the buyer and seller, the amounts that will actually be realized or paid per settlement or maturity of these instruments could be significantly different.

In particular, fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the financial instrument. Illiquid credit markets have resulted in inactive markets for certain of the Company's financial instruments. As a result, there is no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments for which no or limited observable market data is available are based on our judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors, all of which are Level 3 inputs as discussed above. These estimates involve significant judgments and uncertainties and cannot be substantiated by comparison to quoted prices in active markets and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect these fair value estimates.

A more detailed description of the methods, factors and significant assumptions utilized in estimating the fair values for significant categories of financial instruments is set forth in the 2009 Form 10-K.

	September 30, 2010	
	Carrying Amount	Fair Value
FINANCIAL ASSETS		
Cash and due from banks	\$ 37,193	\$ 37,193
Interest-bearing deposits with other banks	19,300	19,300
Investment securities	764,461	777,446
Loans held for sale	34,046	34,046
Loans held in portfolio, net	1,278,014	1,282,342
Accrued interest receivable	9,216	9,216
FINANCIAL LIABILITIES		
Demand, NOW, savings and money market deposits	1,094,895	1,094,895
Time deposits	550,718	552,962
Securities sold under agreements to repurchase	26,084	26,131
Federal funds purchased	60,000	60,000
Commercial paper	15,245	15,245
Other short-term borrowings	2,221	2,221
Accrued interest payable	1,639	1,639
Long-term borrowings	170,302	176,316

STERLING BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 11. New Accounting Standards

Financial Accounting Standards Board (FASB) Codification Topic 860: *Transfers and Servicing* includes amendments to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The amendments to U.S. GAAP guidance on transfer and servicing of financial assets eliminate the concept of a qualifying special-purpose entity, change the requirements for derecognizing financial assets and requires additional disclosures about all continuing involvements with transferred financial information about gains and losses (resulting from transfers) during the period. These amendments were effective January 1, 2010 and did not have a significant impact on the Company's financial statements.

Amendments to FASB Codification Topic 810: *Consolidation* change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design as well as its ability to direct the activities of the entity that most significantly impact the entity's economic performance. The amendments to U.S. GAAP require additional disclosures about the reporting entity's involvement with variable-interest entities, as well as any significant changes in risk exposure due to that involvement and its effect on the entity's financial statements. These amendments were effective January 1, 2010 and did not have a significant impact on the Company's financial statements.

Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820)- Improving Disclosures About Fair Value Measurements. ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, which significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchased, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class and liabilities (rather major category), which would generally be a subject of assets or liabilities within a line in statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchased, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010. See Note 10 - Fair Value Measurements.

ASU No. 2010-11, Derivatives and Hedging (Topic 815) - Scope Exception Related to Embedded Credit Derivatives. ASU 2010-11 clarifies that the only form of an embedded credit derivative that is exempt embedded derivative bifurcation requirements are those that relate to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The provisions of ASU 2010-11 were effective for the Company on July 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2010-20, Receivables (Topic 830) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivables, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will be effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relates to activity during a reporting period will be required for the Company's financial statements that include periods beginning on or after January 1, 2011.

ITEM 2. 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 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 supplemental data contained elsewhere in this quarterly report and the Company's annual report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K). 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.

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, deposit services, trade financing, equipment leasing, trust and estate administration and investment management services. The Company has operations principally in New York, New Jersey and Connecticut (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.

For the nine months ended September 30, 2010, the bank's average earning assets represented approximately 98.1% of the Company's average earning assets. Loans represented 60.8% and investment securities represented 37.5% of the bank's average earning assets for the first nine months of 2010.

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, service, 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.

Recent economic conditions during 2010, such as the continuing decrease in real estate values in the principal markets the Company serves and illiquid credit markets, have reduced demands for corporate and real estate lending. If these trends continue, the Company would expect its income from corporate and real estate lending to decrease from the current levels in the near term. In addition, due to the geographic concentration of the Company's loan portfolio in the New York metropolitan area, representing approximately 67% of total loans at September 30, 2010, an adverse change in market conditions in that geographic area could result in a decrease in our income from corporate and real estate lending. A significant prolonged decrease in income from our lending segments, if realized, may have a severe adverse impact on the operations of the Company.

RECENT LEGISLATION IMPACTING THE FINANCIAL SERVICES INDUSTRY

On July 21, 2010, President Obama signed into law the sweeping financial regulatory reform act entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act will result in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act's provisions that have received the most public attention generally have been those applying to or more likely to affect larger institutions. However, it contains numerous other provisions that will affect all banks and bank holding companies, and will fundamentally change the system of oversight described in Part I, Item 1 of our 2009 Form 10-K under the caption "Supervision and Regulation". The Dodd-Frank Act includes provisions that, among other things:

Centralize responsibility for consumer financial protection by creating a new agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks such as the bank from availing themselves of such preemption.

Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.

Require the OCC to seek to make its capital requirements for national banks, such as the bank, countercyclical.

Require financial holding companies such as the parent company to be well-capitalized and well-managed as of July 21, 2011. Bank holding companies and banks must also be both well-capitalized and well-managed in order to acquire banks located outside their home state.

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders that apply to all public companies, not just financial institutions.

Make permanent the \$250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Corporation protection from \$100 thousand to \$250 thousand, and provide unlimited federal deposit insurance until January 1, 2013, for noninterest-bearing demand transaction accounts at all depository institutions.

Repeal the federal prohibitions on the payment of interest on business transaction and other accounts.

Increase the authority of the Federal Reserve to examine the Company and its non-bank subsidiaries.

Some of these provisions may have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The environment in which banking organizations will operate after the financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot now be foreseen. The specific impact of the Dodd-Frank Act on our current activities or new financial activities we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally.

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 pages 45 and 46. Information as to the components of interest income and interest expense and average rates is provided in the Average Balance Sheets shown on pages 43 and 44.

Comparison of the Three Months Ended September 30, 2010 and 2009

The Company reported a net loss available to common shareholders for the three months ended September 30, 2010 of \$3.3 million, representing \$0.12 per share calculated on a diluted basis, compared to net income available to common shareholders of \$1.8 million, or \$0.10 per share calculated on a diluted basis, for the third quarter of 2009. The decrease in net income available to common shareholders was primarily due to a \$7.0 million increase in the provision for loan losses, a \$1.1 million decrease in net interest income and a \$0.6 million increase in noninterest expenses which more than offset a \$1.3 million increase in noninterest income and a \$2.3 million decrease in the provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$21.6 million for the third quarter of 2010 compared to \$22.3 million for the 2009 period. Net interest income benefitted from lower cost of funding, lower levels of borrowings and higher levels of loans and investment securities. Those benefits were more than offset by the impact of lower yields on loans and investment securities and higher interest-bearing deposits balances. The net interest margin, on a tax-equivalent basis, was 4.11% for the third quarter of 2010 compared to 4.57% for the 2009 period. The net interest margin was impacted by the mix of earning assets and funding, including the higher level of noninterest-bearing demand deposits.

Total interest income, on a tax-equivalent basis, aggregated \$25.4 million for the third quarter of 2010, down \$1.6 million from the 2009 period. The tax-equivalent yield on interest-earning assets was 4.86% for the third quarter of 2010 compared to 5.56% for the 2009 period.

Interest earned on the loan portfolio increased to \$18.3 million for the third quarter of 2010 from \$18.0 million in the prior year period primarily due to increased loans outstanding on average partially offset by a lower yield on loans in the 2010 quarter. Average loan balances amounted to \$1,314.8 million, an increase of \$125.8 million from an average of \$1,189.0 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$1.9 million increase in interest earned on loans. The decrease in the yield on the loan portfolio to 5.71% for the third quarter of 2010 from 6.25% for the 2009 period was primarily attributable to the mix of average outstanding balances among the components of the loan portfolio.

Interest earned on the securities portfolio, on a tax-equivalent basis, amounted to \$7.0 million for the third quarter of 2010 compared to \$8.8 million in the prior year period. Average outstandings increased to \$783.9 million (36.9% of average earning assets) for the third quarter of 2010 from \$726.9 million (36.8% of average earning assets) in the prior year period. The increase reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 2.6 years at September 30, 2010 compared to 4.6 years at September 30, 2009. The average yield in the investment securities portfolio decreased to 3.59% from 4.84% reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Edgar Filing: STERLING BANCORP - Form 10-Q

Total interest expense decreased by \$0.9 million for the third quarter of 2010 from \$4.7 million for the 2009 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower levels of borrowings partially offset by the impact of higher interest-bearing deposits.

Interest expense on deposits decreased to \$2.3 million for the third quarter of 2010 from \$2.8 million for the 2009 period, due to decreases in the cost of those funds partially offset by the impact of higher balances. The average rate paid on interest-bearing deposits was 0.81%, which was 42 basis points lower than the prior year period. The decrease in average cost of interest-bearing deposits reflects the impact of deposit pricing strategies and the Company's purchase of certificates of deposit from the Certificate of Deposit Account Registry Service (CDARS) which provided certificate of deposit balances at lower rates than rates paid for traditional certificates of deposit products. Average interest-bearing deposits were \$1,125.3 million for the third quarter of 2010 compared to \$903.9 million for the prior year period, reflecting the impact of the Company's business development activities as well the purchase of funds from CDARS.

Interest expense on borrowings decreased to \$1.5 million for the third quarter of 2010 from \$1.9 million for the 2009 period, primarily due to lower balances partially offset by the impact of the changes in mix. Average borrowings decreased to \$316.8 million for the third quarter of 2010 from \$490.8 million in the prior year period, reflecting a lesser reliance by the Company on wholesale borrowed funds. The change in mix resulted in an increase in the blended cost of borrowings to 1.93% from 1.58%.

Provision for Loan Losses

In light of recent economic developments and continued economic uncertainty, during the third quarter, the Company decided, after consultation with external professionals and regulators, to implement an accelerated resolution of certain categories of nonaccrual loans. As a result, net charge-offs of loans to small business borrowers (primarily in the lease financing portfolio) increased \$10.9 million when compared to the second quarter of 2010. Based on management's continuing evaluation of the loan portfolio (discussed under *Asset Quality* on page 36), the provision for loan losses for the third quarter of 2010 was \$14.0 million, compared to \$7.0 million for the prior year period.

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, 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. 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 2010, the allowance for loan losses decreased \$1.7 million from \$19.9 million at December 31, 2009 primarily due to a reduction in the allowance allocated to lease financing receivables (\$5.7 million) partially offset by increases in the allowance allocated to commercial and industrial loans (\$0.8 million), factored receivables (\$0.6 million), real estate residential mortgage (\$0.8 million) and real estate commercial mortgage (\$1.6 million). The allowance allocated to lease financing receivables decreased primarily as a result of the lower level of lease financing receivables nonaccrual balances following charge-offs during the third quarter of 2010. The increase of the allowance allocated to commercial and industrial loans was primarily the result of the unsteady economic recovery. The allowance allocated to factored receivables increased based on the continued weakening in the consumer sectors. The increase in the allowance allocated to real estate residential mortgage was primarily due to the persistent decline in residential real estate values. As a result of the disruption in the commercial real estate markets, the allowance allocated to real estate commercial mortgage was increased.

Noninterest Income

Noninterest income increased to \$13.1 million for the third quarter of 2010 from \$11.7 million in the 2009 period. The increase principally resulted from the benefit derived from increased accounts receivable management/factoring commissions and other fees. Commissions and other fees earned from accounts receivable management and factoring services were higher primarily due to increased volumes in our factoring unit and billings by clients providing temporary staffing services.

Noninterest Expenses

Noninterest expenses for the third quarter of 2010 increased \$0.6 million when compared to the 2009 period. The increase was primarily due to higher personnel and occupancy expenses. Partially offsetting those increases was the impact of lower professional fees. The increase in personnel expenses was related to our business development activities offset by a reduction in retirement plan expenses. Occupancy expenses were higher due to our leasing additional space to support our business development activities. The reduction in professional fees reflects primarily reduced utilization of various providers.

Provision for Income Taxes

Reflecting a reduction in pre-tax income of \$7.4 million, the benefit for income taxes for the third quarter of 2010 was \$1.1 million, reflecting an effective tax rate of 30.0%, compared with a provision for income taxes of \$1.2 million for the third quarter of 2009 reflecting an effective tax rate of 33.0%. The reduction in the effective tax rate was primarily due to a higher proportion of tax exempt income in the 2010 period compared to 2009 period.

Comparison of the Nine Months Ended September 30, 2010 and 2009

The Company reported net income available to common shareholders for the nine months ended September 30, 2010 of \$0.9 million, representing \$0.04 per share calculated on a diluted basis, compared to \$4.7 million, or \$0.26 per share calculated on a diluted basis, for the first nine months of 2009. This decrease reflects lower net interest income and higher provision for loan losses partially offset by an increase in noninterest income and a decrease in provision for income taxes.

Net Interest Income

Net interest income, on a tax-equivalent basis, was \$63.1 million for the first nine months of 2010 compared to \$65.3 million for the 2009 period. Net interest income benefitted from higher average loan and investment securities balances, and lower cost of funding. Offsetting those benefits was the impact of lower yield on loans and investment securities, lower borrowed funds and higher interest-bearing deposit balances. The net interest margin, on a tax-equivalent basis, was 4.26% for the first nine months of 2010 compared to 4.60% for the 2009 period. The net interest margin was impacted by the lower interest rate environment in 2010, the higher level of noninterest-bearing demand deposits and the effect of higher average loans outstanding.

Total interest income, on a tax-equivalent basis, aggregated \$75.0 million for the first nine months of 2010, down \$5.1 million from the 2009 period. The tax-equivalent yield on interest-earning assets was 5.07% for the first nine months of 2010 compared to 5.66% for the 2009 period.

Interest earned on the loan portfolio decreased to \$51.9 million for the first nine months of 2010 from \$53.8 million for the prior year period. Average loan balances amounted to \$1,232.0 million, an increase of \$47.0 million from an average of \$1,185.0 million in the prior year period. The increase in average loans, primarily due to the Company's business development activities, accounted for a \$1.8 million increase in interest earned on loans. The yield on the loan portfolio decreased to 5.96% for the first nine months of 2010 from 6.32% for the 2009 period, which was primarily attributable to the lower interest rate environment in 2010 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 \$22.8 million for the first nine months of 2010 from \$25.9 million in the prior year period. Average outstandings increased to \$772.4 million (37.9% of average earning assets) for the first nine months of 2010 from \$712.2 million (36.8% of average earning assets) in the prior year period. The increase reflects the impact of the Company's asset/liability management strategy designed to shorten the average life of the portfolio. The average life of the securities portfolio was approximately 2.6 years at September 30, 2010 compared to 4.6 years at September 30, 2009. The average yield on the investment securities portfolio decreased to 3.93% from 4.84%, reflecting the impact of the above referenced asset/liability management strategy coupled with calls of higher yielding securities.

Edgar Filing: STERLING BANCORP - Form 10-Q

Total interest expense decreased by \$3.0 million for the first nine months of 2010 from \$14.9 million for the 2009 period, primarily due to the impact of lower rates paid for interest-bearing deposits and borrowings and lower balances of borrowed funds partially offset by the impact of higher interest-bearing deposit balances.

Interest expense on deposits decreased to \$7.4 million for the first nine months of 2010 from \$9.1 million for the 2009 period, primarily due to a decrease in the cost of those funds partially offset by the impact of higher average interest-bearing deposit balances. The average rate paid on interest-bearing deposits was 0.89%, which was 46 basis points lower than the prior year period. The decrease in the average cost of interest-bearing deposits reflects the impact of deposit pricing strategies and the Company's purchase of certificates of deposit from CDARS which provided deposit balances at lower rates than paid for traditional certificate of deposit products. Average interest-bearing deposits were \$1,107.7 million for the first nine months of 2010 compared to \$902.4 million for the prior year period, reflecting an increase in certificates of deposit, largely related to the CDARS program which is a lower cost product than traditional certificates of deposit.

Interest expense on borrowings decreased to \$4.5 million for the first nine months of 2010 from \$5.8 million for the 2009 period, primarily due to lower balances partially offset by the impact of the changes in mix. Average borrowings decreased to \$278.3 million for the first nine months of 2010 from \$482.9 million in the prior year period, reflecting a lesser reliance by the Company on wholesale borrowed funds. The change in mix resulted in an increase in the blended cost of borrowings to 2.16% from 1.60%.

Provision for Loan Losses

In light of recent economic developments and continued economic uncertainty, during the third quarter the Company decided, after consultation with external professionals and regulators, to implement an accelerated resolution of certain categories of nonaccrual loans. As a result, net charge-offs during the nine months of 2010 of loans to small business borrowers (primarily in the lease financing portfolio) increased \$10.4 million when compared to the comparable 2009 period. Based on management's continuing evaluation of the loan portfolio (discussed under Asset Quality on page 36), the provision for loan losses for the first nine months of 2010 was \$25.5 million, compared to \$20.0 million for the prior year period.

Noninterest Income

Noninterest income increased to \$35.5 million for the first nine months of 2010 from \$33.3 million in the 2009 period. The increase principally resulted from higher income related to accounts receivable management and factoring services offset partly by lower mortgage banking income and securities gains. 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 Finance Inc. on April 6, 2009. Increased volumes at our factoring unit and billings by clients providing temporary staffing also contributed to the improved level of fee income. Mortgage banking income declined due to a lower volume of loans closed and a change in the mix of products being sold. Securities gains declined but reflected a continuation of the asset liability management program commenced in 2009 that was designed to reduce the average life of the investment securities portfolio. The Company sold approximately \$143.3 million of securities with a weighted average life of approximately 2.3 years. The Company expects to reinvest a significant portion of the proceeds in securities with an average life of less than two years.

Noninterest Expenses

Noninterest expenses for the first nine months of 2010 decreased \$0.1 million when compared to the 2009 period. The expense decrease was mainly related to lower expenses related to professional fees and deposit insurance partially offset by higher personnel and occupancy expenses. The decrease in professional fees was primarily due to reduced utilization of various outside service providers. The decrease in deposit insurance was the result of the inclusion in the 2009 period of a special one-time assessment of \$1.0 million. The increase in personnel expenses was related to our business development activities, partially offset by a reduction in retirement plan expenses.

Provision for Income Taxes

The provision for income taxes for the first nine months of 2010 decreased to \$1.2 million from \$3.9 million for the first nine months of 2009. The decrease was primarily due to lower taxable income and a lower effective income tax rate in the 2010 period (30.0%) compared to the 2009 period (36.4%). The decrease in the effective tax rate is primarily related to the higher proportion of tax exempt income achieved in 2010 compared to the 2009 period.

BALANCE SHEET ANALYSIS*Securities*

At September 30, 2010, the Company's portfolio of securities totaled \$764.5 million, of which obligations of U.S. government corporations and government sponsored enterprises amounted to \$410.5 million which is approximately 53.7% 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 \$13.1 million and \$0.1 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 investments 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 \$3.8 million and gross unrealized losses of \$0.2 million. As of September 30, 2010, management does not have the intent to sell any of the securities classified as available for sale in the table on page 17 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.

In connection with an asset liability management program designed to reduce the average life of the investment securities portfolio, the Company sold approximately \$143.3 million of securities with a weighted average life of approximately 2.3 years during the first nine months of 2010 and approximately \$206.4 million of securities with a weighted average life of approximately 3.5 years in the same period of 2009. The Company reinvested a significant portion of the proceeds in securities with an average life of less than two years.

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

September 30, 2010	Weighted Average Life		Weighted Average Yield	
	AFS	HTM	AFS	HTM
Mortgage-backed securities	3.2 Years	2.5 Years	3.45%	4.60%
Agency notes (with original call dates ranging between 3 and 36 months)	0.4 Years	2.4 Years	2.22%	1.37%
Corporate debt securities	0.8 Years		2.30%	
Obligations of state and political subdivisions New York Bank Qualified	4.3 Years	8.3 Years	5.35% ^[1]	5.86% ^[1]

^[1] tax equivalent

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth the composition of the Company's investment securities by type, with related values:

	September 30, 2010		December 31, 2009	
	Balances	% of Total	Balances	% of Total
Obligations of U.S. government corporations and government sponsored enterprises				
Mortgage-backed securities				
CMO's (Federal National Mortgage Association)	\$ 8,846	1.16%	\$ 13,740	1.86%
CMO's (Federal Home Loan Mortgage Corporation)	14,698	1.92	22,698	3.08
CMO's (Government National Mortgage Association)	12,846	1.68	9,048	1.23
Federal National Mortgage Association	84,703	11.08	125,673	17.05
Federal Home Loan Mortgage Corporation	45,827	6.00	71,715	9.73
Government National Mortgage Association	7,683	1.01	13,146	1.78
Total mortgage-backed securities	174,603	22.85	256,020	34.73
Agency Notes				
Federal National Mortgage Association	80,267	10.50	116,603	15.82
Federal Home Loan Bank	35,104	4.59	102,799	13.95
Federal Home Loan Mortgage Corporation	105,406	13.79	14,899	2.02
Federal Farm Credit Bank	15,131	1.98	29,418	3.99
Total obligations of U.S. government corporations and government sponsored enterprises	410,511	53.71	519,739	70.51
Obligations of state and political institutions-New York Bank				
Qualified	141,047	18.45	83,337	11.31
Single-issuer, trust preferred securities	3,928	0.51	4,483	0.61
Corporate debt securities	203,906	26.67	129,200	17.53
Other securities	5,069	0.66	56	0.01
Total marketable securities	764,461	100.00	736,815	99.97
Debt securities issued by foreign governments			250	0.03
Total	\$ 764,461	100.00%	\$ 737,065	100.00%

Edgar Filing: STERLING BANCORP - Form 10-Q

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 represent approximately 66% of all loans. Loans in this category are typically made to small- and medium-sized businesses and range between \$250,000 and \$15 million. The Company's real estate mortgage portfolio, which represents approximately 21% of all loans, is comprised of mortgages secured by real property located principally in the states of New York, New Jersey, Virginia and North Carolina. The Company's leasing portfolio, which consists of finance leases for various types of business equipment, represents approximately 11% of all loans. Sources of repayment are the borrower's operating profits, cash flows and liquidation of pledged collateral. Based on underwriting standards, loans may be secured in 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 or lease and may vary in value based on market conditions.

The following table sets forth the composition of the Company's loans held for sale and loans held in portfolio:

	September 30,			
	2010		2009	
	Balances	% of Gross	Balances	% of Gross
Domestic				
Commercial and industrial	\$ 696,460	52.36%	\$ 543,443	44.05%
Lease financing receivables	150,913	11.34	211,697	17.16
Factored receivables	186,206	14.00	152,068	12.33
Real estate-residential mortgage	163,118	12.26	159,805	12.96
Real estate-commercial mortgage	96,022	7.22	103,785	8.41
Real estate-construction and land development	25,092	1.89	24,112	1.95
Loans to individuals	12,401	0.93	13,660	1.11
Loans to depository institutions			25,000	2.03
	\$ 1,330,212	100.00%	\$ 1,233,570	100.00%

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.

Nonaccrual loans at September 30, 2010 decreased \$11.7 million compared to December 31, 2009. This primarily reflected decreases of \$3.1 million, \$11.1 million and \$0.6 million in commercial and industrial loans, lease financing receivables and residential real estate mortgage loans, respectively. Partially offsetting these items was a \$3.1 million increase in commercial real estate loans (related to two borrowers). Net loan charge-offs in the third quarter of 2010 were \$10.9 million higher than net loan charge-offs in the second quarter of 2010 (primarily reflecting an increase of \$7.3 million in net charge-offs for lease financing receivables, \$2.9 million for commercial and industrial loans, and \$0.4 million in factored receivables). A worsening of existing economic conditions will likely result in levels of charge-offs and nonaccrual loans that will be higher than historical levels.

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth the amount of non-performing assets (nonaccrual loans and other real estate owned). Also shown are loans that are past due more than 90 and are still accruing because they are both well secured or guaranteed by financially responsible third parties and are in the process of collection.

	September 30,	
	2010	2009
Gross loans	\$ 1,350,531	\$ 1,261,938
Nonaccrual loans		
Commercial and industrial	\$ 1,093	\$ 3,809
Lease financing receivables	820	13,276
Factored receivables		
Real estate-residential mortgage	1,232	2,609
Real estate-commercial mortgage	3,125	
Real estate-construction and land development		
Loans to individuals		100
Total nonaccrual loans	6,270	19,794
Other real estate owned	744	1,837
Total non-performing assets	\$ 7,014	\$ 21,631
Loans past due 90 days or more and still accruing	\$ 3,162	\$ 1,523

At September 30, 2010, commercial and industrial nonaccruals represented 0.16% of commercial and industrial loans. There were 4 loans made to small business borrowers located in 3 states with balances ranging between approximately \$76.0 thousand and \$747.6 thousand.

At September 30, 2010, lease financing nonaccruals represented 0.49% of lease financing receivables. The lessees of equipment are located in 11 states. There were 18 leases ranging between approximately \$0.7 thousand and \$187.6 thousand, 16 of which were under \$100 thousand. 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 September 30, 2010, residential real estate nonaccruals represented 0.95% of residential real estate loans held in portfolio. There were 11 loans ranging between approximately \$6.4 thousand and \$361.0 thousand secured by properties located in 5 states.

At September 30, 2010, commercial real estate nonaccrual represented 3.25% of commercial real estate loans. There were 2 loans of approximately \$745.3 thousand and \$2,379.1 thousand, respectively, secured by properties located in New York.

At September 30, 2010, other real estate owned consisted of 5 properties with values between approximately \$31.7 thousand and \$293.2 thousand located in 4 states.

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, an 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 peer group comparisons. 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 risk 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 September 30, 2010, the ratio of the allowance to loans held in portfolio, net of unearned discounts, was 1.40% and the allowance was \$18.2 million. At such date, the Company's nonaccrual loans amounted to \$6.3 million. Loans 90 days past due and still accruing amounted to \$3.2 million. At September 30, 2010, loans judged to be impaired under U.S. GAAP guidance on receivables, amounted to \$8.4 million and had a valuation allowance totaling \$2.5 million, which is included within the overall allowance for loan losses. Included in the impaired loans are \$4.3 million in accruing impaired restructured loans as defined by U.S. GAAP guidance on receivables, with allowances for loan impairment of \$883 thousand. Based on the foregoing, as well as management's judgment as to the current risk 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 September 30, 2010. 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 recognized in the first nine months of 2010. 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 \$0.6 million at September 30, 2010 and \$8.2 million at September 30, 2009, respectively.

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth certain information with respect to the Company's loan loss experience:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Average loans held in portfolio, net of unearned discounts, during period	\$ 1,271,495	\$ 1,144,597	\$ 1,199,952	\$ 1,141,475
Allowance for loan losses:				
Balance at beginning of period	\$ 20,512	\$ 18,134	\$ 19,872	\$ 16,010
Charge-offs:				
Commercial and industrial	4,065	1,230	5,988	2,107
Lease financing receivables	11,379	4,517	20,427	14,144
Factored receivables	381	69	620	378
Real estate - residential mortgage	136	41	234	41
Real estate - commercial mortgage			129	
Real estate - construction and land development				
Loans to individuals	155		218	
Total charge-offs	16,116	5,857	27,616	16,670
Recoveries:				
Commercial and industrial	67	7	287	23
Lease financing receivables	170	79	453	221
Factored receivables	18	15	194	38
Real estate - residential mortgage		102		102
Real estate - commercial mortgage				
Real estate - construction and land development				
Loans to individuals				
Total recoveries	255	203	934	384
Subtract:				
Net charge-offs	15,861	5,654	26,682	16,286
Provision for loan losses	14,000	6,950	25,500	19,950
Less losses on transfers to other real estate owned	499	331	538	575
Balance at end of period	\$ 18,152	\$ 19,099	\$ 18,152	\$ 19,099
Ratio of annualized net charge-offs to average loans held in portfolio, net of unearned discounts	4.99%	1.98%	2.96%	1.90%

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table presents the Company's allocation of the allowance for loan losses. This allocation is based on estimates by management and may vary from period to period 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.

	September 30, 2010		December 31, 2009	
	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	\$ 6,853	53.73%	\$ 6,082	49.01%
Loans to depository institutions				1.67
Lease financing receivables	4,561	11.64	10,249	16.32
Factored receivables	1,522	14.36	971	11.70
Real estate - residential mortgage	2,449	9.96	1,646	10.43
Real estate - commercial mortgage	2,145	7.41	560	7.75
Real estate - construction and land development	287	1.94	149	2.03
Loans to individuals	142	0.96	80	1.09
Unallocated	193		135	
Total	\$ 18,152	100.00%	\$ 19,872	100.00%

During 2010, the allowance for loan losses decreased \$1.7 million from \$19.9 million at December 31, 2009 primarily due to a reduction in the allowance allocated to lease financing receivables (\$5.7 million) partially offset by increases in the allowance allocated to commercial and industrial loans (\$0.8 million), factored receivables (\$0.6 million), real estate residential mortgage (\$0.8 million), and real estate commercial mortgage (\$1.6 million). The allowance allocated to lease financing receivables decreased primarily as a result of the lower level of lease financing receivables nonaccrual balances following charge-offs during the third quarter of 2010. The increase of the allowance allocated to commercial and industrial loans was primarily the result of the unsteady economic recovery. The allowance allocated to factored receivables increased based on the continued weakening in the consumer sectors. The increase in the allowance allocated to real estate residential mortgage was primarily due to the persistent decline in residential real estate values. As a result of the disruption in the commercial real estate markets, the allowance allocated to real estate commercial mortgage was increased.

Edgar Filing: STERLING BANCORP - Form 10-Q

Deposits

A significant source of funds for the Company continues to be 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:

	September 30,			
	2010		2009	
	Balances	% of Total	Balances	% of Total
Domestic				
Demand	\$ 539,633	32.79%	\$ 470,404	33.40%
NOW	193,364	11.75	195,372	13.87
Savings	19,566	1.19	18,195	1.29
Money Market	342,332	20.80	332,262	23.59
Time deposits	550,718	33.47	391,713	27.81
Total domestic deposits	1,645,613	100.00	1,407,946	99.96
Foreign				
Time deposits			579	0.04
Total deposits	\$ 1,645,613	100.00%	\$ 1,408,525	100.00%

Fluctuations of balances in total or among categories at any date may 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 is presented on pages 43 and 44.

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 is presented on page 47. In addition, the bank is subject to 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 under capitalized. 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 September 30, 2010, 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, the Dodd Frank Act and the Basel III proposals, as described below, and the likelihood, as described in the 2009 Form 10-K, of increased formal capital requirements for banking organizations.

As noted above, the Dodd-Frank Act enacted in July 2010 requires the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank holding companies.

In addition, recent proposals published by the Basel Committee on Banking Supervision (the Basel Committee), if adopted, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The final package of Basel III

reforms will be considered in November 2010 by the leaders of the Group of 20, and then will be

Edgar Filing: STERLING BANCORP - Form 10-Q

subject to individual adoption by member nations, including the United States. The ultimate impact of the new capital and liquidity standards on the Company cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators.

During the first quarter 2010, we completed an underwritten public offering of 8,625,000 shares of our common shares at an offering price of \$8.00 per share, which resulted in net proceeds of \$64.9 million after underwriting discounts and expenses. The proceeds from the issuance of shares are to be used for general corporate purposes which may include the financing of possible acquisitions of complementary businesses or assets, including FDIC-assisted transactions, the extension of credit to, or the funding of investments in our subsidiaries, or the possible repurchase of Series A Preferred Shares, separately or together with the warrant for 516,817 shares of our common shares held by the U.S. Treasury, subject to the receipt of any required regulatory approval.

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 third quarter of 2010. At September 30, 2010, the maximum number of shares that may yet be purchased under the share repurchase program was 870,963.

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 Company is authorized to repurchase. The latest increase was announced on August 16, 2007, when the Board of Directors increased the Company's authority to repurchase common shares by an additional 800,000 shares.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For information regarding recently issued accounting pronouncements and their expected impact on the Company's consolidated financial statements, see Note 11 of the Company's unaudited consolidated financial statements in this quarterly report on Form 10-Q.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this quarterly report on Form 10-Q, 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, the economic environment, asset quality and future levels of nonaccrual loans, charge-offs and provisions for loan losses, and the Company's position for future growth and ability to benefit from an economic recovery, 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 we 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 we make no commitment to update or revise forward-looking statements in order to reflect new information, 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 and laws and regulations concerning taxes, banking and securities with which the Company must comply; 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 Risk Factors in the Company's annual report on Form 10-K for the year ended December 31, 2009; and other risks and uncertainties detailed 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 we will not update any forward-looking statement, whether written or oral, that may be made from time to time.

STERLING BANCORP AND SUBSIDIARIES
Average Balance Sheets [1]
Three Months Ended September 30,
(Unaudited)

	2010			2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-bearing deposits with other banks	\$ 14,180	\$ 10	0.27%	\$ 50,385	\$ 27	0.21%
Securities available for sale	449,055	2,767	2.46	320,494	3,903	4.87
Securities held to maturity	198,280	2,172	4.38	345,186	3,975	4.61
Securities tax-exempt [2]	136,533	2,102	6.16	61,254	926	6.05
	<hr/>	<hr/>		<hr/>	<hr/>	
Total investment securities	783,868	7,041	3.59	726,934	8,804	4.84
FRB and FHLB stock [2]	8,810	113	5.16	9,769	192	7.87
Loans, net of unearned discounts [3]	1,314,846	18,275	5.71	1,189,030	18,024	6.25
	<hr/>	<hr/>		<hr/>	<hr/>	
TOTAL INTEREST-EARNING ASSETS	2,121,704	25,439	4.86%	1,976,118	27,047	5.56%
	<hr/>	<hr/>		<hr/>	<hr/>	
Cash and due from banks	34,635			28,342		
Allowance for loan losses	(22,735)			(20,307)		
Goodwill	22,901			22,901		
Other assets	137,699			120,662		
	<hr/>			<hr/>		
TOTAL ASSETS	\$ 2,294,204			\$ 2,127,716		
	<hr/>			<hr/>		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing deposits						
Domestic						
Savings	\$ 18,505	2	0.05%	\$ 18,022	3	0.07%
NOW	183,780	67	0.14	180,753	106	0.23
Money market	342,615	677	0.78	329,485	763	0.92
Time	580,328	1,545	1.06	375,087	1,931	2.04
Foreign						
Time	117		1.10	579	2	1.09
	<hr/>	<hr/>		<hr/>	<hr/>	
Total interest-bearing deposits	1,125,345	2,291	0.81	903,926	2,805	1.23
	<hr/>	<hr/>		<hr/>	<hr/>	
Borrowings						
Securities sold under agreements to repurchase - customers	41,880	49	0.46	76,495	79	0.41
Securities sold under agreements to repurchase - dealers	13,093	23	0.68			
Federal funds purchased	73,533	44	0.23	6,911	2	0.16
Commercial paper	14,424	12	0.30	13,448	15	0.43
Short-term borrowings - FRB				207,554	131	0.25
Short-term borrowings - other	16,239	14	0.35	1,989		
Long-term borrowings - FHLB	131,823	871	2.62	158,592	1,197	2.99
Long-term borrowings - sub debt	25,774	523	8.38	25,774	523	8.38
	<hr/>	<hr/>		<hr/>	<hr/>	
Total borrowings	316,766	1,536	1.93	490,763	1,947	1.58
	<hr/>	<hr/>		<hr/>	<hr/>	
TOTAL INTEREST-BEARING LIABILITIES	1,442,111	3,827	1.05%	1,394,689	4,752	1.35%
	<hr/>	<hr/>		<hr/>	<hr/>	

Edgar Filing: STERLING BANCORP - Form 10-Q

Noninterest-bearing deposits	478,474		437,551	
Other liabilities	144,843		138,486	
Total liabilities	2,065,428		1,970,726	
Shareholders' equity	228,776		156,990	
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 2,294,204		\$ 2,127,716	
Net interest income/spread		21,612	3.81%	22,295
				4.21%
Net yield on interest-earning assets (margin)			4.11%	4.57%
Less: Tax equivalent adjustment		737		325
Net interest income		\$ 20,875		\$ 21,970

- [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 amounts for prior periods to conform to the current presentation.
- [2] Interest on tax-exempt securities 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.

STERLING BANCORP AND SUBSIDIARIES
Average Balance Sheets [1]
Nine Months Ended September 30,
(Unaudited)

	2010			2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-bearing deposits with other banks	\$ 27,243	\$ 53	0.26%	\$ 29,761	\$ 46	0.21%
Securities available for sale	405,340	8,670	2.85	359,882	13,103	4.85
Securities held to maturity	253,926	8,874	4.66	312,075	10,974	4.69
Securities tax-exempt [2]	113,168	5,220	6.15	40,198	1,783	5.91
	772,434	22,764	3.93	712,155	25,860	4.84
Total investment securities	772,434	22,764	3.93	712,155	25,860	4.84
FRB and FHLB stock [2]	8,363	299	4.77	9,700	390	5.37
Loans, net of unearned discounts [3]	1,231,970	51,907	5.96	1,185,025	53,840	6.32
	2,040,010	75,023	5.07%	1,936,641	80,136	5.66%
TOTAL INTEREST-EARNING ASSETS	2,040,010	75,023	5.07%	1,936,641	80,136	5.66%
Cash and due from banks	35,408			30,115		
Allowance for loan losses	(22,334)			(18,409)		
Goodwill	22,901			22,901		
Other assets	132,450			116,584		
	2,208,435			2,087,832		
TOTAL ASSETS	\$ 2,208,435			\$ 2,087,832		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing deposits						
Domestic						
Savings	\$ 18,324	9	0.06%	\$ 18,105	15	0.11%
NOW	212,012	398	0.25	201,238	400	0.27
Money market	334,819	2,129	0.85	336,470	2,525	1.00
Time	542,156	4,854	1.20	346,034	6,143	2.37
Foreign						
Time	423	3	1.09	578	5	1.09
	1,107,734	7,393	0.89	902,425	9,088	1.35
Total interest-bearing deposits	1,107,734	7,393	0.89	902,425	9,088	1.35
Borrowings						
Securities sold under agreements to repurchase - customers	49,046	175	0.48	76,159	282	0.49
Securities sold under agreements to repurchase - dealers	5,827	28	0.63			
Federal funds purchased	40,321	67	0.22	25,390	43	0.23
Commercial paper	14,604	34	0.31	12,148	55	0.60
Short-term borrowings - FHLB				4,560	11	0.31
Short-term borrowings - FRB	4,945	9	0.25	184,249	356	0.26
Short-term borrowings - other	9,109	18	0.27	1,733	1	0.05
Long-term borrowings - FHLB	128,628	2,591	2.69	152,896	3,453	3.02
Long-term borrowings - sub debt	25,774	1,570	8.38	25,774	1,570	8.38
	278,254	4,492	2.16	482,909	5,771	1.60
Total borrowings	278,254	4,492	2.16	482,909	5,771	1.60

Edgar Filing: STERLING BANCORP - Form 10-Q

TOTAL INTEREST-BEARING LIABILITIES	1,385,988	11,885	1.15%	1,385,334	14,859	1.43%
Noninterest-bearing deposits	471,081			423,825		
Other liabilities	142,113			120,865		
Total liabilities	1,999,182			1,930,024		
Shareholders equity	209,253			157,808		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 2,208,435			\$ 2,087,832		
Net interest income/spread		63,138	3.92%		65,277	4.23%
Net yield on interest-earning assets (margin)			4.26%			4.60%
Less: Tax equivalent adjustment		1,830			627	
Net interest income		\$ 61,308			\$ 64,650	

[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 amounts for prior periods to conform to the current presentation.

[2] Interest on tax-exempt securities 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.

STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]
(Unaudited)

	Increase/(Decrease) Three Months Ended September 30, 2010 to September 30, 2009		
	Volume	Rate	Net [2]
INTEREST INCOME			
Interest-bearing deposits with other banks	\$ (23)	\$ 6	\$ (17)
Securities available for sale	1,235	(2,371)	(1,136)
Securities held to maturity	(1,614)	(189)	(1,803)
Securities tax-exempt	1,159	17	1,176
Total investment securities	780	(2,543)	(1,763)
FRB and FHLB stock	(17)	(62)	(79)
Loans, net of unearned discounts [3]	1,920	(1,669)	251
TOTAL INTEREST INCOME	\$ 2,660	\$ (4,268)	\$ (1,608)
INTEREST EXPENSE			
Interest-bearing deposits			
Domestic			
Savings	\$	\$ (1)	\$ (1)
NOW	2	(41)	(39)
Money market	30	(116)	(86)
Time	781	(1,167)	(386)
Foreign			
Time	(2)		(2)
Total interest-bearing deposits	811	(1,325)	(514)
Borrowings			
Securities sold under agreements to repurchase - customers	(39)	9	(30)
Securities sold under agreements to repurchase - dealers	23		23
Federal funds purchased	41	1	42
Commercial paper	1	(4)	(3)
Short-term borrowings - FRB	(131)		(131)
Short-term borrowings - other		14	14
Long-term borrowings - FHLB	(188)	(138)	(326)
Long-term borrowings - sub debt			
Total borrowings	(293)	(118)	(411)
TOTAL INTEREST EXPENSE	\$ 518	\$ (1,443)	\$ (925)

NET INTEREST INCOME	\$ 2,142	\$ (2,825)	\$ (683)
----------------------------	-----------------	-------------------	-----------------

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes 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 expense for securities under agreements to repurchase-dealers and short term borrowings-FRB has been allocated entirely to the volume variance.
- [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.

STERLING BANCORP AND SUBSIDIARIES
Rate/Volume Analysis [1]
(Unaudited)

	Increase/(Decrease) Nine Months Ended September 30, 2010 to September 30, 2009		
	Volume	Rate	Net [2]
INTEREST INCOME			
Interest-bearing deposits with other banks	\$ (4)	\$ 11	\$ 7
Securities available for sale	1,485	(5,918)	(4,433)
Securities held to maturity	(2,030)	(70)	(2,100)
Securities tax-exempt	3,362	75	3,437
Total investment securities	2,817	(5,913)	(3,096)
FRB and FHLB stock	(50)	(41)	(91)
Loans, net of unearned discounts [3]	1,825	(3,758)	(1,933)
TOTAL INTEREST INCOME	\$ 4,588	\$ (9,701)	\$ (5,113)
INTEREST EXPENSE			
Interest-bearing deposits			
Domestic			
Savings	\$	\$ (6)	\$ (6)
NOW	25	(27)	(2)
Money market	(12)	(384)	(396)
Time	2,548	(3,837)	(1,289)
Foreign			
Time	(2)		(2)
Total interest-bearing deposits	2,559	(4,254)	(1,695)
Borrowings			
Securities sold under agreements to repurchase - customers	(101)	(6)	(107)
Securities sold under agreements to repurchase - dealers	28		28
Federal funds purchased	26	(2)	24
Commercial paper	9	(30)	(21)
Short-term borrowings - FHLB	(11)		(11)
Short-term borrowings - FRB	(334)	(13)	(347)
Short-term borrowings - other	8	9	17
Long-term borrowings - FHLB	(511)	(351)	(862)
Long-term borrowings - sub debt			
Total borrowings	(886)	(393)	(1,279)

TOTAL INTEREST EXPENSE	\$ 1,673	\$ (4,647)	\$ (2,974)
	_____	_____	_____
NET INTEREST INCOME	\$ 2,915	\$ (5,054)	\$ (2,139)
	_____	_____	_____

- [1] This table is presented on a tax-equivalent basis.
- [2] Changes 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 expense for securities sold under agreements to repurchase-dealers and short-term borrowings-FHLB has been allocated entirely to the volume variance.
- [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.

STERLING BANCORP AND SUBSIDIARIES
Regulatory Capital and Ratios

Ratios and Minimums

As of September 30, 2010	Actual		For Capital Adequacy Minimum		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital(to Risk-Weighted Assets):						
The Company	\$ 253,574	14.70%	\$ 137,995	8.00%	\$ 172,493	10.00%
The bank	198,988	11.78	135,149	8.00	168,936	10.00
Tier 1 Capital(to Risk-Weighted Assets):						
The Company	235,155	13.63	68,997	4.00	103,496	6.00
The bank	180,574	10.69	67,574	4.00	101,361	6.00
Tier 1 Leverage Capital(to Average Assets):						
The Company	235,155	10.35	90,841	4.00	113,551	5.00
The bank	180,574	8.12	88,952	4.00	111,190	5.00
As of December 31, 2009						
Total Capital(to Risk-Weighted Assets):						
The Company	\$ 193,760	12.75%	\$ 121,606	8.00%	\$ 152,007	10.00%
The bank	169,353	11.25	120,378	8.00	150,473	10.00
Tier 1 Capital(to Risk-Weighted Assets):						
The Company	174,746	11.50	60,803	4.00	91,204	6.00
The bank	150,529	10.00	60,189	4.00	90,284	6.00
Tier 1 Leverage Capital(to Average Assets):						
The Company	174,746	8.06	86,757	4.00	108,447	5.00
The bank	150,529	6.97	86,385	4.00	107,981	5.00

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
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 September 30, 2010, presented on page 52, 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.

Edgar Filing: STERLING BANCORP - Form 10-Q

As of September 30, 2010, the Company was not a party to any financial instrument derivative agreement.

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 September 30, 2010, 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 2.1% (\$2.4 million) and a 4.5% (\$5.0 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 0.8% (\$0.9 million) decline from an unchanged rate environment. The likelihood of a decrease in interest rates beyond 25 basis points as of September 30, 2010 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 customers 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 adversely affect 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.

While the parent company generates income from its own operations, it also 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 nonbank 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.

At September 30, 2010, the parent company's short-term debt, consisting principally of commercial paper used to finance ongoing current business activities, was approximately \$16.2 million. The parent company had cash, interest-bearing deposits with banks and other current assets aggregating \$79.3 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 the available back-up lines of credit.

Edgar Filing: STERLING BANCORP - Form 10-Q

The following table sets forth information regarding the Company's obligations and commitments to make future payments under contract as of September 30, 2010:

Payments Due by Period

Contractual obligations (1)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-Term Debt	\$ 170,302	\$ 30,000	\$ 92,228	\$ 2,300	\$ 45,774
Operating Leases	45,659	4,513	8,313	8,710	24,123
Total Contractual Cash Obligations	\$ 215,961	\$ 34,513	\$ 100,541	\$ 11,010	\$ 69,897

(1) Based on contractual maturity dates

The following table sets forth information regarding the Company's obligations under other commercial commitments as of September 30, 2010:

Amount of Commitment Expiration per Period

Other Commercial Commitments	Total Amount Committed	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Residential Loans	\$ 59,670	\$ 59,670	\$	\$	\$
Commercial Loans	24,409	11,512	10,963		1,934
Total Loans	84,079	71,182	10,963		1,934
Standby Letters of Credit	21,722	18,617	3,105		
Other Commercial Commitments	63,726	62,920			806
Total Commercial Commitments	\$ 169,527	\$ 152,719	\$ 14,068	\$	\$ 2,740

INFORMATION AVAILABLE ON OUR WEB SITE

Our Internet address is www.sterlingbancorp.com and the investor relations section of our web site is located at www.sterlingbancorp.com/ir/investor.cfm. We make available free of charge, on or through the investor relations section of our 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 we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Also posted on our 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 Excessive or Luxury Expenditures Policy and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the Securities and Exchange Commission and the New York Stock Exchange, we will post on our web site any amendment to the Code of Business Conduct and Ethics 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 web site.

The contents of our web site are not incorporated by reference into this quarterly report on Form 10-Q.

STERLING BANCORP AND SUBSIDIARIES

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	More than 1 Year to 5 Years	More than 5 Years to 10 Years	Over 10 Years	Nonrate Sensitive	
ASSETS							
Interest-bearing deposits with other banks	\$ 19,300	\$	\$	\$	\$	\$	\$ 19,300
Investment securities	35,126	206,397	255,627	52,604	214,707		764,461
Commercial and industrial loans	543,522	84,485	65,670	4,885	85	(2,187)	696,460
Lease financing receivables	1,250	10,547	153,538	3,481		(17,903)	150,913
Factored receivables	186,435					(229)	186,206
Real estate-residential mortgage	32,912	42,581	12,345	9,655	65,625		163,118
Real estate-commercial mortgage	12,176	30,819	15,476	37,551			96,022
Real estate-construction and land development			25,092				25,092
Loans to individuals	2,234	2,192	6,341	1,634			12,401
Noninterest-earning assets & allowance for loan losses						189,504	189,504
Total Assets	832,955	377,021	534,089	109,810	280,417	169,185	2,303,477
LIABILITIES AND SHAREHOLDERS EQUITY							
Interest-bearing deposits							
Savings [1]			19,566				19,566
NOW [1]			193,364				193,364
Money market [1]	267,745		74,587				342,332
Time	243,107	260,155	47,456				550,718
Securities sold under agreement to repurchase - customer	21,084						21,084
Securities sold under agreement to repurchase - dealer			5,000				5,000
Federal funds purchased	60,000						60,000
Commercial paper	14,730	515					15,245
Short-term borrowings - other	2,221						2,221
Long-term borrowings - FHLB		30,000	94,528	20,000			144,528
Long-term borrowings - subordinated debentures					25,774		25,774
Noninterest-bearing liabilities & shareholders equity						923,645	923,645
Total Liabilities and Shareholders Equity	608,887	290,670	434,501	20,000	25,774	923,645	2,303,477

Edgar Filing: STERLING BANCORP - Form 10-Q

Net Interest Rate Sensitivity Gap	\$ 224,068	\$ 86,351	\$ 99,588	\$ 89,810	\$ 254,643	\$ (754,460)	\$
Cumulative Gap September 30, 2010	\$ 224,068	\$ 310,419	\$ 410,007	\$ 499,817	\$ 754,460	\$	\$
Cumulative Gap September 30, 2009 [2]	\$ 211,841	\$ 206,153	\$ 153,245	\$ 269,298	\$ 646,997	\$	\$
Cumulative Gap December 31, 2009 [2]	\$ 215,345	\$ 223,572	\$ 238,762	\$ 348,921	\$ 707,012	\$	\$

[1] Historically, balances in non-maturity deposit accounts have remained relatively stable despite changes in levels of interest rates. Balances are shown in repricing periods based on management's historical repricing practices and run-off experience.

[2] Certain reclassifications have been made to conform to the current presentation.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive and principal financial officers, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

No change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Edgar Filing: STERLING BANCORP - Form 10-Q

PART II - OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed as part of this report:

- 3. (i) Restated Certificate of Incorporation filed with the State of New York Department of State, October 28, 2004 (Filed as Exhibit 3(i) to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- (ii) Certificate of Amendment of Certificate of Incorporation filed with the State of New York Department of State on December 18, 2008 (Filed as Exhibit 3(ii) to the Registrant's Form 10-K for the year ended December 31, 2008 and incorporated herein by reference).
- (iii) By-Laws as in effect on November 15, 2007 (Filed as Exhibit 3(ii) (A) to the Registrant's Form 8-K dated November 15, 2007 and filed on November 19, 2007 and incorporated herein by reference).
- 11. Statement Re: Computation of Per Share Earnings.
- 31.1 Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).
- 31.2 Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).
- 32.1 Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.
- 32.2 Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code.

Edgar Filing: STERLING BANCORP - Form 10-Q

SIGNATURES

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

STERLING BANCORP

(Registrant)

/s/ Louis J. Cappelli

Louis J. Cappelli
Chairman and Chief Executive Officer

Date: November 4, 2010

/s/ John W. Tietjen

John W. Tietjen
Executive Vice President and
Chief Financial Officer

Date: November 4, 2010

Edgar Filing: STERLING BANCORP - Form 10-Q

STERLING BANCORP AND SUBSIDIARIES

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequential Page No.</u>
11	Statement re: Computation of per share earnings	57
31.1	Certification of the CEO pursuant to Exchange Act Rule 13a-14(a).	58
31.2	Certification of the CFO pursuant to Exchange Act Rule 13a-14(a).	59
32.1	Certification of the CEO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code	60
32.2	Certification of the CFO required by Section 1350 of Chapter 63 of Title 18 of the U.S. Code	61

56