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STERLING BANCORP
Form 10-K
March 29, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
COMMISSION FILE NO. 1-5273-1

STERLING BANCORP
(Exact Name of Registrant as specified in charter)

NEW YORK
(State or other jurisdiction of incorporation or organization)
650 FIFTH AVENUE, NEW YORK, N.Y.
(Address of principal executive offices)

13-2565216
(I.R.S. employer identification No.)

10019-6108
(Zip Code)

(212) 757-3300
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Shares, \$1 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
Cumulative Trust Preferred Securities 8.375% (Liquidation Amount \$10 per Preferred Security) of Sterling Bancorp Trust I and Guarantee of Sterling Bancorp with respect thereto	New York Stock Exchange

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

NONE

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

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filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

On March 9, 2002 the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$283,499,777.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

THE REGISTRANT HAS ONE CLASS OF COMMON STOCK OF WHICH 10,122,312 SHARES WERE OUTSTANDING AT MARCH 9, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Specified portions of Sterling Bancorp's Annual Report to security holders for the fiscal year ended December 31, 2001 are incorporated by reference in Parts I and II.
 - (2) Specified portions of the Sterling Bancorp definitive Proxy Statement dated March 12, 2002 are incorporated by reference in Part III.
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STERLING BANCORP

FORM 10-K

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Exhibits Submitted in a Separate Volume.

PART I

ITEM 1. BUSINESS

GENERAL

Sterling Bancorp ("the parent company" or "the Registrant") is a bank holding company and a financial holding company as defined by the Bank Holding Company Act of 1956 (the "BHCA"), as amended, which was organized in 1966. Throughout the report, the terms "the Company" or "Sterling" refer to Sterling Bancorp and its subsidiaries. Sterling provides a full range of financial products and services, including business and consumer loans, commercial and residential mortgage lending and brokerage, asset-based financing, accounts receivable management services, trade financing, equipment leasing, corporate and consumer deposit services, trust and estate administration and investment management services. The Company has operations in the metropolitan New York area, as well as Virginia and other mid-Atlantic territories, and conducts business throughout the United States. The parent company owns all of the outstanding shares of Sterling National Bank ("the bank") -- its principal subsidiary, and all of the outstanding shares of Sterling Banking Corporation and Sterling Financial Services Company, Inc. ("finance subsidiaries"). Sterling National Mortgage Company, Inc. ("SNMC"), Sterling National Servicing, Inc. ("SNS-Virginia"), Sterling Factors Corporation ("Factors"), Sterling Trade Services, Inc. ("Trade Services"), and Sterling Holding Company of Virginia, Inc. are wholly owned subsidiaries of the bank. Until 1998, Factors was a finance subsidiary of the Registrant. Sterling Trade Services, Inc. was formed on April 23, 2001 and owns all of the outstanding common shares of Sterling National Asia Limited, Hong Kong, which was also formed on that date. Sterling Holding Company of Virginia, Inc. was formed as of December 21, 1998 and owns all of the outstanding common shares of Sterling Real Estate Holding Company, Inc., which was formed as of March 1, 1997. Segment information appearing in Note 20 beginning on page 39 of the Company's Annual Report to security holders for the fiscal year ended December 31, 2001 ("the 2001 Annual Report") is incorporated by reference herein.

GOVERNMENT MONETARY POLICY

The Company is affected by the credit policies of monetary authorities, including the Board of Governors of the Federal Reserve System. An important element of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve are open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank deposits, and funds availability regulations. The monetary policies of the Federal Reserve have in the past had a significant effect on operations of financial institutions, including the bank, and will continue to do so in the future. Changing conditions in the national economy and in the money markets make it difficult to predict future changes in interest rates, deposit levels, loan demand or their effects on the business and earnings of the Company. Foreign activities of the Company are not considered to be material.

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BUSINESS OPERATIONS

The bank

Sterling National Bank was organized in 1929 under the National Bank Act and commenced operations in New York City. The bank maintains six offices in New York City (three branches and an International Banking Facility in Manhattan and two branches in Queens) and one branch in Nassau County in Great Neck, New York. The executive office is located at 650 Fifth Avenue, New York, New York. There are regional representatives located in Richmond, Virginia.

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The bank provides a full range of banking services to businesses and individuals, including checking, savings and money market accounts, certificates of deposit, business loans, personal and installment loans, VISA/MASTERCARD, safe deposit and night depository facilities. Business lending, depository and related financial services are furnished to a wide range of customers in diverse industries, including commercial, industrial and financial companies, as well as government and non-profit agencies. Loan facilities available to these customers include short-term revolving credit arrangements, term loans, letters of credit, accountsreceivable management services, asset-based financing, equipment financing, real estate and mortgage loans, leasing and lock box services.

Through its international division and International Banking Facility, the bank offers financial services to its customers and correspondents in the world's major financial centers. These services consist of financing import and export transactions, issuance of letters of credit and creation of bankers acceptances. In addition to its direct worldwide correspondent banking relationships, active bank account relationships are maintained with leading foreign banking institutions in major financial centers.

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

Factors provides accounts receivable management services. Factors purchases clients' accounts receivable, assumes credit risk on approved orders and handles credit and collection details and bookkeeping requirements. Income for these services is derived from commissions charged for receivables serviced and interest charged on advances to the client. For these services, Factors receives a portion of factoring commissions paid by the clients plus a portion of interest charged on advances. The accounts receivable factored are for clients primarily engaged in the apparel and textile industries.

Sterling's mortgage banking and brokerage business is conducted through SNMC offices located principally in New York and Virginia. SNMC originates conforming residential mortgage loans, for resale, throughout the tri-state metropolitan area as well as in Virginia and other mid-Atlantic states. SNMC also originates non-conforming residential mortgage loans, for its own portfolio and for resale, principally in Virginia.

There are no industry concentrations exceeding 10% of loans, gross in the commercial and industrial loan portfolio. Approximately 76% of the bank's loans are to borrowers located in the metropolitan New York area.

The composition of income from the operations of the bank and its subsidiaries for the years ended: [1] December 31, 2001 included interest and

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fees on commercial and other loans (53%), interest and dividends on investment securities (27%) and other (20%); [2] December 31, 2000 included interest and fees on commercial and other loans (54%), interest and dividends on investment securities (27%), and other (19%); [3] December 31, 1999 included interest and fees on commercial and other loans (53%), interest and dividends on investment securities (26%), and other (21%).

At December 31, 2001, the bank and its subsidiaries had 362 employees, consisting of 142 officers and 220 supervisory and clerical employees. The bank considers its relations with its employees to be satisfactory.

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PARENT COMPANY AND FINANCE SUBSIDIARIES

The parent company, through its finance subsidiary -- Sterling Financial Services Company ("Sterling Financial"), makes loans that are secured by personal property, accounts receivable or other collateral; occasionally unsecured advances are provided to its customers.

Sterling Financial engages in asset-based lending with independent dealers who market products, such as housewares, appliances, automobiles, and educational material, to consumers on an installment basis with repayment terms between 12 and 48 months. Sterling Financial administers these installment contracts for the dealer, providing billing, payment processing and other bookkeeping services. Advances are made to each dealer of generally up to 80% of the discounted aggregate value of the dealer's installment contracts.

The composition of income (excluding equity in undistributed net income of the bank) of the parent company and its finance subsidiaries for the years ended: [1] December 31, 2001 included interest and fees on loans (32%), dividends, interest and service fees (66%) and other (2%); [2] December 31, 2000 included interest and fees on loans (42%), dividends, interest and service fees (55%), and other (3%); [3] December 31, 1999 included interest and fees on loans (47%), dividends, interest and service fees (52%), and other (1%). As of January 1, 2001, Sterling Financial became a subsidiary of the parent company. Prior to that date, Sterling Financial was a division of the parent company. For the year ended December 31, 1999, Factors was a finance subsidiary, and the results of its operations were included in the foregoing and in all financial statements relating to that year.

At December 31, 2001, the parent company and its finance subsidiaries employed 36 persons consisting of 8 officers with the balance of the employees performing supervisory and clerical functions. The parent company and its finance subsidiaries consider employee relations to be satisfactory.

COMPETITION

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 loans associations, savings bonds, finance companies, and credit unions. 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, and availability of products.

The Gramm-Leach-Bliley Act of 1999 (the "Gramm-Leach-Bliley Act") has expanded the permissible activities of a bank holding company. The Gramm-Leach-Bliley Act allows qualifying bank holding companies to elect to be

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treated as financial holding companies. A financial holding company may engage in activities that are financial in nature or are incidental or complementary to financial activities. The Gramm-Leach-Bliley Act also eliminated restrictions imposed by the Glass-Steagall Financial Services Law, adopted in the 1930's, which prevented banking insurance and securities firms from fully entering each other's business. While it is uncertain what the full impact of legislation will be, it is likely to result in further consolidation in the financial services industry. In addition, removal of these restrictions will likely increase the number of entries providing banking services and thereby create additional competition. However, the Company's management cannot currently predict the full impact of the Gramm-Leach-Bliley Act on the Company. For more information regarding the Gramm-Leach-Bliley Act see "Supervision and Regulation -- Financial Services Modernization Legislation" below.

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SUPERVISION AND REGULATION

General

The banking industry is highly regulated. Statutory and regulatory controls are designed primarily for the protection of depositors and the banking system, as opposed to the shareholders of the parent company. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on the bank. It is intended only to briefly summarize some material provisions.

Bank Holding Company Regulation

Sterling Bancorp is a bank holding company and a financial holding company under the BHCA, as amended, and is subject to supervision, examination and reporting requirements of the Board of Governors of The Federal Reserve System ("FRB").

The BHCA requires the prior approval of the Federal Reserve Board for the acquisition by a bank holding company of more than 5% of the voting stock or substantially all of the assets of any bank or bank holding company. Also, under the BHCA, bank holding companies are prohibited, with certain exceptions, from engaging in, or from acquiring more than 5% of the voting stock of any company engaging in, activities other than banking or managing or controlling banks or furnishing services to or performing services for their subsidiaries. The BHCA also authorizes the Federal Reserve Board to permit bank holding companies to engage in, and to acquire or retain shares of companies that engage in, activities which the Federal Reserve Board determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Federal Reserve Board has ruled that a number of activities come within this standard while finding that several activities do not. As discussed below under "Financial Services Modernization Legislation", the BHCA was amended by the Gramm-Leach-Bliley Act of 1999 to permit a broader range of activities for bank holding companies that qualify as "financial holding companies".

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

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branching; (d) permissible activities; and (e) reserve requirements.

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

Financial Services Modernization Legislation

On November 12, 1999, the President signed the Gramm-Leach-Bliley Act into law. Effective as of March 11, 2000, the Gramm-Leach-Bliley Act:

- allows bank holding companies, the depository institution subsidiaries of which meet management, capital and CRA standards, to engage in a substantially broader range of nonbanking financial activities than was previously permissible, including insurance underwriting and making merchant banking investments in commercial companies;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

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

Pursuant to an election made under the Gramm-Leach-Bliley Act, the parent company has been designated as a financial holding company.

Payment Of Dividends And Transactions With Affiliates

Various legal restrictions limit the extent to which the bank can fund its 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 that year to date combined with its retained net profits for the preceding two calendar years. In addition, there are restrictions on the amount of loans that the bank can make to each of its non-bank affiliates and to all of its non-bank affiliates in the aggregate, a requirement that such loans be collateralized, and a requirement that transactions between a bank and its non-bank affiliates be on an arm's length basis.

Capital Adequacy

The Company and the bank are subject to risk-based capital regulations. The purpose of these regulations is to quantitatively measure capital against risk-weighted assets, including off-balance sheet items. These regulations define the elements of total capital into Tier 1 and Tier 2 components 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

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requirement. This requirement establishes a minimum leverage ratio, (at least 3% to 5%) which is calculated by dividing Tier 1 capital by adjusted quarterly average assets (after deducting goodwill). In addition, the Company and the bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1981 ("FDICIA") which imposes a number of mandatory supervisory measures and establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. Among other matters, FDICIA establishes five capital categories of "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized". Such classifications are used by regulatory agencies to determine, in part, a bank's deposit insurance premium, and to consider applications authorizing institutions to increase their asset size or otherwise expand business activities or acquire other institutions. Banks that are not adequately capitalized are subject to significant restrictions and requirements that increase as capital levels deteriorate and may not accept brokered deposits.

Under the provisions of FDICIA, a "well capitalized" institution must maintain minimum leverage, Tier 1 and Total Capital ratios of 5%, 6% and 10%, respectively. At December 31, 2001, the capital ratios for the Company and the bank exceeded the requirements for "well capitalized" institutions.

The table presenting capital and ratios for the Company and the bank as of December 31, 2001 and 2000 appears in Note 19 beginning on page 39 of the Company's 2001 Annual Report and is incorporated by reference herein.

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Merchant Banking

In January, the federal bank regulators adopted rules, effective April 1, 2002, governing the regulatory capital treatment of equity investments in nonfinancial companies. The federal rules require a series of marginal capital charges on covered equity investments that increase with the level of those investments as a percentage of the Company's and the bank's Tier 1 capital. With certain exceptions, the rules require that the Company and the bank deduct from Tier 1 capital the appropriate percentage set out below:

AGGREGATE CARRYING VALUE OF COVERED NONFINANCIAL EQUITY INVESTMENTS AS A PERCENTAGE OF TIER 1 CAPITAL	REQUIRED DEDUCTION FROM TIER 1 CAPITAL AS A PERCENTAGE OF THE CARRYING VALUE OF THE INVESTMENTS
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