



WHOLESALE

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 8, 2002

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Sterling National Bank
Charter Number 13295
650 Fifth Avenue
New York, New York 10022-6108**

**Office of the Comptroller of the Currency
New York Metro Field Office
830 Morris Turnpike, Second Floor
Short Hills, New Jersey 07078-2600**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate – Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) – A geographic area that consists generally of one or more MAs (using the MA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Block Numbering Area (BNA) – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) – Small, locally defined statistical areas within Metropolitan Areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

Community Development (CD) – Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) – The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography – A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Median Family Income (MFI) – The median income determined by the United States Census

Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Area (MA) – Area defined by the director of the United States Office of Management and Budget. MAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, “PreTax Operating Income (TE)”*]

Qualified Investment - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Tier 1 Capital – The total of common shareholders’ equity, perpetual preferred shareholders’ equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, “Net Tier One”*]

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, “Total Assets”*]

Total Income – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, “Total Interest Income” and “Noninterest Income”*]

Wholesale Institution – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.

Institution’s CRA rating:

This institution is rated “ Outstanding. ”

The major characteristics that support this rating are:

- Sterling National Bank (“SNB”) demonstrates a high level of both qualified investments and community development lending. The investments are of types that are generally provided by private investors. SNB also provided an adequate level of community development services during the evaluation period. Bank officers and other personnel provided services that were responsive to identified community needs during this evaluation period.
- The community development activities undertaken by the bank are not innovative or complex. Qualified investments made by SNB are generally of the type routinely provided by private investors.
- The bank demonstrates an excellent responsiveness to the community development needs within its assessment area.

Scope of the Examination

In evaluating the bank’s performance under the CRA, we reviewed community development (“CD”) activities from **July 7, 1999** through **July 7, 2002**. This is the first review for Sterling National Bank (“SNB”) since receiving its wholesale designation from the OCC in **February 2001**. As a result of this designation, we reviewed the level and nature of qualified investments, community development lending and community development activities presented for consideration. Virtually all of the bank's activities during this evaluation period were within or directly benefited the delineated assessment area. At the prior examination, dated **July 6, 1999**, we rated the bank "Satisfactory". At that review, SNB’s performance was determined using the large bank procedures that include lending, investment and services tests with a rating assigned to each test.

All of the activities considered in this evaluation were affected through SNB, no affiliate activities were presented for consideration. For the review period, SNB presented for consideration loans, investments and services that have community development as its primary purpose. The bank has adequately addressed the needs of its assessment area, and therefore, outside of assessment area qualified investments and community development loans were considered in evaluating its performance.

Description of Institution

Sterling National Bank was originally founded in 1929 and historically focused its operations to serving the middle-market commercial sector of New York City’s business community. This sector has been defined as businesses having gross annual revenues of between \$5 million and \$25 million. Within this market, the historic focus has been to the textile and apparel businesses. A wide array of commercial and consumer deposit products are also offered. Recently, SNB

has expanded into the health care and equipment leasing markets. SNB, the only banking subsidiary of the Sterling Bancorp (“Bancorp”), is the primary subsidiary of the bank holding company. SNB’s subsidiaries are a factoring company, a residential mortgage company, a real estate investment trust and an international trade service company. In addition to SNB, Bancorp owns a financial services company. This company provides receivable financing to businesses secured by the consumer receivables of the borrowers. Bank management did not request that any affiliate-related activity be considered. Neither of these subsidiaries has an impact on the bank’s capacity for community reinvestment. Total holding company assets at year-end 2001 were \$1.4 billion.

This bank operates as an intrastate institution having a total of six offices. Three are located in the Borough Manhattan, two in the Borough of Queens and a single location in Nassau County, Long Island. The latter office recently opened in late November 2001.

Sterling National Bank was designated a wholesale institution by the OCC in February 2001. An institution so designated is evaluated pursuant to the community development test, which assesses a bank's record of meeting assessment area credit needs through community development lending, qualified investments or community development services, as applicable.

As of March 31, 2002, SNB reported total assets of \$1.4 billion. Institution’s assets are centered in loans (51%) and investment securities (43%). The preponderance (90%) of gross loans is commercial in nature with the remainder of the portfolio secured by residential real estate. Of the latter, SNB actively packages the majority of those loans for sale into the secondary market without retaining any servicing rights. Investments total \$610 million, of which \$568 million (93%) are U.S. government obligations. Deposits amount to \$1 billion centered in demand deposits, money market accounts and time deposits over \$100 thousand. Net operating income is reported as \$4.5 million and tier 1 capital is \$91 million for the quarter.

There are no known legal constraints that may impact SNB's ability to meet the community development needs of its assessment area.

Table 1: Financial Information (\$000s)

	Year-end 1999	Year-end 2000	Year-end 2001	Most Recent Quarter-end 03/31/2002	Average for Evaluation Period
Tier 1 Capital	\$66,034	\$77,367	\$85,093	\$90,566	\$79,765
Total Income	\$89,787	\$113,451	\$113,688	\$112,924(**)	\$107,463
Net Operating Income	\$12,942	\$16,262	\$18,755	\$11,696(**)	\$14,914
Total Assets	\$1,159,522	\$1,219,106	\$1,411,504	\$1,417,301	\$1,301,860

Source: Consolidated Report of Condition and Income and bank reported data.

**Annualized data reported.

Description of Assessment Area

Sterling National Bank, an intrastate bank, operates in an urban area and has identified most of the New York MSA (#5600) and a portion of the Nassau-Suffolk MSA (#5380) as its AA. Both of these MSAs are contiguous and are part of the larger Consolidated Metropolitan Statistical Area. Due to this fact, the two will be combined into one AA. However, due to some differences, each MSA receives a brief description below.

New York City, with its five boroughs, makes up most of the New York Metropolitan Statistical Area #5600 ("MSA"). The entire MSA is comprised of the five boroughs of New York City along with the counties of Putnam, Rockland and Westchester. The latter three counties are not part of the bank's AA. The Nassau AA is comprised of only Nassau County. Refer to **Table 2** for the consolidated census tracts income characteristics. Total population of the consolidated AA is 9.8 million people. The updated median family income of the AA is \$61,012. The AA meets regulatory guidelines and does not arbitrarily exclude low- or moderate-income areas.

Description of New York City Assessment Area (AA)

AA includes the five boroughs (Bronx, Kings, New York, Queens, and Richmond counties) of New York City. The AA, part of the larger New York Metropolitan Statistical Area #5600, contains 2,216 census tracts, of which 314 (14%) are low-income, 419 (19%) are moderate-income, 779 (35%) are middle-income, and 638 (29%) are upper-income. There are 66 (3%) census tracts with no income designation. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 U.S. Census data, the population of this area is 8.5 million people. The census median family income (MFI) is \$37,515 and the 2001 Department of Housing and Urban Development updated MFI is \$59,100. The distribution of families in the AA is as follows: 28% low-income families, 16% moderate-income families, 19% middle-income families, and 37% upper-income families.

Within the AA, there are 3 million housing units of which 94% are occupied. Owner-occupied units account for 27% and rental units accounts for 67%. In addition, nearly 63% (1.9 million) of all housing units are multifamily. The majority of the multifamily units are located primarily throughout Manhattan and the Bronx, and to a lesser degree, Brooklyn. The median housing value in the AA is \$194,647 and is considered high, making homeownership difficult for a large portion of low- and moderate-income individuals.

New York City (NYC) is home to a diversified mix of businesses. Many national and international corporations are headquartered here. Historically, the downtown area has been dominated by the financial services industry. Industries operating in the midtown area include advertising, publishing, and garment production. The retail sector is a major employer with several large department stores and many small businesses operating throughout the AA.

After experiencing several years of good economic growth, the NYC economy has begun to show signs of weakening in line with the national economy. A major factor is the September 2001 terrorist attack that destroyed the World Trade Center. Tourism, a major contributor to the NYC economy has been negatively impacted and has had a ripple effect on other industries and services. The volatility on Wall Street has also impacted the local and national economy. The AA's unemployment level has risen to 6.8% in November 2001, above the state rate of 5.4% for the same period.

SNB operates in a very competitive market with many multinational, regional, foreign, and smaller local banks. The major banks include Citibank, JP Morgan Chase, Fleet, HSBC, and Bank of New York. All of these banks, which are substantially larger than SNB, provide major support to many of the community development initiatives throughout New York City in the form of both loans and investments. It was noted from a review of several of these bank's public performance evaluations, that, in many cases, these banks are the leaders in such activities. However, SNB provides community development support commensurate with its expertise and ability.

Description of Nassau AA

The Nassau AA is part of the Nassau-Suffolk MSA consisting of Nassau and Suffolk Counties in New York. These counties make up what is commonly known as Long Island. Total population of the AA is 1.3 million people.

Major competitors include Citibank, JP Morgan Chase, Fleet and First Union National Bank. In the small business area, SNB competes with American Express Centurion Bank, Capitol One, F.S.B., Fleet and JP Morgan Chase.

The economy has expanded significantly, due to the area's close proximity to New York City, the impact of a buoyant stock market, and the diversification of the local economy into the fast growing software, biotech and financial services industries. Median family income has increased by approximately 35 percent since 1990, reaching \$78,700 in 2001. The population has been growing steadily, but there has been significant growth in the "persons over 65" segment.

There is only one low-income tract in Nassau County. The twenty moderate-income tracts in are scattered throughout the county. The number of low-income families declined by 7.7% between 1990 and 1999, while the number of moderate-income families increased 5.7% over the same period. Only 0.04 % of owner occupied units were located in low-income tracts and 11.8% were in moderate-income tracts. A large number of low-and moderate-income individuals and families have faced affordability issues caused by the high ownership and rental costs in the area, and a relatively high cost-of-living.

Community Contacts

Information regarding community credit needs was obtained from data maintained by the Federal Financial Institutions Examinations Council ("FFIEC") Community Contact System that were conducted immediately prior to the commencement of this review as well as two community contacts conducted during this examination. We conducted a contact with a community group within each portion of the AA, that is, one in New York City and one in Nassau County. Both contacts indicated a competitive environment among banks within the assessment area.

Additionally, the contacts each stated that there are a number of potential participation opportunities for the local financial institutions. The greatest need indicated was for activities that would increase or make available affordable housing. There also continues to be a need for funding to provide affordable housing for low- and moderate-income households and there are various community development investment opportunities available. It was also mentioned that the larger multinational and regional financial institutions within the AA generally take the majority of these investments. Such a situation would appear to limit additional investment opportunities for smaller institutions. Information contained in the FFIEC database also indicated a need for loans to assist in revitalizing or stabilizing LMI areas through creation and retention of employment opportunities as well as providing opportunities for new business with emphasis to those business located in LMI areas or owned by LMI individuals.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	2,727(#)	11%(***)	17%(***)	36%(***)	33%(***)
Families	2,421,607	24%*	15%*	19%*	42%*
Businesses	418,642	6%**	14%**	30%**	48%**

Source: Demographic Data - 1990 U.S. Census and Dun & Bradstreet Data.

* Represents families by income level.

** Represents businesses by income level of census tract. Does not add to 100% due to rounding none categorized tracts,

***Does not add to 100% due to rounding none categorized tracts,

(#) Includes 73 Census Tracts that are not income categorized

Opportunities for CD lending, investments and services exist throughout the AA, with possibly more opportunities within the New York MSA when compared to the Nassau-Suffolk MSA. Community development opportunities include working with, and purchasing bonds issued by, government organizations that finance affordable housing for low- and moderate-income individuals and financing to provide job creation/retention directed toward LMI areas or individuals. There are many organizations throughout the AA, whose efforts target low- and moderate-income individuals or neighborhoods. There are also non-profit organizations whose mission is economic development.

SNB, in an effort to ascertain community needs, has established and maintained active contacts with a number of both for profit and not for profit organizations within its AA. Many of the organizations are well known throughout the area and are actively engaged in community development activities. Such activities

include providing affordable housing, assisting in creating/maintaining small businesses that aid in jobs for LMI individuals and social services directed toward LMI individuals. The efforts of this bank assist these organizations in attaining its goals.

Conclusions About Performance

Summary

SNB has an overall excellent level of both qualified investments and community development lending. Nearly all of the investments originated during the review period directly benefited the bank's AA. This institution has demonstrated in the past a high level of community development related loans. This continues at this examination. Virtually all of the CD loans were made within the AA. SNB primarily seeks investments that assist in providing affordable mortgage loans to low and moderate-income individuals. Community development activities consist mainly of bank officer involvement with community- based organizations as members of various advisory or lending committees and boards.

The bank does not utilize innovative or complex qualified investments, loans or services. Qualified investments made by SNB are generally of the type routinely provided by private investors.

SNB has demonstrated an excellent responsiveness to the affordable housing and economic development needs of its assessment area through its high level of qualified community development investments, grants and loans and adequate participation in community development services. The bank has proactively assisted in meeting the housing needs of low- and moderate-income individuals and, sometimes in a leadership role, has readily invested in housing development projects that benefit low- and moderate-income areas, and individuals primarily in its AA. In addition, SNB has helped fulfill the lending and technical assistance needs of small businesses and housing groups within the AA.

Qualified Investments

As noted in **Table 3**, qualified investments totaled \$24.5 million. Of this amount, \$23.9 million were originated during this evaluation period. Virtually all of the investments directly benefited or were used for community development projects that were located within the bank's AA. The major investment made during the evaluation period was various mortgage-backed securities primarily for LMI individuals. The vast majority of the underlying mortgages was originated within the AA and directly responds to the community need for affordable housing developments and/or affordable mortgage financing. Those mortgages to properties located outside of the AA totaled \$568 thousand. Examples of some of the qualified investments made during the evaluation period follow:

- SNB purchased \$23.0 million in mortgage-backed securities supported by mortgages

solely made to LMI individuals.

- A \$500 thousand investment made during the evaluation period was a certificate of deposit placed into a community development financial institution (“CDFI”). The CDFI, which uses funds obtained from larger financial institutions to make community development loans, is located within New York City.

The remaining investments are qualifying contributions/donations to organizations engaged in affordable housing, economic development or those serving LMI housing or other community development needs, such as credit counseling, home counseling, social services and financial services directed to LMI individuals. Such contributions are wide spread to numerous groups throughout the bank's AA.

Table 3 - Qualified Investment Activity (\$000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$22,453	\$568	\$23,021
Originated Grants	\$847	0	\$847
Prior-Period Investments that Remain Outstanding	\$600	0	\$600
Total Qualified Investments	\$23,900	\$568	\$24,468

The above investments also include balances under mortgage-backed securities originated prior to the last CRA review conducted by the OCC. No bindings commitments to purchase additional securities or investments were noted.

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	30.0%	0.7%	30.7%
Total Investments/Average Total Income	22.2%	0.5%	22.7%

Community Development Lending

SNB originated a high level of community development loans during the evaluation period. Community development loans are defined as loans that (1) have a primary purpose of community development, as defined by 12 CFR 25.12(h), (2) have not been reported or collected by the bank or an affiliate for consideration as a home mortgage, small business, small farm or consumer loans, unless they are multifamily dwelling loans, and (3) benefit the bank’s assessment area or a broader statewide or regional area that includes the bank’s assessment area.

The loans originated during the evaluation period respond directly to the known credit needs of

the community. A total of \$21.4 million in loans were originated that meet the above definition. All but \$200 thousand were to organizations located within the AA.

Examples of community development loans originated during the evaluation period include:

- A \$1.5 million loan to a health care facility located in an LMI area. The primary purpose of the clinic is to provide health services to LMI individuals. Medicaid payments account for over 90% of the revenues received by the facility.
- A \$4.5 million line of credit to a not for profit agency that provides educational opportunities and affordable housing to developmentally disabled individuals. The majority of such individuals are LMI as evidenced by the primary source of payment to the agency being Medicaid.
- A \$600 thousand line of credit to a privately held company that promotes economic activity within New York City. The company provides loans to small and medium sized businesses for working capital, equipment and real estate. Such businesses are located within LMI areas and assist in job creation/retention primarily to LMI individuals.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	26.6%	0.2%	26.8%
Total CD Lending/Average Total Income	19.7%	0.2%	19.9%

Community Development Services

SNB provided an adequate level of community development services during the evaluation period. Bank officers and other personnel provided five services that were responsive to identified community needs during this evaluation period. Due to the fact that the bank recently opened an office in the Nassau-Suffolk MSA, bank management has just developed a relation with a local community based organization. Therefore, any analysis of services in this AA would not be meaningful at this time.

Management provided CD services to local entities. These organizations provide home ownership counseling and affordable housing, primarily targeted at low- and moderate-income persons and neighborhoods, as well as small business development and financial educational services.

- A bank-lending officer made a presentation at a small business seminar sponsored by the Lower East Side Business Association. The officer gave specialized information on promoting small businesses development in a primarily LMI area of New York City.

- SNB’s human resources officer provided expertise and training in a job opportunities program provided by Inner City Scholarship, an organization targeting LMI neighborhoods and individuals.
- A senior bank officer provides Neighborhood Housing Services (“NHS”) with financial expertise to the group’s Resource Development Committee. NHS is an organization that assists in providing affordable housing to LMI individuals. This committee provides assistance in attracting new resources from both the public and private sectors. This includes, but is not limited to, reviewing proposals for requesting funding as well as potential donors. These funds are used to assist in providing affordable housing and/or training to LMI individuals on how to obtain such housing.

Fair Lending Review

An analysis of the most recent public comments and consumer complaint information on this wholesale institution was performed in accordance with the OCC’s risk-based fair lending approach. Based on our analysis of the information, a comprehensive fair lending examination was not conducted with the CRA evaluation this period. The latest comprehensive fair lending examination was performed in July 1999.