FRB Order No. 2015-16
June 15, 2015

FEDERAL RESERVE SYSTEM

Sterling Bancorp
Montebello, New York

Order Approving the Acquisition of a Bank Holding Company

Sterling Bancorp ("Sterling"), Montebello, New York, a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act[1] to acquire Hudson Valley Holding Corporation ("Hudson Valley"), and thereby indirectly acquire its subsidiary bank, Hudson Valley Bank, National Association ("Hudson Valley Bank"), both of Yonkers, New York. Following the proposed acquisition, Hudson Valley Bank would be merged into Sterling's subsidiary bank, Sterling National Bank ("Sterling Bank"), Montebello, New York.[2]

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (79 Federal Register 74091 (2014)).[3] The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Sterling, with consolidated assets of approximately $7.4 billion, is the 140th largest insured depository organization in the United States, controlling

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[1] 12 U.S.C. § 1842.

[2] The merger of Hudson Valley Bank into Sterling Bank is subject to the approval of the Office of the Comptroller of the Currency ("OCC"), pursuant to section 18(c) of the Federal Deposit Insurance Act. 12 U.S.C. § 1828(c).

[3] 12 CFR 262.3(b).

approximately $5.2 billion in deposits.[4] Sterling controls Sterling Bank, which operates in New York and New Jersey. Sterling Bank is the 25th largest insured depository institution in New York, controlling deposits of approximately $5.0 billion, which represent less than 1 percent of the total deposits in insured depository institutions in that state.[5]

Hudson Valley, with consolidated assets of approximately $3.1 billion, is the 263rd largest insured depository organization in the United States, controlling approximately $2.8 billion in deposits. Hudson Valley controls Hudson Valley Bank, which operates only in New York. Hudson Valley Bank is the 38th largest insured depository institution in New York, controlling less than 1 percent of the total deposits in insured depository institutions in that state.

On consummation of the proposal, Sterling would become the 108th largest depository organization in the United States, with consolidated assets of approximately $10.6 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Sterling would control total deposits of approximately $8.0 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In New York, Sterling would become the 21st largest depository organization, controlling deposits of approximately $7.8 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize

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[4] Asset and nationwide deposit-ranking data are as of December 31, 2014, unless otherwise noted.

[5] State deposit data are as of June 30, 2014, unless otherwise noted. In this context, insured depository institutions include insured commercial banks, savings banks, and savings associations.

the business of banking in any relevant market.[6] The statute also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.[7]

Sterling and Hudson Valley have subsidiary depository institutions that compete directly in the Metropolitan New York City banking market ("New York City market").[8] The Board has considered the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market; the relative share of total deposits in insured depository institutions in the market ("market deposits") that Sterling would control upon consummation of the proposal;[9] the concentration levels of market deposits and the increase in these levels as measured by the Herfindahl-

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[6] 12 U.S.C. § 1842(c)(1).

[7] Id.

[8] The New York City market is defined as Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester counties, all in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Mercer, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren counties, all in New Jersey; Monroe and Pike counties, both in Pennsylvania; Fairfield County, Connecticut; Bridgewater, Canaan, Cornwall, Kent, New Milford, North Canaan, Roxbury, Salisbury, Sharon, Warren, and Washington townships, including the cities of Cornwall Bridge, Falls Village, Lakeville, Marble Dale, New Preston, Salisbury, and Washington Depot, all in Litchfield County, Connecticut; and Ansonia, Beacon Falls, Derby, Milford, and Seymour townships in New Haven County, Connecticut.

[9] Deposit and market share data are as of June 30, 2014, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”), after consummation of the proposal;[10] and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines for the New York City market. On consummation of the proposal, the New York City market would remain moderately concentrated, as measured by the HHI. There would be only a minimal change in the HHI, and 251 competitors would remain in the market.[11]

The DOJ has advised the Board that consummation of the proposal would not be likely to have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the

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[10] Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), www.justice.gov/opa/pr/2010/August/10-at-938.html.

[11] Sterling operates the 27th largest depository institution in the New York City market, which includes portions of New Jersey. Sterling controls approximately $5.1 billion in deposits in this market, which represent less than 1 percent of market deposits. Hudson Valley operates the 37th largest depository institution in the same market, controlling approximately $2.8 billion in deposits, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Sterling would become the 22nd largest depository institution in the market, controlling approximately $8.0 billion in deposits, which represent less than 1 percent of market deposits. The HHI for the New York City market would increase by one point to 1371.

concentration of resources in the New York City banking market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

Sterling and Sterling Bank are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share exchange, with a subsequent merger of the subsidiary depository institutions.[12] The asset quality, earnings, and liquidity of Sterling Bank and Hudson Valley Bank are consistent with approval, and Sterling appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. In addition, future prospects are considered consistent with

[12] As part of the proposed transaction, each share of Hudson Valley common stock would be converted into a right to receive Sterling common stock, based on a fixed exchange ratio. Sterling has the financial resources to fund the exchange.

approval. Based on its review of the record, the Board finds that the organization has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Sterling, Hudson Valley, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Sterling, the Board's supervisory experiences with Sterling and Hudson Valley and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking and anti-money-laundering laws.

Sterling, Hudson Valley, and their subsidiary depository institutions are each considered to be well managed. Sterling's existing risk-management program, and its directorate and senior management, are considered to be satisfactory. The directors and senior executive officers of Sterling have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered Sterling's plans for implementing the proposal. Sterling is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Sterling would implement its risk-management policies, procedures, and controls at the combined organization, and these are considered acceptable from a supervisory perspective. In addition, Sterling's and Hudson Valley's management have the experience and resources that should allow the combined organization to operate in a safe and sound manner, and Sterling plans to integrate Hudson Valley's existing management and personnel in a manner that augments Sterling's management.[13]

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[13] On consummation, Sterling will increase from 13 to 15 the number of seats on its board of directors. Eleven directors currently serving on Sterling's board of directors and four directors nominated by Hudson Valley's board of directors will serve on the board of the combined organization. The Chief Executive Officer and the Chief Financial Officer of Sterling will continue to serve in their roles following the merger. In addition, Sterling

Based on all the facts of record, including Sterling's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Sterling and Hudson Valley in combatting money-laundering activities, are consistent with approval.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the convenience and needs of the communities to be served. In its evaluation of the effect of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and whether the proposal would result in public benefits. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").[14] The Board also considers the banks' overall compliance record, recent fair lending examinations and other supervisory assessments; the supervisory views of examiners; other supervisory information; and comments received on the proposal. Other information the Board may consider includes the institution's business model, the institution's marketing and outreach plans, its development and monitoring of business goals and initiatives, and the organization's plans following consummation.

The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in

Bank will establish a paid advisory board, comprised of other members of Hudson Valley's board of directors who wish to serve and other individuals appointed by Sterling. The advisory board will monitor Sterling Bank's business in certain markets to support the board of directors of Sterling and Sterling Bank.

[14] 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

which they operate, consistent with their safe and sound operation,[15] and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.[16] In addition to complying with the requirements of the CRA, fair lending and other consumer protection laws require all lending institutions to provide applicants with equal access to credit, regardless of the applicant's race, ethnicity, or certain other characteristics.

The Board received two comments from a single commenter who objected to the proposal principally on the basis of Sterling Bank's record of extending home mortgage credit to minority individuals in the New York-Wayne-White Plains, New York-New Jersey Metropolitan Division ("New York City MSA") and the Nassau-Suffolk Metropolitan Division ("Nassau-Suffolk MD"), as reflected in data reported under the Home Mortgage Disclosure Act ("HMDA")[17] for 2013. The commenter expressed concerns that, based on 2013 HMDA data, Sterling Bank was not meeting the credit needs of minority individuals in the communities served by the bank.[18] The commenter also contended that Sterling Bank's HMDA data are "irregular." The commenter noted that the bank reported three withdrawn and three incomplete applications for refinance loans to African Americans in the New York City MSA and no denials, suggesting that the bank is prescreening minority borrowers.[19]

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[15] 12 U.S.C. § 2901(b).

[16] 12 U.S.C. § 2903.

[17] 12 U.S.C. § 2801 et seq.

[18] The commenter also alleged that Hudson Valley Bank was not meeting the credit needs of minorities in its communities, based on 2013 HMDA data. Sterling represented that Hudson Valley Bank is primarily a commercial lender and does not have a material mortgage program. Mortgage loans represented approximately 14 percent of the bank's overall lending portfolio as of December 31, 2014. Sterling represented that Hudson Valley Bank makes only a modest number of in-house mortgage originations.

[19] Sterling asserted that three loan applications were withdrawn at the prospective borrowers' request because they did not wish to continue the transaction and that the

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly and equitably. However, other information critical to an institution's credit decisions is not available from HMDA data.[20] Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

The Board has considered all the facts of record, including reports of examination of the CRA performance of Sterling Bank and Hudson Valley Bank, the fair lending and compliance records of both banks, the supervisory views of the OCC, confidential supervisory information, information provided by Sterling, and the public comments received on the proposal.

A. <u>Sterling Bank's Business and Response to Comments</u>

Sterling Bank is primarily a commercial lender and does not have a large residential mortgage loan operation. Residential mortgage loans represented approximately 11 percent of the bank's overall lending portfolio in 2014.[21] Sterling

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three other applications were deemed incomplete because the prospective borrowers did not provide the requested property, asset, or income documentation needed by the bank to make a lending decision.

[20] Other data relevant to a fair lending analysis could include, for example, information on credit history problems, excessive debt levels relative to income, and high loan amounts relative to the value of the real estate collateral (the reasons most frequently cited for a credit denial or higher credit cost). Moreover, HMDA data do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of any applicant's creditworthiness.

[21] Sterling's commercial lending, including commercial mortgage and commercial and industrial loans, represented in the aggregate approximately 84 percent of Sterling Bank's overall lending portfolio in 2014.

acknowledged that the bank's percentage of HMDA-reportable mortgage loans to African American and Hispanic borrowers was lower than the aggregate's percentage in the New York City MSA in 2013.[22] However, Sterling argued that this lower percentage was due to the bank's focus on commercial lending and the highly competitive nature of the New York City market. Sterling indicated that, as a commercial lender, Sterling Bank provides home mortgage loans primarily as an accommodation to its commercial lending customers, originating most of its mortgages in response to customer inquiries in connection with commercial lending relationships. Sterling Bank did not engage in significant marketing efforts for residential mortgage lending in 2013.

B. Records of Performance Under the CRA

The Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.[23] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.[24] An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test

[22] The lending data of the aggregate lenders represent the cumulative lending for all financial institutions that have reported HMDA data in a given market. In this context, aggregate lending is considered a potential indicator of the lending opportunities in the geographic area in which the bank is located.

[23] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

[24] 12 U.S.C. § 2906.

specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's HMDA data in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; the geographic distribution of such loans, including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper income individuals;[25] the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies. Consequently, the Board considers the overall CRA rating and the rating on the lending test to be important indicators, when taken into consideration with other factors, in determining whether a depository institution is helping to meet the credit needs of its communities.

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[25] Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less; small business and small farm loans by loan amount at origination; and consumer loans, if applicable, to low-, moderate-, middle-, and upper income individuals. See, e.g., 12 CFR 228.22(b)(3).

CRA Performance of Sterling Bank

Sterling Bank was assigned an overall rating of "Satisfactory" by the OCC at its most recent CRA performance evaluation as of January 2014 ("Sterling Bank Evaluation").[26] Sterling Bank received "Low Satisfactory" ratings for both the Lending Test and Investment Test and a "High Satisfactory" rating for the Service Test. Examiners found that Sterling Bank's lending levels reflected adequate responsiveness to the credit needs of its assessment area, that it engaged in a relatively high level of community development lending involving loans that had an affordable housing or other community development purpose, and that it made a substantial majority of its home mortgage loans and small loans to businesses and farms within its assessment area. The Board has consulted with the OCC regarding the Sterling Bank Evaluation.

In evaluating the Lending Test, examiners found that Sterling Bank's geographic distribution of loans, including home mortgage loans and small business loans, reflected adequate penetration throughout the assessment area. The bank's penetration of loans among borrowers of different income levels and businesses of

[26] The Sterling Bank Evaluation was conducted using the Large Institution CRA Examination Procedures. Examiners reviewed HMDA-reportable and small business loans for the period January 1, 2011, through September 30, 2013. The evaluation period for community development loans, services, and investments was November 1, 2010, through January 20, 2014. The Sterling Bank Evaluation included a full-scope review of the bank's assessment area, the entirety of which is within the New York-Newark-Jersey City, NY-NJ-PA Multistate Metropolitan Statistical Area and is composed of Nassau-Suffolk MD; New York City MSA; Poughkeepsie-Newburgh-Middletown MSA; Kingston MSA; and New York State Non-MSA, defined as the towns of Mamakating, Forestburgh, Thompson and Fallsburg, all in Sullivan County, New York. Examiners placed more weight on their review of the New York City MSA due to the significant number of lending and community development activities conducted in that metropolitan division during the evaluation period, and because a significant majority of census tracts in the assessment area are located in the New York City MSA.

Sterling National Bank and Provident Bank merged on October 31, 2013. For all but community development investments, the OCC evaluated Provident Bank's CRA activities. The OCC considered outstanding community development investments made by legacy Sterling National Bank after January 1, 2012.

different sizes was adequate, although examiners noted some weaknesses with respect to certain types of lending. Examiners found that Sterling Bank made a relatively high level of community development loans for a variety of purposes, including the construction and development of affordable housing units for LMI individuals and senior citizens, the promotion of economic development and job creation through Small Business Administration ("SBA") programs, and the stabilization of LMI areas by financing local businesses. Examiners noted that Sterling Bank had a good record of serving the credit needs of the most economically disadvantaged areas in its assessment area, LMI individuals, and small businesses.

In evaluating the Investment Test, examiners found Sterling Bank to have an adequate level of qualified community development investments and grants, although examiners noted that performance could be improved in certain areas. The bank exhibited adequate responsiveness to credit and community economic development needs in the form of affordable housing, and occasionally used innovative and/or complex investments to support community development initiatives. Examiners noted that the bank supported a nonprofit organization promoting economic development in underserved urban and rural areas in New York state, which principally benefitted women, minorities, and LMI individuals trying to start or expand their businesses, as well as several other community development organizations. Sterling Bank also made investments and grants to organizations to provide and support affordable housing and community services to LMI individuals in its assessment area.

In evaluating the Service Test, examiners found that Sterling Bank participated in a number of community development services. The bank actively partnered with homeownership counseling agencies and provided financial literacy seminars to LMI individuals regarding first-time home buying experiences. Examiners noted that Sterling Bank participated in Federal Home Loan Bank of New York ("FHLBNY") programs aimed at providing down-payment assistance to first-time homebuyers and facilitating affordable housing construction, rehabilitation, and development. Examiners found the bank's retail delivery systems were reasonably accessible in essentially all portions of its assessment area.

CRA Performance of Hudson Valley Bank

Hudson Valley Bank was assigned an overall rating of "Satisfactory" by the OCC at its most recent CRA performance evaluation as of May 2013 ("Hudson Valley Bank Evaluation").[27] The bank received a "Low Satisfactory" rating for the Lending Test and "High Satisfactory" ratings for both the Investment Test and Service Test.

In evaluating the Lending Test, examiners found that Hudson Valley Bank's lending levels reflected adequate responsiveness to the credit needs of its New York assessment area, although examiners noted areas for improvement with respect to certain mortgage and small business lending. The bank's level of community development loans was considered excellent. In New York, examiners found that Hudson Valley Bank's geographic distribution of home purchase loans and home refinance loans was good, and the geographic distribution of multi-family loans was excellent. The bank's market share of multi-family loans originated in LMI geographies was higher than the bank's overall market share. Examiners noted that, during the evaluation period, the bank originated community development loans to construct, renovate, and fund operations of learning facilities, nursing homes, hospitals, and affordable housing for LMI individuals.

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[27] The Hudson Valley Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed loans reportable under HMDA and small business loans for the period January 1, 2010, through December 31, 2012. The evaluation period for community development loans, investments, and service activities was June 7, 2010, through May 6, 2013. The Hudson Valley Bank Evaluation included a full-scope evaluation of the bank's assessment area in the state of New York, which consists of Westchester, Bronx, Rockland, Manhattan, and a portion of Brooklyn counties; and a limited-scope evaluation of Hudson Valley Bank's assessment areas in Connecticut, which consist of all of Fairfield County and a portion of New Haven County. Examiners placed greater weight on the bank's performance in New York because a majority of its activities are concentrated there.

In evaluating the Investment Test, examiners found that Hudson Valley Bank demonstrated good responsiveness to the credit and community economic development needs within its New York assessment area by making investments targeting affordable housing. During the evaluation period, the bank (1) made investments in several school districts to educate and support children within the bank's assessment area, the majority of whom lived in LMI households, and (2) retained investments that provided credit to businesses that would not otherwise meet the requirements for traditional bank financing.

In evaluating the Service Test, examiners found that Hudson Valley Bank provided a high level of community development services through its offerings of financial and technical expertise to LMI individuals and small businesses. The bank also worked with various nonprofit organizations that provide affordable housing for LMI families, promote small business ventures, and educate young LMI individuals on the importance of financial planning and stability.

Sterling's Efforts since the Sterling Bank Evaluation

Following the January 2014 Sterling Bank Evaluation, Sterling Bank adopted a more robust, firm-wide CRA program ("CRA Plan") to increase market penetration and outreach in the bank's assessment area to more effectively meet the credit needs of the communities it serves. The CRA Plan establishes revised measurement criteria for the bank's CRA performance, refocuses the bank's investment strategy to include targeted assessment area investments and community development investments, sets forth goals for identifying new initiatives on CRA-related activities, and institutes an enterprise-wide data gathering initiative to track all CRA-related activity across the organization. The plan outlines specific activities within its assessment area on which the bank plans to focus, including increased marketing and community outreach; financial seminars; and increased mortgage and small business lending in LMI tracts, including to women-owned small businesses.

The CRA Plan is administered by the bank's CRA Officer, and the bank's CRA Oversight Committee monitors progress toward the plan's goals and recommends periodic changes, as appropriate. The status of CRA-related activities and progress in fulfilling the bank's strategic goals is periodically reported to executive management as well as the Enterprise Risk and Audit committees of the bank's board of directors. Sterling represented that the CRA Plan will be updated annually, and goals will be updated to reflect the strategic plan for each business unit, as well as for the bank as a whole.

Sterling represented that Sterling Bank met or exceeded the CRA Plan's 2014 goals, and that the bank has established updated CRA goals and initiatives for 2015. Sterling represented that, since the Sterling Bank Evaluation, the bank has made community development loans and investments focused on supporting the construction or financing of affordable housing and hospitals within its assessment area. Sterling has also made contributions to provide educational programs that benefit LMI and minority individuals, including donations to support schools serving minority and LMI students and to help those students move on to higher education, and hosting a number of seminars on homeownership in LMI areas within its assessment area. The bank makes charitable donations to nonprofit community groups within the New York City and New Jersey areas through its charitable foundation and has provided support for fundraising events and provided grants focusing on education initiatives.

Sterling has hosted a number of financial seminars on homeownership in LMI areas within its assessment area, and its CRA Plan includes a focus on hosting seminars on elder financial abuse, financial literacy, homeownership counseling, and first-time home buying; and on launching a program aimed at increasing lending to women-owned small businesses while providing access to networking, education, and capital. Further, Sterling Bank staff responsible for small business development have been attending community seminars and discussing small business opportunities in the bank's assessment area and intend to continue such outreach efforts.

Sterling Bank offers a suite of products to address the credit needs of LMI borrowers, including FHA, Veterans Administration, and Fannie Mae loan products, and participates in the FHLBNY's First Time Homebuyers Program. Sterling Bank has also partnered with community groups that provide homeowner-related services in LMI communities in New York City and provided funding for the development and preservation of affordable housing in the suburbs around New York City. Sterling represented that it has engaged in various outreach efforts within its assessment area, including marketing efforts, engagement with community groups, and efforts to offer educational programming to LMI communities within this assessment area regarding products offered by the bank. Sterling Bank conducted a direct-mail solicitation for the bank's home improvement loan product to homeowners in all LMI census tracts in their assessment area in December 2014 and intends to conduct similar efforts in 2015.

In addition, Sterling Bank recently added a new sales team with experience in direct lending to state and local governments, not-for-profit healthcare, and higher educational institutions, and expects to expand its efforts in lending to those groups. Sterling Bank offers small business credit products through the SBA's 504 and 7(a) programs, which benefit small for-profit and non-for-profit businesses. Sterling Bank lending staff actively participate in community events specifically targeted at small business owners. Sterling Bank also works with all of the New York State Small Business Development Centers throughout its community footprint, which provide information regarding the process of small business financing and opportunities.

C. Fair Lending and Other Consumer Protection Laws

The Board has considered the records of Sterling Bank and Hudson Valley Bank in complying with fair lending and other consumer protection laws. As part of its evaluation, the Board reviewed Sterling Bank's and Hudson Valley Bank's records of performance under fair lending laws, the comments received on the proposal and Sterling's response, the OCC's views regarding Sterling Bank's fair lending policies and procedures, and other confidential supervisory information. The Board also conferred with the OCC concerning the comments received on the proposal.

The Board has consulted with the OCC regarding its evaluation of compliance with fair lending laws and regulations by Sterling Bank and Hudson Valley

Bank. The OCC recently reviewed the compliance programs of Sterling Bank and Hudson Valley Bank, focusing on the institutions' fair lending risk. The OCC had no supervisory concerns regarding either bank's compliance with fair lending laws and regulations.

As explained above, Sterling Bank has determined to increase its marketing and outreach efforts to better serve the needs of its communities and has adopted its revised CRA Plan. Although the bank intends to remain primarily a commercial lender, it expects to increase its outreach efforts for residential mortgages. Sterling Bank also stated that it will continue pursuing the other community development and CRA-related initiatives set forth in its revised CRA Plan. Sterling plans to reassess the goals and objectives in its CRA Plan to determine if any adjustments are necessary to reflect the acquisition of Hudson Valley.

Sterling Bank's Fair Lending Program

Sterling and Sterling Bank have established policies and procedures to help ensure compliance with all fair lending and other consumer protection laws and regulations. These policies and procedures have been reviewed in the examination process by the OCC, which considered them satisfactory. Sterling Bank intends to implement these policies and procedures across the combined organization following consummation of the transaction.

Sterling Bank maintains an audit program for compliance with these programs and procedures, and provides compliance training and education for all employees, including making additional training required for employees engaged in mortgage loan origination, processing, underwriting, and credit decisionmaking. The training includes programs on the bank's policies and procedures and on how to identify and prevent abusive or predatory lending.

Sterling Bank has established a fair lending program that is reviewed and approved annually by the Enterprise Risk Management Committee of the board of directors. Sterling Bank's Compliance Risk Management Department ("Compliance

Department") is responsible for managing the bank's fair lending compliance program, including the assessment of fair lending compliance and any resulting remediation activity. The Compliance Department regularly assesses fair lending compliance through a monitoring and testing regime and oversees the resulting remediation activity to ensure all findings are effectively mitigated. The Compliance Department also conducts quarterly fair lending risk assessments to identify and measure risks in the bank's lending processes and conducts statistical analyses to detect practices that could result in disparate treatment or pricing discrimination involving loan applicants.

Sterling Bank maintains a secondary review process for all denied consumer, residential, and small business loan applications to ensure that all qualified applicants are approved. This second review is conducted to ensure that the bank's fair lending standards are applied fairly and uniformly to all applicants, that all possible avenues of approval have been explored prior to formal denial, and that the application was not denied based on any prohibited basis. In the event of a recommendation for denial or counter-offer of a loan application, two senior managers, such as a senior credit officer and a senior underwriter, must review the application independently. In addition, before making an extension of credit, a member of the bank's secondary marketing department reviews the terms of the loan, in particular loan pricing. In the event of non-compliance with the bank's policies, an appropriate adjustment to pricing will be made.

D. Additional Information on Convenience and Needs of Communities to Be Served by the Combined Organization

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits. Sterling represented that the proposal would provide customers of the combined organization access to an expanded branch network across the New York metropolitan area and would offer additional or expanded services to current Sterling Bank and Hudson Valley Bank customers, including existing specialty finance and deposit products not offered to current customers of the other institution. Sterling asserted that the combined organization would be better able to serve larger, more diverse clients, particularly in the middle market segment, and the potential cost savings generated by the integration of the two institutions would provide opportunities to pass those savings on to their customers. Further, Sterling stated that the combined organization would be strengthened by the complementary aspects of the two entities' businesses, including customer focus, geographic coverage, business orientation, and compatibility of the companies' management and operating styles, as well as the combined experience and expertise of their respective management and employees, resulting in a stronger and more stable franchise.

E. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA; the institutions' records of compliance with fair lending and other consumer protection laws; consultations with the OCC; confidential supervisory information; information provided by Sterling, including Sterling's representations concerning its CRA Plan; and the public comments on the proposal. Based on that review, the Board believes that Sterling is helping to meet the credit needs of the communities it serves and that the proposal would result in public benefits. Accordingly, the Board concludes that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risk to the stability of the United States banking or financial system."[28]

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the

[28] Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 123 Stat. 1376, 1601, codified at 12 U.S.C. § 1842(c)(7).

systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.[29] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[30]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation of the proposed transaction, Sterling would have approximately $10.6 billion in consolidated assets and, by any of a number of alternative measures of firm size, Sterling would not be likely to pose systemic risks. The Board generally presumes that a merger resulting in a firm with less than $25 billion in total consolidated assets would not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S.

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[29] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

[30] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.[31] In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically

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[31] The commenter twice requested that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the commenter's requests in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenter's requests do not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the requests do not demonstrate why the written comments do not present the commenter's views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the requests for a public hearing on the proposal are denied.

The commenter also twice requested an extension of the comment period. The Board provides a public comment period for an application to provide interested persons the opportunity to submit information and views related to the statutory factors it must consider under the BHC Act. The Board's Rules of Procedure ("Rules") also establish a framework, based on the schedules followed by many courts, that limits iterative responses between applicants and commenters. The Board's Rules contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reason for seeking additional time. The commenter's requests for additional time to comment do not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the requests for an extension of the comment period are denied.

conditioned on compliance by Sterling with all the conditions imposed in this Order, including receipt of all required regulatory approvals, and on any commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than three months thereafter unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York acting pursuant to delegated authority.

By order of the Board of Governors,[32] effective June 15, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

[32] Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.