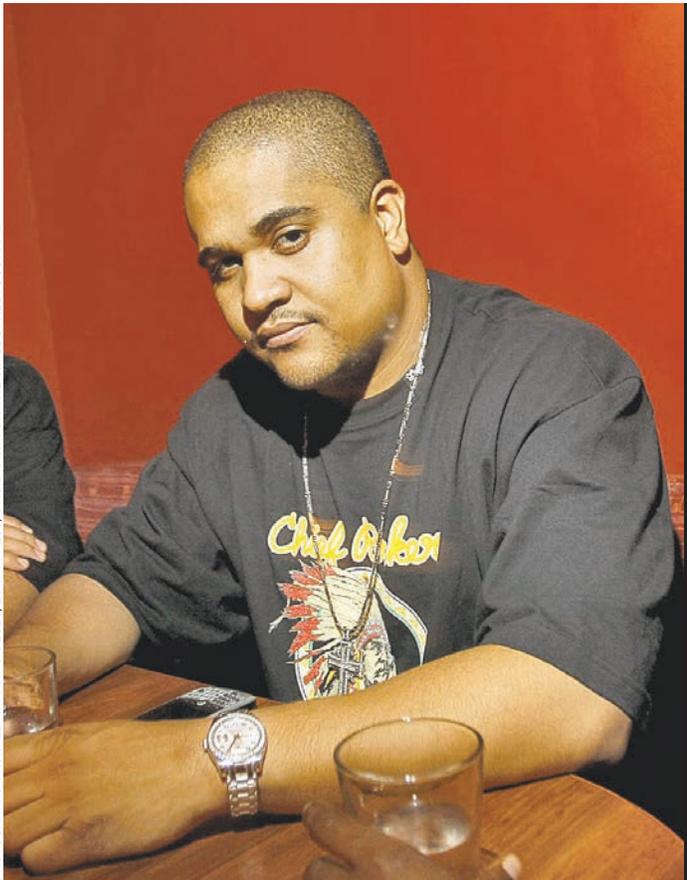


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Joe DePaolo, right, leads Signature Bank with an approach that has attracted admirers from hip-hop producer Irv 'Gotti' Lorenzo, left, to former Congressman Barney Frank. The bank won Mr. Lorenzo's loyalty by standing by him when he faced money-laundering charges.

MARKETS

The Only Bank This Hip-Hop Mogul Will Use

Low-profile Signature Bank has become one of the nation's fastest-growing lenders, attracting a fan base ranging from hip-hop mogul Irv "Gotti" Lorenzo to former Congressman Barney Frank

By **RACHEL LOUISE ENSIGN**

Signature Bank is a throwback to a simpler time in banking, a low-profile firm with a plain-vanilla business model focused on lending and deposits.

Then again, it is also one of the country's quirkiest and fastest-growing banks, with an unusual collection of high-profile fans.

Among the bank's admirers are former Congressman Barney Frank, who recently joined its board, and hip-hop producer Irv "Gotti" Lorenzo, who calls himself a Signa-

ture customer for life after the bank stood by him when he was facing money-laundering charges.

The New York bank, with its headquarters on Fifth Avenue in Manhattan, maintains only a handful of branches, most in the upper floors of office towers. By lending primarily to private businesses and affluent individuals in the New York metropolitan area, Signature has grown in its nearly 15 years of operation to about \$30 billion in assets, making it now one of the 50-biggest banks in the U.S.

Investors, too, have discovered Signature:

Its shares have increased more than 345% over the past decade, crushing the more-than-25% decline in the KBW bank index over the same period.

Fueled by 23 consecutive quarters of earnings growth, the bank has seen its asset growth outperform all other banks with more than \$20 billion in assets as of the end of July, many of which have significantly more complicated structures and balance sheets.

"Banking in and of itself is a fairly simple business: You take deposits and make loans," said Christopher McGratty, an analyst at

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Keefe, Bruyette & Woods. "These guys do that exceptionally well."

Bronx-born Joe DePaolo runs the bank from a modest office on the eighth floor of a midtown Manhattan skyscraper that doesn't feature Signature's name anywhere on the outside of the building. His management style is equally low-key: Mr. DePaolo loathes conference calls and staff meetings and largely gives his bankers free rein.

One banker says he spends as many as three days a week on the golf course—with Mr. DePaolo's blessing.

Mr. DePaolo also pays his bankers on an "eat what you kill" basis, meaning they get paid largely based on how much business they bring in and retain. Nearly 150 of the firm's senior bankers report directly to him.

"If they feel frustration, they can yell at me. If they feel they need to physically punch something...they can hit me," said Mr. DePaolo.

Recent results have been particularly strong: The bank's loans and deposits both grew by more than 32% in 2014, compared with 4.2% loan growth and 4.6% deposit growth for similar banks, according to SNL Financial. The bank's net interest margin, an important measure of lending profitability largely tied to interest rates, was higher than most of its peers at about 3.27% in the second quarter.

Signature's success has been amplified by struggles facing other banks. As bigger firms have scrambled to trim jobs to boost profits and spend more to comply with new regulations, Signature has taken on many disgruntled clients and employees.

"There's so much turmoil, change, chaos going on," Eric Howell, Signature's head of corporate and business development, told investors in June. "We're taking in a lot of incoming phone calls."

The lender recently added bankers from General Electric Co.'s GE Capital unit, the bulk of which GE said in April that it plans to sell.

Signature doesn't advertise or sponsor events to boost its name recognition, relying instead on personal connections and word-of-mouth to attract clients.

Mr. DePaolo, 56 years old, said when he tells strangers what he does, they often think he works for the Visa Inc. Signature card, which has been pitched in television ads narrated by Morgan Freeman.

Mr. DePaolo and John Tamberlane started Signature in 2001 after their employer, Republic National Bank of New York, was bought by HSBC Holdings PLC in 1999. Private-equity investor Scott Shay was a third founder.

Now Signature is growing so quickly that it may soon face some of the same costly regulatory burdens of its bigger peers. Still, Mr. DePaolo said, "if this bank grows to \$100 billion, I'm not changing."

The bank is already preparing to become subject to the Federal Reserve's stress-testing process within several years. The process, which applies to firms with \$50 billion or more in assets, would likely require the firm to increase its compliance spending and entail further scrutiny of its balance sheet and business practices.

Mr. DePaolo has said the bank is looking to diversify its balance sheet, which has typically been heavily exposed to the New York real-estate market. At the end of 2014, \$8.6 billion of the bank's \$18.4 billion loan portfolio was mortgages for multifamily residential properties, many in the New York area where property values have soared in some neighborhoods.

As part of the diversification push, the bank is expanding into areas such as lending to municipalities and financing commercial vehicles. But it is facing some potholes in at least one of its newer businesses: The bank said last month that it restructured some of its taxi-medallion loans, which make up about 4% of its loan portfolio. The medallion market is under increasing pressure from Uber Technologies Inc. and other ride-sharing upstarts.

As a nod to increased regulatory scrutiny, Signature recently added Mr. Frank to its board, the first corporate affiliation for the namesake of the Dodd-Frank financial-overhaul law. Mr. Frank, a longtime critic of the banking sector, said in an interview that he likes Signature's focus on lending and that it

doesn't "get involved with exotic derivatives and credit-default swaps."

For his part, Mr. Lorenzo, founder of hip-hop record label Murder Inc., said he has been loyal to the bank ever since it kept him as a client in 2005, when he was facing federal money-laundering charges. While other banks closed his accounts and refused his business, Signature stuck with him and even gave him a home-equity loan to help him pay his legal fees.

"No one [besides Signature] would touch me," said Mr. Lorenzo. "I really want to make billions of dollars and let it be sitting in Signature."

After he was acquitted, Mr. Lorenzo said, he persuaded many of his family and friends, including rapper Ja Rule, to become Signature customers as well.

Signature said it warned Mr. Lorenzo that it would close the account if he was convicted. The bank said it has strong anti-money-laundering controls and has recently increased spending on compliance.

"Why did we do that? Well, because [clients are] human beings," Mr. DePaolo said. "If a client gets in trouble, we'll look into the situation. Other institutions would say 'you're gone.'"

Signature also stands out for its embrace of well-paid veteran bankers—a breed not exactly in demand across Wall Street these days. The bank said that a few Signature bankers make more money than Mr. DePaolo, who earned more than \$7 million last year.

One Signature banker recently retired at age 81. Several high-performing bankers are well into their 70s, bank officials say.

Signature bankers say they appreciate the focus on results and not bureaucracy.

Mark Soltan, a Brooklyn-based vice president for Signature, said he plays golf two or three times a week when the weather is good. He said hitting the links is key to his role as a "rainmaker" with prospective clients.

"I'm out there and bringing in deposits," Mr. Soltan said. "If I'm in the office, I'm losing money."