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Signature Continues to Sign Up **Talent and Depositors**

In less than eight years, Signature Bank has gone from an idea to the 10th largest commercial bank in New York City. It all hinges on hiring the right people and delivering a high-touch client experience.

If Joseph DePaolo needs reminding why Signature Bank was created, he simply looks out the window of his 8th floor corner office on Fifth Avenue in Manhattan. Across the street is HSBC—the bank that acquired his former employer, Republic National Bank. It's the same building that Republic once called home.

On May 10, 1999, HSBC Bank USA announced the deal for the $55 billion-asset bank and DePaolo and colleague John Tamberlane began contemplating their next move because the acquirer's philosophy didn't mesh with what Republic's, recalls DePaolo, the president and CEO of Signature. From those initial talks Signature Bank was born. On April 27, 2001, 65 former-Republic employees resigned from HSBC. That night a cocktail reception was held for the new Signature workforce, and that Saturday through Monday they were trained.

On May 1 the bank opened for business, focusing on privately owned businesses in the $10 million to $500 million revenue range—and capturing the high-net-worth owners' deposits—and built on the old Republic's high-touch philosophy: build a bank for the depositors then lend to your clients, as Republic's founder, late-billionaire Edmond Safra, had said decades ago.

"The term 'relationship' is over used because every bank uses it," DePaolo says. "The major banks do a lot of branding and our philosophy is that you don't bank with a brand, you bank with a person. When we were being acquired by HSBC, they did not like the structure we had with some of our teams because the relationship was so tight between the team and the client. They wanted the relationship to be between the client and the institution.

"We're not trying to attract the mass market," he says. "We're trying to deal with privately owned businesses. Don't get me wrong, I'm not saying branding and advertising are not important, but it's not important for our target market."

Word of mouth and targeted hiring is what's fueled Signature's rapid expansion. The bank's net interest margin rose to 3.26 percent in the third quarter of 2008, 0.12 percent higher than the previous quarter and 0.45 percent better than the previous year's third quarter. From opening its doors in 2001 to the close of 2008, the bank grew from $50 million to nearly $7 billion, becoming one of the 10 largest commercial banks in the New York Area by assets, says Andrew Stapp, analyst at B. Riley & Co.

Signature, originally a wholly owned subsidiary of Bank Hapoalim, Israel's largest bank (Signature went public in 2004), now has 22 offices, its most recent opening on Staten Island. Its footprint now includes all five NYC boroughs, Long Island and Westchester County.

It's board of directors is chaired by Scott Shay, who along with Lou Ranieri (considered by some the father of the secondary mortgage market), brought the idea of the bank to DePaolo and Tamberlane, Signature's vice chairman and director. Shay and Ranieri were both clients of Republic and part of a consortium with a 45-percent stake in Hapoalim. Also on the board are directors Kathryn Byrne, Alfonse D'Amato, Alfred DelBello, Ann Kaplan, Yacov Levy and Jeffrey Meshel.

"It's an extraordinary growth story," Stapp says. "They follow a little bit of a different business model than many other banks. A lot of banks do a silo approach where different profit centers will target customers of the bank...[Signature] does just one approach: they have a relationship manager that looks out for the client's best interest and only brings in people from other groups only if they feel it can satisfy a need of the customer. It's a more high-touch approach. That's one of the reasons that they've been able to get very strong growth."

Unlike some other growth superstars that bottomed out in this noxious market, Signature has a strong deposit base and is very well capitalized. All the bank's growth has been organic and it's loan-to-deposit ratio is about 60 percent, whereas its competitors—which are major money-center banks and super regionals—are at 80 percent or higher, says Peyton Green, senior analyst at FTN Midwest Securities Corp. In the third quarter of 2008 deposits grew $99.2 million, totaling nearly $5 billion.

DePaolo, 49, says that the bank's success starts with its employees. The bank has 54 teams made up of three to six employees per team and 70 group directors (there can be more than one per team). Signature has aggressively pursued employees of banks acquired by larger, less-personal institutions. In addition to pillaging HSBC of its Republic staff, Signature brought four teams over from European American Bank (EAB) after the Citigroup purchase in 2001. Signature brought in several teams from Fleet Bank (and NatWest) after the Bank of America acquisition in 2003. It captured more than 40 former-North Fork Bank employees after the Capital One acquisition in 2006. Most recently, Signature staffed its Staten Island offices with 12 former SI Bank & Trust (a division of Sovereign Bank) professionals.

"We want to hire people who have been at their institution for a long time, 15 to 30 years," DePaolo says. "These are people who have no desire to leave and are very loyal to the institution and to the client. Now, all of a sudden, the landscape has changed, the bank has changed, and it's no longer EAB, Republic, NorthFork or NatWest."

While money-center banks have silos that clients can get lost in, Signature clients know that they only need to go to their team director, no matter what service is needed. The danger of a tight client-team structure is if that team leaves, so too do the clients—Exhibit A being Signature Bank's poaching. DePaolo says this is not a concern for his bank thanks to a compensation model created by Tamberlane back in the mid '80s. It's more of an investment banking model where every client that comes through the door is a client of a single team. Whatever revenue that's generated from the client—for the lifetime of that relationship—the team gets a piece of the action. "Many institutions pay for bringing in the client, but no one ever pays them for keeping it, so you have a churning of clients," DePaolo says. "Here, once you bring it in, it's yours and if the client leaves, it hurts your bonus."

Whereas many of Signature's competitors are struggling and have little room to grow organically, there's reason to believe that the New Year will bring continued success for Signature. It has a liquid balance sheet, excess of capital, and can look to both focused deposit gathering opportunities and lending advancements, says FTN Midwest's Green. Its $4.9 billion deposit base is a miniscule 0.67 percent of the New York deposit market, as of June 30, 2008, leaving ample room for marketshare growth. Because the bank is small and segment-focused, Green believes the bank can grow deposits by 15 percent this year and loans by 25 percent.

In addition to $148 million of growth capital raised in September, Signature has received preliminary approval for $120 million of capital under Treasury's Troubled Assets Relief Program. As a result, FTN Midwest expects Signature's tier-1 capital to jump to 11.5 percent—more than double the "well capitalized" minimum of five percent—and its total risk-based capital ratios to increase to 19.5 percent, well beyond the minimum of 10 percent. Between the capital raise and TARP, Signature should be able, "to grow into a $10 billion balance sheet, which represents growth of 50 percent," Green says.

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"We would argue that they can safely grow their loan portfolio by being very focused," Green says. "They tend to do more of the garden variety, low- to moderate-income multi-family [lending] that tends to be rent controlled or rent stabilized, so they should be OK with that focus. Historically, there's been very low credit problems or charge offs associated with multi-family lending. So we think they're growing the loan side in a fairly rational and methodical way, even though they are operating under the base case that the New York metro area is going to go through a recession."

The only pressure that DePaolo has felt has been media generated. He must constantly quell the fears of depositors who hear television analysts warning them to move their money if they have more than $250,000 in one bank. Signature depositors tend to have tens of millions with the institution—that's a lot of spreading.

"I always say that if you're concerned about FDIC insurance, then Signature Bank is not appropriate for you," he says. "In this current environment, when a Bear Stearns [is forced to sell to Chase] and Lehman Brothers goes down, it puts thoughts in people's minds that these institutions have been around for 80 or more years and Signature Bank has been around seven years, and maybe it could happen to Signature, even though we're not in the same business, we're a commercial bank. I find that strange because there are over 8,000 banks in this country, only about 100 have problems [according to the FDIC] and our capital levels are through the roof."

DePaolo is glad to sit down and talk with any of his clients, though, about the hyperbole heard on TV. For this native of the Bronx who received an accounting degree from Iona College, it's what separates his small-but-powerful bank from the big boys.

—Anthony Malakian