INVESTOR'S BUSINESS DAILY®
THURSDAY, OCTOBER 22, 2015
BUSINESS
THE NEW AMERICA

Got Irreplaceable Collateral? Signature Has Your Loan

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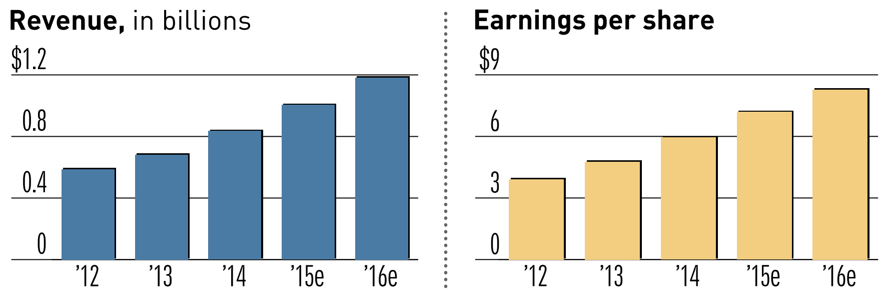
FOR INVESTOR'S BUSINESS DAILY

Heavy Security

With teams of experienced bankers, Signature Bank seeks out borrowers with collateral they can't live without. With discipline, the result is solid growth.



Source: Thomson Reuters

When HSBC decided to take over Republic National Bank of New York in May 1999, Joe DePaolo, current president and chief executive officer of Signature Bank, faced a dilemma: How to continue managing relationships with his Republic business clients.

He worked with the owners of privately held businesses with substantial wealth. "We felt that **HSBC**[HSBC] would handle them very differently than the way we thought they should be handled," he said. "We always had this idea that ... the relationship was between the client and the banker. And HSBC did not like that. HSBC felt the relationship should be between the client and the institution."

So together with a colleague, John Tamberlane, now vice chairman and director of **Signature Bank**[SBNY], DePaolo created a business plan to start a separate institution that would focus on the client-banker relationship. They began with a formula of hiring bankers with books of business clients who would follow them. Thus was born Signature Bank in May 2001. DePaolo and Tamberlane have served in their respective roles since inception.

From then on, the New York bank's success took off. Signature has grown on a purely organic level from an initial investment of $43 million to $30 billion in assets, including $21 billion in loans and $2.7 billion in capital against $24 billion in deposits, as of June 30, 2015. It operates 29 private client banking offices in the New York City area and Connecticut. The bank currently ranks in the top 1% of all U.S. commercial banks based on total assets, according to the FDIC. It is also the largest U.S. bank with five years of consecutive net income growth.

'True Growth' Vs. Risky

"It's a true growth story in financials, which is rare,' said Jefferies analyst Casey Haire. "I say 'true' because anyone can put up huge growth, but these guys do it in such a way where they're not having credit problems down the line."

The bank's clients include privately owned businesses, their owners, management, staff and high-net-worth individuals. It also has a lending branch, Signature Financial, which focuses on equipment leasing, fleet financing and other niche lending nationwide.

With its next-to-best IBD Composite Rating of 98, Signature Bank stock, by fundamental and technical metrics, ranks behind only **Eagle Bancorp**[EGBN] and **Howard Bancorp**[HBMD] in IBD's Banks-Northeast industry group, which excludes the big money-center banks, regionals and super-regionals, organized in three of their own industry groups. With 97 issues, the Banks-Northeast group itself is ranked 28th strongest among IBD's 197 industries.

Signature's stock is up about 15% so far this year and recently found support at its 50-day and 10-week moving averages. Shares are trading near 145, just 6% off their July 20 record high above 152.

The bank's earnings per share grew by 11% to 56% in the past 19 quarters, with 15 of those 19 growing at 20% or more. Revenue increased 10% to 26% in those periods. Signature's primary growth drivers are loans, of course, but growing deposits give the bank access to more money to lend and more future borrowers.

Huge Market To Tap

"We think that the backdrop for them to grow deposits is still very favorable," said Piper Jaffray's Peyton Green. "Their deposit business is one that they have figured out ways to grow more broadly, outside of just the New York metropolitan area, and it's one where we could see them growing nationally, in pockets of specialties."

Remarkably, analysts say the New York area is still largely underserved, a $900 billion deposit base of which Signature has a 2.8% market share. "They love their marketplace; it's huge," said Green. "There's plenty of runway here."

Signature does not advertise or market its services in a big way. Nor does it participate in social media. Clients come by word-of-mouth referrals. Also, because of the leeway DePaolo gives his bankers, he's been able to attract strong teams with solid books of businesses. The bank currently has 97 private client banking teams headed by 142 group directors.

Signature Bank
signatureny.com

Ticker	SBNY
Share price	Near 144
12-month sales	$1.09 bil
5-year profit growth rate	24%

IBD SmartSelect Corporate Ratings

Composite Rating	98
Earnings Per Share	96
Relative Price Strength	86
Industry Group Rank	28
Sales+Profit Margins+ROE	A
Accumulation/Distribution	C+

See Investors.com for more details

Bankers and customers can meet privately in Signature Bank's Garden City, N.Y., private client office. Signature leans on relationships, not ads.

Looking For Grateful Bankers

"The formula is really this: You find bankers (who) have a book of business and (who) are disenchanted where they are," DePaolo said. "The relationship with the client (at a recruit's current bank) starts to diminish ... because of human changes that are being made or acquisitions that are occurring."

So these bankers realize they need to move to where they can continue serving their clients with less bureaucracy, more time to grow their business and "get a piece of the action and deal directly with senior management."

Signature has been tapping into esoteric revenue sources such as claims administration for class action lawsuits, and more familiar banking turf such as multifamily residential loans and equipment financing. Its middle-market expertise includes transportation, even financing taxi medallions.

"We lend to businesses that have collateral that we call 'hostage collateral,'" said DePaolo. "That means, if it's an ambulance company, you're lending to the ambulances. If it's a construction company, you're lending to the equipment, because they couldn't continue their business without their equipment. So in all likelihood, they're going to pay those bills first because it's their lifeline to growing and keeping and sustaining their business."

This is also why he and analysts don't expect the taxi medallion business, which is about 4% of Signature's lending, to be as big a worry as portrayed by the media. The taxi permits have come under pressure because of the emergence of Uber and other cab competitors.

Saluting Regulators, Analysts

Other risks include the exposure of their flagship multifamily home loan business if interest rates start to rise, as well as a lack of geographic diversification. The bank may need to raise equity to finance its strong growth, as fast loan growth can lead to bad loans. But so far, Signature Bank looks fine.

The bank said Tuesday that Tier 1 leverage, common equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios stood at 8.95%, 11.58%, 11.58% and 12.34%, respectively, as of Sept. 30, all above regulatory requirements. Tangible common equity stood at 8.84%, also strong.

But bad loans grew. At Sept. 30, nonaccruals stood at $59.6 million, or 0.27% of total loans, compared with $24.4 million or 0.15% of fewer total loans a year earlier.

The allowance for loan losses was 0.82% of total loans at Sept. 30, down from 0.95% a year before.

So the profit comes in handy. Q3 interest income rose 21.8% to $250.0 million. Q3 net income rose 25.3% to a record $96.2 million, or $1.88 per share, 3 cents better than analysts were expecting.

Total assets stood at $31.92 billion at Sept. 30, up from $27.31 billion a year earlier.