AMERICAN BANKER®
THE FINANCIAL SERVICES DAILY
Wednesday, October 12, 2005

COMMUNITY BANKING

Deposit-Rich Signature Gears Up for Loans

BY JOHN REOSTI

Joseph J. DePaolo, the chief executive at Signature Bank in New York, does not think much of branding.

The way he sees it, logos, tag lines, and advertisements just divert attention from what Signature is about: relationship banking. He has built the $3.8 billion-asset bank, of which he is also the president, around capable, veteran relationship managers who are expected to build their own books of business.

"Branding doesn't help with privately owned businesses that need daily contact with their bankers," Mr. DePaolo said in an interview at Signature's midtown Manhattan headquarters. "The big banks think their brand name helps bring in people. They don't give enough credit to the bankers."

Signature, founded in 2001, is counting on these relationships to drive its next phase of growth.

Its bankers have been more successful in gathering deposits — it now has $2.9 billion, in one the nation's most competitive markets — than in making loans.

Now, flush with capital from three stock sales in 19 months, Signature is revving up its lending operation. It says it intends to add more than $500 million of business loans by the end of next year.

Lots of banks in the New York metropolitan area are chasing that business, but Mr. DePaolo insists that there is plenty to go around. And he says larger banks focus on larger companies, not the privately owned middle-market companies Signature is targeting.

Analysts say whether Signature hits its target will depend on its hiring more teams of from larger competitors. It has hired more than 40 bankers from such companies as HSBC Holdings PLC, JPMorgan Chase & Co., and Bank of America Corp. and plans to add about a dozen by the end of this year.

These "private client teams" are at the heart of Signature's business model. The bank gives them a free rein so that can operate as if they were running their own small commercial banks.

DePaolo: Hiring teams of lenders away from big competitors.

Rockwell F. Clancy is the director of planning and development for Alex Sheshunoff Management Services Inc. in Austin. He said that hiring group leaders and giving them near-total control over their portfolios is hardly new, but that few have executed on it as single-mindedly as Signature.

"This is that model on steroids," he said.

Peyton N. Green, who covers the company for First Horizon National Corp.'s FTN Midwest Research in Nashville, said Signature runs like a law firm or professional practice.

"It's a very flat organization, which allows problems to get solved a whole lot quicker than at your typical superregional bank," he said. "At the big banks, there are silos and a tendency to blame other departments when things go wrong."

"It's a single point of contact versus segmentation," Mr. DePaolo said. "If you're running a business, all you have to do is say, 'Get so-and-so on the phone.' The last thing a business owner needs is to have his banking relationship segmented."

How focused is Signature on business clients? Mr. Green said it is the only bank he has ever known that does not post rate advertisements or teaser promotions in its windows.

In fact, seven of Signature's 14 branches are not even on the street level. With the industry moving increasingly to mass-retailing techniques, some other bankers have poked fun at upstairs branches, but Mr. DePaolo said Signature's clients have been willing to ride an elevator a few floors for regular, direct access to their bankers.

Mr. DePaolo, 46, began his career as an accountant. He joined to Republic National Bank of New York in 1988, first as its deputy auditor and wound up as the senior vice president of consumer banking at the $55 billion-asset company.

He and John Tamberlane, now Signature's vice chairman, were leading Republic's consumer financial services division when HSBC North America Inc. bought the company, at the end of 1999. They left soon after and founded Signature in May 2001, backed by a $43 million investment by Israel's Bank Hapoalim, which owned 100% of the stock until March of 2004.

In three stock sales, Hapoalim sold off all but 6% of its stake and netted more than $300 million, roughly $157 million of which it contributed to Signature.

The first private client teams Signature hired all came from Republic National. "Their clients were professionals," Mr. DePaolo said. "They had a lot of doctors, lawyers, architects, and title companies, whose deposits far outweighed their borrowing."

Other banking companies with models similar to Signature's include the $2.6 billion-asset Texas Capital Bancshares Inc. in Dallas and the $1.7 billion-asset Mercantile Bank Corp. in Grand Rapids. Texas Capital and Mercantile have used the strategy to become exceptional loan generators. Both reported midyear loan-to-deposit ratios well in excess of 90%.

Until recently, Signature limited its lending to relatively small-scale commercial-and-industrial deals, mostly lines and letters of credit and term loans. Now, with significantly higher lending limits, it has begun making loans for owner-occupied commercial real estate, and Mr. DePaolo said it and plans to add more lines of business — if it can find the lenders to manage them.

Mr. DePaolo said Signature's newest clients have a healthy appetite for commercial real estate loans, so the bank added that line of business in July and hired Robert J. Rothschild, a longtime real estate lender at Bank of New York Co., to run it.

It will be easy for Signature to ramp up quickly in this area by taking advantage of opportunities within its existing client base, Mr. DePaolo said.

"This is an area where we have left a lot of business on the table," he said during a July 28 conference call discussing Signature's second-quarter results. "Although this did not negatively impact our relationships with our clients, we missed many lending opportunities in commercial real estate. We no longer have to do that."

A surge of loan growth would go a long way toward remedying the yawning gap that has opened between Signature's loan portfolio and its wildly successful deposit-gathering operation. Last year Signature added $1 billion of deposits but only $190 million of loans.

And though loan growth picked up somewhat in the first half, it still lagged deposits. As of June 30, Signature's loan-to-deposit ratio stood at 29%, well below the 92% average for commercial banks its size, according to the Federal Deposit Insurance Corp.

"They've got a very low loan-to-deposit ratio currently, so the kind of changes they're talking about can only help," said Chris Stulpin, who covers Signature for Cohen Brothers & Co. in Philadelphia.

Mr. Green forecasts "strong earnings momentum in 2006" as the new loans begin generating interest income.

"Certainly it would have an outsized effect on profitability over time," he said. A healthy amount of new loans "starts to make a pretty big difference in terms of your earnings profile and results." ■