BNY Bank Profile | *By Linda Goodspeed*

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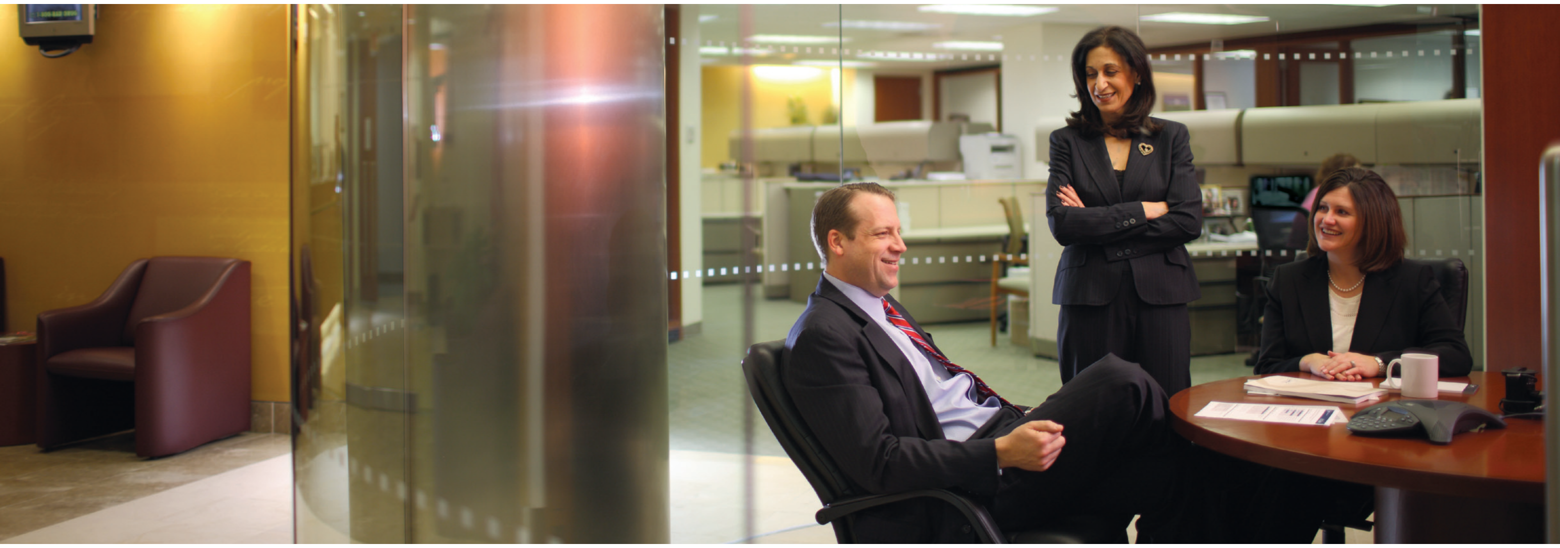
Signature Bank

Relationships Matter



Signature Bank's Garden City, Long Island private client banking suite.
Photo credit: Courtesy of Signature Bank

By almost any indicator Signature Bank is doing things differently from most other commercial banks. For one, it doesn't even like calling itself a bank.

"We're a professional services firm that does banking," said Joseph J. DePaolo, president and CEO.

Its 25 locations are not branches, but private banking offices. Most are on upper floors, not street level. Its bankers are "group directors." Customers are clients. And it does no advertising.

"If you ask, no one ever changes a bank because of an ad," DePaolo said. "We believe it's the relationship people have with the banker that causes them to change, not the institution."

And that relationship is the crux of Signature's remarkable 10-year success that has taken it from an initial $43 million investment to $13.9 billion in assets, ranking it among the top 1 percent of all commercial banks in the U.S., according to the FDIC.

"Everyone talks about relationship banking," DePaolo said. "What sets us apart is that we actually do it, not talk about it."

"If there's anything banks may have learned from the credit crisis it's that relationship banking matters instead of just transaction volume," said Matthew Clark, senior vice president at Keefe, Bruyette & Woods, Inc., a New York investment bank specializing in the financial services industry. "But relationship-type lending is easier said than done. Signature stands out as one who has cracked the code."

Signature "cracked the code" by focusing on deposits, service and cherry-picking banking teams with already established relationships in the community from other banks.

"Getting that deposit relationship is key," Clark continued. DePaolo "uses his balance sheet to win deposits. Over time, deposits can fund good loan growth."

When DePaolo founded Signature in 2001 after 12 years as a managing director of Republic National Bank of NY, there were 8,000 banks larger than Signature, based on deposits. Today, Signature's $11.19 billion in deposits ranks it among the top 80 in the country.

"We built the bank for depositors, then lend to clients," DePaolo said. "We think deposit first, not loan first. We live by that."

He said a "deposit first" strategy means keeping higher than required capital ratios, something Signature has done from the beginning.

In addition to deposit security, Signature also offers a wide range of products and services, including investment, brokerage, wealth management and insurance products and services through its subsidiary, Signature Securities Group Corporation, a licensed broker dealer and investment adviser.

The bank targets privately owned businesses, their owners and senior management in the New York metropolitan area, a market DePaolo believed was underserved by the mega banks. Signature goes after this market by going after experienced teams of bankers who serve them. It has grown from 12 teams to 78. Through these teams Signature offers clients a single point of contact for all their financial needs.

"We can't compete with brand," DePaolo said. "But we believe personal relationships trump brand."

He says personal relationships also trump economic conditions. When DePaolo founded Signature 10 years ago, the economy was considerably different.

"I always felt that no matter what the economy was, there were bankers who had relationships with clients," he said. "If we could find the right bankers and the right teams with deep personal relationships with clients and who know how to develop business, regardless of the current economic climate, we could excel."

And it has. In October 2011, *Crain's New York Business* ranked Signature the seventh fastest-growing public company (out of 100) in New York. Signature, which has been on the list for the last five years, was the only bank in the top 25. In September, *Fortune* ranked Signature the 69th fastest-growing company in the U.S.

Layoffs, consolidations and turmoil elsewhere in the banking sector have actually created opportunities for Signature, both in terms of lending and acquiring new talent. For example, in April 2011, the *ABA Banking Journal* ranked Signature number 10 among public banks for loan growth in 2010. The journal noted that the bank's 20 percent loan growth that year was largely fueled by commercial real estate and multi-family housing, two sectors other banks have shied away from during the recent downturn.

"Current cash flow in these sectors is key for us," DePaolo said. "We lend based on current cash flow. We don't give credit for what could happen. We also hired expertise in those areas. We look for bankers with experience and deep personal relationships with clients. We lift out those teams. It's better than buying a bank."

Peyton Green, a senior banking analyst at Sterne, Agee & Leach, Inc. in Nashville, Tenn., said Signature is doing more than simply buying market share when it acquires new banking teams.

"They've been very active in pulling in new teams the last couple of years. But their existing teams are also continuing to grow. Teams often hit maturity after five to six years. But their teams are not hitting the wall. The bank is continuing to have strong growth from both their new and existing teams. That indicates to us that the credibility of the company is continuing to gain momentum."

As of Sept. 30, 2011, Signature had $6.44 billion in loans, $1.37 billion in equity capital, and $1.70 billion in other assets under management.

DePaolo said Signature's success has made it a target for acquisition ever since the bank went public in March 2004. He said the best way to fend off suitors is to keep growing and shareholders happy.

"We see such vast opportunities to grow on our own. We don't want to mess that up by being acquired. I don't think about how we can grow. I think about people we can hire."

"The opportunity they have is that they are a relatively small player in a very big pot with not many good players," Green said. "They have the opportunity to take their market share significantly higher."

For all its rapid growth, Signature still has only about 1 percent of the New York market share.

"If we could increase that just to 2 percent, we'd be able to almost double our size," DePaolo said.

He has no plans to diversify the bank geographically, pointing out that the new York metropolitan area is the largest area for deposits in the nation and home to the greatest number of privately owned businesses.

"New York has been resilient this entire time because Europeans and Asians like to come here and do business here. It's still the financial capital of the world. There are vast opportunities here without having to expand geographically," he said.

President and CEO Joseph DePaolo
Photo credit: Courtesy of Signature Bank

If the bank does expand, he said it would be in concentric circles – New Jersey or Connecticut, for example.

Although he likes his own bank's prospects, he said the economic future for the rest of the country is uncertain.

"When I look out the window, I see clouds. I don't see a sunny day. I'm concerned. I don't see the economy turning around or interest rates changing anytime soon."

But despite the uncertainties, DePaolo also sees plenty of opportunity out his window.

"Banking isn't going to go away," he said. "For all the technology advances, we think clients want face-to-face meetings. That's not going to stop. I'm very excited about our prospects. ■