AMERICAN BANKER

Date: Friday, February 01, 2013
Location: NEW YORK, NY
Circulation (DMA): 37,014 (N/A)
Type (Frequency): Magazine (M)
Page: 9,10
Section: Main
Keyword: Joseph J. De Paolo

Defying the Downside

Signature Bank beats back prepayment risk on MBS

JOSEPH J. DEPAOLO IS EAGER TO SET THE the naysayers straight.

This time last year, some questioned whether Signature Bank, where DePaolo is CEO, could maintain its strong earnings streak, given a heavy reliance on residential mortgage-backed securities. But the $16.5 billion-asset New York bank chugged along, continuing to post increasingly higher profits each quarter.

It did so in part by expanding into equipment financing in March and by growing its multifamily lending business. The efforts helped fuel loan growth of $1.91 billion, or 27.8 percent, in the first nine months of 2012, more than offsetting the securities prepayments that had analysts on alert.

"Some speculated that our record string of quarters would come to a crashing halt, but instead we set three more record quarters," DePaolo says.

Because of the loan growth, mortgage-backed securities make up less of its overall assets: 38 percent at Sept. 30 compared with 44 percent at the end of 2011, based on data from the Federal Deposit Insurance Corp.

DePaolo says the key to Signature's growth is its ability to lure teams of commercial loan officers from rival banks. They come with entire client relationships–loans, deposits and investments.

Four teams joined last year, and seven the year before. But "even teams we hired over five years ago are still bringing clients over from other institutions, when their loans start to mature and they need to refinance," DePaolo says.

Loans in the third quarter rose by a record $728.5 million, or 9.1 percent, from the year-earlier quarter to $8.76 billion. As a result, net income rose 24.4 percent, to a record $47.7 million.

"Their strategy is that they don't buy whole companies–they buy teams, so there's no goodwill on the books," says Christopher McGratty, an equity research analyst at Keefe, Bruyette & Woods. "They are firing on all cylinders and we expect 30 percent loan growth in 2013."

Sterne Agee analyst Peyton Green calls Signature "our brightest earnings momentum opportunity," and points to the new equipment finance group as one way Signature should be able to keep its growth engine going. True to form, DePaolo expanded into the business by hiring a team of executives away from rival Capital One Financial to run it.

While residential mortgage refinancings resulted in the prepayment of securities with attractive yields of 3.5 percent or more, Signature mitigated the impact of this trend by deploying the resulting cash flow into loans yielding 4 percent on average, Green says.

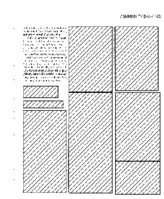
So even though yields on both loans and securities dropped–Signature's loan yield was 5.18 percent in the third quarter vs. 5.44 percent the year earlier and its securities yield was 3.31 percent vs. 3.71 percent–a higher ratio of loans to earning assets helped buoy the margin. The third-quarter net interest margin rose 5 basis points year over year, to 3.56 percent (though prepayment penalty income partially contributed to the increase).

"In years past they had significant excess deposit growth that went into bonds," Green says. "They still may have excess deposit growth going forward, but now they are funding loans instead of securities, and their margins are holding up much better than others."

DePaolo says Signature's emphasis on deposits–third quarter deposits rose 5.2 percent from the previous quarter–will continue. "We always have been a deposit-first bank," he says.

"We also know our shareholders need us to transform the balance sheet," he adds, noting that loans now make up more than half of assets. "But we still want to make sure what funds those loans are low-cost operating deposits."

The market has rewarded Signature.



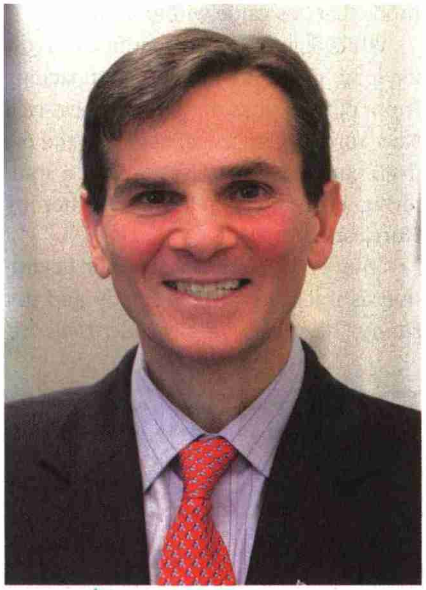
AMERICAN BANKER
Date: Friday, February 01, 2013
Location: NEW YORK, NY
Circulation (DMA): 37,014 (N/A)
Type (Frequency): Magazine (M)
Page: 9,10
Section: Main
Keyword: Joseph J. De Paolo

Its stock has doubled in the past five years, compared with the overall banking sector's 50 percent decline.

"Some banks like to focus on loan growth and then they'll find the deposits to fund that growth," says Andy Stapp, senior vice president of research at BGB Securities. "Others are like Signature Bank, which has taken the position that deposits are a sticky, low-cost source of funds that has value within itself."

While Signature can continue to grow its loan portfolio mainly by poaching from other banks in the business-rich New York City area, DePaolo says the pie itself has yet to grow larger, with a sputtering economy challenged further by Hurricane Sandy.

"However, we're running our institution as if it were always cloudy and not sunny," he says. *–Katie Kuehner-Hebert*



Signature Bank's Joseph DePaolo

Account: 3837A (1918)
-6964