INVESTOR'S BUSINESS DAILY®
THURSDAY, MARCH 20, 2014
THE NEW AMERICA

Signature Bank Writes Playbook To Outrun Rivals

BY TRANG HO
FOR INVESTOR'S BUSINESS DAILY

Signature Bank (SBNY) has written the playbook to outrun its "too big to fail" rivals in a modern-day David vs. Goliath story set on Wall Street.

Since opening its doors in May 2001, the bank has grown from $50 million to $22.4 billion in assets, ranking in the top 1% of all commercial U.S. banks by assets. It runs 27 branches throughout the metropolitan New York area with plans to open three more by year's end.

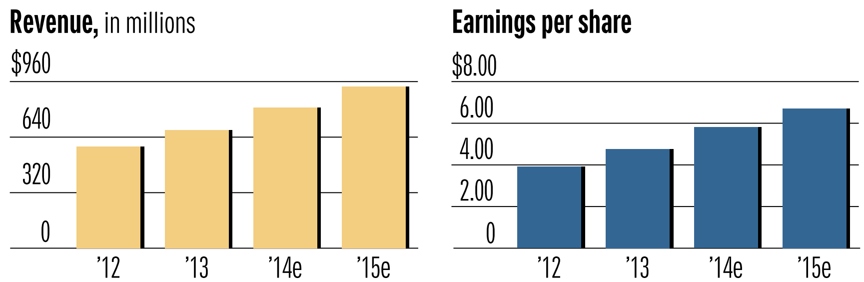
Signature Bank's business exploded through word of mouth. The company spends no money on traditional advertising, marketing or recruiting. It hires teams of bankers with an established book of clients away from competitors and treats each of its 90 teams as a little bank within a larger bank.

"That's why this model is so different — because we do everything on a team basis," said Joseph DePaolo, Signature's founder and CEO. "The client identifies with the team. The client doesn't identify with the bank, very different than **HSBC** (HSBC), **Capital One** (COF), **Citibank** (C), **Chase** (JPM), **Bank of America** (BAC) and **Wells Fargo** (WFC).

"Our clients don't make decisions based on ads or marketing schemes. They make decisions based upon the relationship that they have."

Building On Reputation

Record deposit and loan growth, fueled by commercial real estate banking, has helped drive Signature Bank's results. The firm says it's a "conservative lender" with "strong discipline."



Source: Thomson Reuters

In a highly commoditized industry with more than 7,000 competitors, Signature ranks as the 61st largest. It has recorded at least double-digit percentage profit growth for 16 straight quarters, including during the financial crisis.

Signature Bank stock has rallied 21% for the year to date, outpacing both the stock market and regional banks industry groups, which have appreciated only 3% to 4% each. During the 2008 bear market, Signature's stock fell only 15% while banks dropped 23% and the S&P 500 crashed 37%.

Personalized Approach

Signature currently tallies $17.1 billion in deposits and $13.5 billion in loans, which appears like pocket change against its so-called "too-big-to-fail" competitors with trillions in assets. It targets a niche clientele of privately owned businesses, their owners and staff, and high-net-worth individuals. It provides highly personalized service in which clients deal with one team for all of their banking needs rather than representatives in different departments at traditional banks.

While many other banks focus on generating revenue from loans and trade complicated financial products such as credit default swaps, DePaolo keeps business simple. His bank lends very conservatively, stays away from sophisticated products and focuses on getting clients to stash their cash at Signature.

"We're a deposit-generating institution first and foremost," said DePaolo, an Italian-American born and raised in the Bronx who speaks with a New York accent. "In order to convince clients to keep dollars with your institution, you have to maintain a solid balance sheet with high levels of capital and the only way to do that is to be conservative in the lending."

"I like to tell people if you are teaching Banking 101, use Signature Bank's balance sheet," DePaolo added.

Customer deposits have grown at an annual compounded rate of 23% since 2008.

"Signature has had tremendous growth over the last 10 plus years but they only have deposit share in metro New York of about 1%," said Bob Ramsey, equity analyst for FBR Capital Markets in Arlington, Va. "So they have a lot of runway to continue to grow."

Signature's ability to post well-above average loan growth will be the key driver of the stock's valuation and investor returns, Ken Zerbe and Jonathan Katz, analysts at Morgan Stanley, wrote in a research note Feb. 20.

They forecast loan growth of 20% to 22% in each of the next two years, nearly triple the industry average of about 7%. Loans grew 38% year over year in 2013. Loan defaults are very rare. Nonperforming assets amounted to merely 0.23% of total loans in fourth quarter.

Signature is growing profits faster than its peers thanks to its strong credit quality and low efficiency ratio of 35% vs. 62% for its peers. The ratio measures the bank's overhead as a percentage of revenue.

Zerbe and Katz forecast 19% and 15% year-over-year net-interest income growth in 2014 and 2015, respectively, vs. increases of 3% and 7% for the bank's competitors. Signature has superior return on equity of 14.4% for 2014 vs. the 9% mid-cap bank median.

Outlook And Investment Risks

Banks need stronger economic growth to enjoy a meaningful increase in loan demand, although Signature will continue to enjoy higher loan growth relative to the industry as it adds more banking teams and grows its portfolio of multifamily housing investments in New York, said Ramsey.

"Signature has the best growth prospects since we took them public in 2004," said Ramsey.

New York Story

All of the buildings, or collateral, in Signature's real estate loan portfolio are located within the New York metropolitan area, which subjects its financial health to changes in New York's economy and its real estate market, analyst Jason Goldberg and his colleagues at Barclays wrote in a client research note March 3.

"A prolonged period of economic recession or other adverse economic conditions in the New York metropolitan area, such as the one it is experiencing now, may result in an increase in nonpayment of loans, a decrease in collateral value, and an increase in its allowance for loan losses," Goldberg and his colleagues wrote.

Richard Bove, who leads financials services equity research at Rafferty Capital Markets, headquartered in Garden City, N.Y., sees a boom in corporate capital spending, driving earnings growth for commercial banks.

"In 2013, the banking industry earned more money than any time in its history and, in 2014, it will top that amount with an all-time new record," said Bove.