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# BEST IN BANKING: COMMUNITY BANKER OF THE YEAR

## SIGNATURE BANK'S JOSEPH DEPAOLO

BY ALAN KLINE

**When ex-Republic Bank of New York executives Joseph DePaolo and John Tamberlane were sketching out their business plan for what would become Signature Bank, they really had no intention of starting a bank at all.**

Instead, their idea back in 2000 was to shop their concept of hyper-focused private-client banking to another New York-area bank and use that bank's resources and infrastructure to help build the business line.

Fortunately for them—and their investors—those plans never materialized.

Signature opened for business in April 2001 and, without making a single acquisition, has grown into a thriving $21 billion-asset institution with 28 offices throughout metropolitan New York. To put that in perspective, the 67 other banks that opened in 2001 and are still around have $21.6 billion of assets combined.

More importantly, Signature is a money-making machine.

As other banks were licking their wounds from the financial crisis in 2009, Signature was setting off on a run of record earnings that has yet to abate. It has increased profit for 16 straight quarters and is the only bank among the nation's top 100 that has shown earnings growth in each of the last five years.

Its stock price is high, trading at around $100 a share, but even at that entry point analysts say it's worth the investment. After Signature reported a 26 percent increase in its third-quarter earnings in October, Sterne Agee analyst Peyton Green raised his price target to $109 and Oppenheimer's Terry McEvoy raised his to $112.

"If you're a portfolio manager you have to be invested in banks and, in my view, Signature is one of those stocks that is a must-own," McEvoy says.

Much of the credit for Signature's success goes to DePaolo, its tireless president and CEO who set out to build a premier

business-focused bank in ultra-competitive New York and has never wavered from that mission.

DePaolo has structured management so that others handle most of the day-to-day duties while he focuses on business development.

He is at his desk by 7:10 a.m. every weekday—5:55 a.m. on the rare mornings when he skips his workout—and spends the bulk of his day supporting and coaching the dozens of group directors who are responsible for bringing in and retaining clients. It's not at all unusual for DePaolo to join a Signature banker on a client call if it helps attract or hang on to a key book of business.

> *"Privately held businesses do not make their decisions based on advertising; they make their decisions based on relationships."*

That's not to suggest DePaolo is a micromanager. He dislikes conference calls and group meetings because he believes bankers' time would be better spent with clients. He also gives bankers plenty of room to run. Metropolitan New York is home to more privately held firms than any other market and, big, small or in between, DePaolo does not much care which ones bankers target as long as the businesses are viable.

"Every waking hour, Joe is thinking about this bank and, for a bank our size, he's remarkably in the trenches," says Mark Sigona, Signature's Chief Operating Officer. "You don't really expect that from the CEO."

"Joe outworks everybody," adds Tamberlane, Signature's vice chairman and DePaolo's former boss at Republic. "He very much leads by example."

For his vision in creating Signature and building it into one of nation's most consistently profitable banks, American Banker is honoring DePaolo as one of its community bankers of the year for 2013.

In an interview in his midtown Manhattan office, DePaolo says he's "uncomfortable" with the honor, explaining that credit for the bank's success goes largely to the private-client teams that bring in the business.

He's the boss, "but my philosophy is that I work for them, not the other way around," DePaolo says. "If they need me to go out on a client call, I will be there, and if they just need to let off some steam, they know they can talk to me not as the CEO, but as a person they work with."

DePaolo was born and raised in the Bronx in a five-story walk-up. The son of a homemaker and construction worker, he says he has had a number of mentors in his career, but the person who influenced him most was his father, who laid bricks for 30 years before becoming a doorman in an upscale Manhattan apartment building.

"My dad worked decades in construction without ever missing a day; as a doorman he worked double shifts and then he would bartend on weekends," he says. "That work ethic stuck with me."

DePaolo attended St. Raymond High, where he was president of his class, captain of the basketball team and did well enough academically that he was recruited to play basketball for Dartmouth. When he visited the Ivy League campus, though, he quickly realized that he didn't quite fit in.

"I was very uncomfortable there," he says. "The kids that went there, their fathers were presidents and CEOs of companies. My father would build the president's house."

DePaolo attended Iona College in nearby New Rochelle, N.Y., on a full academic scholarship, earning a degree in business administration. From there he joined the internal audit department at accounting giant Peat Marwick, where his clients included Manufacturers Hanover, Citicorp and Republic.

After seven years in public accounting, DePaolo began to chafe at the work—"I wanted to run businesses," he says—so he took a job in Republic's auditing department in the hopes of eventually shifting to a business line role. He soon caught the attention of Tamberlane, then Republic's head of commercial banking, and before long was being groomed as Tamberlane's successor.

That plan was upended in 1999 when Republic's owner, billionaire Edmond Safra, announced he was selling the bank to HSBC Holdings. Tamberlane and DePaolo had little interest in working for a large global bank and, though they stayed on until shortly after the deal closed, they spent much of that transition year fine-tuning their business plan.

Their idea was to cater to privately held businesses, plus their owners and other high-net-worth individuals by providing them with a single point of contact who could handle all of their banking needs. Bankers would be compensated not just based on deposit and loan business they brought in, but also what they retained, which would give bankers the incentive to provide continuously excellent service. Finally, growth would be sustained by hiring teams of seasoned bankers away from rival banks and paying them well to bring clients with them.

DePaolo and Tamberlane approached more than a half-dozen banks with their plan, and figured they would join one of them—until investment banker Scott Shay convinced them to start a new bank instead. Shay, now Signature's chairman, believed in the model but felt strongly that established banks fighting to make their quarterly numbers might not have had the patience to see it through.

"You really have to believe in this concept wholeheartedly," DePaolo says. "You can't do it halfway."

Signature, of course, went all in.

It opened its doors with roughly 60 ex-Republic staffers and has since hired more than 80 teams away from rival banks including JPMorgan Chase and Capital One Financial.

All of those new hires came with established clients, and the reason Signature has grown so quickly is because those clients chose to stay with their bankers, not their banks. Its success has validated DePaolo's strategy of investing in talent, not acquisitions or marketing.

DePaolo says Signature never wanted to start a retail bank because it's too expensive to do it right—especially in New York City. To build a brand, it would have had to spend heavily on advertising and on street-level branches in the country's priciest real estate market. It's no accident that most of Signature's offices are on upper levels of office buildings, where rents aren't as high.

He and Tamberlane also believed at the time they were starting that middle-market businesses would need a bank that catered to them as others skilled in serving those firms were swallowed by larger players.

They were right about that—rivals European American Bank and North Fork Bank were eventually acquired and many of their ex-bankers now work for Signature. What they could not have foreseen was a financial crisis that would hobble the largest banks and allow Signature to steal clients and their top producers. Roughly 75 percent of the bank's asset and deposit growth has come since the end of 2008.

"We could not have written a better scenario for ourselves," Tamberlane says.

In the early days, Signature had to work extra hard to attract bankers because it had no track record, says Tamberlane, whose main job is to recruit banking teams. Now, he says, bankers who are looking to move are approaching him first.

Still, Signature is very picky about who it hires. It only wants bankers who have two or three decades of experience and has no interest in those who have bounced from job to job. As Tamberlane and DePaolo explain, bankers who have stayed in one place for a long time are likely to have the most loyal clients.

Cliff Broder, a group director who has been with Signature since day one, says bankers like working there because they are given plenty of autonomy. Teams are run like mini-franchises, responsible for their own office space and equipment, so directors have to weigh every potential expense against how it will affect their teams' bottom lines.

"It's as close to owning my business as I could possibly get while working in a corporate environment," Broder says.

The team approach has helped to keep Signature lean. It doesn't need to blanket the market with expensive branches because, as DePaolo puts it, clients "are buying the people, not the product."

Though expenses have risen as it has added talent, Signature's efficiency ratio is consistently under 40 percent—versus 50 percent to 60 percent at most banks—and at Sept.

Joseph DePaolo
**CEO Signature Bank**

30 it was just 35.57 percent, even though Signature added several teams during the quarter.

If there's one knock on Signature, it's that assets historically have been weighted toward securities. The mix has improved substantially in the last couple of years as it has added teams and business lines, but DePaolo makes no apologies for being conservative with depositor funds.

Many of Signature's clients keep millions of dollars of deposits with the bank, which means that the vast majority of its deposits are uninsured. That's intentional, says DePaolo.

"We learned from Edmond Safra that you build a bank for the depositor," DePaolo explains.

> *"Most banks are built for loans, but [Safra] taught us to bring in the deposits and then lend to those clients. That's why we don't have credit cards or offer mortgages to anyone who walks in off of the street. If a client has $60 million here, we have to protect that $60 million."*

Still, Signature is not totally risk-averse. Perhaps the most significant move it has made in the last two years was hiring roughly 50 bankers from Capital One to launch a specialty lending unit that focuses on equipment, transportation and taxicab medallion financing throughout the country. Until then, Signature only made loans in the New York metro market.

The investment in the specialty group is starting to pay dividends. The unit produced $200 million of business in the third quarter and is expected to top that in the fourth quarter. And analysts seem confident that a new asset-based lending team hired away in September from Amalgamated Bank will soon be a meaningful contributor to profits as well.

DePaolo, however, says he prefers to let the team "run a few plays" before making any predictions about its impact.

"We're a lot better at executing than predicting," he says. ▪

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