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Talent Poacher

JOE DEPAOLO has a good recipe for building a bank fast: Find great bankers and pay them well. By Daniel Fisher

IN 1999 JOSEPH DEPAOLO, THEN MANaging director of consumer banking at Republic National Bank, fidgeted in his office chair while a senior officer of HSBC, the British giant that had just bought Republic, gazed out DePaolo's window. "Edmund Safra started this bank in 1965," the HSBC exec mused, referring to the Lebanese billionaire who built Republic into a $50 billion (assets) institution. "I can't imagine starting a bank today." Indeed, commercial banks were consolidating into giants and the tech bubble was about to burst.

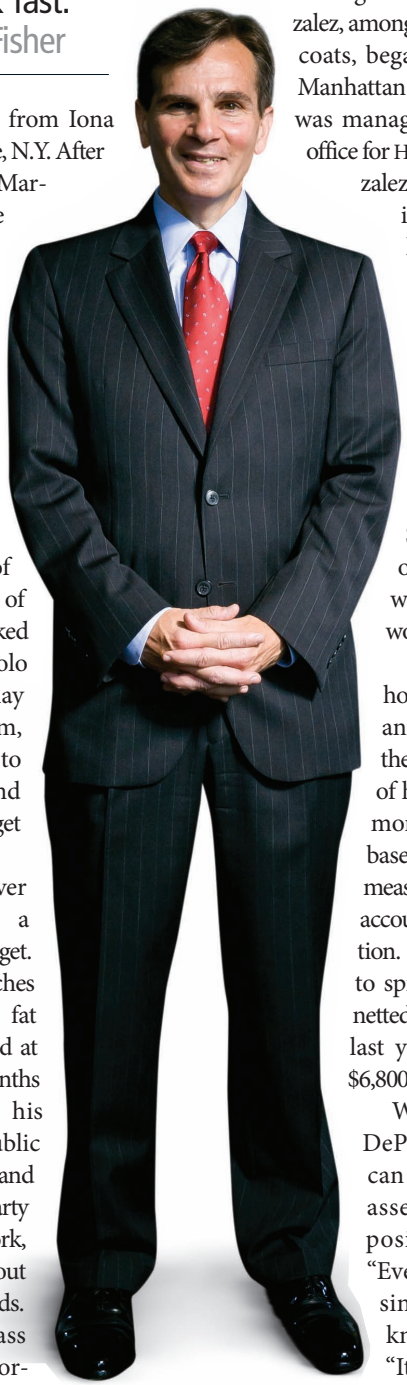
DePaolo gulped. "I'm sitting there thinking, 'Oh my god, I'm resigning in three days to go start a bank,'" he says now.

What DePaolo lacked in timing he made up for in strategy. After spending 11 years establishing Republic's business in New York, he was convinced there was room for a bank that catered mainly to entrepreneurs, lawyers and closely held companies. Their big attraction: They tend to carry $5 million in their checking accounts, not $500. "These are people who might be worth $30 million, but it's all tied up in their business," says DePaolo, 51.

Thanks to that rich deposit base and a distaste for dicey mortgage-backed securities and commercial real estate loans, Signature Bank has grown to $10 billion in assets and 23 offices around New York. In the quarter ended Mar. 31 publicly held Signature's annualized return on equity (11%) was more than double the average for banks with more than $1 billion in assets, according to the Federal Deposit Insurance Corp.

DePaolo grew up in the Bronx and got an accounting degree from Iona College in New Rochelle, N.Y. After seven years with Peat Marwick he took a job in the bowels of Republic as an internal auditor—the kind of guy, he quips, that "most entrepreneurs think of as a necessary evil." When HSBC moved in, DePaolo started planning his escape. He had a strong backer in Scott Shay, then a partner of Lewis Ranieri, pioneer of the very mortgage-backed securities DePaolo assiduously avoids. Shay arranged for Hapoalim, Israel's largest bank, to provide the capital and back-office systems to get Signature going.

Signature has never advertised and has a minimal marketing budget. Instead DePaolo poaches veteran bankers with fat client rosters. He started at Republic: Fourteen months after he handed in his resignation, 65 Republic bankers did the same and gathered for a cocktail party at Club 101 in New York, where DePaolo doled out their new business cards. He dubbed the mass defection "Project Normandy." (HSBC sued, and the case was settled a few months later on undisclosed terms.)



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Why leave a big bank for a small one? Signature pays well. John Gonzalez, among the original HSBC turncoats, began his career at Chase Manhattan in 1976 and eventually was managing a private banking office for HSBC in Manhattan. Gonzalez has a knack for reeling in prosperous Midtown law firms and private companies. But he was worried HSBC would parcel out his customers among its various divisions and jumped when DePaolo offered him a job. Does he make more at Signature? "Unequivocably," Gonzalez says with emphasis, though he won't disclose more.

DePaolo, who took home $1.7 million in cash and stock last year, says there are years when some of his best lieutenants earn more than he does. Pay is based on such performance measures as the profitability of accounts and customer retention. There's plenty of money to spread around: Signature netted $100,000 per employee last year, versus an average $6,800 by its competitors.

With the right squad, DePaolo figures Signature can grow to $20 billion in assets by feasting on deposits in New York City. "Everybody has been here since the beginning and knows the plan," he says. "It's a simple plan." F