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THE NEW AMERICA

SIGNATURE BANK *New York, New York*

Small Bank In A Big City Finds Its Niche Among The Skyscrapers

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When you talk about banking in New York, a lot of names come to mind. **Signature Bank** probably isn't one of them.

With only $4.7 billion in assets, Signature[SBNY] is dwarfed by trillion-dollar banking giants such as **JPMorgan Chase**[JPM] and **Citigroup**[C].

Still, Signature has made a name for itself among small and midsize businesses in the New York metro area, its target market. The firm won't stray from its aim to lend to its core customers.

"We're very stubborn about the business we go after," said Signature CEO Joseph DePaolo. "It's almost as if we have blinders on."

DePaolo and other co-founders started Signature in 2001 after they left another New York bank that had been acquired.

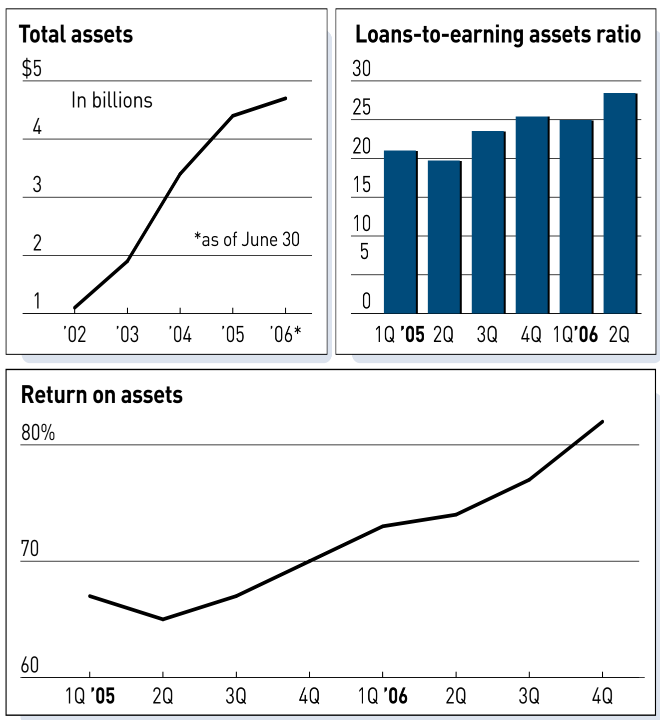
One reason they started Signature was the opportunity to pick up deposits. They succeeded. In 2004, Signature's deposits grew 60% from the prior year. Last year deposits increased 40%. This year has seen similarly strong growth.

Signature attracts deposits by hiring experienced bankers who bring along their own customers.

"I like to say they bring their practice in," DePaolo said. "It's like a medical doctor or a law firm."

Sign Of Success

As Signature Bank grows, it's boosting its loan ratio so it can earn higher profit



Sources: Company reports; Federal Deposit Insurance Corp.; Friedman, Billings, Ramsey & Co.

Signature also has an edge in the types of deposits it brings in. Less than 10% of its deposits are in CDs, which typically cost more than other deposits.

Because most of its customers are businesses — which often have noninterest checking accounts — Signature doesn't have to pay any interest on about 35% of its deposits.

"That's abnormally high for any bank," said Peyton Green, senior analyst at FTN Midwest Securities.

That makes a big difference on Signature's net interest margin, which is the difference between what it pays for deposits and what it brings in from loans. The firm's margin was 2.81% last quarter, up from 2.73% a year before.

'Powerful Combination'

The other key to Signature's success has been its rapid loan growth. Second-quarter loans rose 14% from the previous quarter and 67% from the previous year.

Signature Bank
signatureny.com

Ticker	SBNY
Share price	Near 33
12-month sales	$133 mil
5-year profit growth rate	n.a.

IBD SmartSelect Corporate Ratings

Earnings Per Share	62
Relative Price Strength	63
Industry Group Relative Strength	B+
Sales+Profit Margins+ROE	B
Accumulation/Distribution	E

See investors.com for more details

The more loans Signature gets, the more it makes on its earning asset portfolio. What's not in loans gets invested, mostly in bonds. Those don't yield as much.

Signature's loans made up 27% of earning assets last quarter. That's still low — its peers are around 75% — but it's much better than the 17% Signature had at the end of 2005. DePaolo expects the ratio to reach 30% by the end of this year.

"It takes a little time," he said. "We're doing it on a gradual basis."

Analyst Green expects Signature to keep expanding its loans by about 40% a year. He sees the loan-to-assets ratio reaching 40% next year or in early 2008.

As Signature puts more loans on the books, its net interest margin will rise, says analyst Gary Townsend of Friedman, Billings, Ramsey & Co. "The net interest margin growth and earning asset growth make a powerful combination," Townsend said.

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Signature already has a pretty solid financial record, with profit rising 40% or better the last four quarters.

Second-quarter earnings reached 28 cents a share, up from 20 cents a year earlier. Revenue rose 25% to $34.7 million.

Analysts polled by First Call expect full-year earnings to gain 36% to $1.17 a share, then move up 32% to $1.54 in 2007.

While its earnings growth has been strong, Signature's profit measures have been lacking. Its return on assets, a key gauge of bank profitability, was only 0.74% in the second quarter. The industry average is 1.4%, according to the Federal Deposit Insurance Corp.

Analysts downplay the problem in part because Signature is still a young bank.

"Most (startup banks) don't hit their earnings stride until they're five to 10 years old," Green said.

Sweet Chaos

Bank mergers in the New York metro market also have created an opportunity for Signature. The trend means a lot of bankers and customers look to change banks. As DePaolo puts it: "We like chaos."

Signature's niche also helps set it apart. New York is a highly competitive banking market, but most rivals aren't clamoring for small-business customers.

The company has only 17 offices in metro New York. Many are in office building locations.

"They're as likely to be on the fifth floor or 15th floor as they are to be in a ground-floor office," Green said.

Signature is expected to open an 18th office in about a month. DePaolo expects to open three to six more in the next year and a half.

Bad loans haven't been a problem. Green says Signature's loans are growing much faster than before, so it needs to make sure it doesn't take any big risks.

DePaolo worries most about continuing to bring in quality people.

"We can't get where we want with the teams we have," DePaolo said. "The growth we want is necessitated by adding teams."

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