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More about lenders than location as Signature breaks out of NY footprint

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The old mantra about the importance of location might be critical in real estate but it is not priority one when Signature Bank is considering footprint expansion. Instead, the New York-based bank worries first about finding the right lending teams and much less about where those bankers will be based.

Case in point: Signature recently entered the Connecticut market with the opening of a private client banking office in Greenwich. President and CEO Joseph DePaolo told SNL that Greenwich was chosen primarily because the bank hired a team that was entrenched with a book of business in the Fairfield County area.

He said that geographically, the move is no big deal as Greenwich is closer to the company's headquarters than some of its offices in Long Island. The bank has been doing some multifamily lending and some office lending throughout Fairfield County for a number of years without a physical presence in the area. Greenwich and Stamford are home to a number of attractive businesses, including a few private equity firms, the chief executive said. "It's rich in what we call privately-owned businesses," he said. "And that's what our focus will be in Connecticut."

Signature believes parts of Connecticut and New Jersey — along with New York — comprise the tri-state area that it considers its home turf. DePaolo said that although there are differences that mark parts of that region, there are also common traits that run throughout.

Signature is the "best growth story in banking" based on its strategy of hiring successful lending teams, Michael Diana, an analyst at Maxim Group, told SNL. Signature had to play the role of pursuer with those teams when it first started out, but that is no longer the case. "Now, teams pursue Signature," he said. The quality and growth profile of the acquired teams is much more important than geography, Diana said. And, unlike some other growing banks, Signature's strategy is not dependent on interest rates.

Signature has hired three teams so far in 2015 and the pipeline is relatively strong, DePaolo said. The company is talking to a handful of teams now and is confident a few more will be brought on board. Signature on March 11 said that it added two private client banking teams in New York. Sterne Agee & Leach Inc. analyst Peyton Green, in a March 12 research report, said those hires gave him confidence in his above-consensus view of the bank. "Although we do not know the balances that the [Sterling Bancorp] team will be able to bring over to [Signature], the market share opportunity could be multiples of the team's franchise that existed at [Sterling]. This has consistently been the case when [Signature] has pulled teams from smaller institutions in the past."

There is currently only one team in Greenwich but Signature is looking for a second team to work from that office. Subsequent teams in that area could possibly work out of Stamford, DePaolo said.

Another benefit to the Connecticut expansion is the message that it sends to other out-of-state lending teams, Maxim Group's Diana said. There may be teams in New Jersey, for example, that want to join Signature but know that the bank has not traditionally ventured out of New York State. "Now they do, so maybe they're going to get more calls from New Jersey," he said. Bankers in the New York area know the Signature story and often want to be a part of it. The arrangement Signature uses with its lenders does not appeal to teams unless they are confident in their ability to take their clients with them, Diana said.

Diana does not envision the bank stepping outside of the New York metropolitan area any time soon because there is still a huge opportunity there. He said it could be suggested that the move to Connecticut signals that Signature has run out of opportunities in New York. "I think that's absolutely, totally wrong," he said. "I think there are still plenty of opportunities in New York."

Signature's CEO agreed, saying he believes that there is still a lot of runway in New York and that the bank can grow significantly without having to enter new markets. It will be hard to keep up the recent double-digit growth the company has experienced as it gets larger, so DePaolo said the bank instead will focus on growing $3 billion to $5 billion a year. "So, percentage-wise, that may decrease a little bit, but we look at the whole numbers," he said. The bank's organic growth is comparable to buying a small bank every year, DePaolo added.

Competition for CRE loans in New York City — especially in multifamily — is intense, but Diana said Signature has maintained its share. The bank has held the line on pricing, which means that it will miss out on some business. But clients often like doing business with Signature because it reacts quickly and provides a lot of hands-on attention, so the bank can charge a little more, Diana said. Trying to win CRE business on price alone with some of the stronger clients often does not work, he said. "Because they want more than just price," Diana said. "They are willing to pay a little more to have the certainty of dealing with somebody who they know and trust."

DePaolo said a five-year, fixed-rate loan for a multifamily project now carries an interest rate of 3.38% at Signature. Some competitors are offering rates closer to 3%, but Signature's pipeline is robust nonetheless. "From a competitive standpoint we're getting the price we want, but it's the service and the execution that is allowing us to get a lot of business," he said.