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MANAGING FOR SUCCESS

Signature Bank Builds Close Relations With Clients

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Signature Bank CEO Joseph DePaolo. The Bank has 27 branches in NYC area.

Signature Bank doesn't advertise or do any marketing, has never done a merger or acquisition, and doesn't have retail branches that allow people to walk in off the street and open an account. Still, Signature is one of the fastest-growing banks in the nation, if not the fastest.

"This is the best organic-revenue-driven banking growth story in the U.S.," said Michael Diana, senior banking analyst at Maxim Group. Last year, **Signature Bank's** (SBNY) organic revenue — revenue that doesn't come from mergers — jumped 13%. It also posted 23% growth in earnings per share, compared to the average of single-digit growth for other small- to medium-sized banks. "It's my top pick. There's nothing better."

With just 27 branches in the New York metropolitan area, this Manhattan-based commercial bank doesn't cater to the mass-market retail customer opening checking or money-market accounts. Instead, it focuses on small- to medium-sized businesses underserved by the mega-banks. These are not publicly held corporations but privately owned businesses such as law firms, medical practices, advertising agencies and companies with fewer than 500 employees.

Signature's business model has three parts.

First, hire teams of bankers from other banks who will be able to bring over the book of business they've built over their careers.

Second, make each team its own profit center and compensate the bankers in an entrepreneurial manner that encourages them to grow their business.

Finally, as the bank is extremely relationship-oriented, each banking team establishes a one-on-one relationship with the clients through a single point of contact.

No Finder/Minder Model

Many large banks have a finder/minder model. In that system, the banker who brings the client into the bank, the finder, and the banker who manages the client's business, the minder, are two different people. After bringing the client into the bank, the "finder" banker may never see the client again. Then when the client needs a special service, such as a commercial real estate loan, the banker managing the account needs to direct the client to a third banker in the company who specializes in those loans. The client now has to deal with a third person, and the account manager needs to split his fee with the commercial real estate banker.

Signature organizes its people into teams of four to six bankers.

Each team takes care of all the banking needs of its clients. The banker that brings in the business builds the relationship with the client, and his team is the only one to service that account. Typically the client speaks with just one person on the team.

Instead of giving the bankers quotas on what products to sell, Signature gives the bankers autonomy in the running of their business. And the compensation model allows them to participate in the revenue of the business that they develop.

"The big secret to Signature's success is the transparent compensation model," said David Darst, managing director at Guggenheim Securities. "Where other banks have cut compensation, this system rewards bankers for retaining and generating new business. High-performance bankers find it motivating."

"Basically, you eat what you kill," said Lana Chan, a U.S. banks analyst at BMO Capital Markets.

Founded in 2001, Signature was created by Joseph DePaolo and other bankers after HSBC bought Republic, the local New York commercial bank where they all worked. The former Republic bankers felt that HSBC's strategy was wrong and that their clients were getting lost in the shuffle.

"HSBC felt the relationship is between the client and the institution, not the client and the banker," said DePaolo, Signature's president and chief executive officer. "We felt the middle-sized businesses couldn't care less about the institution but wanted the relationship with the individual banker."

DePaolo decided to build a bank where clients would never have to call an "800" number but instead would always have direct access to their banker. And over the past 13 years, that strategy hasn't changed.

Fishing For Talent

A key driver of Signature's growth has been its ability to hire experienced teams away from the big banks. Signature doesn't make any acquisitions itself. It just recruits the best bankers it can find who are dissatisfied after a larger institution buys their bank.

"Signature has been able to take advantage of all the disruption and dislocation that has taken place at the big banks for quite a while now," said Chan of BMO Capital. "The key to their success has been bringing over the teams because they bring a large part of their existing book of business, driving the upfront growth."

"They are in permanent recruitment mode," said Maxim's Diana. "And they have good intelligence on the best teams out there."

At the end of 2013, Signature had 89 teams and $22 billion in assets. So far this year, it has added five more teams.

Thomas Alonso, senior bank analyst at Macquarie Securities, says that Signature has many growth opportunities and could easily expand into New Jersey and Connecticut.