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NY's most successful bank

Signature Bank bests its publicly traded rivals with remarkably low overhead and almost no dud loans

BY AARON ELSTEIN

An accountant and an investment banker, wondering if they really wanted to spend a big part of their lives together, decided to meet for dinner in 1999. Confidentiality was important to both men, so a private room was booked at the Box Tree, then one of the city's most romantic restaurants, whose decor of dark wood, stained glass and a fireplace was described by *The New York Times* as "dreamy."

"It was a place where you got engaged," the investment banker recalled. "And we did."

Engaged in the business sense, that is.

Shortly after their meeting, Signature Bank was launched by Chief Executive Joseph DePaolo, a former senior audit manager at accounting giant KPMG, and Chairman Scott Shay, a former mergers-and-acquisitions specialist at Salomon Brothers. Under their leadership, Signature has proved to be one of the most successful startups in banking over the past 20 years.

The institution now sports 27 branches, $22 billion in assets and a market value of $5.5 billion. Since going public in 2004, Signature's stock has returned about 650%, or nearly 10 times that of the S&P 500 and double that of the next-best-performing bank, SVB Financial Group, the parent of California's Silicon Valley Bank.

The stock has returned about 650% in 10 years

Yet it remains almost unknown. No street signs proclaim the existence of its branches, which are tucked away in office buildings. It doesn't advertise because management doesn't think its clientele of small and midsize businesses would work with a bank based on how catchy its jingle is. About the only time Signature made news came when Ivanka Trump joined its board in 2011 before leaving last spring.

"It's true we aren't in the headlines [much]," Mr. DePaolo said. "I don't mind."

Signature's success stems from management recruiting groups of experienced business bankers, from rivals like Citibank and HSBC, who bring clients with them. Famed wedding-dress retailer Kleinfeld, for instance, became a customer when its longtime banker, Zoe Koutsoupakis, joined a Signature branch in Brooklyn last year after 34 years at other institutions.

"I'd follow Zoe anywhere," said Kleinfeld CEO Ronnie Rothstein. "I've known her since 1998, and whenever I or my employees need something, she gets on the case."

Signature bankers, in turn, are compensated based on their ability to keep clients, and their pay is docked if borrowers become delinquent. Although final lending decisions are made by senior officers at the bank, staffers are given considerable autonomy in how they conduct their business.

The formula has worked. Only 0.25% of Signature's $14 billion in loans, or one-tenth the industry average, are more than 90 days delinquent. Overhead is low, with Signature spending 36 cents to generate each dollar in revenue, 40% below the industry average. Returns are high, with the bank's 14% return on equity 4 percentage points above the industry average. What's more, Signature has secured a reputation in its field as a place where seasoned bankers want to work.

"Bankers can make more money there than anywhere else," said Bob Ramsey, a banking analyst at FBR Capital Markets. "Signature doesn't cap bonuses."

Signature's story began in May 1999, when Republic National Bank agreed to be acquired by HSBC for $10 billion. Mr. DePaolo, a Bronx native who joined Republic's consumer-banking team in 1988 after serving as the bank's outside accountant, began thinking about his exit as soon as the news hit. He suspected the new owner wouldn't support Republic's brand of small-business and consumer banking, which at one time meant handing out toasters to people who opened accounts.

"My team had a meeting on the morning of the merger announcement and thought there was no way a big bank will buy into our concept, so let's plan," Mr. DePaolo recalled.

Mr. Shay, a disciple of Salomon's mortgage-bond king, Lewis Ranieri, had a different reaction when the merger news flashed on his Bloomberg terminal.

"This is fantastic," he thought, figuring that as banks like HSBC and Citi built global franchises, they invariably would leave behind small or midsize business clients. Mr. Shay, a Chicago native who described his livelihood as "selling used banks," sensed that an institution modeled after vanished New York lenders like Republic or Chemical Bank would prosper. He immediately began looking for executives who could build it from scratch.

Mr. DePaolo met over breakfast at the Grand Hyatt to hear out Mr. Shay's big idea, but the veteran commercial banker wasn't enthusiastic. He and his band of Republic refugees had put together a list of eight ideas to pursue—and "Scott's was the eighth," Mr. DePaolo said.

But after repeated business meals, Mr. Shay eventually won over Mr. DePaolo. The two sealed the deal at the Box Tree, where the chairman of Israel's Bank Hapoalim, who provided Signature with startup funding, picked up the tab. "He was visibly shocked by the price," Mr. Shay recalled.

The Israeli bank eventually quadrupled its investment in Signature.

CO-FOUNDERS Joseph DePaolo (left) and Scott Shay launched Signature Bank in 2001.

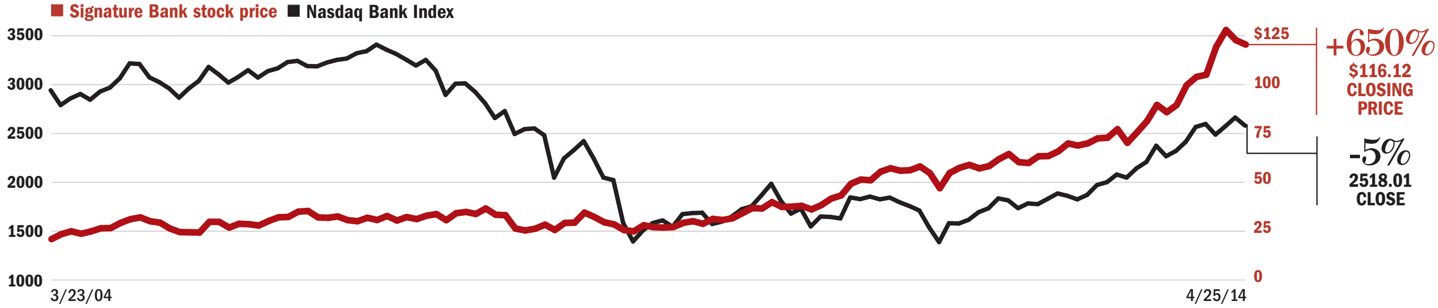
Looking beyond New York

Signature launched in May 2001, staffed with Mr. DePaolo's former Republic colleagues in the top slots, many of whom remain at their posts. The bank has since grown to about 1,000 employees.

Last week, Signature reported a 30% increase in first-quarter profits. Net income grew last year by 24%, to $230 million, and earnings have more than quadrupled since 2009, fueled in part by a well-timed entry into commercial real estate lending during the financial crisis.

To grow further, Signature is beginning to look beyond New York to the New Jersey and Connecticut markets. But Mr. DePaolo doubts he'll make a significant acquisition when it's much cheaper to simply hire the best people from rival banks and build from there.

He explained his strategy in terms an accountant would appreciate: "Signature does M&A on the installment plan and at book value." ■



Note: Monthly closes. Source: Yahoo Finance