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PRESENTATION

Operator

Welcome to Signature Bank's 2018 First Quarter Results Conference Call.

Hosting the call today from Signature Bank are Joseph J. DePaolo, President and Chief Executive Officer; and Eric R. Howell, Executive Vice President, Corporate and Business Development.

Today's call is being recorded. (Operator Instructions)

It is now my pleasure to turn the floor over to Joseph J. DePaolo, President and Chief Executive Officer. You may begin.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thank you, Lori. Good morning, and thank you for joining us today for the Signature Bank 2018 First Quarter Results Conference Call. Please go ahead, Susan.

Susan Lewis

Thank you. Joe. This conference call and oral statements made from time-to-time by our representatives contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous risks and uncertainties relating to our operations and business environment, all of which are difficult to predict and may be beyond our control. Forward-looking statements include information concerning our future results, interest rates and the interest rate environment, loan and deposit growth, loan performance, operations, new private client, team hires, new office openings and business strategy.

As you consider forward-looking statements, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions that could cause actual results to differ materially from those in the forward-looking statements.

These factors include those described in our quarterly and annual reports filed with the FDIC, which you should review carefully for further information.

You should keep in mind that any forward-looking statements made by Signature Bank speak only as of the date on which they were made.

Now I'd like to turn the call back to Joe.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thank you, Susan. I will provide some overview into the quarterly results and then Eric Howell, our EVP of Corporate and Business Development, will review the bank's financial performance in greater detail. Eric and I will address your questions at the end of our remarks.

Let's hit the taxi medallion portfolio head-on. During the quarter -- during the first quarter, market sales and cash flows continue to exhibit significant weakness. As such, we further wrote down the value of our New York medallion loans to $160,000 each and our Chicago portfolio to $27,000 for a total remaining exposure of $149 million. We know we said this before, but we do feel we've put this behind us now.

Excluding medallion charge-offs, Signature Bank delivered an exceptional quarter of growth and performance, resulting in record quarter of core earnings. We again saw a solid deposit and loan growth, expanded top line revenues and maintained overall strong credit quality ex medallion.

Let's take a close look at earnings. Net income for the 2018 first quarter was $34.5 million or $0.63 diluted earnings per share compared with $133.9 million or $2.48 diluted earnings per share reported in the same period last year. Excluding write-downs for the taxi medallion portfolio, net income would have been a record $146.8 million or $2.69 diluted earnings per share.

The decline in net income was driven by an increase in charge-offs of $90 million for the medallion portfolio as well as an increase in noninterest expense from the write-down of repossessed taxi medallions.

Also, expenses increased due to the addition of new private client banking teams as well as an increase in costs in our risk management and compliance-related activities. These items were partially offset by an increase in net interest income, primarily driven by strong deposit and loan growth.

Looking at deposits. Deposits increased $1.4 billion or 5% -- excuse me, or 4% to $34.8 billion this quarter and average deposits grew $197.6 million. Since the end of the 2017 first quarter, deposits increased $1.9 billion and average deposits increased $2 billion.

Noninterest-bearing deposits of $11.8 billion represented 33.8% of total deposits. The strong deposit and loan growth, coupled with earnings retention, led to an increase of $4.2 billion or over 10% in total assets since the first quarter of last year.

Now let's take a look at our lending businesses. Loans during the 2018 first quarter increased $635 million or 2% to $33.2 billion. Excluding taxi medallion loans, total loans would have grown $795.4 million for the quarter.

For the prior 12 months, loans grew $3.2 billion and represents 74.8% of total assets compared to 74.6% 1 year ago. The increase in loans this quarter was driven primarily by commercial real estate and multifamily loans.

Now turning to credit quality. Our core portfolio continues to perform well. Due to the medallion write-down, nonaccrual loans decreased by $158 million to $169 million or 51 basis points of total loans compared with $327 million or 100 basis points for the 2017 fourth quarter.

Taxi medallion loans comprised 88% or $149 million of the nonaccrual loans. Therefore, excluding taxi medallion loans, nonaccrual loans are just $20 million or merely 6 basis points, again demonstrating the pristine quality of our portfolio.

We saw an increase of $25 million in our 30- to 89-day past due loans to $67 million, while 90-day past due loans decreased $6 million to nearly $146,000. The provision for loan losses for the 2018 first quarter was $140.8 million compared with $41.7 million for the 2017 fourth quarter.

Net charge-offs for the 2018 first quarter were $128 million, all, and I'll repeat that, all of which were for taxi medallion loans compared with $38.8 million for the 2017 fourth quarter. The allowance for loan losses was 0.63% of loans versus 0.60% in 2017 fourth quarter.

Now onto the team front. We added 2 private-client banking teams here in New York in the first quarter and appointed 2 veteran bankers to head our West Coast expansion. Our key pipeline remained active. In fact, a third team joined us this week -- in fact, they joined us yesterday, and we look forward to the opportunities to attract more talented banking professionals to our network.

At this point, I'll turn the call over to Eric, and he will review with the quarter's financial results in greater detail.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Thank you, Joe, and good morning, everyone. I'll start by reviewing net interest income and margin. Net interest income for the first quarter reached $318.1 million, up $16.4 million or 5.4% when compared with the 2017 first quarter and a decrease of $1.6 million from the 2017 fourth quarter.

Net interest margin decreased 13 basis points in the quarter versus the comparable period a year ago and declined 6 basis points on a linked-quarter basis to 3.01%. Excluding prepayment penalty income, core net interest margin for the linked quarter decreased 3 basis points to 2.95%. 1 basis point of the decrease in core margin was due to revaluing of the tax benefit from municipal loans, given lower tax rates. The remaining decrease was predominantly driven by an increase in deposit cost and even more so an increase in borrowing cost.

Let's look at asset yields and funding cost for a moment. Interest-earning asset yields increased 11 basis points from a year ago and 4 basis points from the linked quarter to 3.75%. The increase in overall asset yields was driven by higher reinvestment rates in all of our asset classes. Yields on the securities portfolio increased 6 basis points linked quarter to 3.05%, given the slowdown in premium amortization on securities from slowing CPR speeds and stronger reinvestment yields. The duration of the portfolio remained fairly stable at 3.85 years.

Turning to our loan portfolio. Yields on average commercial loans and commercial mortgages increased 1 basis point to 3.98% compared with the 2017 fourth quarter. Excluding prepayment penalties from both quarters, yields would have also increased 1 basis point.

Now looking at liabilities. Our overall deposit cost this quarter increased 7 basis points to 65 basis points, mostly due to an increase in the Fed funds rate and intense competitive pressures. Average borrowings, excluding subordinated debt, increased $1.3 billion to $4.8 billion or 10.9% of our average balance sheet. The average borrowing cost increased 20 basis points from the prior quarter to 1.74%.

Overall, the cost of funds for the linked quarter increased 11 basis points to 82 basis points.

On to noninterest and income expense. Noninterest income for the 2018 first quarter was $7.2 million, a decrease of $2.7 million when compared with the 2017 first quarter. The decrease was driven by an increase of $3.4 million in other losses, predominantly due to the amortization of low income housing tax credit investments. These investments have contributed to the reduction of the bank's effective tax rate.

Noninterest expense for the 2018 first quarter was $137.3 million versus $103.2 million for the same period a year ago. The $34.1 million or 33% increase was principally due to the increased write-downs of $25 million on the repossessed taxi medallions and the addition of new private client banking teams as well as an increase in cost in our risk management and compliance activities. The bank also incurred increased FDIC assessment fees.

The bank's efficiency ratio increased to 42.2% or 34.4%, excluding medallion write-downs for the 2018 first quarter compared with 33.1% for the 2017 first quarter.

And turning to capital. Our capital ratios remained strong this quarter. They were well in excess of regulatory requirements and augment the relatively low risk profile of the balance sheet, as evidenced by Tier 1 leverage ratio of 9.47% and a total risk-based ratio of 13.44% as of the 2018 first quarter.

And I'll turn the call back to Joe. Thank you.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Thanks, Eric. With the taxi medallion issue effectively behind us now, we are looking forward to a strong 2018. This quarter, we saw a record core earnings as well as both strong deposit and loan growth with deposits increasing nearly $1.4 billion.

Additionally, we already added 3 private-client banking teams to our network and appointed 2 veteran bankers to lead our West Coast initiative. We remain focused on expanding our network by continuing to attract veteran bankers who can flourish at Signature Bank and in turn provide levels of service to which our clients have grown accustomed.

We're also strengthening our foundation by making major investments in our loan systems, payments architecture platform and new foreign exchange system.

With tax legislation becoming a law and our effective tax rate declining to approximately 25%, we are also hopeful the House will take appropriate measures to move the $50 billion SIFI threshold higher. This will allow the bank to slow down the pace of nonrevenue-related expense growth.

Realistically, Signature Bank with its uncomplicated and straightforward balance sheet should not be held to the same standards as a truly complex, systemically important, trillion-dollar financial institution.

Now we are happy to answer any questions you might have. Lori, I will turn it back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ken Zerbe of Morgan Stanley.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Great. I was hoping you guys could just address the outlook for margin. I mean, any short-term guidance would be appreciated but also kind of what the longer-term view is. As we guess we continue to expect rate hikes over the next -- I mean, couple of years, like, how are you thinking about what you can do from a business perspective to protect the margin, given your lack of asset sensitivity?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

So in the near term, Ken, we anticipate that we'll see about 1 to 3 basis points of pressure for the remainder of this year per quarter. It's taking us -- it takes our assets a little bit of time to catch up to the liability cost. And further pressure is going to be dictated by how many moves we see by the Fed. We're anticipating a June and September move, maybe a December move. It doesn't sound likely at this point, but it's still very much a possibility. If we do see a December move, that will put further pressure on the margin. When we look at 2019, it's really going to come down again to the number of times that the Fed moves. If we see a couple increases, we should be able to stabilize the margin. If we see 3 increases, we'll see a little bit of pressure. If we see 4 increases, we'll see that 1 to 3 basis points of pressure continue. But it's really dictated upon how frequent the Fed is going to move in 2019 and how severe those movements are. We've been increasing our floating rate assets. We had a strong fourth quarter out of our traditional C&I business as well as Signature Financial. Unfortunately, the first quarter tends to be a seasonally slow quarter for both businesses, in particular Signature Financial because many of our clients want to put assets to use in the fourth quarter and receive the full year's depreciation expense for tax purposes. So that leads to a weak first quarter. The pipeline for both of those businesses is quite robust for the second quarter, and we're looking forward to some good growth there. And that should help us to offset some of the pressures that we're seeing on the deposit side.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

I may add only -- also on the deposit side, we're making a big effort to continue to open up operating accounts and keep that DDA level where it's at, percentage wise or even higher. Because when you talk about the interest bearing, there is a lot of intense pressure on interest rates and also with some of our competitors. But one of the things that can offset that is a continued growth in the DDA.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Got you and understood. You definitely showed some good growth in the noninterest-bearing buying. I guess, maybe switching gears just a little bit about taxi, I really hope that we are -- that's mostly behind us. I know we've talked about that for a while, but can you just talk a little bit about what the cash flows to the medallion owners are? Because it just seems that every quarter there is this growing disconnect between the cash flows on the medallions versus sort of the economic value or the trading value of these medallions? I'm wondering at what point does that just becoming insanely large if that's the right logic?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. Well, we continue to see cash flows decline around 9% year-over-year this quarter, and we saw values really significantly fall this quarter. So we adjusted our cash flow models and really significantly increased the discount factor, because it seems like there is no end in sight to the reductions in cash flows going forward. By increasing that discount factor, it really allowed us to significantly reduce the values in the portfolio. And we try to be as conservative as possible within the accounting guidance that we could be. We're also hopeful that it's behind us, Ken. It's not a given that it is, but we think it's really predominantly behind us at this point. And it should be nothing more than a little bit of noise going forward, if any.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Got you. Okay. And then just one last question. Could you talk about what you expect from a growth perspective out of the San Fran office? And is that enough to offset some of the slower volumes that we're seeing in New York?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, I'll just attack the question first within New York. We're not -- we're actually seeing some real opportunities. In fact, the 3 teams that we hired, we expect all 3 to deliver, of course, but 2 of the 3 should deliver, actually, rather quickly in a rather significant way. So we're not seeing a slowdown here. We're seeing clients wanting to buy treasuries and clients wanting to put it off balance sheet and rates going up, but even though it is intense, there's still so many opportunities in New York. In San Francisco, we see opportunities because some of the big institutions there are in disarray similar to what happened when we opened up the bank 17 years ago; there was disarray in the market with the big institutions and it continued. So they have the same -- without naming the banks, you know who they are. We find the same opportunities there with that disarray. And then there is a number of other California-based banks that are smaller that we're going to see some merger and acquisition, M&A activity. And that M&A activity is going to allow us to take advantage of bringing on some quality people. That press release that went out created a lot of opportunity already because it started to knock on the door. And where -- we're going to have some choices, some real nice choices in San Francisco. It's not only San Francisco, it's Los Angeles as well. We'll probably -- that will be on the horizon for us to open.

Operator

Your next question comes from the line of Jared Shaw of Wells Fargo Securities.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Maybe just following up on that. Do you think that the West Coast on a C&I point of view or from a C&I perspective provides a better opportunity right now than New York?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, I'm not sure. What I do know is, from a deposit perspective, there's some real opportunity. But we are concentrating more on the source of funds than we are on the use of funds, because we certainly have some real needs here in the East Coast, in terms of the loan activity that we want to fulfill. And we are concentrating on deposits and then secondarily on the C&I. Yes, we -- Eric and I spent some time out there during the summer last year. And we were on some calls with one of our bankers out there. And San Francisco and California, as a whole, it's almost a mirror of New York in terms of opportunity.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then looking at the hiring you've done, both on the teams and then on the credit administration side, is -- should we expect to see that continue in terms of the credit, specifically on the credit administration side? Are you done hiring? Or is there still more to come? And should we see expenses trickle up from here?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

We have a little bit more hiring to do, but not anything that would affect the results.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Okay. And then just finally, what is the balance of deposits that are indexed to either Fed funds or some other market rate?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Very little. About $2 billion.

Operator

Your next question comes from the line of Dave Rochester of Deutsche Bank.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

I was just wondering what you're baking into your NIM guidance for deposit growth and your expectations for the longer end of the curve at this point?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, we are doing on the growth, we are baking in $3 billion to $5 billion.

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

In assets.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Okay. Okay. And then in terms of the 10-year or securities reinvestment rates, whichever?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Relatively stable to where it is now, maybe a slight increase. But ultimately, we anticipate a flattening of the yield curve as the short end moves up.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Okay. And then where are you guys seeing deposit pricing in the market right now post the March hike? And how much is that up from what you were looking at for most of the first quarter?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

A reasonable amount. We're seeing about 3 to 4 institutions really pricing things very high where we have to get close but not exact. As an example, if we are at 105 to 120 in that range, you're seeing competitors now offer 160, 150, 170. And we don't have to be at that level, but we have to be somewhere in between where we are and where the competitors are. It's hard when a client says, "I have all my DDA with you or most of it, and this is the rate you've given me on my interest bearing. And I have a bank that I don't have a relationship with that's offering me tax." We have to at least make some sort of movement on that end, because we have the DDA and we don't want to have a second bank in there. So it's pretty intense, Dave.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Yes. Okay. And then you mentioned slowing the pace of nonrevenue-related expense growth. Are you thinking that high single-digit pace for expense growth is now appropriate for this year?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. It seems to be appropriate, Dave. We're -- if you take out the medallion noise from -- out of there, we are right at 10%. I think that's a reasonable pace, yes. 9% -- 8% to 10%, somewhere in that range.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Sorry, if I missed it. Was that third team that you hired yesterday, were they're in New York or were they're West Coast based?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

No. They were New York. All 3 teams right now are in New York.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

In New York, okay. And then just -- oh, sorry, go ahead.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

We have a fourth team well into the pipeline.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

And they're also in New York?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Yes.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Okay. Got it. And then just maybe lastly on capital. Can you just give an update on your plans there for capital return? And how are you thinking about share buybacks now that you're on the other side of the medallion issue? And it seems like the growth that you're still laying out for this year can still afford you opportunities to see capital ratios growing as well, so you may have some excess capital there?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, we're just starting the process, the regulatory process, for both -- to be in a position to both pay a dividend and/or do a buyback. So the regulatory process includes updating your forecast on earnings, particularly with the new tax rates; you have to assess what your optimal capital levels are going to be if you do that; you have to do stress testing as part of it using the new forecasts. We like to see some more movement on the $50 billion SIFI. We also wanted to see a couple of quarters of what the true effective tax rate was going to be. We thought it will be 27%, now it's 25%. And we're doing -- we're looking at all of that plus we wanted to get taxi behind us, which we believe we have. And when you put all that together and you go to the regulatory process, we'll be in a position in the second half to do one of the other or both.

Operator

Your next question comes from the line of Ebrahim Poonawala of Bank of America Merrill Lynch.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

Just wanted to -- and I'm sorry, if I missed this early -- if it was discussed earlier, but Joe, I think you were sort of operating with a $50 million provisioning number for the year assuming that there would be some taxi flow through throughout the year. Given the pull forward, should provisioning go down to about 60 basis points of incremental loan growth plus charge-offs, so about, like, $5 million to $7 million per quarter?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

I would say it's close enough. Because ex taxi, we have $20 million in nonperformers, and the statistics on past -- that we have on past dues, on watch list credit, on special assets, are all very well. So unless there is a surprise, it would be -- we would be hard pressed to have a pavilion any more than below $10 million on a quarterly basis.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

So $10 million at the higher end, but from an high single digits to $10 million per quarter?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Yes.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

And just separately it means -- you talked about the SIFI legislation. Assuming that that Bill passes at some point in the next couple of months, could you remind us just fundamentally how does that change? How you're managing the balance sheet? And from a strategic standpoint, does it allow you to do something that you are not doing? So would love any color on both those counts.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Well, what it really does is it slows the growth of future expenses. Because if we had to adhere to -- once we pass the $50 billion of current law, there were many things that we'd be having to do that we would not have to do as the law changes. And so we would have added expense in the millions because of not only personnel we have to add on to the institution but all the consultants we have to hire. And so it's really a matter of future expense that we would not have versus future expense we would have. And it'd be hard to stay single-digit expense growth if the $50 billion didn't go away.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

Understood. So the expense growth, which is at 10% for the year, that would fall to about 7% to 8%. Is that reasonable way to think about it?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Yes.

Ebrahim Huseini Poonawala - *BofA Merrill Lynch, Research Division - Director*

And anything from a balance sheet perspective that you would do differently? I mean, I know you talked about potentially looking at buybacks or dividends at some point in the back half of the year. But does it make you -- could it accelerate your growth strategy on the West Coast, like, would you do things differently if that was no longer a constraint?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

No. I mean, look, strategically, we put ourselves in a position by starting many years ago on our plan to cross $50 billion. So we'll be prepared to cross $50 billion. And it's not really going to stop us from doing anything that we want to do on a strategic front. I think the major thing that we'd have to do is, is build high-quality illiquid assets for the LCR, and that's something that we look forward to not having to do should the $50 billion mark move.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

And if the $50 billion does move, it wouldn't accelerate on our part. We are not doing -- we are not slowing down because of the $50 billion.

Operator

Your next question comes from the line of Casey Haire of Jefferies.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Just a quick clarification question. The tax rate is now 25%. Going forward, is that -- did I hear that right?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

That's correct.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Okay. Great. And then just one last follow-up on the NIM outlook. I mean, obviously, the NIM compression this quarter, you guys took some -- took the borrowings up significantly. Is the -- does the NIM outlook, down 1 to 3 basis point, does that contemplate the borrowings staying at this level? Or would there be upside if deposit growth comes in big and allows you to pay some of those higher-cost borrowings down?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. I mean, we anticipate deposit growth being able to pay down a little bit of those borrowings. Like you said, the more the deposit growth comes in, it certainly is beneficial to the margin because we continue to pay down the higher-cost borrowings.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Okay. But the outlook does bake in some of that pay down?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Correct.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Got you. Okay. And then just on the capital return -- look, I know it's coming -- you're thinking about in the back half of the year, but as we try to think about the magnitude, could you just give us some thoughts as to what are some of the more pressing capital ratios for you, be it Tier 1 leverage, TCE, CRE concentration? Just trying to get a sense of what the magnitude could be?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Well, I mean, Casey, we really have to triangulate all of those capital ratios as well as the concentration. So our bonding constraint on the capital side is tended to be the total capital ratio. So we'll keep an eye on that. But we've got plenty of room on all of those to be able to pay a decent amount back to our shareholders.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Okay. I mean, just -- so I mean, is there a floor on total capital? I mean, I know 12% is sort of a -- is sort of peer average on floor. Would that pertain to you as well?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

I think it's safe to say that we wouldn't want to go much below that.

Operator

Your next question comes from the line of Chris McGratty of KBW.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Joe, could you comment on how loan pricing has changed? Maybe I missed it before given the flattening of the curve? I think you talked about deposit competition. But I think during the quarter, you talked about raising prices. I'm wondering if you had to lower pricing on the CRE?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

On the CRE, the standard 5-year fixed multifamily, we're at 4 1/4%. On an exception basis, it's 4 1/8%. And what we've seen the competition due is actually be sub-4, which we don't get because some of the competition has high borrowings, and that is getting costlier and the spread for them is getting narrower, but yet they've dropped their rates to sub 4, but we're sticking with 4 1/4%. We actually think it should be 4.50%, but we really can't do business 50 basis points apart. We could do business with 25, maybe 37 higher, but not 50. So that's -- I wouldn't say it's intense, but I would say it's somewhat illogical.

Operator

Your next question comes from the line of Steven Alexopoulos of JPMorgan.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

I wanted to start first on the funding side. Eric, the follow-up on the large increase in other borrowings, what was the thought behind building up the borrowing so much in the quarter? Could you give some color on the term and cost of what you added?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Well, I mean, we had a lot of choppiness as we talk about in our deposit base, and we saw $760 million in deposits go out the last 2 weeks of the fourth quarter. So we borrowed to plug that gap with the anticipation that deposits would eventually come in. And we saw the deposit growth really come in strong at the end of the first quarter. So we're eventually able to pay down some of those borrowings. But on an average basis, that increased the outstandings on an average basis and the borrowings. We predominantly borrowed overnight because we knew that we had the deposit opportunities to come in and pay it off. So the overnight borrowings came at a pretty hefty cost, given the environment and the short end of the curve moving up the way that it did.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

Okay. That's helpful. Eric, could you give a breakdown of what specifically drove the loan growth in the quarter?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

It was really -- it was predominantly commercial real estate and multifamily. It really made up almost all the increase.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Because line utilization -- on C&I line, utilization was fairly high in the fourth quarter and down in the first quarter.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

Okay. And Joe, a final one. If we look back over the past few years, 2016 was a rough year for the stock, 2017 was a rough year for the stock. Now this year, you're already about 8% whole versus peers. We know about 30% or so of the team stock -- team compensation is stock. Joe, have you explored a sale of the bank as a way to create value for shareholders as well as the teams that work for you?

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Okay. No, we haven't. We understand the stock performance on some of the things that we've done and the reasons for those things. For instance, taxi medallion certainly is part of the underperformance. We believe that's now behind us. We think we've gotten the message out on CRE. We were somewhat painted with the same brush as less experienced, unsophisticated smaller lenders that didn't have CRE stress testing systems in place. And they didn't have a portfolio management practices, we have both. We've been in the 300% -- we have been exceeding 300% since 2010. We had a slowdown in the growth rate. But for this quarter, we're at the high end, in the $3 billion to $5 billion. And we believe the $50 billion SIFI threshold, when we see that move, that would be good for the stock. So with all the opportunities we have here in New York and now on the West Coast -- and it's a great story we believe, there's no reason for a sale of the institution.

Operator

Your next question comes from the line of Lana Chan of BMO Capital Markets.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

I was just wondering in terms of your expectations on the deposit gathering strategy in the West Coast versus what you're seeing in New York. I don't know if it's too early to tell, but do you expect the pricing to be better on the deposit funding side coming out of the West Coast and New York?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. Generally, when we look at West Coast deposit pricing, it's about 10 to 20 basis points lower than it is here in the East Coast. Now on the East Coast and particularly where we compete, banks have the ability to put on some pretty attractive commercial real estate loans that are risk reverse, so that leads to intense deposit pressures to fund the asset growth here. We don't see that quite as much on the West Coast. So it's certainly some of our thoughts about going out there and gathering deposits. It should be very beneficial to us.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. Got it. And then also in terms of follow-up to the lower tax rate guidance of 25%, I assume that that's related to the incremental low income housing investments that you've put on, which is has affected your noninterest income line. Is that sort of a good run rate with the lawsuits that we saw in the first quarter on the low income housing going forward?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Yes. While I think you have to look at the trend that we've seen over the last 4 quarters and we'll see a continued increase in that trend on those long-term housing losses that go through our noninterest income line. But you are right, the offset is definitely in the tax rate.

Lana Chan - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Okay. And then just one last question, if I could, in terms of securities, reinvestment or securities balances. Have they really grown the securities portfolio that much over the last couple of quarters? Do you think that, that's sort of the same trend line going forward, in terms of not a lot of reinvestment opportunities?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

I mean, it was -- we tried to reinvest this quarter. It was, I wouldn't say difficult, but we picked our spots. We do anticipate that we'll be able to grow that portfolio in the coming quarters.

Operator

Your next question comes from the line of Matthew Breese of Piper Jaffray.

Matthew M. Breese - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

I guess, I just wanted to touch on the $3 billion to $5 billion worth of asset growth. How much do you expect of that to be from loans?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

I mean, roughly, it's going to be 75% of the overall asset growth.

Matthew M. Breese - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

And of that 75%, as we think about the competitive dynamics, especially in multifamily New York City, what do you think will be the breakdown between multifamily, CRE and C&I?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Multifamily and CRE is still going to be our biggest asset class in growth that we have. And if you look at a -- if we take $1 billion in asset growth in a quarter, right, which is at the midpoint of our range and $750 million of it is coming from loans, right, we said 75%, you're roughly going to see $500 million-or-so to be from the CRE space, and the rest will come from C&I.

Matthew M. Breese - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Got it. Okay. And then just hopping back to the capital deployment, if you guys could turn on, have the ability to buy back stock tomorrow, could you give us a sense for where you would repurchase it? Is current levels attractive to you?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

Current levels are absolutely attractive. There are not many banks in this country that can grow at this balance sheet 10% and produce core earnings of close to a 15% ROE that are trading below mediocre banks. So we think that we're well below where we should be trading right now.

Matthew M. Breese - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Do you have any expectations on when you can open that up?

Eric Raymond Howell - *Signature Bank - EVP of Corporate & Business Development*

We're hoping to have the ability to do that in the third quarter.

Operator

Your next question comes from Dave Bishop of FIG Partners.

David Jason Bishop - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

Just a follow-up on maybe the commercial real estate market and the pricing. Joe, you mentioned the competition getting a little bit more irrational there. In terms of the tenure of loan demand, the strength, the depth of commercial real estate loan demand, is there any change on a quarter-to-quarter basis in terms of strengthening and weakening on a core basis? Or is the growth sort of being driven by just sort of this crazy pricing you are seeing within the market? Just curious what you're seeing overall in terms of the tenure of loan demand within the region.

Joseph John DePaolo - *Signature Bank - Co-Founder, President, CEO & Director*

Demand has been a little less than it had been, but the portfolio statistics, in terms of what we're seeing with our portfolio and what we're financing with new, it's all been very good. We haven't seen statistically whether it's past dues or nonperformers or watch list credits, that the portfolio has gotten worse at all. It's actually gotten better, actually, if it could. I mean, we also are seeing -- I mean, there has been a lot of discussion about retail. And you walk around Manhattan and you see a lot of empty stores. Most of our retail is in the neighborhoods where you have the strip of stores, like the nail salon, the pizzeria, the dry cleaner, and usually, there's very few vacancies there. So our portfolio of retail has been good. Our office buildings are in -- are not on the avenues, they are in the box of the streets -- the numbered streets. And they are not A buildings, they are more like solid Bs, where there are many tenants and the rents are not extremely high. We're not seeing any cracks in that part of the portfolio. So we're very pleased with that. In terms of the pricing, the only place we're seeing the irrational piece is on the multifamily. Everywhere else seems like we're getting what we want.

Operator

This concludes our allotted time and today's teleconference. If you would like to listen to a replay of today's conference, please dial (800) 585-8367 and refer to conference ID number 5999189. A webcast archive of this call can also be found at www.signatureny.com. Please disconnect your lines at this time, and have a wonderful day.
