THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SBNY - Q3 2018 Signature Bank Earnings Call

EVENT DATE/TIME: OCTOBER 18, 2018 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

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

Susan Lewis

CONFERENCE CALL PARTICIPANTS

Austin Lincoln Nicholas *Stephens Inc., Research Division - VP and Research Analyst*

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Welcome to Signature Bank's 2018 Third Quarter's 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, Crystal. Good morning, and thank you for joining us today for the Signature Bank 2018 Third Quarter Results Conference Call. Before I begin my formal remarks, Susan Lewis will read the forward-looking disclaimer. 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 maybe 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 read and 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'll 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.

Signature Bank delivered a strong quarter of financial performance, where, once again, we saw a solid deposit and loan growth, expanded top line revenues and further improved our credit quality. More importantly, we continue to invest in our future with the hiring of 4 private client banking teams, bringing the total to 8 for the year.

Let's start by taking a look into earnings. Net income for the 2018 third quarter was $155.4 million or $2.84 diluted earnings per share, an increase of $31 million or 25% compared with $124.5 million or $2.29 diluted earnings per share reported in the same period last year. The increase in net income was primarily due to a rise in net interest income and decreases in the provision for loan losses and income tax expense. These items were partially offset by an increase in expenses due to the addition of new private client banking teams.

Looking at deposits. Deposits increased $1.1 billion to $36.1 billion this quarter, while average deposits grew $1.3 billion. Since the end of the 2017 third quarter, deposits increased $2.4 billion and average deposits increased $2.3 billion. Noninterest-bearing deposits of $12.2 billion represented 34% of total deposits and grew $350 million this quarter. Our deposit and loan growth led to an increase of $4.5 billion or 11% in total assets since the third quarter of last year.

Now let's take a look at our lending businesses. Loans during the 2018 third quarter increased $980 million to $35.1 billion. For the prior 12 months, loans grew $3.9 billion and represents 76.6% of total assets compared with 75.5% 1 year ago. The increase in loans this quarter was primarily across the board as traditional C&I increased 5.2%, specialty finance increased 3.6% and multifamily and commercial real estate loans again increased.

Turning to credit quality. Our core portfolio continues to perform remarkably well. Excluding medallion loans, nonaccrual loans are $22.5 million or just 6 basis points of total loans. Overall, nonaccrual loans decreased again this quarter by $24 million to $134 million as we further worked down our remaining medallion portfolio. 83% or $111.7 million of the nonaccrual loans are taxi medallion loans. Our past due loans remained in their normal range, with 30- to 89-day past due loans, $59 million, while 90-day-plus past due loans remained low at $6.5 million. The provision for loan losses for the 2018 third quarter was $7.4 million compared with $8 million in the 2018 second quarter and $14.3 million for the 2017 third quarter.

Net charge-offs for the 2018 third quarter were a negligible $11,000 compared with $3 million for the 2018 second quarter. The allowance for loan losses increased slightly to 63 basis points of loans.

Now on to the team front. We have had a very active quarter and year. During the quarter, we added 4 new banking teams, bringing our total to 8 for the year. This includes a 9-person team to establish our Fund Banking Division. 6 teams are based in New York, while 2 are in our San Francisco office. Additionally, we hired 8 banking professionals in both our ABL and specialty finance businesses to further our diversification strategies. Our pipelines in both New York and San Francisco remain active, and we look forward to the ongoing opportunities to attract talented banking professionals to our network.

At this point, I'll turn the call over to Eric, and he will review 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 third quarter reached $324.8 million, up $16 million or 5.2% when compared with the 2017 third quarter and an increase of $3.8 million from the 2018 second quarter. Net interest margin decreased 17 basis points in the quarter versus the comparable period a year ago and 6 basis points on a linked-quarter basis to 2.88%. Excluding prepayment penalty income, core net interest margin for the linked quarter decreased 4 basis points to 2.85%. The decline was predominantly driven by a decrease in prepayment penalty income of $2 million to a 6-year low of $4.1 million and increased deposit costs due to further fed rate increases.

Let's look at asset yields and funding costs for a moment. Interest-earning asset yields increased 3 basis points from the linked quarter to 3.85%. Yields on the securities portfolio increased 9 basis points linked quarter to 3.26%, given a slight slowdown in premium amortization and better market conditions for reinvestment. The duration of this portfolio remains stable at 4.1 years. And turning to our loan portfolio, yields on average commercial loans and commercial mortgages increased 2 basis points to 4.05% driven by the higher interest rate environment despite a $2 million decrease in prepayment penalty income.

Now looking at liabilities. Our overall deposit cost this quarter decreased 12 basis points to 88 basis points -- I'm sorry, increased 12 basis points to 88 basis points compared with the 2018 second quarter, driven by further fed rate increases leading to heightened competition. Average borrowings, excluding subordinated debt, decreased $543 million to $4.9 billion or 10.7% of our average balance sheet. The average borrowing cost increased 17 basis points to 2.17%. Overall, the cost of funds for the quarter increased 10 basis points to 1.06%.

And on to noninterest income and expense. Noninterest income for the 2018 third quarter was $4.5 million, a decrease of $3.6 million when compared with the 2017 third quarter. Excluding an increase of $4 million in tax credit investment amortization, noninterest income grew $400,000 for the quarter. Noninterest expense for the 2018 third quarter was $117.2 million versus $105.6 million for the same period a year ago. The $11.6 million or 11% increase was principally due to the addition of new product client banking teams as well as an increase in costs in our risk management and compliance-related activities. The bank's efficiency ratio was 35.6% for the 2018 third quarter versus 33.3% for the comparable period last year and 34.5% for the 2018 second quarter.

And turning to capital, the bank declared a cash dividend of $0.56 per share payable on or after November 15, 2018, to common stockholders of record at the close of business on November 1, 2018. In the third quarter of 2018, the bank paid a cash dividend of $0.56 per share to common stockholders. The payment of $31 million had a negligible effect on our capital ratios, which all remain well in excess of regulatory requirements and augment the relatively low-risk profile of the balance sheet as evidenced by a Tier 1 leverage ratio of 9.67% and a total risk-based ratio of 13.44% as of the 2018 third quarter. Additionally, yesterday, our stockholders approved our common stock repurchase plan, which we will begin to execute depending on growth and stock market conditions.

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

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

Thanks, Eric.

We are pleased to have reported another clean quarter, where we'd strong deposit growth of $1.1 billion and solid increases across all lending businesses. We grew top line revenues, we maintained our best-in-class efficiency ratio, and we provided a 15% return on equity.

During the past few quarters, Signature Bank has executed several growth initiatives, paving the way for the future direction of this institution. These strategies include taking our successful single-point of contact model outside of the metro-New York area, where we spent 17 years building the foundation of our business and bringing it to San Francisco after we identify a glaring need. In the first quarter of 2018, we appointed a digital asset banking team because we want to be nimble and ready to change as the market evolves. Just recently, we hired a 9-person team focusing on capital call and subscription finance for private equity firms. We anticipate this to become a meaningful part of our business in the not-too-distant future, both loans and first and foremost, deposits.

And lastly, we've been heavily investing in our infrastructure with the implementation of new systems for loan operations, which is now in place, credit approvals and foreign exchange as well as enhance payments platform.

And now we're happy to answer any questions you might have. Crystal, I'll turn it over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from the line of Ken Zerbe with Morgan Stanley.

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

I guess, maybe just starting off, just in terms of the very strong deposit growth that you guys had in the quarter, can you just elaborate a little bit, like what kind of yields or deposit cost do you have to offer to those customers to bring them on? And is it any different from your overall portfolio rate?

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

Well, we're trying to stay away from 2%. On the money market side, it's an average of somewhere between 1.5% and 1.75% on the money market, but they have -- they being the client has to have demand accounts, DDA, noninterest-bearing, and as I said earlier, we had grown noninterest-bearing $350 million out of the $1.1 billion. So there's a necessity on the clients end to keep their operating accounts if they're going to get interest at that level on the money market. And we're finding that a number of banks are paying up in the 2% -- and a little above 2% range, but you really have to look at the fine print because it's all teasers for the most part.

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

Okay, helpful. And then in terms of the private equity team that you brought over, could you just help us size that opportunity? Like I know you said, sort of meaningful growth. Like how much loans, as you look out over the, say, the next 12 months, are you guys expecting? And also, if you're going to address the deposits, like how deposit-rich those customers are? And what that could actually add to your business?

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

Well, the business that they had at their previous bank, they were pretty much self-funded because the lines -- I'll give you an example. Utilization in the lines should be about 50% or thereabouts. So we expect the growth to be starting with a B as opposed to an M, billion as opposed to a million in terms of commitments, and then the outstandings will be about 50% of those commitments, and we would expect that the deposits will exceed the outstandings on those commitments. So this is a team that has probably best-in-class with the space that they're in, and in fact, we've already added a 10th person on from another institution, a big player, that will join us after his garden leave is over, sometime at the end of the year. So the expectations are pretty large.

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

Got you. Understood. And the billion was over the course of the year, correct?

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

Yes, correct.

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

Okay. And then just one last question, just on the buybacks, Eric, I think you mentioned, you've got approval. Is there anything that's stopping you from getting a little more aggressive in terms -- it sounds like you're going to wait possibly or delay buybacks? Like is there any reason why you wouldn't be more aggressive in starting that fairly soon?

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

Well, we are waiting of final regulatory approval, which we expect that to come soon. Once we receive that -- no, I mean, at this stock level, we anticipate that we will be buying back. We do have to triangulate that with how much capital we want to maintain for our depositors, how much growth prospects we have, that's really key, and we want to retain that capital for growth. And then ultimately, our commercial real estate concentration, and we want to be able to continue to bring that down. So that's really our binding constraint on how much we can buy back. But at this stock level, certainly, it would make sense for us to be purchasing stock.

Operator

Our next question comes from the line of Dave Rochester with Signature Finance.

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

I'm not sure how I become a part of Signature Financial, but it's great to hear.

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

I think you have occasion for the 401(k) review.

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

Just to start on the deposit front, just wondering if you guys can make any comments on the start of the quarter here on the growth front. You guys had a great quarter of growth in 3Q, I was just wondering what the start look like this quarter?

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

It's positive. We get in trouble when we say what it's like because of the choppiness of the deposits. And the fourth quarter is the one that has the most choppiness, but it's positive.

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

Okay. And just switching to the NIM, we've seen it back up in the middle of the curve here. I was just wondering if you guys still feel pretty good about your NIM guidance for 4Q? And if you could just give us an update on how you think about that trend next year, that'd be great?

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

I think, we're still in that 3 to 6 basis points of core NIM compression in the fourth quarter, where we end up within that range, we'll predominantly depend on where deposit growth is. As we look forward from that, we anticipate 2 to maybe 3 fed moves next year. If it's 2 moves, we should see NIM start to move up during the course of the year, certainly in the latter half of the year, we should see that. If it's 3 moves, it's pretty stable. And if it's 4 moves, we'll see a little bit of downward pressure. But the asset side of the balance sheet is starting to catch up to the liabilities now, and that's helping us to offset some of the deposit pressure.

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

And I know you guys have started a new program of sorts, where you're going out to some of your multifamily commercial real estate customers that have the lower like 3-type coupons and checking to see if they can refi. Is that -- has that -- you guys have been pretty successful with that program, and just any comments, that'd be great?

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

There has been success. Although, relative to how large the portfolio is, it's going to take some time. But we are gaining 100 basis points or thereabouts with the refis. But it's like moving the battles -- on a battleship, like moving an aircraft carrier, but it is going to be positive to the revenue.

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

Great. And then I guess, in this newer rate environment with the higher, middle of the curve and whatnot, can you just give an update on where you're seeing new loan yields and securities purchase rates at this point?

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

On the loan side, CRE, we're seeing 4.875%, not that we're seeing that's what we charge. 4.875%, slightly under 5%. I think we're more than 25 basis points higher. We usually -- I think the spread between what we're charging, what others are charging is larger, but we're still getting our share of business.

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

And so the CRE, is that just pure CRE? Or does that include multifamily -- or it's like a multifamily?

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

That was the multifamily, the 5-year.

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

Okay. So for the 5-year multifamily, it's 4.875%?

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

Yes.

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

And then where are you on C&I?

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

C&I, we're north of 5% now. Signature Financial is approaching the 5% level and securities are in the mid-3s.

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

Mid-3s, great. Great. And then just -- I think one last one. Expenses, I know you've been pretty active on the team hires this year. I was just wondering if you still feel pretty good about that high-single digit level for this year. And then as you think about the trend for next year, do you think that maybe at that trend can be a little bit better than this year, just given you've got the roll off of the FDIC surcharge?

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

Yes, I think we're going to up our guidance a little bit to around 10% versus the high-single digit, just given all the hiring that we've done and the hiring that we see in the future.

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

And, Dave, you're really on your game, when you talk also about the FDIC. We thought we would be able to get away with, when we start saving that, that everybody would know.

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

Are you guys thinking the 10% for next year as well? Or is it high singles?

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

Yes, it's still 10%. There's a potential for high singles, but let's go with 10%. We've hired quite a few -- the teams that we're talking to and quite a few systems improvements that we're making, that will hit next year.

Operator

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

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

So most of my questions have been answered. Just a couple of follow-ups. Joe, one around -- do you -- is there a level of the 5-year or the 10-year rate that you believe could cause your CRE borrowers to sort of get a little more active in refinancing? But it feels like, given that prepays over this quarter, there is just no momentum to or urgency for them to refi, so would love to get your thoughts on how you think that could shape up, if the 10-year holds or it moves higher from here?

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

Well, interestingly enough, activity has picked up in the fourth quarter for refis, and I think it's really a matter of timing. We had a number of refis where we see prepayment penalty income already in October that could have easily been done in September. So it really hasn't slowed down to a trickle, but it actually picked up a little in the fourth quarter.

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

And do you see any, from a cycle standpoint, where absolute level of rates are, as that could lead to a little more pick up there, prepay for the full year, next year could be higher than what we've seen for the last few quarters? Or is it just too hard to say that?

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

No, I think -- I don't believe it would be higher. And I don't think next year would be higher than this year in prepayment penalty income. We've seen a slow decline since 2015, and we would expect that to continue.

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

Got it. And just one follow-up, Eric, on the deposit side. So when we look at the cost of interest-bearing deposits, 17 basis points in 2Q, 18 in the third quarter. When I think about your margin guidance for potentially flat to back up maybe higher back half of the year, do you expect this 18 to 20 basis point increases that we've seen to get accelerate or remain at these levels or slowdown given what you're doing on the sort of team hiring and deposit growth front?

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

I think, it's strictly going to depend on how many fed moves we see next year. If we see 2 fed moves, it will slow down, certainly on the off quarters where there is no fed move. We typically see tremendous amount of pressure for a week or 2 before a fed move and then certainly the month after a fed move. And then things kind of settle down and the pressures lighten up, and it's really just bringing on those incremental depositors that might cost us a little bit more. So if the fed move is 4 times next year, we're going to see pressure every single quarter. If they move twice, we're going to have a few quarters where we're not going to see that pressure and it's going to give us ample time for the assets to catch up. I mean, that's really the key to the equation.

Operator

Our next question comes from the line of Casey Haire with Jefferies.

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

So Eric, a follow-up question on the NIM guide. Obviously, deposit growth is a wildcard, but what -- just trying to figure out the sensitivity to the NIM guide, what level of deposit growth would violate -- would deliver NIM compression below that 6 basis points -- sorry, greater than the 6 basis points?

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

Probably, if we see less than $500 million, I don't think we'd see a little bit more pressure.

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

Okay, great. And then just switching to sort of the NIM dynamics on -- I noticed the securities portfolio was up this quarter. I would've thought that it would've been a better use to pay down the borrowings, which you did, but I would've thought that it'd be a little bit more aggressive on the borrowings pay down, it would've been better -- more beneficial for NIM than growing securities. So can you just take us through the strategy there and what we should expect from -- for the securities portfolio going forward?

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

Well, I mean, we had a very robust level of deposit growth throughout the quarter so we did pay down borrowings pretty aggressively, average borrowings about over $500 million. But a 50% in opportunity to invest a little bit in securities portfolio, and, Casey, we've talked in the past about how we'd like to have a sizable securities portfolio. It gives us a lot of liquidity. It gives us collateral for borrowings. So we really like to grow that securities portfolio, at least in line with the balance sheet.

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

Casey, to follow up on the deposits. The $500 million, it also depends on how -- what percentage of that is going to be DDA and what percentage you're going to make in money market. For the $500 million, 80% of it is DDA, then it's going to be a positive and not a negative to the NIM range.

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

Right. And the DDA is how about -- I mean, it was pretty good growth this quarter. So I mean, you're not -- is there any attrition baked into your NIM guide? Or is there just no fluff within the DDA?

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

No. We don't have much of an issue. We've really seen us maintain that 33% to 34% level of DDA throughout this rising rate environment. So that's been a real positive. I mean, we've said it before, and Joe has certainly talked about it, ad nauseam over the years, right, about how we've had this buildup and fluff on the balance sheet as people were really hoarding cash. And given the environment that we're in, people are utilizing that cash again and that cash is typically coming out of the money market funds. So the fact that quarter after quarter after quarter, we're growing our core deposits and our DDA deposits more importantly shows that we can continue to add core deposits -- core clients to our bank, and that's really the key for us.

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

Got you. Just last one on the tax rate. What -- should we assume that the tax rate continues to climb lower? And then the negative fee line climbs higher?

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

We should, but I'd stick with the 25% to be safe. Hopefully, we'll continue to see those tax credits work their way through and drive that down, but I would stay with 25% to be conservative.

Operator

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

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

I guess, just on the -- following up on the deposit side, I know that it's tough to predict some of the flows, but when you look at the growth, the end-of-period growth, how much of that do you think is retainable or sustainable from where we finished the quarter?

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

I would say all of it is retainable. But when you look at $35 billion, $36 billion in total deposits, every day, there are transactions going in and out, whether it's a 1031, whether it's an nonoperating account or a payroll account. On average, one of the things that has helped us over the years is -- are the growth has been there, but I always tell everyone the growth numbers are not as great as -- I look at the things. It's our retaining percentages, which are very high, that enables us to have the growth. So most of it is retainable.

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

Okay, great. And then on the capital call lending teams, I guess, how are you planning on breaking into that business? Is that can really be leading with price initially as you establish yourself in that market? And then do you see sort of ancillary business coming from that, whether it's banking, the companies that are actually being funded or banking the individuals that are part of those partnerships?

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

Well, I think, because the team we hired is best-in-class in that space, we've been in the business for 30 years because the gentleman heading up the team, Tom Byrne, has been doing this 30 years. A lot of the reasons that we don't do advertising is because the advertising is done by them just simply joining us. And because we've hired a number of star players, not only from Silicon Valley Bank, but from other institutions that are part of the team, we're going to get our share of the business, and we're going to see it flow already in the fourth quarter and there's going to be some results in January, when we release earnings about the number of commitments we have and number of the loans outstanding as a result of the business. So it's not something that we have to ease in, it's something that we're actually doing and the team has actually hit the ground running.

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

That's great. And then any sort of second derivative business from the actual capital calling?

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

Oh, yes. I'm sorry. Yes. We would think that we can -- with the private equity firms, we can not only do their fund business, but we can do the business itself with all the different operating accounts they have. And then we're going to do their partner loans. We've started to do that with some firms, partner loans. And then there is a number of offshoots in portfolio companies. And we'd be able to bank them as well. So you have the portfolio companies, the private loans, you have the funds, the sales and then capital call piece. And then we expect to have self-funding with deposits that they'll attract.

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

Great. And then finally from me, as you look at potentially hiring more teams in this space, do you think that would be more on the West Coast? Is the West Coast sales as much an expansion opportunity as you initially thought? And could we see more of a geographic shift over 2019 to 2020?

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

Yes. I would say that we would probably have this team expand. And instead of having multiple teams, we have this team expand to the West Coast, the Midwest or wherever we believe is best for us to grow the business. So I think it'll be just an expansion of the existing team we have.

Operator

Our next question comes from the line of Chris McGratty with KBW.

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

Joe and Eric, just circling back to the team, the capital call team, Silicon Valley is obviously very established in the business with a lot of momentum. I'm interested in how you were able to lure the team away? Was it simply autonomy? Or perhaps a compensation structure? And also, was there a -- look, can you remind us if there was a lockup on that team between when you have the conversations and when they joined?

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

Chris, I wouldn't get into that much detail on how we attracted the team, nor I get into details about lockups or things like that. I would just say that it's a best-in-class team, similar to when we brought on the digital team in the first quarter. Similar to when we brought on the commercial real estate group nearly 11 years ago or 6.5 years ago when we hired Signature Financial. We always look for best-in-class and certainly, compensation is part of that. They were all well paid and continue to be well-paid here, but I just could not get into the details. Other than that, they're going to hit -- they actually have hit the ground running.

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

Okay. In terms of how these recent team hires, in fact your kind of balance sheet growth expectation, should we still be assuming the same level of asset growth relative to prior guidance of the $3 billion to $5 billion?

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

Yes.

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

And then maybe last one if I could sneak one in on capital. You talked about the buyback in kind of the context of CRE concentration. Could you -- maybe I missed it. Could you repeat where the CRE concentration was at quarter-end and kind of where you're hoping to demand? Is that just to so we can get a sense of how aggressive you'd be with buyback?

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

In the mid-500s, it's [565 or 5] thereabouts, and our expectation is, over time, to get it in the 400s, and so that's where we'll manage to when we do the buybacks. That'll be one -- as Eric said earlier, there are many facets that we have to take into account. This happens to be one of them. But it's somewhat binding constraint because you don't want it to be growing just simply because of the buyback. And we're going to be growing the institution. So that'll be clearly a consideration as we have a few more accordions where we're growing deposits over $1 billion, that will be a constraint on what we would buy back as well.

Operator

Our next question comes from the line of Austin Nicholas with Stephens.

Austin Lincoln Nicholas - *Stephens Inc., Research Division - VP and Research Analyst*

Pretty much all my questions were answered, but maybe just a more broad one on nonbank competition. Are you seeing any changes in the appetite from the insurance companies and debt funds in terms of their appetite for taking loans to the secondary market? I think pretty clearly, that's been aggressive over the last couple of quarters. But any changes or line of sight you're seeing in that behavior as you look out over the next couple of quarters?

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

Well, interestingly enough, the biggest nonbank competition is the United States government to the agencies. We've seen some deals out there that we would be criticized for if we did them, for the length of time to loan and book or the term, I should say, for the amount of interest-only period, fixed rate and the LTV. So we, more so than any insurance companies or any other nonbank competitors, it's really the agencies that are out there. The good news for us is many of our clients don't want to deal with them because they want to have flexibility over time, but they are the largest nonbank competitor.

Austin Lincoln Nicholas - *Stephens Inc., Research Division - VP and Research Analyst*

Understood. That's helpful. And then maybe on the West Coast strategy, I know you put some numbers around the capital call hires and the potential there. Do you have any update on maybe the West Coast strategy, and then kind of the deposits that have been brought in so far? And maybe your expectations as you look out to next year?

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

Yes, I mean, we're really just getting started out there. So we've seen a few deposit accounts be open, and then the loans, we're starting to make now. But we really anticipate that there'll be an area of growth for us next year.

Operator

Our next question comes from the line of Steve Alexopoulos with JPMorgan.

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

Just I wanted to start with a few follow-ups on the deposit side. First, could you give color on the strong growth in the noninterest-bearing in the quarter?

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

Well, we stress that anybody that becomes a client that we want the operating accounts, and we also stress that if they wanted to be a client here that it just can't be totally money market. And if they want to really become a client, they have to bring in DDA. And in some instances, we require a certain amount of DDA in order for them to participate in programs, where all the fees would be weighed. So we usually go for between 20% and 30% DDA for real estate management companies, as an example. And behaviorally, on the compensation model, it's been by far the greatest level of revenue comparable to a CD or a money market account.

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

And Joe, we think about competitors offering 2% or higher on certain products, do you ultimately need to follow them on a lag basis? Or are you more likely to maybe slow growth in certain products if the environment just continues to get worse?

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

Well, this is what we try to say to the bankers, Steve, that they're worth something, of course. So if a competitor that is not the bank for an existing client offers a 2% rate, we usually, within 25 basis points of that, so we try to get away with 1.75% or 1.85%, knowing that it's a hassle for them to move and then -- there's somewhat of a differential for most, not all.

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

And Eric, would deposit costs be up another 12 bps a good range to expect here in the fourth quarter?

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

It's certainly reasonable.

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

Reasonable, okay. Then one final one, on the capital call business build out, do you have the full team in place at this point? Or do you still need to build out that team to get some of the growth numbers you're talking about?

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

No, we have the full team in place. Team would grow because we have an opportunity to do business geographically. Although this team does business nationwide, that person we're adding on in a couple months is in North Carolina. The 10th person that's joining the team is a big player, and we don't need a 10th or an 11th player to make the numbers we'd like to make, but it's sure going to help exceed those numbers.

Operator

Our next question comes from the line of Dave Bishop with FIG Partners or FIG.

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

Joe, obviously, the strong growth in team adds this year, does that impact your appetite or desire to add next year? Do you think it tap the brakes a little bit? Or you'd still be as opportunistic as ever as you move into 2019?

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

Well, I remember when we started the bank, and we had an opportunity to bring on 8 teams from EAB and Citibank, and I was worried about the expense and brought on 4 instead of 8. And I chalk that up to one of my biggest regrets. So I won't let it happen again, which means that the appetite for opportunity and bringing on teams will not slow down. If that means we have to have a 13% increase in expense, so be it, because the revenue would soon thereafter follow.

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

Got it. And then in the preamble, you were going through some of the growth rates. So I hear that commercial real estate multifamily was flat or down, I'm just curious on the growth rate this quarter?

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

Well, the commercial real estate is probably at or slightly down because we're slowing that growth a little bit because we want to transform the balance sheet to have more floating rate. So they continue to grow, but at a slower pace.

Operator

This concludes our allotted time and today's teleconference. If you'd like to listen to a replay of today's conference, please dial 1 (800) 585-8367 and refer the conference ID 1869699. 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.
