THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SBNY - Signature Bank at Goldman Sachs US Financial Services Conference

EVENT DATE/TIME: DECEMBER 05, 2018 / 3:50PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Ryan Matthew Nash *Goldman Sachs Group Inc., Research Division - MD*

PRESENTATION

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

All right. Up next, we're pleased to have Signature Bank. Signature has continued to generate stronger-than-peer loan growth, industry-leading efficiency and mid-teens returns. In addition, it accelerated team hiring this year, which will likely help sustain growth in the coming years.

Here to tell us more about the strategy is President and CEO, Joe DePaolo; and EV of Corporate and Business Development, Eric Howell. Today's presentation is going to be a fireside chat.

QUESTIONS AND ANSWERS

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

So Joe, I think in a presentation last month, you noted that deposit growth had been choppy and the mix of loan growth has been moving around towards C&I, away from CRE. Any thoughts on how the growth is shaping up quarter-to-date for both loans and deposits?

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

On the loan side, what's interesting for the first time in 11 years, we think at least 11 years, as of the close of business Monday, because I don't have yesterday's figures, the growth in C&I exceeds the growth in CRE. And we're very happy about that because our balance sheet had on the loan side quite a bit of fixed and we need more floating. And we talked in the last earnings call and a different conference that we wanted to have a transformation of the balance sheet. And that transformation would be to make us more asset liability neutral. We hired a major team that does capital core lending or fund lending, and they're a large part already -- in the short time they've been with us, a large part of the C&I growth. So that's been very exciting.

On the deposit side, it's still choppy. And in the fourth quarter, it's hard to predict how much growth we will have. The fourth quarter being that the year changes some want their revenue to be lower, so they put checks in their drawer and they don't record the cash. Some want to make distributions. It's just -- it continues to be very choppy. But we're pretty excited about what's happening in the bank, particularly with the new team that came on board.

And then we also had another team that came on board last January -- I mean, earlier this year in January in the digital business. And that was in large part a help for us that we made an announcement yesterday that the first bank to come out with a payments platform that does not require anyone in between. As long as you're a Signature Bank client, and again, both parties have to be Signature Bank clients, you can transact 24 hours a day, 7 days a week, 365 days a year, and that officially will come on January 1. That's -- so that's a large part of our excitement for the quarter. Eric already has teams lined up to join us in the first quarter of 2019. We have one in New York and one in San Francisco. I think the one in New York will probably be with us literally on New Year's Day. So -- and to me...

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

They might take that day off.

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

They may take the day off.

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

Got to hit the ground earlier, that's right.

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

For me to say that we have 2 teams coming on board, rest assured that they're coming on board because I would never say that if I knew other than that. So that's a little bit of an update.

Another thing, on the buyback, we had finally gotten approval on -- literally minutes before we were filing the Q, and we mentioned in the Q that we had gotten the final approval that we needed. And with that approval, we've already bought back about $33 million in stock, and we'll probably end the quarter somewhere in the $40 million range. So we started the buyback. We declared our second dividend. We have the digital team on board. We have the new fund team on board. There's quite a bit going on.

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

You got to keep them busy, Joe.

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

The whole institution is keeping very busy.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

So maybe just starting with one of the things before I get into a handful of other question. You've rolled out the digital payments platform, Signet. Can you just help us understand, like, what would the -- what could this mean for Signature over time in terms of deposit growth, intermediating digital payments? What is the revenue opportunity here for Signature?

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

It's quite enormous. I mean, we have to execute. And now doing this platform, we have to stay on top because you never want to be in a position where someone comes out with something better, the next level. What's important here to know is that the New York State Department of Financial Services was instrumental in being a supporter and approving. So it's an approved product. And what it does, it -- we have to go out and find other ecosystems that would need something like this, whether it's a utility company, whether it's a middle -- a company -- a power company that buys and sells electrical power. And usually, when they do that, they want payments to be instantaneous. Think about this. You have to do a 1031 transaction. And the last day of that period, the 1031 transaction is on a Sunday. And that means you need to close that deal by Friday. But under our terms, using Signet, if all the parties, the clients, they can close -- they could watch 60 Minutes on a Sunday night and close it after 60 Minutes because payments could be made, and it takes no more than 30 seconds. Well, again, you have to be a client. We're not allowed to go outside that walled garden. That could be down the road. And that's mainly because you need to do your KYC, your AML, your BSA. You need to know who is transacting. But it's be faster, by far, by transferring less than 30 seconds. It's safer, it's more reliable and it's transparent. So the opportunities are enormous, but it'll take time.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

It'll take time. So I wanted to dig into a couple of things that you hit on in the opening remarks, Joe. So on capital call line, you had talked about a $1 billion of commitments. You would think you've obviously articulated that you've seen some really nice growth. I think you've talked about it could be as big or bigger than commercial real estate over time. Can you just talk about the strategy to grow that? How big you think you'll be and over what time frame? And also, maybe talk about what is the deposit opportunity for you within that product?

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

Well, we -- when we did our research and our due diligence, the team that we hired, they had -- I won't give the figures out of what they had from the bank, but there were lines that probably had 50% drawdowns, and the deposits exceeded the 50% of the drawdowns. So they were self-funding the draws. And that's an important thing for us because when we brought them on board, Eric made sure, and then I probably said it ad nauseam, that we wanted them to self-fund. That's going to take time because that's averages because they lead with the loan. So they -- the gentleman we hired was in charge of capital call loan process around the world for Silicon Valley Bank, and he's got a stellar reputation. And not only did he bring his team, but he brought over well, call it, an all-star team from Comerica, from Citibank, and what's the third bank?

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

Wells.

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

Wells. And so he's put together this team. And we expect, over time, like you said, the commercial real estate, 11 years ago, we brought on the commercial real estate team, and I would gather that within 11 years, they would certainly have at least what we have in commercial real estate, if not more.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

So if you think about it in the context of your growth, you've been talking about this $3 billion to $5 billion per year asset growth has been what you guys have been talking about. Does the capital call team change this dynamic at all? Is it more about the shifting mix, as you have talked about in your beginning remarks, Joe?

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

Well, I hope it's a little bit of both. But it's really more of a transformation. So if somebody gets worried that we decided to slow down our growth in commercial real estate, I mean, still grow it, but slow it down, it'll make us more asset liability neutral. We're not going to slow down the growth or the growth of the total assets of the institution. And in large part, that'll be a capital call.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

On CRE, this has been a huge growth engine for the bank for the last 9 or 10 years. More recently, as we talked about, you're trying to expand. Can you maybe just explain, how does this impact the CRE team, which obviously, you are now growing a little bit slower there? Do you repurpose them? Do you push them more to generating deposits? How do you manage a team that's been so successful now that we're going to be growing it a bit slower?

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

So growing at $1 billion or $1.5 billion is still growing it, and then they also have $25-plus-billion portfolio. So they have to worry about the portfolio itself, they have to worry about all the refinances that occur each year, and they're concentrating on their clientele. So it's not as if they're going to be sitting on a beach. They're going to be very busy doing what it is that they do. It's just that now we're not taking on new business. We're taking on the new business of the existing clientele.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Got it. So a big change this year was that you branched out to the West Coast, adding teams in San Fran. You've got another one coming on board. You're looking to add L.A. Can you maybe talk about how you think about the growth related to this part of the franchise? How long do you think it's going to take to scale up?

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

I'll touch on it a little, and I'll return to my colleague to my left, who'll talk about it. We have...

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Is the mic on? Yes, it's on.

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

We have quite a bit of entertainment business where we have these business managers to entertainers that take care of clients in both coasts, but we only have their East Coast business. And we've known for years that we need to be on the West Coast. So I'll tell you, the opportunity is pretty large. It's also one of the largest markets. Los Angeles -- I think Los Angeles was #3 and San Francisco was #7 in terms of deposits. So we're in the 1, 3 and 7 of the 3 that are -- we're concentrating on. And the person leading that charge is Eric.

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

That puts me in the spotlight, I guess, a little bit, so crosshairs. No, I mean, it's going good thus far, right? We're well ahead of where we anticipated being. We really didn't think we'd be adding teams until right around now. So to have 3 teams on board that are doing business that have very solid pipelines is good for us. We'll be opening our full service branch there at 201 Mission Street. We're up on the 26th floor. We took about 18,000 square feet, so we got a lot of room to fill out. But that should open mid-January, so we're excited about that. And that'll give our clients something to really look at, right? Right now, they're kind of, is it real, right? So you want to show them that branch network for real, and that'll help spur things along as well. As Joe mentioned earlier, we've got one team lined up for early next year. We're actually meeting with a few teams this week, and the interviewing process continues.

So generally, people are very, very receptive. The bankers, quite frankly, have never seen a model like ours, right? When we tell them, it's transparent; it's eat what you kill; you're on a P&L model; we make you a partner in our business; bring your banking franchise to us, grow it; the more you grow it, the more money you make; they don't hear that anyplace else in banking today, right? The changes that happen at the mega banks, especially now, are just not nonstop, right? I talked to a gentleman the other day, he's been on his like fifth boss in 7 years, right? They don't know what they're selling today. They don't know what business line they're in, right? So that turmoil is going to continue, right? So it's -- and we see a unique opportunity for us on the West Coast. Consolidation hasn't happened out there the way that it did on the East Coast. And one of the things we predicted when we started the bank was that middle-market service-oriented institutions on the East Coast would go away, right? Citibank bought E.A.B., NatWest was purchased by Fleet. Fleet was purchased by BofA. North Fork went to Cap One. The genesis of Signature, HSBC bought Republic, right? That's where we came from. Hasn't happened on the West Coast. EastWest, Pac West, Bank of the West, anything with a west in its name is not doing all that well, right? So there's going to be opportunities through consolidation, through acquisition, and that's where we come in. So we're setting the stage now. We're getting the new office built out. We're starting to fill it up with teams. We're getting really good client response thus far. So I'd say we're pleased where we are, but it's going to take a while too. But that first billion is really tough to come by, Ryan. So...

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

You talked about there could be acquisitions over time. You guys have chosen to go the team route, build the team and do it organically. I guess, how do you come to the conclusion that was a better decision than acquiring a small footprint out there, which you had contemplated in the past?

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

Look, we may still look to do that in L.A., all right? We may look to do an add-on in San Francisco if something makes sense. But I'd tell you, Joe, we've looked at so many acquisitions over the years, and we keep coming back to, "Look, if we can hire 5 teams, if we can grow $5 billion organically, why would we ever consider an acquisition." Right?

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

It's a better use of capital bringing on the teams than to pay a premium for another institution and then have to do all that work.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Yes, makes a lot of sense. Maybe shifting to some of the other businesses. Eric, so you've been active in hiring bankers in ABL and specialty finance. Can you talk about what areas you've been adding? And can you remind us how big those books are? And how much more runway do you have for growth in those businesses, given they've grown at a pretty robust pace for the past few years?

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

Sure. So asset-based lending is a smaller component of our business but a highly profitable one that we like quite a bit. So we've added general sales peoples in that area that are mostly service -- serving the Northeast. But now, obviously, we'll look to do a little bit more of a concerted effort on the West Coast now that we're open there. I think the lines are approaching $500 million, right? Outstandings tend to be much less on that. But there's quite a bit of fee income that comes in from the mix there. So it's certainly a business that we're looking to grow.

Signature Financial is our specialty finance division. We have about 35 salespeople throughout the country. We continue to look to add people in major metropolitan areas around the U.S. There, we're financing critical revenue-producing equipment for our clients. Certainly, with a lot of talk around infrastructure and infrastructure spending and the building that needs to take place, we see that as an important part of our growth going forward. They are -- going to probably approach $4 billion by the end of this year. And hopefully, they can continue to grow at that $100 million-plus pace per quarter. They should be north of 10% growth as we look out.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Joe, in your early remarks, you talked about 2 teams coming on board early next year. I think you guys put on 8 teams this year. Can you maybe just talk about what the mixes look like in terms of deposit producers versus loan producers? What are you looking to add as we move into 2019, both from a geographic and a product mix? And how do you think about team hirings as we look ahead?

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

Well, we're planning on team hiring as being between 3 and 5. Eight is hard to do, particularly since one of them is really 3 or 4. So it's almost as if we hire 12 teams this year. So we are planning on 3 to 5, as Eric said, one more in San Francisco. And then regarding in Los Angeles. We're not going to open up until we find a team. So we don't have a timetable because we -- it's hard to find a team according to a timetable. It's usually an opportunity that pops up. But we're looking right now for all deposit gatherers because we want to fund the businesses with deposits and not with the borrowings. And I think we're going to be very successful on the West Coast because when Eric was talking about the consolidations, I think consolidations are going to speed up even more because of technology. At a meeting recently that our Chairman was at, one of the regulators at a high level said that the biggest risk in the past for a bank was getting into a new area. And he says the biggest risk today is for a bank not to get into digital. And I believe that if you don't get into the technology, you're not going to be around in 5 years. Think about it. 40 years ago, you were watching a Jetsons cartoon, and everything in the cartoon today exists except for the flying car. And I don't know, if there is a flying car, maybe there is. But technology continues to come fast and furious. And I think that it'll be more consolidation. But still, for us, we believe that, that consolidation allows us to hire the best and not worry about changing signs and integrating people and giving severance packages, which is what you do sometimes, most of the time when you're doing a deal.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

That segues us nicely into our -- into the next thing I was going to ask about. So you talked about, Eric, expenses growing about 10% this year as you make investments, remaining in the same range for the next year then we understand that, that will be dependent on the hiring environment. But when you think about -- you've talked about new credit systems, digital, FX, client onboarding, handful of other things. Can you give us some more detail on what other major investments you have in store for the next few years, Joe?

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

I think I'd like to just keep it at that. And not...

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

Yes, that's not enough for you, Right?

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

Yes. I think we're also investing in people. We've -- certainly in areas such as technology and then in other areas such as internal audit, compliance, risk, we've had to do all of that. And I don't see a -- that area -- those area is growing necessarily, but we've upgraded significantly in those areas from where they were years ago. So that's in part some of the expense that we have and we'll continue to have. So it's -- in order to do the business development, you need to have a support structure. And we didn't realize this, but when we hired -- when we started 18 years ago, people retire. And we've had some of the strong Republic National Bank people that joined us when we started the bank, starting to retire. And we went out and we had great people, but we upgraded all those areas. So that is, in part, some of the expense as well. And that's the investment that we're making.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Eric, so the markets are definitely showing some uncertainty right now, to say the least, particularly concerns around credit, what is the fed going to do? I think most of us will still think there'll be, let's say, 2 interest rate hikes next year. But can you just talk about what's happening with rates could mean for the margin? And second, if I think about what Joe talked about with the remixing of the balance sheet that's going on, combined with the fact that you have a lot of loans that are maturing at much more in -- we'll say, in the money. What does this mean for the trajectory of the margin over time?

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

Well, I mean, the margin, if you think the fed is going to stop, right? When that happens, our margins expand. I mean, it's pretty -- that's a pretty easy answer. So in the meantime, all the fed's raising, it puts a lot of pressure on liability costs, and it takes time for our assets to catch up to him. And our peers -- the fed is backed off a little bit, right? So hopefully, we're not looking at 5 more raises, maybe we're looking at 2 to 3 and 4 at most. But it seems like there should be less raises coming out of the fed. That'll be beneficial for us, no doubt. And on the asset side, the remix is a little dilutive, right? But we want to get to that asset liability neutrality that Joe talked about, right? And we really want to take the discussions around the margin a little bit off the table, right? We can focus more on growth and what we're doing with the franchise. But if the fed slows down like our peers, a lot are anticipating, that's going to be beneficial in the long term. Now the 10-year falling to below 3% is not a great thing either, right? So hopefully that short lived, we'll see. But the steepest -- the steeper the curve is, obviously the more money we make. So the flattening that we've seen recently will -- could potentially, over time, assuming it stays this way for a while, could put a little bit more pressure on the margin.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Makes sense. Can you maybe just talk about what you've been seeing in deposit competition? We had a bank up here before you who said, liability costs are rising on the low end of their expectations. But we've heard mixed things from different banks. Can you talk about what you're seeing, one, on the ability to gather at this point, and then two, what are you seeing competitively?

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

I'll take it.

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

I'll put it as going.

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

Exitious. It really is. It's a steel cage match. It's that tough out there. We're getting our fair share of deposits. But there is some banks giving rates that we just don't want to match. I think you have to do it with service, well, a combination thereof. But it's been as tough as it's ever been. I know I've said that before, but with the fed raising rates, it's been particularly tough when a client is seeing rates that are 50 to 60 to 70 basis points more than they're getting. And we have all the DDA. So we have the relationship, and it's not forcing us to match, but it's costing us more because you have to do something. The client may be great at their business but doesn't understand how to run a bank. And basically looks at it like this, you have all my interest free checking and you're paying me 70 basis points less. How could this bank pay me 70 basis points more? And you don't want to get into a big dialogue and try to explain it. You basically say, I'll meet you halfway or something along those lines. But the differential between what we've seen versus -- what we pay versus what a competitor pays is far greater than I've seen it before, which means it's -- it raises all costs.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

I guess, one of the things you did say was that you're holding a lot of their noninterest bearing. You have been one of the few banks that have actually been able to grow noninterest-bearing. Can you talk about what's actually driving that? Is it the addition of the new teams, the older teams continuing to produce -- adding new clients? What are -- what's actually driving the fact that you're still able to grow noninterest-bearing?

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

Yes to everything you said. It's -- well, we have this comp model that has been in existence for 30 years. We had it at Signature from day 1, so it's almost 18 years. And we had it at Republic for a long time. It's behavioral. It basically says if you want to be successful and make a lot of money, what you need to do is to get operating accounts and bring in DDA. And that's really one of the ways -- it's not the only way, but it's one of the ways that you concentrate on bringing on DDA. For example, what we pay for DDA versus money market, we pay 6x greater in revenue for DDA than money market and 12x greater in revenue for DDA than CD. So if you sit there and look at it and say, that means I have to bring in $12 million in CDs for every $1 million of DDA or vice versa, that will change your behavior and make sure you're bringing in DDA. But another thing, we keep it -- I wouldn't say that we're great -- I wouldn't say how great we are at growth in DDA, but we keep it, meaning that we don't lose many clients. So you don't have to have this greatest growth because you're not replacing those dollars that have left.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Maybe switching back to the assets out the balance sheet, Joe, for a sec. For a long period of time, we used to talk about multifamily pricing. That was becoming a smaller part of the growth strategy. So as you think about what's transpired, you were talking about pricing going -- maybe even going back to 5%. You've obviously seen the curve flattened. So can you give us updated thoughts on what you're seeing in pricing? And then second, can you maybe just talk about the pricing dynamics about other parts of the portfolio, which are now becoming a bigger part of the incremental growth for the bank?

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

Sure. On -- interestingly enough about the difference between what we're paying and what others are paying on DDA side -- I mean, on the deposit side. On the asset side, for 5-year fixed, we're at 4.75 to 4.875. That's probably 50 basis points higher than some of our competitors where we're usually 25 basis points to 37 or 50. That's somewhat purposeful...

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

Works a lot better.

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

To be more selective and to slow down. On the capital call, we're about LIBOR plus 150 to LIBOR plus 250. And on the fees, we are really, for the first time being able to collect fees as well. There's unused line fees, there's commitment fees. If they want to take an extended line in dollars and in term, there's fees for that. So that's primarily -- Eric, you want to talk about Signature Financial?

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

Yes. I mean, Signature Financial, we're generally seeing rates right around 5% now. So we're getting a good 100 to 150 basis points pickup on what's running off there versus what's going on. Traditional C&I is north of 5% these days, probably settling in the mid-5s. So we're getting a pretty substantial pickup in yield there. The capital call facility, as Joe said, they're going to come on right around 4% with their floating rate. So as the fed does move, we'll get the pickup in rates there. So everything that we're putting on today is pretty accretive to what's running off. I'd say, run off is probably in the mid-3s, generally, in that -- on the overall bank balance sheet. So at the asset side, we're going to see be accretive for quite a while.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

And it seems like it's picking up.

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

Yes, it is. It definitely is.

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

But the key is going to be the deposit costs.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Sure. Eric, the CRE concentration, which you've talked a lot about in the past. I think you mentioned recently wanting to get it to below -- in the 400.

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

In the 400s, right.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

I guess, can you just talk about why is that the right level? Is it regulatory driven? Is it not? And what is the driving the decision to bring it down other than, obviously, just to have a more diversified balance sheet as becomes a more -- a larger company?

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

I think it's really that, right? It's not being regulatory driven not. They did not tell us to slow down. They did not tell us to stop. A lot of people have commented on one of our larger competitors, and that's based on their cap being removed. That didn't make a difference to us, right? We want to bring on the concentration levels because we think it's prudent to do. We want to diversify for our credit risk. We want get to asset liability neutrality. So -- and we're a commercial bank, right? So we want those C&I loans. So it's really for our own reasons that we feel it's prudent to bring the concentration level down. Generally, what we want to see is it be directly correct, right? As long as it's not increasing, it's coming down basis points a quarter, that's -- we'll be happy with that.

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

Eric, said something key. We're a commercial bank. Too many people lump us in with savings bank. We're not a savings bank. Just because we do multifamily lending, they lump us in, and we're not. That's certainly evidenced by $12 billion in DDA.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Joe, earlier in your remarks, you talked about being in markets 1, 3 and 7, and it shows that the model is nimble. You can kind of take the show on the road. I know this would be very hard down the road, but are there any other markets that you could look at and say, our model could work in X? Or do you have enough opportunities of growth in these 3 markets that you're not going to need to expand any further?

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

Don't know how to answer whether we need to expand or not because right now, we don't, other than what we have planned. But the model works where the big banks are. I like to still call them, the too big to fail. Where there are, we can be. So we could be in Chicago, the big cities. In the small towns, it's not a place for us because that's where the local bank probably has a tight rein on the area, and if -- the megabanks may not be there. We formed our institution to compete with the big banks. Well, not globally, but a portion of the big banks.

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

Benefits for us.

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

Right. And so whether it's Dallas -- we have an office in Houston, but it's institutional brokerage. We could Houston, Dallas, we could do Chicago. I think we could be successful in Boston and Washington, D.C. Anywhere the big banks are. So we are not limited in terms of where we can go geographically around the country. We're limited to very small pieces, but we certainly could be in a number of states.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

One other question I wanted to ask, Eric, in the last minute or so we have here, credit performance tincture has been pristine. I think you had $11,000 of charge-offs last quarter. As the portfolio transitions, different products become a different risk adjusted return, how do you think about the credit risk profile of the bank, given the multifamily historically has been a very, very low loss concept business, it's been more about spread. How do you think about credit losses in the other parts of the portfolio?

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

Well, I mean, the primary part of the portfolio that we're looking to grow is those capital call facilities, and I'd say they're even more pristine than CRE. So we're really not worried about credit risk there. And the Signature Financial, which is the next largest piece of our portfolio, I mean, they'll have losses in times of stress. But I think peak losses were 125 basis points through The Great Recession, so -- in any quarter. So peak losses in a quarter were 125. So it's not a high-loss business either. So we're very focused on credit quality because we want deposits. And we want our depositors to know that their money is safe. So that's something that we're always going to be focused on, just keeping that pristine balance sheet.

Ryan Matthew Nash - *Goldman Sachs Group Inc., Research Division - MD*

Great. Unfortunately, we're out of time. But please, join me in thanking Eric and Joe.

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

All right.

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

Thanks, everyone. Thank you.