THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SBNY - Q1 2019 Signature Bank Earnings Call

EVENT DATE/TIME: APRIL 17, 2019 / 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 J. Lewis *Signature Bank - Media Contact*

CONFERENCE CALL PARTICIPANTS

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

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

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*

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

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 2019 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 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, Samantha. Good morning, and thank you for joining us today for the Signature Bank 2019 First Quarter Results Conference Call. Before I begin my formal remarks, Susan Lewis will read the forward-looking disclaimer. Please go ahead, Susan.

Susan J. Lewis - *Signature Bank - Media Contact*

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.

The past several quarters have been extremely productive for Signature Bank as we build for the future. We've been quite busy. During this time, we started 2 best-in-class businesses, the Fund Banking Division and the Venture Banking Group, while also commencing our West Coast operations with the opening of our San Francisco private client office. Additionally, we launched Signet, our proprietary blockchain-based real-time payments platform, while also adding qualified colleagues to our team across the board to support all of these new businesses. We embarked ardently on these timely growth initiatives simultaneously as we believe they will all contribute to strengthening our franchise and help position the bank for continued success. Signature Bank delivered another quarter of growth and performance led by $1 billion in loan growth, while maintaining overall strong credit quality and delivering solid earnings. Net income for the 2019 first quarter was $144.1 million or $2.65 diluted earnings per share compared with $34.5 million or $0.63 diluted earnings per share for last year. The increase in net income was driven by a decrease in charge-offs and write-downs for the medallion portfolio, which we took last year. We also grew net interest income despite a decline of $4.3 million in prepayment penalty income. Offsetting these increases was a rise in noninterest expense due to the addition of new private client banking teams, including the Fund Banking Division and the Venture Banking Group.

Looking at deposits. While confronted by a challenging deposit environment, we still increased deposits by $244 million to $36.6 billion this quarter, and average deposits grew $210 million. Growth for the quarter was affected by a decline of $660 million in escrow deposits. However, I would be remiss if we didn't break protocol here and note thus far this quarter, we are up $650 million in average deposits. Since the end of the 2018 first quarter, deposits increased $1.8 billion and average deposits increased $2.3 billion. Non-interest-bearing deposits where $11.7 billion still represent a high 32% of total deposits. Deposit and loan growth, coupled with earnings retention led to an increase of $4.1 billion or over 9% in total assets since the first quarter of last year.

Now let's take a look at our lending businesses. Loans during the 2019 first quarter increased $1 billion or 3% to $37.5 billion. For the prior 12 months, loans grew $4.2 billion. Now the increase in loans this quarter was again driven primarily by Fund Banking and specialty finance. This is the second consecutive quarter where C&I outpaced CRE growth furthering the transformation of the balance sheet to include more floating rate assets and diversifying the credit profile.

Turning to credit quality. Our core portfolio continues to perform well. Excluding medallion, nonaccrual loans are just $18.6 million or nearly 5 basis points of total loans. Overall, nonaccrual loans decreased again this quarter by $14 million as we further worked down our remaining medallion portfolio. Our past due loans remained in the normal range with 30- to 89-day past due loans at $23.9 million and 90-day-plus past due loans at a low $1.9 million.

Net charge-offs for the 2019 first quarter were $879,000 compared with $128 million for the 2018 first quarter, which were driven by taxis. No pun intended. The provision for loan losses for the 2019 first quarter was $6.3 million compared with $140.8 million for the 2018 first quarter again due to medallion loan. The allowance for loan losses remained unchanged at 63 basis points of loans, and now that we have substantially lowered our taxi medallion exposure, our coverage ratio has increased nicely over the last few quarters to 249%.

Now let's talk about the team front. We have added 2 private client banking teams in the first quarter, including the Venture Banking Group, which in it of itself is multiple teams. Thus far in the 2019 second quarter, we added one more team to our San Francisco office, where our pipeline remains active. 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 first quarter reached $319 million, up $846,000 or 0.3% when compared with the 2018 first quarter and a decrease of $16 million from the 2018 fourth quarter. Net interest margin decreased 26 basis points in the quarter versus the comparable period a year ago and declined 15 basis points on a linked-quarter basis to 2.75%. Excluding prepayment penalty income, core net interest margin for the linked quarter decreased 7 basis points to 2.73%. The decrease was driven by an outflow of non-interest-bearing escrow deposits, which were replaced by higher cost borrowings.

Let's look at asset yields and funding costs for a moment. Interest-earning asset yields increased 26 basis points from a year ago and 2 basis points from the linked quarter to 4.01%. The increase in overall asset yields was driven by higher reinvestment rates in all of our asset classes. Yields on the securities portfolio increased 3 basis points linked quarter to 3.31% given stable CPR speeds and accretive reinvestment yields. The duration of the portfolio decreased to 2.9 years as a result of significantly lower market rates at quarter end.

Turning to our loan portfolio. Yields on average commercial loans and commercial mortgages remained stable at 4.21% compared with the 2018 fourth quarter. Excluding prepayment penalties from both quarters, yields increased 10 basis points. Prepayment penalties for the 2019 first quarter were only $2.4 million, down $9.4 million compared to the 2018 fourth quarter as the dramatic decline in longer-term rates led to a significant slowdown in CRE prepayment activity.

Now looking at liabilities. Our overall deposit costs this quarter increased 18 basis points to 1.16%, mostly due to the December increase in the Fed funds rate and significant outflows of non-interest-bearing escrow deposits. However, thus far in the second quarter, we have seen deposit inflows, including non-interest-bearing deposits. Average borrowings, excluding subordinated debt increased $819.3 million to $6.1 billion or 12.8% of our average balance sheet. The average borrowing cost increased 17 basis points from the prior quarter to 2.58%. Overall the cost of funds for the linked quarter increased 20 basis points to 1.39%.

On to noninterest income expense. Noninterest income for the 2019 first quarter was $6.1 million, a decrease of $1.1 million when compared with the 2018 first quarter. The decline was due to an increase of $3.3 million in other losses from low income housing tax credit investments, which positively impacts our effective tax rate. Noninterest expense for the 2019 first quarter was $125.1 million versus $137.3 million for the same period a year ago. The $12.3 million or 9% decrease was due to a decline in write-downs for taxi medallion loans. Excluding these write-downs, noninterest expense would have increased 11.5% for the quarter. This was partially offset by an increase in expenses from the addition of new private client banking teams. The bank's efficiency ratio was 38.5% for the 2019 first quarter versus 34.9% for the 2018 fourth quarter and 42.2% for the 2018 first quarter.

And turning to capital. In the first quarter of 2019, the bank paid a cash dividend of $0.56 per share. Additionally, during the 2019 first quarter, the bank repurchased approximately 173,000 shares of common stock for a total of $22.9 million. The dividend in share buybacks had a minor effect on capital ratios, which all remained 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 9.68% and total risk-based ratio of 13.24% as of the 2019 first quarter.

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

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

Thanks, Eric. As I stated earlier, we are motivated by the initiatives that we have recently put in place because you can't stop the future. We are engaged on a number of projects simultaneously as undertaking one at a time is a recipe for a bank to fall behind its competitors or worse.

First, our Fund Banking Division is affording us the opportunity to transform our balance sheet from both a credit and asset liability perspective given the floating rate nature of their loans. The addition of the Venture Banking Group will extend our offerings to an ever-expanding area of our economy. We continue to build out our San Francisco operations with the hiring of that team that started on April 1. Both the Fund Banking Division and the Venture Banking Group will be well represented on the West Coast. And lastly, setting the stage for the future, we launched Signet, our proprietary blockchain-based real-time payments platform. Now we are happy to answer any questions you might have. Samantha, we'll turn it over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dave Rochester with Deutsche Bank.

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

On the NIM, can you just talk about what main differentials were? And the results versus what you guys were expecting going in to 1Q if it were just the escrow outflows that you talked about? Or have you other pressures? And then if you just talk about how deposit competition looks today given the new rate backdrop? And then how are you thinking about the NIM going forward?

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

Yes. I mean, Dave, we had a significant amount of DDA escrow outflows for varying reasons. And we -- pointed to the choppiness in our deposit base before, since we don't have a retail channel, we tend to be a little bit more choppy. So -- but there's not anything in particular to point to, but we did see significant amount of DDA outflows. Fortunately, a fair amount of that has come back this quarter, and as Joe pointed out in our scripted response, we're up $650 million in average deposits thus far this quarter. So we have seen that flow back. But that was really the main driver. We anticipated that those DDAs -- those escrows will come back during the first quarter. Unfortunately, the timing didn't work out, and they came back early in the second quarter. So that was really what pressured the margin a little bit more than what we had guided too.

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

And the competition is it hasn't let up. We have -- we continue to find ways to add on quality people with quality, experience, an example is our latest foray into the venture banking world. This team is incredibly professional, very much like the Fund Banking group that came in last year. This team in the Venture Banking Group will probably -- their MO as they were a Square 1 was deposits versus loans, 3:1 to 4:1. So they're always finding ways to lessen the competition by growing other areas. But the competition is incredibly strong, and that's about it.

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

Okay. And then how are you guys thinking about the NIM trend in Q2 and then maybe the back half of the year as well as maybe deposit cost increases subside a little bit?

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

Well, if there's any silver lining in this, Dave, we're probably at or near the inflection point in our NIM depending on deposit growth, we really should see it stabilize from here. We could be down a few basis points, but we certainly could be up as well. I think with a reasonable amount of deposit growth, we should see an upward bias in the NIM certainly as we look out towards the end of the year.

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

Yes. Okay, and so for 2Q, you're thinking maybe down a few basis points, but then stable-to-up beyond that or I guess -- or does it all depend on the deposit growth?

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

2Q could be stable. Certainly, could be down. A few could be stable, could be up even potentially given what we've seen thus far. But I would say, stable with a slight downward bias for Q2 and then upward bias for 3 and 4.

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

Okay. Great. And then just on the earning assets side of that -- you mentioned higher loan yields and whatnot. With the current coming downs, I was just curious where pricing was across the loan book on new loans, whether it's multifamily CRE or C&I. Just any color you could give there would be great.

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

Yes. Well, in CRE, repricing we're at a 4.375% to 4.25% for our best CRE clients. And then -- that's for the multifamily space. For other forms of CRE we're probably closer to 4.75%. Just keep in mind that we are slowing the growth there and we're seeing a natural slowdown on the growth in that space given what's happened with the interest rate environment, people are less likely to refinance and rush to refinance for sure.

Signature Financial is generally coming in at a 4.50% to 5% range. Our Fund's Banking Division is, I'd say between a 4.15% to 4.50% range on their loans. And then traditional C&I's north of 5%. I'm sorry, Dave, I was just going to say we expect (inaudible) to 5% for the Venture Banking Group as well.

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

North of 5%. Okay. Great. And then securities, any runoff where you guys (inaudible) ? What's that?

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

I was saying on the commercial real estate side, the rates that we're charging is a little bit more spread than norm as we're starting to see some 4% on the multifamily side, and so usually the .25% to .375% is slowly going to .375% to .75%.

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

Okay. Great. That's great color. Any on the security side where you're seeing purchase rates these days?

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

Right now, we're really not purchasing. So if we had to, it'd probably be around 3%, yes, low 3s, I'd say.

Operator

Your next question comes from the line of Ken Zerbe with Morgan Stanley.

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

Joe or Eric, was hoping you could just talk a little bit more about the Venture Banking Group. Like how -- I know they recently just came on. How quickly do you envision these guys actually starting -- like when should they start adding loans? And so, if we think out -- I don't know, call it a year from now, so what's the balances that you might kind of expect or hope that they could be contributing at that point?

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

I can tell you they have a pipeline already of several hundreds of millions both on the deposit and loan side. We know they got their first term sheet out the other day, which is extraordinary because it literally just came on at the end of March. And they're trying to get to know -- there were about [sheet] within the institution. This is a group that is incredibly professional. Not only do they have experience and knowledge, but they actually started Square 1, took it public and then sold it. So they know what it is to run a business on their own. And we expect that they'll hit the ground running through the second quarter.

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

Got you. Understood. And then just a follow-up on the capital call lines. I think -- I think it was Eric -- you mentioned the yield is 4.15% to 4.50%. I always envisioned those to be sort of incredibly high quality loans, but very, very price-sensitive or incredibly low yields. Can you just talk about how that 4.15% to 4.50% compares to other banks who are also offering similar capital call lending.

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

I think it's right in the range of what other banks are offering. We're not really competing on price here. We believe that we've hired the best of class in this team. And they are really competing on relationship. And they have great and strong relationships with their clients. So we're not having to offer significantly below other competitors in this space in order to garner the business here. So it's really -- the acuity with which they execute their business models is truly best of class. And that's allowed us to bring on a very high quality credits at a reasonable price.

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

All right. Perfect. And then just one last question. And in terms of your asset or liability sensitivity, obviously you've gotten hurt given the rising interest rate environment, but now that the Fed potentially looks like it may cut rates either late '19, sometime in 2020, I know you're adding a lot of these more asset-sensitive products or variable rate products that makes you a little more asset sensitive. Can you just talk about how you're thinking about interest rate management? And how you're positioned if the Fed actually does cut rates?

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

Well, it's going to take us a long time to achieve asset liability neutrality or it's -- we're still liability sensitive. If the Fed does cut, when they do cut, it will take us a little while to reprice that through to our deposit base, but it should ultimately be beneficial to us, and we're going to be liability sensitive for a long time. We're really moving the ship here. But we're happy with the strides that we've taken in moving those floating rate assets. I think we're 10% or sub-10% early last year and now, we're over 13% of floating rate assets, and we expect that trend to continue. Ultimately, our goal for the long term is to really be neutral and try to take as much as we can the NIM discussion out of the equation and operate it in a much tighter band of NIM going forward.

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

And it is the benefit of the teams that have come on that's going to help us move this big ship is fee income, and there are deposits that come along with it. So there are other benefits as well.

Operator

Your 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*

On the CRE prepayment penalty this quarter, do you think that -- have we hit an inflection point there as well? Or do you think that, that's going to be at significantly lower levels for a while? Or was there anything more unique to the quarter where we could see some of that coming back?

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

I would expect that the level we're at is close to the level that it will be in the near future. This quarter was the lowest quarter of prepayment penalty income in 7 years. And we don't think it's an anomaly. So I would expect that it'd be closer to $2 million and $3 million as opposed to the $11 million we had in the fourth quarter.

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

When you're talking to your borrowers on the multifamily side, any conversation around or any thought around them actually keeping loans outstanding through the reset period? Or how, as we come to the end of the fixed period, do you think the owners will react to the current rate environment?

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

I think the owners are thinking more about what's going to happen politically in the city and in the state. They're really not having -- I can tell you this. On the prepayment, as Eric said, we had a lot of activity when they thought rates were going up, and now they believe rates are going to go down even further, there's less activity to extend. But I think, the more -- the bigger issue, believe it or not, is the state and city and what they're going to do -- with new rules for multifamily. That's really what they're talking about.

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

Okay. Got it. And then can you give us an update on where the balance is for the capital call business were at the end of the quarter as well as the West Coast balances?

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

We don't break out the balances in the West Coast or different teams. But we will tell you on the fund banking, well year-to-date -- not year-to-date, I guess, when you take the fourth quarter last year and the first quarter this year, we're about $1.2 billion in outstandings.

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

Okay. That's great. And then you've mentioned in the past that ultimately this is going to be a business that's a bigger deposit generator than loan business, and then with the tech lending, you mentioned that 3 to 4x deposits to loans, how long will that take to actually get up to speed where you actually see that loan-to-deposit ratio flowing through like that in those businesses?

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

Well, I think on the Fund Banking side, it's going to take a little while. It's going to take a bunch more quarters for it to catch up the deposits to loans. On the Venture Banking, because they are much smaller loans and because in lending, we do to the investor companies, we think that will be quicker. Because the investors put the money in before the debt.

Operator

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

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

I just wanted to follow up on your comments, Eric, around the margin, and just looking sort of going through the loan yields that you broke out, is it fair to assume that the average origination yields are coming in around 4.5% on a blended rate? And what would you peg cost of deposits like? When you talk about deposit growth coming to NAV and interest bearing, what's a good sort of expectation there given that the interest rates are [unopposed] now?

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

I think it is safe to say we're right around 4.5% on incremental loan yields blended. If you look at deposit costs, we're right around that 2% mark on interest-bearing deposits on the incremental new deposits, but we have to pay to bring them over. But then if you blend in a reasonable amount of DDA, so say 25% where our average right now is 32%. But if we bring in 25% DDA that brings a blended average on the deposit side down to 150. So we're looking at about a 3% incremental margin on new growth.

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

That's helpful. And just following up on the question around the capital call line team. I get that it will take a few quarters before they catch up on deposit growth, but have they brought in any deposits so far over the last couple of quarters?

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

Yes. Several hundreds of millions.

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

So they have. So the deposit flows -- you meant in terms of for them to be fully funded is going to take a few quarters?

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

Sure.

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

They going to be playing catch up for quite a while, Ebrahim.

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

Understood. And in terms of expense outlook, so obviously you hired this team 11.5%, I think you mentioned, Eric, on a core basis expense growth year-over-year, is 11.5% to 12% kind of what we should think about how expense growth should trend?

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

Well, remember, that team came in really at the end of the first quarter. So a full quarter's worth of expense is not in there for them. So we'd anticipate a 12% to 14% year-over-year expense growth, probably 14% in the second quarter and working its way down to 12% throughout the course of the year.

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

You have to understand between those 2 teams, there's slightly over 40 professionals that we've brought in.

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

No. I appreciate that. And that makes sense. And one last question, Eric you mentioned the security book, is there any reason why you would be buying any security right now given sort of borrowing cost, like should we expect securities book to stay flat to lower?

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

Correct. Yes. Unless we see a significant amount of deposit flows. But even with that, we'd probably pay down borrowings.

Operator

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

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

First on the margin. I want to follow up on the outlook for NIM expansion in the second half. First, do you assume that the deposit environment improves to see that expansion? And do you need a steeper curve to see that or with the current curve do you think you will still see expansion?

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

The deposits, I don't think the environment is going to get easier, but we have different teams in different businesses that are going to give us an opportunity to bring in deposits that we never had before, such as the Fund Banking and the Venture Banking Group. And then we have the West Coast. So those are 3 areas that we never really had the opportunity before to bring in deposits as well as the government settles on a few other things and EB-5, we'll be back in that business as well. So I don't think it's going to get easier. I think we just have more opportunity to bring in deposits because of areas we hadn't been in before.

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

And we did kind of see a leveling off of deposit pressures in March from what we would probably characterize as pretty difficult deposit environment in January and February coming off the Fed increase.

As it relates to the steepness of the curve, Steve, remember, we're now investing in loans at the short end of the curve. So the steepness doesn't quite matter as much to us in the Fund Banking Division. Signature Financial is tied to the shorter end of the curve. Certainly, traditional C&I, our asset-based lending group as well are all tied to the short end of the curve. So the areas of growth that we have and also with the Venture Banking Group are really coming in at the short end of the curve so the steepness doesn't matter as much to us.

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

Got you. Okay. And then I know it's a slow start 1Q on the deposit side and you're indicating that we're seeing already a nice pickup in 2Q. How do you think about the full year $3 billion to $5 billion prior guidance? Are we trending towards the lower end of that range at this juncture? I know we have new teams coming on, too.

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

Yes. I don't believe so. We believe that the $3 billion to $5 billion is a good range and not that we're trending to the lower end because of the activities that we see going on right now that we hadn't had 6 months ago. So we're pretty confident that we're going to be within that range.

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

Okay. And then just finally, the new Venture Banking Group, can you tell us what's been the composition of their deposits in terms of noninterest-bearing? I think they had more interest-bearing than we had seen at other venture teams. What's the rough mix of their deposits?

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

Yes. It's roughly 50% DDA for interest-bearing.

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

50-50. Okay. And just a follow-up on Jared's question, do you think you'll need to lead on credit to get that business over? Do you see the deposits really coming over first?

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

Ultimately, it's a relationship-based business, right? So to get to the deposits, you have to make the loan. Here, we'll be making a loan in conjunction with a venture group putting equity into the transaction. So just to give an example, if the equity firm puts in $10 million, we make a $1 million to $2 million loan, we'll see that $11 million to $12 million in deposits come to us immediately, right? But you do have to make the loan. And we want to make the loan. We want to be part of this economy, this growing part of the economy, right? So the loans and the deposits come together.

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

But still a favorable mix out of the gate? Okay.

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

Correct. Exactly.

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

Oh, yes. In fact, in some of the pipeline that they have, they have a notation that they'll be giving a line of credit that won't be used immediately. And so the deposits will far outweigh that loan because it doesn't draw down for a while.

Operator

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

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

Wanted to follow up on the deposit growth outlook. Obviously, you guys have a number of initiatives in place here. But I was just wondering, how long do you think -- what's a reasonable timeframe for when these initiatives really start to take traction and can match, dollar match dollar for dollar the loan growth? And until that happens, how much room is there to move the loan-to-deposit ratio up from 102%?

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

We expect the initiatives to be this year, not anytime later. We expect that they're going to -- whether it's Signet, West Coast or the new teams that we've brought on, our expectation is that we'll be able to run the business with deposits as a source for the loans this year.

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

Okay. So your outlook does not...

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

Don't forget, we still have over 100 teams that are primarily deposit -- the majority are deposit generators. You can't forget the teams that we've brought on over the last 17 years. They're still developing business.

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

No. Understood. But I mean -- and I appreciate you guys have more initiatives on the come, but I mean the loan generation has been much stronger. So I mean basically, your outlook assumes that deposits will match loan growth dollar for dollar going forward?

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

More or less, yes.

Operator

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

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

Eric or Joe, one of the attractive features of the company historically has been the simple business model and really withstanding the taxi, the clean credit culture. I'm interested in how you're thinking about the incremental risk/reward from the venture banking initiative at this stage of the cycle and how it might impact future credit costs?

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

Well, we're well aware of the risks that are associated with this business, but we feel that the rewards far outweigh the risks. We've hired a team with deep and long-standing relationships that know how to navigate these risks and have a strong track record of having done so. So in addition to the senior management team that we've brought on board in lending teams, we've also hired credit and portfolio management as part of the initial team to help to mitigate that risk. And if you go back to the track records at Square 1, if you look at the primary competitors, Silicon Valley Bank, Comerica and others, the level of losses have been very well contained in this business. So we're well aware of the risks associated with it, but we really think that the risk (sic) [reward] far outweighs that. And if you look at peak losses at Square 1, it was 170 basis points coming out of the crisis. So that's far better than most banks in the country coming through the crisis. So we feel pretty good about the credit aspects.

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

Plus, the best use of capital is in putting on teams and not buying businesses or buying companies. And that weighs in when we do the due diligence. And like we did with all the other initiatives, this team is incredibly professional. They know the business very well. In fact, they ran their own business before they sold themselves. So we're very confident in their capabilities.

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

Okay. Eric, on the buyback, I think in the past you said $30 million to $50 million approximately a quarter. This quarter was a little light. I guess thoughts on kind of pace of activity given the run in the stock year-to-date and a little bit of the pullback today.

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

Well, yes, we'll probably be a buyer in the near term for sure. We're being very selective around when we buy. When we see the stock price rise, we're going to buy less. When we see pullbacks, we're going to buy more, Chris. So being very careful in how we execute on that buyback. We do have a number of initiatives underway that we ultimately believe will lead to growth. So we want to be prudent around the levels of capital that we maintain. So we eased off the buyback program a little bit this quarter. We anticipate we'll be back in. We can start buying back once we're out of the blackout period on Monday. So we'll start again then and we'll probably be in the $20 million to $50 million range again this quarter.

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

Okay. Great. And last one, Eric, on the tax rate. Same tax rate going forward and also the offset in the fee is kind of one for one, is that about right?

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

Yes. I mean we anticipate that we'll have a 25% effective tax rate moving forward. We did have some discrete items that ran through this quarter that bumped it up a little bit. So we'll probably go back down to a 25% range moving forward the rest of the year.

Operator

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

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

I just wanted to hone in on the escrow deposit outflows this quarter, inflows quarter-to-date. How much of the core NIM compression, that 7 basis points, was isolated just to the escrow deposit outflows?

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

A lot of it.

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

A lot. Yes, a significant portion of it.

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

And is that the primary variable to basically get you back or keeping NIM flat for 2Q is it the baseline...?

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

Absolutely. Absolutely.

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

Okay. And could you just give us an idea of the borrowings associated with the escrow deposit outflows?

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

Well, I mean our borrowings are up $800 million. Rates on those are probably in the mid-2s, 250, 260. We did go out a little bit with some of our borrowings, but it didn't cost us incrementally that much more.

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

In our history, we've always disclosed when we had large movements of escrows whether they were positive or negative. To give you an example, on April 1, we had $700 million. We had 3 clients deposit over $700 million on April 1. And if that money came in on March 29, people would say, wow, you had over $1 billion, the 700 -- I'm sorry, it was $400 million. It was $400 million between 3 clients. So it's very choppy. But as Eric reiterated and I had said during the script, the average deposit growth thus far is $650 million.

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

Got it. Okay. All right. And then just focusing on the venture banking, the new team there, what are the associated costs with the team?

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

We're not going to give out that number. It's in that 12% to 14% expense growth.

THOMSON REUTERS

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

And what's the breakdown between what they'll produce in terms of capital call lines versus pure venture capital lending?

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

They're predominantly going to do pure venture lending. There will be some call facilities. It's a little early on to estimate what that will be, but it will be -- if we had to guess, around 25%, 35% of the portfolio.

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

Okay. Okay. And then just continuing to capital, I mean, the credit discussion with that team. And if you look at what PacWest and their performance, the last couple of years there were a couple of hiccups in that venture banking division, a couple of big charge-offs. As you think about some of the lumps and bumps, was this team responsible for that or are there lessons learned and ways to avoid kind of the volatility from a credit perspective?

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

I think that it's safe to say that there was a significant disconnect between Square 1 and PacWest in the way in which they dealt with credits. And that's why the team is now here. I'll let PacWest speak for the actions and why they took them. But if you look at the strong track record that they had at Square 1 prior to them going to PacWest and you look at the primary competitors that we've talked about in that space, the level of charge-offs have been significantly less than what we had seen at PacWest, but we'd rather not speak for them.

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

Yes. Look at their performance at Square 1, that's what you should concentrate on. It's part of our due diligence. They had nearly 12 years of great performance. And that's more representative than being part of PacWest.

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

Okay. So with the on boarding of the team given that credit profile, do you expect any changes to the provision going forward?

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

There will be no meaningful changes related to our provision. Ultimately, the early-stage lending that we're going to do is going to be such a small percentage of our balance sheet for quite a while that we don't think it will meaningfully affect our provisioning when you couple that with the fact that we're putting on capital call facilities that we could easily argue really require no provision offsetting that, that we don't really see meaningful difference for our provision going forward.

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

Right. When you think about it, you put on a $200 million facility credit capital call with a very meaningless provision and then you couple that with a $1 million loan on the venture side and put a little bit of a reserve on that, it's so meaningless.

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

Got it. Okay. Last one is just on the New York City multifamily environment. In a couple of months, the Rent Guidelines Board will sit down and meet. The politicians are talking about some sweeping changes to the rent-regulated apartment business. What do you expect? And if the changes are sweeping, what do you expect for kind of underlying property valuations and potential changes there?

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

Well, I'll tell you, I think that personally they're not going to drive business out. So I think there'll be some rationale. I think the governor will hopefully -- he doesn't want to turn business away. He doesn't want to turn the business upside down. But it's not going to be good, but it won't be horrible. Most of our clients are talking about it, but I don't believe that they will react in a fashion that would have the politicians get angry. I think they're talking right now and they're going to keep on talking because they don't want to let the public know that there's this disconnect between the owners and the tenant.

Operator

This concludes our allotted time for questions and today's teleconference. If you'd like to listen to a replay of today's conference, please dial (800) 585-8367 and refer to the conference ID #2615648. 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.
