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PRESENTATION

Operator

Welcome to Signature Bank's 2019 Third Quarter Results Conference Call. Hosting the call today from Signature back 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, Nicole. Good morning and thank you for joining us today for the Signature Bank 2019 Third Quarter Results Conference Call. Before I begin my formal remarks, Susan Lewis will read the forward-looking disclaimer.

Please go ahead, Susan.

Susan Turkell 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 a 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 2019 third quarter was our strongest quarter for deposit growth in the last 3 years, leading to solid earnings. The quarter included record average deposit growth of $1.75 billion, which allowed us to substantially pay down higher cost borrowing.

Additionally, we made significant strides in transforming our balance sheet to include more floating-rate assets by increasing commercial and industrial loans by $885 million and meaningfully decreasing fixed rate commercial real estate loans. We're really firing on all cylinders this quarter with contributions from our traditional private client banking teams and Signature Financial.

The major initiatives we put in place over the last several quarters are helping to drive deposit growth as well as further our asset and geographic diversification strategy. This includes the launch of Signet as well as contributions from the digital banking team, the Fund Banking Division and the Venture Banking Group. Moreover, we recently added the specialized Mortgage Servicing Banking team focusing on treasury management products to deposit-rich residential and commercial mortgage services amongst others. This team now has the necessary infrastructure in place to support their clients' needs and is officially open for business.

Now onto the quarter. Signature Bank delivered another quarter of solid performance led by a record $1.75 billion average deposit growth, while maintaining overall strong credit quality and delivering solid earnings.

Net income for the 2019 third quarter was $148.7 million or $2.75 diluted earnings per share compared with $155.4 million or $2.84 diluted earnings per share for last year. The decrease in net income was due to a rise in noninterest expense from the significant investment in new private client banking teams, including 55 professionals across the Fund Banking Division, the Venture Banking Group, and the specialized Mortgage Servicing Banking team. We look forward to their future contributions to grow and earnings from these new teams.

Now looking at deposits. While confronted by a challenging deposit environment, we increased deposits by over $1.5 billion to $39.1 billion this quarter, and average deposits grew a record $1.75 billion. Since the end of the 2018 third quarter, both period ending and average deposits have increased by $3 billion. Noninterest-bearing deposits at $12 billion represent 31% of total deposits. Deposit and loan growth coupled with earnings retention led to an increase of $3.5 billion or 8% in total assets from a year ago.

Now let's take a look at our lending businesses. During the quarter, in keeping with our diversification strategy, we made a conscious decision to not refinance CRE loans when no deposit relationship existed. We have essentially exited most of these one-sided loan relationships. We do not expect the same level of decline prospectively.

As a result, loans during the 2019 third quarter increased $5 million to $37.9 billion. For the prior 12 months, loans grew $2.8 billion. This quarter we significantly increased floating rate C&I loans by $885 million, driven primarily by our Fund Banking Division. And conversely, we dramatically decreased our fixed-rate CRE portfolio by $873 million. Floating rate loans are now 17% of total loans, which is a dramatic improvement from 10% a year ago. Our loan-to-deposit ratio is now at 97%, and our CRE concentration declined to 511% from its peak of 593%.

Turning to credit quality. Our portfolio continues to perform well. Nonaccrual loans are $32.5 million or just 9 basis points of total loans compared with $41.3 million or 11 basis points for the 2019 second quarter. Our past-due loans remained in their normal range with 30 to 89 day past-due loans at $59 million, and 90-day-plus past-due loans at a low $1.9 million.

Net charge-offs for the 2019 third quarter were $2.9 million or 3 basis points compared with net recoveries of $3.7 billion for the 2019 second quarter. Provision for loan losses for the 2019 third quarter was $1.2 million compared with $5.4 million for the 2019 second quarter. The allowance for loan losses remained stable at 64 basis points of loans. And our coverage ratio stands at 746%.

My last point before I turn the call over to Eric, I just want to remind you on the team front. We've added 4 private client banking teams, including the 28 person Venture Banking Group, which already has made meaningful contributions this quarter, and the 15 members specialized Mortgage Banking Servicing (sic) [Mortgage Servicing Banking] team, which is now ready for business.

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 $328 million, up $3.2 million when compared with the 2018 third quarter and an increase of $1.7 million from the 2019 second quarter. Net interest margin decreased 20 basis points in the quarter versus the comparable period a year ago and declined 6 basis points on a linked-quarter basis to 2.68%.

Excluding prepayment penalty income, core net interest margin for the linked quarter decreased 5 basis points to 2.66%, 4 basis points of this decrease was from excess cash balances driven by significant deposit growth.

Now let's look at asset yields and funding costs for a moment. Interest-earning asset yields decreased 9 basis points from the linked quarter to 3.94%. The decrease in overall asset yields was driven by higher cash balances and lower reinvestment rates in all our primary asset classes from the lower rate environment.

Yields on the securities portfolio decreased 9 basis points linked quarter to 3.18% due to the dramatic decline in market rates, which also led to our portfolio duration coming in to 2.2 years.

Turning to our loan portfolio. Yields on average commercial loans and commercial mortgages decreased 4 basis points to 4.2% compared with the 2019 second quarter. Excluding prepayment penalties from both quarters, yields decreased 2 basis points.

Prepayment penalties for the 2019 third quarter remained low at $2.1 million compared with $3.6 million for the 2019 second quarter and $4.1 million in the 2018 third quarter. We anticipate that prepayment penalty income will remain low as a result of the slowdown in CRE transaction activity, from the changes in rent regulation and the low-interest rate environment.

Now looking at liabilities. Our overall deposit costs this quarter increased by 2 basis points to 1.21%. However, they appeared to have peaked in July, which is a good sign for future quarters. Average borrowings, excluding subordinated debt, decreased $1.1 billion to $5.2 billion or 10.5% of our average balance sheet. The average borrowing cost decreased 4 basis points from the prior quarter to 2.59%. Overall, the cost of funds for the linked quarter decreased 2 basis points to 1.4% as lower cost deposits replaced higher cost borrowings.

And on to noninterest income and expense. Noninterest income for the 2019 third quarter was $6 million, an increase of $1.4 million when compared with the 2018 third quarter, mostly due to a rise of $1.3 million in fees and service charges.

Noninterest expense for the 2019 third quarter was $134.3 million versus $117.2 million for the same period a year ago. The $17.1 million or 14.6% increase was mostly due to the meaningful addition of private client banking teams.

The bank's efficiency ratio was 40.2% for the 2019 third quarter versus 39.4% for the 2019 second quarter. The efficiency ratio has been negatively affected by the declining NIM and our investments in long-term strategic initiatives.

And turning to capital. In the 2019 third quarter, the bank paid a cash dividend of $0.56 per share. Additionally, the bank increased its stock repurchases to 630,000 shares of common stock for a total of $75 million. The dividend and 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 our tangible common equity ratio that increased 5 basis points to 9.51%.

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

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

Thanks, Eric. This quarter, we continue to execute our game plan by significantly growing deposits $1.5 billion, including increasing average deposits by a record $1.75 billion, improving our liquidity position by reducing borrowings of $1 billion -- by $1 billion, excuse me, and decreasing our loan-to-deposit ratio to 97%, increasing floating rates commercial and industrial loans by $885 million, and reducing fixed-rate commercial real estate loans by $873 million, bringing our commercial real estate concentration to 511% from its peak of 593%.

Now we are happy to answer any questions you might have. Nicole, I'll turn it over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ebrahim Poonawala with Bank of America.

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

I guess, first question, Eric, if you can just talk about in terms of the margin outlook, particularly in the context of where you see cost of interest-bearing deposits growing over the next few quarters? And just the thought process around excess liquidity, given the negative carry of the cash versus the borrowings that you have on the balance sheet?

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

Sure, Ebrahim. We expect that NIM next quarter would be flat with a slight downward bias, given the fact that we are still sitting on cash, and we've had some pretty significant deposit flows, again, thus far this quarter. We're obviously looking to deploy that into loans, and we do anticipate that we'll have significant loan growth in the fourth quarter, we have a pretty robust pipeline. And we do not anticipate having anywhere near the level of CRE runoff that we had in the third quarter. So that should bode well for the margin. Ultimately, we're looking to use that cash to put into loans or to pay down higher cost borrowings. We predominantly paid off the overnight borrowings that we can, so we're waiting for term borrowings to come due, which we have a fair share of that coming due in November, December.

So given all that, we expect to maintain margins with a slight downward bias.

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

And the cost of interest-bearing deposits, do you expect that to start trending lower and to what magnitude?

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

It's been trending lower. July was really our peak in the deposit costs. We've seen it come down 8 basis points from that peak. And really the July move, we moved down our deposit costs, but not nearly as much as we did coming off the September move. So that should really bode well for October and for the fourth quarter.

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

Got it. And just moving to deposit growth, as we think about going forward, if you could remind us in terms of where we are in terms of the 2 or 3 different teams that you hired over the last year, in terms of their production levels? And what you expect from the mortgage servicing team in terms of deposit growth, like should we expect growth to begin kicking in, in the fourth quarter? And if you can put a framework around the magnitude of growth that team can bring?

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

The Mortgage Servicing Banking team is now open for business in the fourth quarter. What they were doing was preparing along with lot of our operations and administrative and support teams to work to get ready for this quarter. So with the $1.5 billion growth that we had in the third quarter, none of it came from the mortgage servicing team because they weren't open for business until now in the fourth quarter. So again, that really bodes well because we expect significant deposit growth over the next couple of years from that team. That team controls over $22 billion in deposits at Wells Fargo.

The Venture Banking Group, they've contributed during the third quarter a little over $100 million in deposits. And we expect about that level on a quarterly basis going forward. And the Fund Banking team is contributing in large part on the loan side. It's going to take them a couple of years or so to work up where they would be funding themselves. So we're very excited about the near term and intermediate term future because we've been having such success in growing deposits, and now we're going to have even more success with the teams that we just added on.

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

And do you think, Joe, just tied to the mortgage servicing team, given just the size of what they did at their previous bank, could deposit growth over the next 12 months trend closer to the higher end of your $3 billion to $5 billion target?

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

It could. It's very possible. Right now, the deposit growth for the year -- for the last 12 months or so has been $3 billion. So we could. Right now, as Eric mentioned, the deposit growth in the fourth quarter, although it's only 17 days, is pretty good.

Operator

The next question is from the line of Jared Shaw with Wells Fargo Securities.

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

Just following up on the margin, what should we -- what term borrowings are rolling off as we look over the next few quarters? And once we see those paid down, should we expect the cash position to get back to a more normal position? I know you said that deposits will first be used to fund loans, but with that -- with the borrowing levels down, that should be a good pick up for margin?

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

Yes. We've got about $400 million roughly in borrowings per quarter that we should be able to pay down. As we said, we've got a robust loan pipeline that we could easily see $1 billion in loan growth. So certainly as little as $500 million, but we could see $1 billion in loans this quarter. So we anticipate putting the cash to good use.

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

And those borrowings are at about 2.5%.

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

Okay. Great. And then on the CRE pay down, do you say that the non-relationship refi opportunities are done or is it the pace won't be at the same level? And if it is still continuing, I guess, how much more could we see in terms of the reshifting of -- out of the CRE from that?

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

No, it's very truly done. We're now doing business this quarter. We're essentially done with -- there could be some stragglers here and there, but it's essentially done. So our expectation is, let's say, flat growth on CRE with the Fund Banking team as well as the traditional C&I teams making up for a lot of the growth going forward.

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

And then just finally from me, as the CRE capital concentration keeps coming down and your stock price looks attractive here, should we -- or could we expect to see the buyback become a bigger component of capital management? And what's your appetite, I guess, for reloading that if you finish out the $500 million earlier than expected?

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

It was -- we meaningfully increased it this quarter, so I think you could see similar levels if not a little bit more going forward. As you said, certainly a lot of that is dependent on stock pricing for that, where that is and where growth comes in. We do -- we did increase it a bit this quarter as we saw that our loan growth was going to be little bit less than typical. So we anticipate that, that loan growth will be much more positive than it was this quarter, so we'll have to take that into account as well.

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

Okay. In terms of that, that CRE as a percentage of capital, you feel comfortable with it here, just above 500% and continuing to be in the market with (inaudible)?

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

We think it will drift to under 500% in installment of 4, but we're comfortable at that level, yes.

Operator

The next question comes from the line of Kenneth Zerbe with Morgan Stanley.

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

I was hoping if you guys could address the NIM outlook a little bit. And I guess, I know your comments that it's going to be relatively flat to down a little bit in the fourth quarter. But I guess, everyone, me and probably about whole market is looking at you guys as being liability-sensitive. And this should be a fantastic time to own Signature, to be Signature because your deposit cost is going down, you're going to have NIM expansion, we're not seeing that yet. Could you just talk about sort of why fourth quarter is flat to down in terms of NIM? And if you can, definitely love to hear more about early 2020 as well.

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

Well, there's a couple of things going on, Ken. First of all, we have an inverted yield curve, so that's not very helpful at all on the asset side of the equation, so we're going to continue to see pressures on the asset yields. But there's also lag to our ability to reprice deposits down. And I think you've got to look out several quarters and really to a time when the Fed stops cutting, we'll continue to be reducing deposit cost. Our process is very negotiated with our clients. We're not like a traditional retail bank, where it can just cut cost across the board. So it's a negotiated process that takes time for us to work through those negotiations, but ultimately we will reprice down deposits enough to more than offset the reductions on the asset side, but it's going to take a little bit of time.

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

And you know we're a lot more interested in bringing in new business to continue to grow the existing clients that we have. And if that costs us 1 basis point or 2 basis point in NIM, that's so be it because we want to build a franchise value. And we find that it's better to build and have a little bit more cost than it is to let the client opportunities pass away.

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

Got it. Totally understood. I mean could there be a point in first half of next year where you actually do see NIM expansion if the NIM curve remains inverted?

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

Yes. There absolutely could be and should be.

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

Got you. Okay. Perfect. And then just a second question I had. In terms of CECL, I would imagine there's going to be a fairly sizable below the line or AOCI hit from CECL, but my question really is more on the ongoing impact of CECL, given that you're running off the CRE book or at least it's flat to down a little bit. Do you have any guidance in terms of sort of the ongoing quarter-by-quarter provision expense?

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

Yes. Unfortunately, it's a little bit early for us to tell. We're still finalizing our models and running through parallel tests on those. So it's hard for us to predict the go forward. Certainly, there will be more volatility to that as I'm sure you're hearing from many of the banks. But ultimately, our longer dated CRE portfolio of mostly 4 and 5 rated credits requires a bit more provisioning than the 3 to 4 rated, well-structured fund banking capital call facilities that we're putting on. So that should be beneficial to the go forward provisioning, but we still have to see as we sought to finalize all those models.

Operator

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

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

I want to start, what was the capital call loan growth in the quarter?

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

It was -- it approximated $900 million.

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

Okay. So it stepped up. Was that a function of line utilization, Eric? That's a bit higher than where you've been running in terms of growth.

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

That was mostly new facilities that were put in place that were pretty fully drawn.

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

Okay. That's helpful. And in terms of the reduction in CRE loans in the quarter, was that all in multi-family? And how did the renovation portfolio balances change in the quarter?

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

It was mostly multi-family. We had 2 very large loans that helped drive the reduction. They are a $100 million facility and a $104 million facility, where over the few years that we had the loans we were unable to establish any sort of relationship and as a result, it -- that drove us to have a reduction of nearly $900 million in CRE, which we're very happy about because that was the whole purpose.

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

And the renovation portfolio, Joe, how did the balances there change in the quarter?

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

It was down slightly.

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

Down a bit, okay. And then finally, did you guys wrap up? I know you are doing a phase 2 of the deep dive into the multi-family portfolio. Is that done? And what have you learned from that test?

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

We learned that there will be -- we find very little effect. We expect very little effect on our portfolio.

Operator

The next question is from the line of Chris McGratty with KBW.

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

Eric, I want to go back to the deposit conversation for just a minute. I think -- and Joe you mentioned that you could be at the high end of $3 billion to $5 billion, if the momentum continues on deposit growth. I guess, the question is net balance sheet growth. How much your borrowings are elevated to where they were pre-cycle? What's the right amount of borrowings for the company? And maybe what I'm asking is like the $3 billion to $5 billion total asset growth, like where do you expect to be in that range once you put the pieces together?

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

The right amount of borrowings, we believe, is about 7%. And we think that we're going to have significant deposit flows. We will deploy reductions of borrowings, and we'll have loan growth. We expect to have loan growth -- just from the Fund Banking team, we expect upwards of $750 million in growth per quarter, not including Signature Financial, not including the Venture Banking Group. We'll have somewhere between $750 million to $1 billion a quarter, and that will be all funded by deposits.

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

Okay. In that 7%, that has a proportion of interest-bearing liabilities, is that the right denominator?

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

Assets.

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

Yes. Assets.

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

Of assets, okay. Great. And then maybe 1 more, if I could, maybe I missed it. The expenses, I think last quarter you said kind of mid-teens, kind of gliding toward that 12% as you make these investments and grow into them. Any update on that in terms of timing?

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

Yes. It came in a little bit better this quarter than we anticipated. We still want to stay in that, say, 12% to 16% to be safe. Fourth quarter would be closer to that 16%, hopefully a little better. And then we'll see it trend down to 10% to 12% by end of 2020.

Operator

The next question is coming from the line of Brock Vandervliet with UBS.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

On the specialized Mortgage Servicing Banking team, I think that's the full title, obviously tied to a monumental amount of deposits at the former shop. How do you look at recreating that business at Signature? Is it kind of a straight percentage of that jackpot number over a period of years? Or do you have them on kind of a cadence of quarterly deposit generation that you think they can do? How do you think about that?

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

Well, we think about it the way we've thought about each of the teams over the last 18 years, almost 19 years is that they're very experienced, they've been with an institution for a long time. The relationship is primarily with them and not with the institution, and they'll market themselves that way. And deposits will flow, whether it's from the existing institution or from other institutions. We may just -- the person that leads that team has been doing it for 26 years and had over $22 billion in deposits. So the formula is not -- the secret sauce is hiring the right people, and we hired -- we were able to get the team that we wanted. So there is nothing special other than the team itself. So how we -- to give you an example, we don't necessarily set up a goal for them. We just basically take it on face value that they're going to be able to generate significant amount of deposits based upon the type of clientele they have. And whether it comes in, in fourth quarter, it comes in, in the first quarter, it comes in, in 2021, over a series of years, it will happen.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

And then a number of, say, $500 million a quarter, after these folks have been in place for some period of time, it would seem reasonable?

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

More than reasonable. The one thing about this team that differs from the other teams is that the other teams -- and I mean, the 100 or so that we have who work very hard to grow their books of businesses. Usually, those teams are talking about $5 million to $10 million in deposits, sometimes $20 million in deposits, where the mortgage -- the specialized Mortgage Servicing Banking team is usually talking about hundreds of millions in deposits. So generating $500 million a quarter is not out of the realm.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

And on the expense growth, was some of that guidance, is this based on an infrastructure need for this team or is most of that plumbing in place, and it's more just comp?

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

It's more just comp. I mean, that plumbing is essentially in place. We probably had 95% of what they needed. We're already a fairly sizable player in that space. So it's really just the composition.

Operator

The next question is from the line of Lana Chan with BMO Capital Markets.

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

I'm just trying to understand more what drove such a strong growth in deposits this quarter since the mortgage servicing team hasn't started contributing yet. Was there a meaningful pick up in short-term escrow deposits this quarter?

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

No. It's basically is the 100-or-so banking teams continuing to work hard. We had a quarter -- the second quarter, we had over $900 million in deposits. So it's not unusual, although it's the best deposit quarter we had in 3 years, that's because the competition has been very tough. I'll tell you one area, the EB-5 area. Prior to this quarter, we had 10 straight quarters of decline in EB-5 and was actually down $1 billion in deposits over those previous 10 quarters. It actually reversed here in the third quarter and actually went up because the government finalized some regulations, and we expect EB-5 to contribute going forward.

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

Okay. That's helpful. And...

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

In fact, most -- Lana, in fact, most of the growth was core deposit growth.

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

Okay, fantastic. And can you give us idea of in terms of the Mortgage Servicing Banking team, the deposits that they should be bringing aboard, can you give us an idea of like what the average rates would be on those types of deposits, just for modeling purposes?

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

Yes. They're going to have -- initially, they're going to be bringing over the excess funds of their clients. So those rates will be, I'd say, around 2% now, maybe a little under that. But over time, they're going to start to garner more the operating accounts and those are noninterest-bearing. So they should get to a very high level of noninterest-bearing to overall deposits. To be safe, between 30% and 50% of their overall should be in DDA. So that should meaningfully bring down their overall deposit costs. But initially they're going to be bringing over the higher cost interest-bearing deposits for us, those are the easiest to move.

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

Okay, got it. And just one more question, if I could, on the commercial real estate, multi-family. Given where rates are, and I don't know if you've changed your multi-family pricing recently, I don't think you had up until a while ago, how do you keep your balances flat going forward when sort of transaction volumes have really got ground to a halt with rent reform and you're seeing a lot of competition in the space with pricing?

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

Well, when we -- during the third quarter, when we were reducing the portfolio, our pricing was about 50 basis points above that of our competition. Now in the fourth quarter, it's back to the norm, which is usually about 25 basis points higher where we're able to keep the book that we have and attract a little bit of the business that's transacting out there. So it's really a matter of keeping what we have.

Operator

The next question is from the line of David Long with Raymond James.

David Joseph Long - *Raymond James & Associates, Inc., Research Division - Senior Analyst*

We've talked a lot about some of the recent teams and the hires and sort of new business lines. What is your appetite at this point to add to the fund services and the venture capital teams?

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

Well, I mean, they are fairly new. To date, they have been adding a person here and there to fill in the openings that they need to. Our appetite would be fine if we could find, as Tom Burns says, all stars out there.

David Joseph Long - *Raymond James & Associates, Inc., Research Division - Senior Analyst*

Got it. And as far as the build out on the West Coast, where does that stand at this point? And again, your appetite to still add people there?

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

I mean, we're fully built out there. We have 4 traditional banking teams. We also have representation from the Venture team, the Fund Banking Division and Kathy Kanno-Wood is out there with a few others who runs our specialized mortgage banking services team. We're actively looking to hire more traditional banking teams there. And we anticipate that probably next year now. It's, again, a little bit late in year for us to add, but we'll probably look to add teams there next year.

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

I mean, our appetite is that -- is such that we would open up an office in Los Angeles if we found the right team.

Operator

This concludes our allotted time in today's teleconference. If you'd like to listen to a replay of today's conference, please dial (800) 585-8367 and refer to conference ID #8188917. 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.